



The Benefits and Drawbacks of Buying your Own Building

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A comparison as to reasons to rent or buy

▶ Benefits of Renting

- ▶ 1. Low upfront costs.
- ▶ 2. Ability to move – Flexibility.
- ▶ 3. Expansion may be easier.
- ▶ 4. Bringing in new Partners might be easier.
- ▶ 5. Less risk.
- ▶ 6. Less responsibility.
- ▶ 7. Tax Benefits – All lease payments ded.

▶ Benefits of Buying

- ▶ 1. Equity Upside
- ▶ 2. Control of your property
- ▶ 3. Asset appreciation.
- ▶ 4. Rental potential
- ▶ 5. Tax Benefits.
- ▶ 6. Lower monthly payments

SCENARIO 1

3,000 sf office – 2 suites

(2,000 sf Tenant occupied, 1,000 sf Owner occupied - Owner Company pays rent to LLC)

Purchase price	\$555,000
Debt at 80/20 LTV	\$444,000
Cash outlay	\$111,000

Rent: \$21 psf MG \$63,000*

Property Expenses: \$5 psf \$15,000\$

**Owner pays rent on the 1,000 sf space that they occupy – \$21,000 per year.*

Financial Analysis

Year 1 NOI @ \$16 psf NNN \$48,000

Debt Service @ 5.5% \$36,651*

**(20 year amortization schedule, 10 year loan, P&I)*

Year 1 Cash on Cash return \$11,349

Year 1 Cash on Cash ROR 10.22%

Cap rate (\$48,000/\$555,000) 8.65%

Summary

Owner Out of Pocket \$51,651

Rent RECEIVED @ \$21 psf \$63,000

Net gain \$11,349*

**plus tax benefits, depreciation, etc.*

Comparison Scenario 1 – 7 year hold

	Leasing	Buying
Upfront Costs	(\$3,000)	(\$51,651)
Recurring Costs	(\$180,000) (rent + esc)	(\$351,557)
Tax Savings	\$20,000.00	\$288,462
Gross Earnings 3.5%	0	\$157,500
Principal Paydown	0	\$61,824
Rental Income	0	\$441,000
Totals	(163,000)	\$545,578

SCENARIO 2

3,000 sf office – 2 suites

(2,000 sf Tenant occupied, 1,000 sf Owner occupied – Owner company does NOT pay rent to LLC)

Purchase price \$555,000

Debt at 80/20 LTV \$444,000

Cash outlay \$111,000

Rent: \$21 psf MG \$42,000*

Property Expenses: \$5 psf \$15,000

**Owner does NOT pay rent on the 1,000 sf space that they occupy, but still pays \$5,000 in pro rata expenses from LLC*

Financial Analysis

Year 1 NOI @ \$16 psf NNN \$27,000 Debt Service @ 5.5% \$36,651*

Year 1 NET NOI (\$9,651)

**(20 year amortization schedule, 10 year loan, P&I)*

Year 1 Cash on Cash return (\$9,651)

Year 1 Cash on Cash ROR (5.9%)

Cap rate (\$9,651/\$555,000) (1.73%)

Summary

Owner Out of Pocket

\$9,651

Rent SAVED @ \$21 psf \$21,000*

**Assumes a competitive market rent at \$21 psf MG*

Net gain \$11,349*

**plus tax benefits, depreciation, etc.*

SCENARIO 3

2,000 sf office – Purchase vs. Rent

Purchase Price: \$360,000*

**\$180 psf purchase price*

Debt @ 80/20 LTV \$288,000

Cash outlay \$72,000

*Debt Services @ 5.5% \$13,868**

Property Expenses: \$5 psf \$10,000

**(20 year amortization schedule, 10 year loan, P&I)*

Total Yearly Cash Outlay – Purchase \$23,868 Total Yearly Cash

*Outlay – Rent: \$42,000**

**Assumes a competitive market rent at \$21 psf MG*

Total savings \$18,132

Total Year 1 Cash on Cash ROR 25%

Net Gain \$18,132*

**plus tax benefits, depreciation, etc.*

RENT ROLL

Unit	Lease Type	Area (SQFT)	Lease End Date	Monthly Rent	Annual Rent	Annual Per SF
100	Inc. Base Year Stop (2012)	2,642	11/30/2026	\$4,860.93	\$55,931.16	\$21.17
201	Base Year Stop (2018)	2,673	12/31/2022	4,900.50	58,806.00	22.00
202	Month-to-Month	1,486	-	2,724.33	32,692.00	22.00
101 VACANT		2,298	-	4,404.50	52,854.00	23.00
203 VACANT		1,357	-	2,600.92	31,211.00	23.00
		10,456		\$19,291.18	\$231,494.16	\$22.14

Status	Total Units	Area (SQFT)	% Total	Monthly Rent	Annual Rent	Annual PSF
Occupied	3	6,801	65.04%	\$12,285.76	\$147,429.16	\$21.68
Vacant	2	3,655	34.96%	7,005.42	84,065.00	23.00
Total	5	10,456	100.00%	\$19,291.18	\$231,494.16	\$22.14

Market Leasing Assumptions

- Renewal Probability: 85% Probability
- Months Vacant: 6 Months
- Term: 5 Years
- Market Rents: \$23 PSFFull Service
- TI Allowance: \$15/\$7.5
- Leasing Commissions: 4%/2%

Pro-Forma Assumptions:

- 3 and 6 month lease-up on units 203 and 102, respectively.
- 3% annual market rent inflation
- Year 1 operating expenses based on 2018 budget.
- 3% annual expense inflation thereafter.
- 75% loan-to-value
- 5% Interest-Only for 3 years
- Total Debt: \$1.45M
- Required Equity: \$482K
- Yr 1 NOi Yield: 6.7%
- Yr 3 NOi Yield: 8.3%
- Yr 1 Cash-on-Cash: 12.0%

PRO-FORMA FINANCIALS

		Year 3	Year 4	Year 5		
Potential Gross Revenue						
Base Rental Revenue						
Potential Gross Revenue						
Base Rental Revenue	\$ 22.36	\$233,818	\$238,251	\$241,028	\$244,159	\$247,391
Absorption & Turnover Vacancy	(2.60)	(27,225)	(8,801)			
Total Exp Reimbursement Revenue	0.32	3,379	6,384	9,295	11,899	14,554
EFFECTIVE GROSS REVENUE	20.08	209,972	235,834	250,323	256,058	261,945
Operating Expenses						
CAM	5.27	55,051	59,964	63,209	65,018	66,878
Insurance	0.48	5,019	5,169	5,325	5,484	5,649
Real Estate Taxes	1.92	20,076	20,678	21,298	21,937	22,595
TOTAL OPERATING EXPENSES	7.67	80,146	85,811	89,832	92,439	95,122
NET OPERATING INCOME	12.42	129,826	150,023	160,491	163,619	166,823
<i>Pro-forma NOI Yield</i>		6.73%	7.78%	8.32%	8.48%	8.65%
Debt Service	6.87	71,815	72,352	72,352	91,478	93,217
CASH FLOW AFTER DEBT SERVICE	5.55	57,981	77,671	88,139	72,141	73,606
<i>Cash-on-Cash Returns</i>		12.02%	16.10%	18.27%	14.96%	15.26%

Acquire Price	\$1,850,000
Closing Costs (Est. 2%)	37,000
Purchase Price	\$1,850,000
Closing Costs (Est. 2%)	37,000
TV/LC	42,398
Total Investment	\$1,929,398
<i>Debt (75% LTV)</i>	<i>\$1,447,049</i>
<i>Equity</i>	<i>\$482,350</i>

