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Introduction Page

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planEASe®

Sale/Leaseback

The analysis and all reports and graphs were prepared using a combination of three of our products, [planEASe](#), the [Reporting Extension](#), and the [Graphics Extension](#).

Investment Base Assumption Report

- The first thing you must evaluate is the amount of money he would realize from selling his building currently (Investment Base). Your client, Jack, owns his 20,000 square foot industrial building in which he imports foreign-made computers to resell to business and industry. He built the building 10 years ago (in 1991) for a total cost of \$450,000 on land that he acquired for \$50,000. He has taken straight-line depreciation over a 31.5 year life and he financed the property with a \$400,000 mortgage over 20 years at 9% fixed interest.

Investment Base Sale Report

- This report shows that Jack would net \$310,310 (Investment Base) from the sale of the building after paying transaction costs, repaying the loan balance, and paying Capital Gain Tax.

Difference Assumption Report

- Now, you set up the assumptions associated with Jack continuing to hold the building and foregoing the investment (Stay and not Sell).

Difference Basic Analysis

- The Real Estate Investment Analysis Report (Basis Analysis) for this scenario shows a 14.4% After Tax IRR for Jack if he continues to own the building. Several aspects of the assumptions for this difference analysis bear comment. First, note that the Price of Property is \$594,200, which represents the \$310,310 foregone Sale Proceeds After Tax, plus the outstanding loan balance at the foregone sale of 284,102. Second, note that the lease costs that Jack would have to pay if he sold the building are shown as revenues!! Since this analysis assumes holding the building, one of the benefits of holding is that you save the lease costs you would otherwise have to pay (if you sold). Savings associated with an alternative should be shown as positive cash flows (conveniently, revenues here).

Difference Sale Report

- This sale report shows that a sales price of \$1,058,000 will produce an investment base of \$696,665 at the end of holding the property for another 10 years.

Difference Sensitivity Analysis

- "What if" the property does not sell for \$1,058,000 at the end of the next ten years? How would that effect the decision to sell the property and lease it back.

Your client, Jack, owns his 20,000 square foot industrial building in which he imports foreign-made computers to resell to business and industry. He built the building 10 years ago (in 1988) for a total cost of \$450,000 on land that he acquired for \$50,000. He has taken

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straight-line depreciation over a 31.5 year life and he financed the property with a \$400,000 mortgage over 20 years at 9% fixed interest.

Jack now has an opportunity to acquire another business adjacent to his that he feels can give him a return of 20% on the capital invested. This is a much better return than the 12% he has always set as his target for investing money. Jack has asked you, as his trusted advisor and agent, to evaluate whether he would be better off selling his property and leasing it back so he will have the necessary cash to buy the business, as compared with the alternative of remaining in ownership and ignoring the new business opportunity.

Jack operates his business as a corporation, the corporation owns the building (and land), and its tax rate is 35%.

Your knowledge of the local market tells you that the current rent on a pure net lease for his type of property would be \$4.00 per square foot and typical lease terms would be ten years with a 15% increase in rent at the end of year 5. Market capitalization rates for this type of property are about 10% (implying a current market value of \$800,000) and fees and costs involved to sell a property of this nature are also 10%.

The first thing you must evaluate for Jack is the amount of money he would realize from selling his building currently. To do this, you quickly set up the assumptions (shown in the attached [Analysis Assumptions Report for Jack's Computer Distribution Building](#)) in your planEASe software, and produce the [Property Sale Report](#) shown on the page following the Assumptions Report. This report shows that Jack would net \$309,314 from the sale of the building after paying transaction costs, repaying the loan balance, and paying Capital Gain Tax.

Next, you set up the assumptions (shown in the attached [Analysis Assumptions Report for Sale Leaseback Difference](#)) associated with Jack continuing to hold the building and foregoing the investment. [The Real Estate Investment Analysis Report](#) for this scenario shows a 14.2% After Tax IRR for Jack if he continues to own the building. Several aspects of the assumptions for this difference analysis bear comment. First, note that the Price of Property is \$593,416, which represents the \$309,314 foregone Sale Proceeds After Tax, plus the outstanding loan balance at the foregone sale of 284,102. Second, note that the lease costs that Jack would have to pay if he sold the building are shown as **revenues!!**. Since this analysis assumes holding the building, one of the benefits of holding is that you **save** the lease costs you would otherwise have to pay (if you sold). **Savings** associated with an alternative should be shown as **positive** cash flows (conveniently, revenues here).

- [Sale Report](#)
- [Sensitivity Analysis](#)

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Reviewing this analysis with Jack the next day, you explain the cash flows leading to the 14.2% IRR of continuing to own the building and point out that, absent any other cheaper source of funds for the investment in the other business, he should logically sell the building and lease it back, since a 20% rate of return over the ten years involved is, simply, much better than the 14.2% offered by holding the building.

There are, of course several other considerations you discuss as well. Jack has an \$800,000 asset levered by a smallish \$284k loan. Perhaps there is a possibility of borrowing an additional \$310k against the property (or business) so that Jack can get both the desired 20% investment as well as keeping the also desirable 14.2% investment (with a triple-A tenant!!) ? Another consideration is the relative safety of the 14.2% return versus what may be a risky 20%.

Jack, however, is extremely eager to pursue the 20% opportunity, which he considers to be understated, if anything. He is very grateful for your suggestion about raising additional loan money against the building, and is well aware that additional debt proceeds may be used to augment his investment in the new opportunity.

Jack is pleased that you know of several investors you think would be interested in buying his building and leasing it back under these terms. As you prepare the listing agreement, you thank your planEASe software for making this complicated business decision a profitable business opportunity for you as well as Jack.

Analysis Assumptions Report

Jack's Computer Distribution Building

These assumptions were used to generate the \$309,314 Current Investment Base for Jack's Computer Distribution Building shown in the Property Sale Report.

Investment Assumptions

Price of Property	\$500,000.00
Date of Acquisition	1 January 1991
Holding Period	10 Years
Inflation Rate	Zero
Sale Price Method	Sale Price = \$800,000.00
Selling Costs	10%

Investor's Assumptions

General Vacancy & Credit Loss	Zero
Tax Rate - First Year	35%
Tax Rate - Following Years	35%
Capital Gain Rate	35%
Cost Recovery Recapture Rate	35% - Losses Taken Currently
Present Value Discount Rate Before Debt	12% per Year
Present Value Discount Rate Before Tax	12% per Year
Present Value Discount Rate After Tax	12% per Year

Depreciation Assumptions

Depreciable Amount	\$450,000.00
Depreciable Life	31.5 Years
Depreciation Method	Straight Line
Depreciation Start Date	at Acquisition

Loan Assumptions

Loan Amount	\$400,000.00
Loan Interest Rate	9% Annually
Original Loan Period	20 Years
Loan Origination Date	at Acquisition
Loan Type	Monthly Payments, Amortizing

Property Sale Report

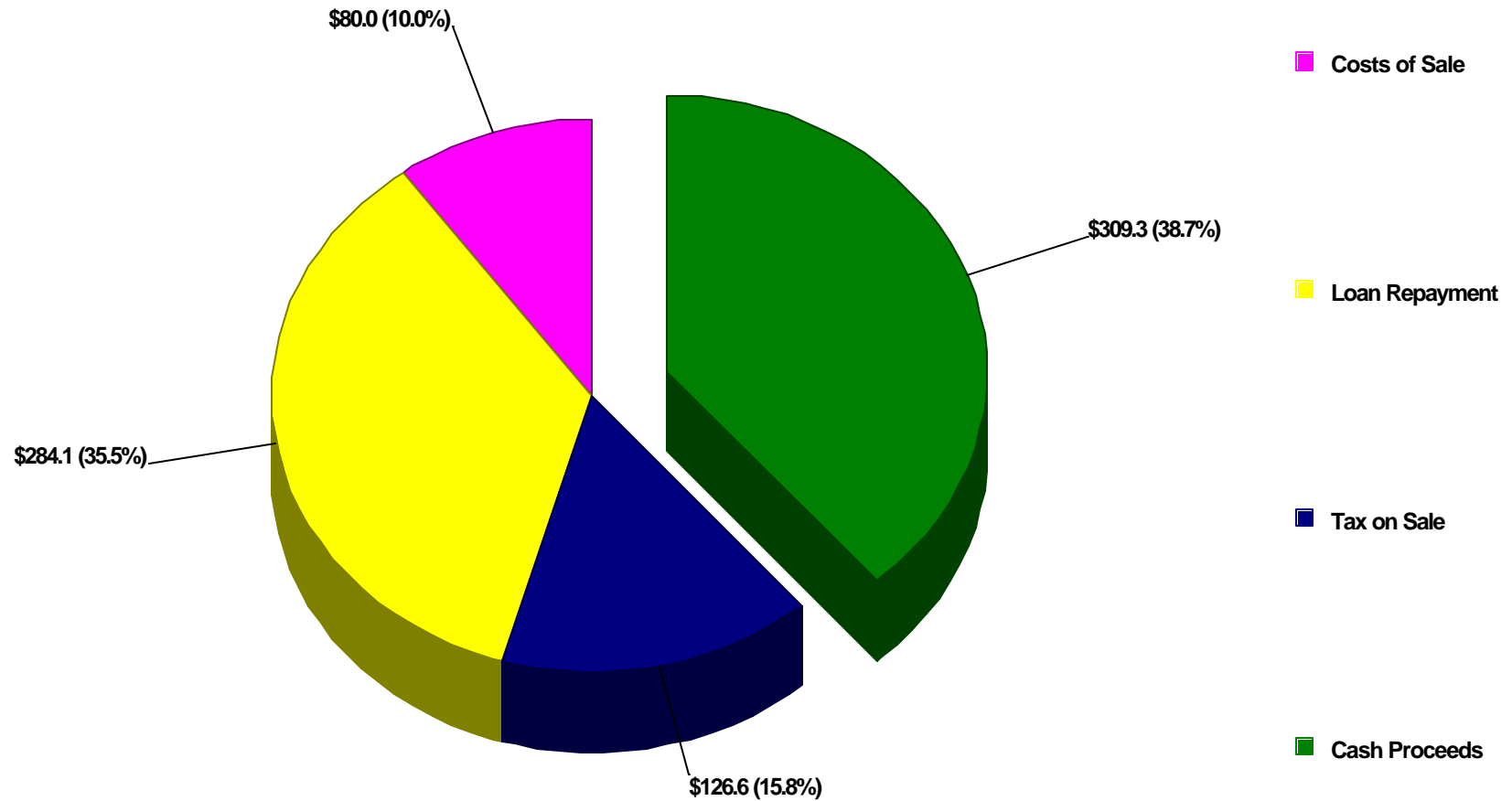
Jack's Computer Distribution Building

This report shows the results of a projected sale of the Jack's Computer Distribution Building on 31 December 2000. The Sale Price of \$800,000 is projected by using a specified price of \$800,000, according to the analysis assumptions.

Analysis of Sale Proceeds			
Sale Price (as discussed above)	\$800,000		
- Costs of Sale (10%)	80,000		
- Loan Balances	284,102		
- Prepayment Penalties	0		
Sale Proceeds Before Tax			\$435,898
Analysis of Capital Gain Results			
Sale Price	\$800,000		
- Capitalized Costs of Sale (100%)	80,000		
Net Sale Price for Tax Purposes		\$720,000	
Property Basis at Acquisition	\$500,000		
+ Capitalized Closing Costs (100%)	0		
+ Capital Additions	0		
- Depreciation Taken	141,667		
+ Excess Depreciation Recaptured	0		
Adjusted Basis at Sale		358,333	
Capital Gain (or Loss)		\$361,667	
- Suspended Passive Losses		0	
Net Capital Gain (or Loss)		\$361,667	
- Cost Recovery Recaptured		141,667	
Adjusted Net Capital Gain (or Loss)		\$220,000	
Cost Recovery Recapture Tax (@ 35%)			(49,583)
Tax on Adjusted Net Capital Gain (@ 35%)			(77,000)
Expenses Recognized at Sale			
Expensed Costs of Sale	0		
+ Accrued Loan Interest	0		
+ Unamortized Points	0		
+ Prepayment Penalties	0		
- Excess Depreciation Recaptured	0		
Total Expenses Recognized at Sale		0	
Tax Savings Due to Sale Expenses (@ 35%)			0
Net Taxable Income		\$361,667	
After Tax Cash Proceeds of Sale			\$309,314

Sale Proceeds After Tax

Jack's Computer Distribution Building



Dollars in Thousands
Total \$ Shown - \$800.0

Analysis Assumptions Report

Sale/Leaseback Difference

First, note that the Price of Property is \$593,416, which represents the \$309,314 foregone Sale Proceeds After Tax, plus the outstanding loan balance at the foregone sale of 284,102. Second, note that the lease costs that Jack would have to pay if he sold the building are shown as revenues!! Since this analysis assumes holding the building, one of the benefits of holding is that you save the lease costs you would otherwise have to pay (if you sold). Savings associated with an alternative should be shown as positive cash flows (conveniently, revenues here).

Investment Assumptions

Price of Property	\$593,416.00
Date of Acquisition	1 January 2001
Holding Period	10 Years
Inflation Rate	Zero
Sale Price Method	Sale Price = \$1,058,000.00
Selling Costs	10%

Investor's Assumptions

General Vacancy & Credit Loss	Zero
Tax Rate - First Year	35%
Tax Rate - Following Years	35%
Capital Gain Rate	35%
Cost Recovery Recapture Rate	35% - Losses Taken Currently
Present Value Discount Rate Before Debt	12% per Year
Present Value Discount Rate Before Tax	12% per Year
Present Value Discount Rate After Tax	12% per Year

Building Depreciation Assumptions

Depreciable Amount	\$450,000.00
Depreciable Life	31.5 Years
Depreciation Method	Straight Line w/o First Half Period Rule
Recapture Method	Excess Over Straight Line
Depreciation Start Date	at Acquisition

Set Substitute Basis Assumptions

Basis is set to the original \$500,000 cost of the property, less \$142,262 taken prior to 1 January 2001 (half-month in first year, and full year for 2000 means \$141,667 in the Investment Base report must be increased to \$142,262)

Substitute Basis	\$357,738.00
Prior Cost Recovery Taken	\$142,262.00

Loan Assumptions

Loan Amount	\$400,000.00
Loan Interest Rate	9% Annually
Original Loan Period	20 Years
Loan Origination Date	1 January 1991
Loan Type	Monthly Payments, Amortizing

Analysis Assumptions Report

Sale/Leaseback Difference

Lease Payment Revenue Assumptions

Annual Revenue	\$80,000.00
Revenue Start Date	at Acquisition
Revenue Period	5 Years
Revenue Growth Method	No Growth is Projected

Lease Payment Second 5 Years Revenue Assumptions

Annual Revenue	\$92,000.00
Revenue Start Date	Continuation
Revenue Period	5 Years
Revenue Growth Method	No Growth is Projected

Real Estate Investment Analysis

Sale/Leaseback Difference

These assumptions are used to generate the Real Estate Investment Analysis showing a 14.2% IRR After Tax associated with Jack continuing to hold the building for the next ten years.

	Buy	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Sell	Total
Before Tax Cash Flow Projection													
Investment and Sale	(593,416)	0	0	0	0	0	0	0	0	0	0	952,200	358,784
Effective Income	0	80,000	80,000	80,000	80,000	80,000	92,000	92,000	92,000	92,000	92,000	0	860,000
Operating Expense	0	0	0	0	0	0	0	0	0	0	0	0	0
Cash Flow Before Debt	(593,416)	80,000	80,000	80,000	80,000	80,000	92,000	92,000	92,000	92,000	92,000	952,200	1,218,784
Debt Service	284,102	(43,187)	(43,187)	(43,187)	(43,187)	(43,187)	(43,187)	(43,187)	(43,187)	(43,187)	(43,183)	0	(147,763)
Cash Flow Before Tax	(309,314)	36,813	36,813	36,813	36,813	36,813	48,813	48,813	48,813	48,813	48,817	952,200	1,071,021
Taxable Income Projection													
Taxable Revenue	0	80,000	80,000	80,000	80,000	80,000	92,000	92,000	92,000	92,000	92,000	0	860,000
Taxable Expense	0	0	0	0	0	0	0	0	0	0	0	0	0
Interest Expense	0	(24,824)	(23,101)	(21,217)	(19,156)	(16,902)	(14,436)	(11,739)	(8,789)	(5,563)	(2,033)	0	(147,763)
Depreciation	0	(14,286)	(14,286)	(14,286)	(14,286)	(14,286)	(14,286)	(14,286)	(14,286)	(14,286)	(13,690)	0	(142,262)
Ordinary Income	0	40,890	42,613	44,497	46,558	48,812	63,278	65,975	68,925	72,152	76,276	0	569,975
After Tax Cash Flow Projection													
Cash Flow Before Tax	(309,314)	36,813	36,813	36,813	36,813	36,813	48,813	48,813	48,813	48,813	48,817	952,200	1,071,021
Ordinary Income	0	40,890	42,613	44,497	46,558	48,812	63,278	65,975	68,925	72,152	76,276	0	569,975
Capital Gains	0	0	0	0	0	0	0	0	0	0	0	736,724	736,724
Taxable Income	0	40,890	42,613	44,497	46,558	48,812	63,278	65,975	68,925	72,152	76,276	736,724	1,306,699
Taxes	0	(14,312)	(14,914)	(15,574)	(16,295)	(17,084)	(22,147)	(23,091)	(24,124)	(25,253)	(26,697)	(257,853)	(457,345)
Cash Flow After Tax	(309,314)	22,501	21,899	21,239	20,518	19,729	26,666	25,722	24,689	23,560	22,121	694,347	613,677

Rate of Return Before Debt (IRR)	17.9%
Rate of Return Before Tax (IRR)	21.7%
Rate of Return After Tax (IRR)	14.2%
Net Present Value Before Debt @12%	217,782
Net Present Value Before Tax @12%	243,507
Net Present Value After Tax @12%	49,441

Property Sale Report

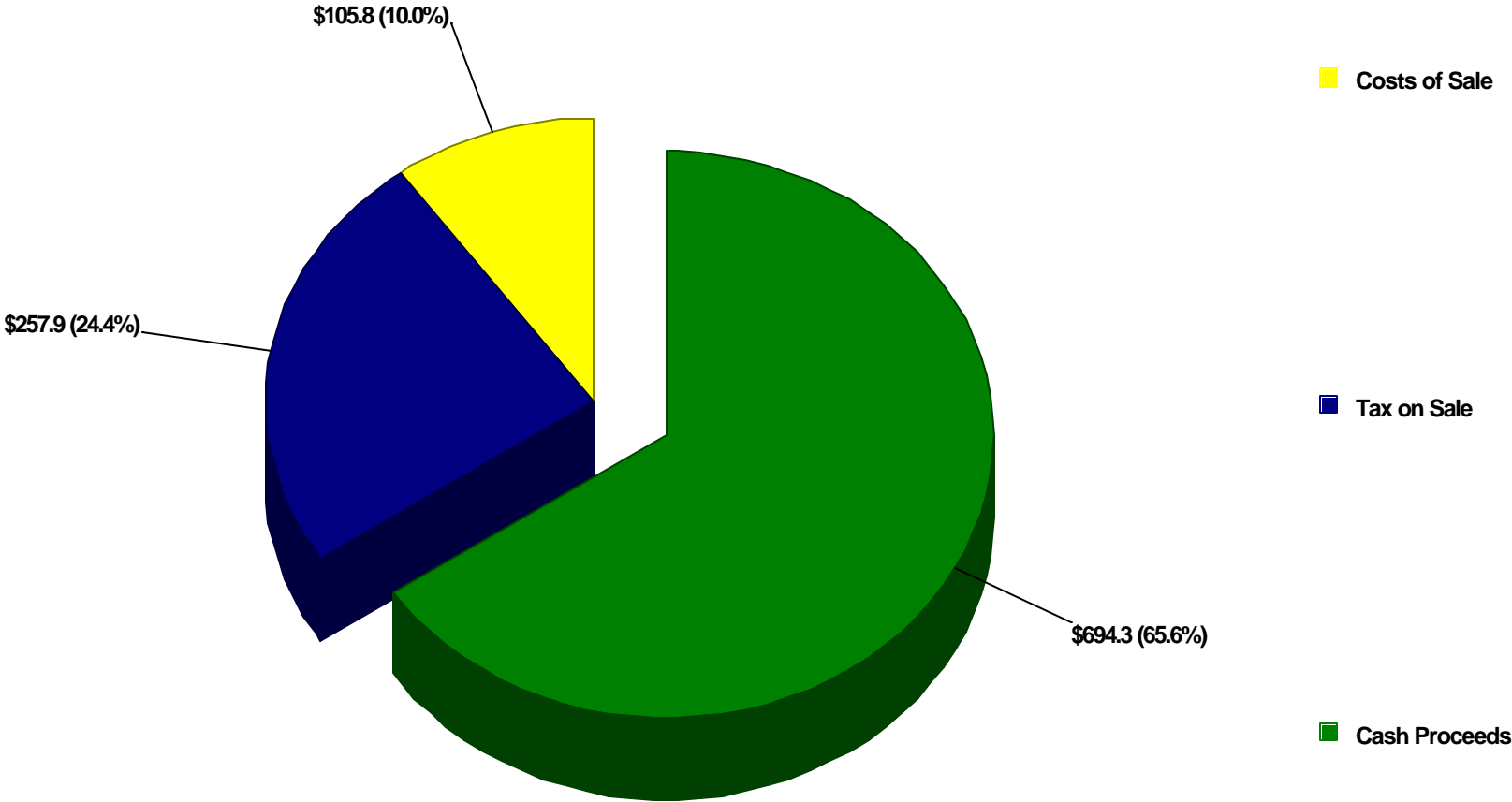
Sale/Leaseback Difference

This report shows the results of a projected sale of the Sale/Leaseback Difference on 31 December 2010. The Sale Price of \$1,058,000 is projected by using a specified price of \$1,058,000, according to the analysis assumptions.

Analysis of Sale Proceeds			
Sale Price (as discussed above)	\$1,058,000		
- Costs of Sale (10%)	105,800		
- Loan Balances	0		
- Prepayment Penalties	0		
Sale Proceeds Before Tax			\$952,200
Analysis of Capital Gain Results			
Sale Price	\$1,058,000		
- Capitalized Costs of Sale (100%)	105,800		
Net Sale Price for Tax Purposes		\$952,200	
Substitute Basis at Acquisition	\$357,738		
+ Capitalized Closing Costs (100%)	0		
+ Capital Additions	0		
- Depreciation Taken	142,262		
+ Excess Depreciation Recaptured	0		
Adjusted Basis at Sale		215,476	
Capital Gain (or Loss)		\$736,724	
- Suspended Passive Losses		0	
Net Capital Gain (or Loss)		\$736,724	
- Cost Recovery Recaptured (Includes \$142,262 from prior exchange)		284,524	
Adjusted Net Capital Gain (or Loss)		\$452,200	
Cost Recovery Recapture Tax (@ 35%)			(99,583)
Tax on Adjusted Net Capital Gain (@ 35%)			(158,270)
Expenses Recognized at Sale			
Expensed Costs of Sale	0		
+ Accrued Loan Interest	0		
+ Unamortized Points	0		
+ Prepayment Penalties	0		
- Excess Depreciation Recaptured	0		
Total Expenses Recognized at Sale		0	
Tax Savings Due to Sale Expenses (@ 35%)			0
Net Taxable Income		\$736,724	
After Tax Cash Proceeds of Sale			\$694,347

Sale Proceeds After Tax

Sale/Leaseback Difference



Dollars in Thousands
Total \$ Shown - \$1,058.0

Sensitivity Analysis

Sale/Leaseback Difference

Due to the nature of the assumptions, the only real uncertainty involved in this analysis is the value of the building 10 years out. This Sensitivity Analysis shows what would happen to the 14.2% After Tax IRR of holding the property, across a range of reasonable values.

Gross Property Sale Price versus Rate of Return After Tax

Assumption	IRR
\$850,000.00	12.5%
\$935,000.00	13.3%
\$1,020,000.00	13.9%
\$1,105,000.00	14.6%
\$1,190,000.00	15.2%
\$1,275,000.00	15.8%

