

RENT VS. OWN COMPARISON

Sample property size: 2,600 Sq. Ft. • 9 private parking spaces

RENT

LEASE ASSUMPTIONS:		
Rent per square foot per month		\$1.25
Rent per month (total)		\$3,250
START-UP COSTS:		
Prepaid rent and security deposit		\$9,750
Total Start-Up Costs		\$9,750
MONTHLY COSTS:	Per Sq. Ft.	Amount
Rent payment	\$1.25	\$3,250
NNN operating costs	0.25	650
Reserves and other costs	--	--
Total Monthly Costs	\$1.50	\$3,900
MONTHLY OWNERSHIP BENEFITS:		
Annual appreciation		\$0
Annual depreciation: At 40% tax bracket		0
Total Ownership Benefits		0
TOTAL EFFECTIVE MONTHLY COST		\$3,900

OWN

PURCHASE ASSUMPTIONS:	
Purchase price	\$600,000
START-UP COSTS:	
Cash down payment (10%)	\$60,000
Loan fees and costs	11,600
Total Start-Up Costs	\$71,600
MONTHLY COSTS:	Per Sq. Ft.
Mortgage payment	\$1.32
Operating costs	0.25
Property owners assoc. costs	0.06
Total Monthly Costs	\$1.63
MONTHLY OWNERSHIP BENEFITS:	
Annual appreciation: At 2%	\$1,000
Annual depreciation: At 40% tax bracket	858
Total Ownership Benefits	1,858
TOTAL EFFECTIVE MONTHLY COST	\$2,484

Important Notes:

- The Rent amount shown above is for the **starting year**. Most leases provide for rent increases of about 3% per year. After 10 years, the mortgage payment would remain the same, but **the rent would increase by 34% to \$5,241 per month**.
- The Start-Up Costs of owning are greater than renting. However, due to the large monthly difference between the costs of owning and renting, the buyer's entire cash down payment and closing costs are returned in only 51 months.

INCREASE IN PROPERTY VALUE & OWNER'S EQUITY

	Property Value	Loan Balance	Owner's Equity		Property Value	Loan Balance	Owner's Equity
YEAR 5:	\$662,448	\$483,357	\$179,091	YEAR 15:	\$807,521	\$302,738	\$504,783
YEAR 10:	\$731,397	\$406,642	\$324,755	YEAR 20:	\$891,568	\$162,011	\$729,558

Owner's Equity is the difference between the property value appreciating at 2% per year and the remaining loan balance.

SBA 504 FINANCING PROGRAM

Purchase price	\$600,000	Note that interest rates vary from month to month and loan terms differ from one lender to another.
Cash down payment: 10%	- 60,000	
Amount financed	\$540,000	
		Monthly payment (combined 1st & 2nd) \$3,536

* The SBA 504 financing program combines a loan from a regular bank for 50% of the total loan amount and a loan from the SBA for 40% of the total loan amount (total 90%). The buyer provides a 10% cash down payment.

SBA Financing	<u>1st Mortgage by Bank</u>	<u>2nd Mortgage by SBA</u>
Loan Amount	\$300,000	\$240,000
Interest Rate	6.00%	6.13%
Amortization in years	30 year amortization	20 year amortization
Percent of Total Loan Amount	50% of total	40% of total
Loan Fee	1.00% \$3,000	2.75% \$6,600
Monthly Payment	\$1,799	\$1,737