

cash flow capital
Advantages of a Lease
flexibility

"To lease a building is to gain the productive use of the property without incurring the costs and obligations of ownership".



Agracel specializes in specific competencies and industries, primarily manufacturing and distribution. Let Agracel show you the added value in partnering with us. You can focus on what you do best - manufacturing, sales, R & D, marketing, and Agracel will do what we do best - own and manage properties.

Top Reasons to Consider a Sale/Leaseback

Expansion /Technology - freedom to move to a different location/facility in 10-20 years without the burden of selling.

Financial Reporting - a lease is off the balance sheet, thereby decreasing the amount of long-term debt shown.

Return on Investment - a lease allows for improved profitability ratios by excluding the cost of land and the building, thus allowing better return on your capital.

Taxes - total monthly lease payment is tax deductible.

Property Values - a lease is the best defense against changing property values.



Flexibility - allows for utilization of a building for a defined length of time.

100,000 SF Project Valued at \$4 Million

CASH OUTFLOWS

	LEASE	OWN	DIFFERENCE
Downpayment on building if owned		\$800,000	
Annual Payments	<u>\$400,000</u>	<u>\$455,815</u>	
First year outflow	<u>\$400,000</u>	<u>\$1,255,815</u>	<u>(\$855,815)</u>
Outflow over 10 year period	<u>\$4,000,000</u>	<u>\$5,358,150</u>	<u>(\$1,358,150)</u>
Net Present Value of cash outflow	<u>\$2,554,076</u>	<u>\$3,654,652</u>	<u>(\$1,100,575)</u>

TAX DEDUCTION

Lease payments	\$4,000,000	
Interest expense		\$1,358,150
Depreciation expense		<u>\$1,025,641</u>

TOTAL DEDUCTIONS

	<u>\$4,000,000</u>	<u>\$2,383,791</u>	<u>\$1,616,209</u>
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LEASE vs. OWN

The above table illustrates the difference between owning a facility and leasing it. In this example, the building is 100,000 square feet in size with a minimal amount of office space. The project is valued at \$4 million, excluding any costs associated with the land price. The calculations are based on a ten year project commitment; the loan to purchase the building is amortized over ten years, or the client has agreed to a ten year lease on the building. The interest rate on the loan is assumed to be 7.5%.

For the client who chooses to own their building, there is typically a 20 percent downpayment required in order for the bank to finance the remainder of the project. The remaining eighty percent of the project cost would be spread over ten years in monthly payments. However, for a company going through a period of growth strong enough to warrant a newer/larger facility, capital is in high demand to pay for equipment, job training and other related costs. This need for available capital is what makes leasing a very favorable option.

As you can see from the lease option, there are no up front costs for the project. This allows you the opportunity to use your capital to explode into action in the new facility. Though the monthly payments would typically be higher because 100 percent of the project costs are spread over a ten year period, so would the tax deduction. Legally, you could realize a greater tax deduction for the total cost of your lease payment than on the depreciation for the building. The net present value calculation given shows the value of ten years of payments and deductions. With a lease arrangement, the cash outflows would be lower over the ten year period.

Not only does a lease arrangement cost your company less, it allows you the freedom and flexibility to advance ahead of the competition now with excess capital and in the future with the luxury of not being tied down to an existing building.