

## **THE HANGARS AT NEWPORT BEACH**

**Supplemental Information** 3901 Westerly Place, Newport Beach, CA

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# The Hangars at Newport Beach

3901 Westerly Place, Newport Beach, CA



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# The Hangars at Newport Beach

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## Exterior Photographs

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# The Hangars at Newport Beach

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## Property Summary

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<b>Address</b>	3901 Westerly Place, Newport Beach, California
<b>Price</b>	\$4,547,000 (\$209/Sq.Ft.)
<b>Building Rentable Sq. Ft.</b>	21,758 sf
<b>Purchase Terms/ Financing</b>	All cash or cash to new loan
<b>Office Layout</b>	19,200 sf 1st floor / 2,558 sf executive 2nd floor
<b>Parking Ratio</b>	3.6 spaces per 1,000 sq. ft.
<b>Occupancy</b>	1st floor can be delivered vacant; 2nd floor leased to five short-term, small tenants (rental income is approximately \$3,500 per month)
<b>Association Dues</b>	Current budget is \$1.02/sf annually
<b>Building Condition</b>	Partially built-out; remainder in shell condition

# The Hangars at Newport Beach

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## Street Map

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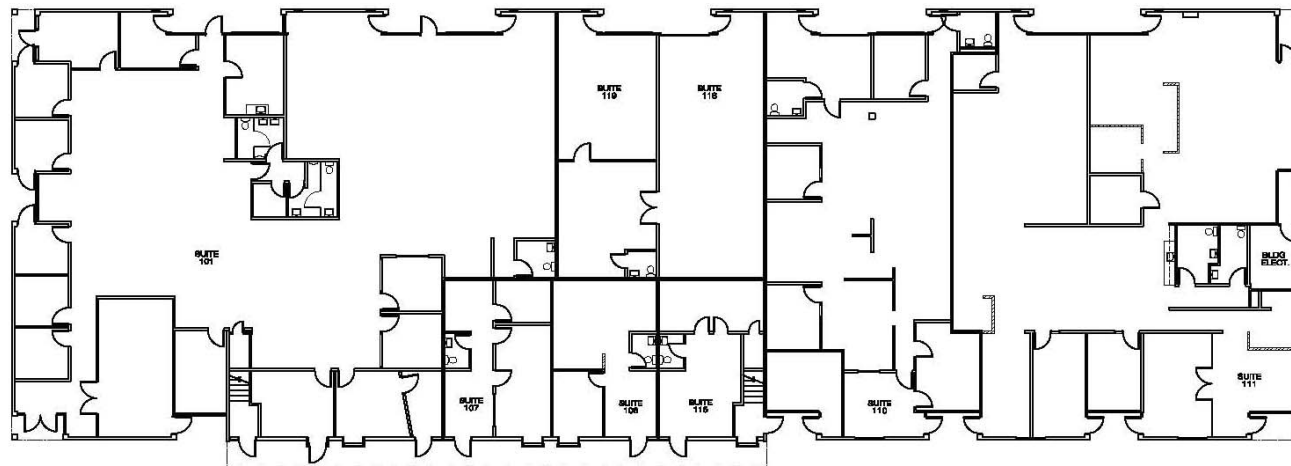
# The Hangars at Newport Beach

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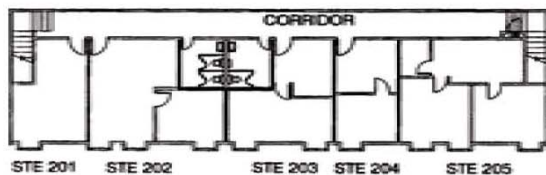


## Floor Plans

First Floor



Second Floor



# The Hangars at Newport Beach

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## Site Plan






# The Hangars at Newport Beach

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## Sales Comparables

Property	Address	Sale Date	Size (sf) Stories	Price PSF	Market/Deal Insight
	Hangars 1900 Quail Newport Beach	2008	<u>10,000</u> 1	<u>\$4,000,000</u> \$400	Vacant shell building in Hangars at Newport Beach sold to a user. With an estimated \$40/sf in tenant improvements, the full sale price was \$440/sf.
	Hangars 1901 Dove Newport Beach	2008	<u>16,047</u> 2	<u>\$5,500,000</u> \$343	Vacant shell building in Hangars at Newport Beach sold to a user. With an estimated \$40/sf in tenant improvements, the full sale price was \$383/sf.
	Koll Limited 4631 Teller Newport Beach	2004	<u>12,157</u> 1	<u>\$3,194,500</u> \$263	1977 building near the Hangars sold to a user. Unlike the Hangars, this business park has not recently been renovated.
	Koll Limited 5015 Birch Newport Beach	2003	<u>11,858</u> 1	<u>\$2,650,000</u> \$223	1978 building near the Hangars sold to a user. Unlike the Hangars, this business park has not recently been renovated.

# The Hangars at Newport Beach

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## Benefits of Purchasing

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Led by Steven G. Economos, the 360 Commercial Partners Office Advisory team is Orange County's #1 seller of office buildings. As such, they are the foremost experts in OC's office sector and are widely sought after by buyers, sellers, investors and the media for advice on a range of topics relating to the purchase, sale and leasing of office space and buildings in the region. Below is their recent analysis of the current OC office market and recommendations regarding the frequently posed question of whether the time is right to lease or purchase office space.

- Recommendation:** For stable businesses with strong balance sheets, the time is right to purchase office space.
- Value Pricing:** **Current office sale pricing is at levels last seen in the early 2000's.** This reflects a move to realistic, fundamentally sound pricing, effectively erasing the inflated sales prices of 2005-2008.
- Favorable Financing:** Historically low interest rates and government-sponsored SBA programs allow the purchase of a building for only 10% down.
- Inflation Protection:** Purchasing an office enables you to protect your business from potential runaway lease markets in the future.
- Portfolio Enhancement:** Add a building to your retirement nest egg. If your business is stable and needs office space, the rent from your business pays off the mortgage. Additional benefits include real estate appreciation and the tax advantages of depreciation.

# The Hangars at Newport Beach

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## Purchase vs Lease Illustration

Situation: Business owner purchases and occupies 3901 Westerly for \$209/SF, with an initial investment of \$22/SF (10% down + est. closing costs).

### Estimated Monthly Costs

Typical Operating Expenses:	\$0.65/SF	
Mortgage Payment:	\$1.29/SF	
Amount of Principal in Mortgage Payment*:	(\$0.26/SF)	*Note: This money is simply cash being converted to savings

**Estimated Monthly Cost to Own Year 1: \$1.68/SF** vs **Estimated Starting Lease Rate: \$1.85/SF Full Service Gross**

The advantage to owning increases each year. Assuming lease rates increase by 3% annually, operating expenses increase by 2.5% annually, and mortgage payments remain fixed, below is a 10-year comparative analysis of purchasing versus leasing (with all figures per square foot):

	Lease Rate	Ownership Cost	Annual Savings	Cumulative	
Year 1	\$1.85	\$1.68	\$2.04	\$2.04	
Year 2	\$1.91	\$1.67	\$2.82	\$4.86	
Year 3	\$1.96	\$1.66	\$3.62	\$8.47	
Year 4	\$2.02	\$1.65	\$4.43	\$12.90	
Year 5	\$2.08	\$1.64	\$5.25	\$18.15	
Year 6	\$2.14	\$1.64	\$6.10	\$24.25	<b>Break Even</b>
Year 7	\$2.21	\$1.63	\$6.96	\$31.21	
Year 8	\$2.28	\$1.62	\$7.83	\$39.04	
Year 9	\$2.34	\$1.62	\$8.73	\$47.77	
Year 10	\$2.41	\$1.61	\$9.65	\$57.42	<b>10 Year Own vs Lease Savings</b>

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## Tax Benefits of Depreciation

Assume a business owner or trust personally purchases 3901 Westerly and leases it to his/her business at a market rate (this is allowable under the SBA program). Cash flow and taxable income of the business are not affected. However, this owner's personal financial situation would benefit from depreciation of the building. In terms of this scenario, depreciation is the spreading of cost over the useful life of an asset. The Internal Revenue Service allows for a tax deduction of commercial property improvements depreciation based on a 39-year life. Simply stated, a portion of the cost of the building (excluding land) reduces taxable income, and thus tax liability, for a period of up to 39 years.

### ***In this scenario, let us assume the following facts:***

Purchase Price:	\$4,547,000
Building Size:	21,758 Square Feet (\$209/SF)
Percentage of Building to Land:	45% / 55%
Owner's personal income tax bracket:	33%

The amount subject to depreciation, in this example, is 45% of \$4,547,000, or \$2,046,150. Spread over the IRS' mandated 39 years, the deduction per year is approximately \$52,000. **At a tax rate of 33%, the tax savings due to depreciation is \$1,71,000 per year of ownership.**

If you are considering this on a monthly per-square-foot basis consistent with the example on the previous page, this tax savings equates to an additional ownership benefit of \$0.07/sf per month.

As time progresses, the cost basis of the building is being reduced by depreciation accumulated since purchase. Should the owner decide to sell, the depreciation is recaptured and taxed, but it is at a standard 25% as opposed to the 33% ordinary income rate used when the deduction was realized. This yields an overall tax benefit during the building ownership period, especially if the building is kept and passed down to future generations.

*It is important to note that this example may differ from your situation. Please consult with your tax advisor.*

# The Hangars at Newport Beach

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## Bank of America Loan Quote

**Bank of America  
Merrill Lynch**

Financing Solutions Provided by: **Matt Foster**  
*Vice President, Business Banking Group*  
 949 722 2695  
 949 433 0091 (mobile)  
 415 796 6017 (fax)

As of April 13th, 2010

**The Hangars Newport Beach**  
**3901 Westerly**  
 21,758 sf at \$209 per sf

**Commercial Real Estate Purchase Analysis**

<b>Total Purchase Price*</b>	<b>\$4,547,000</b>			
	<b>SBA 504</b>		<b>SBA 504</b>	
	<b>5/25 Years</b>	<b>20/20 Years</b>	<b>10/25 Years</b>	<b>20/20 Years</b>
	<b>1st</b>	<b>2nd</b>	<b>1st</b>	<b>2nd</b>
Down Payment	\$454,700		\$454,700	
LTV	90%		90%	
Loan Amount	\$2,273,500	\$1,818,800	\$2,273,500	\$1,818,800
Financed Fee		\$12,072.20		\$12,072.20
Rate (%)*	5.250%	5.770%	6.350%	5.770%
Amortization	25	20	25	20
Term (Years)	20	20	20	20
504 Monthly Payment	(\$13,623.90)	(\$12,875.17)	(\$15,138.42)	(\$12,875.17)
Monthly Payment Estimate	504 Total	(\$26,499.06)	504 Total	(\$28,013.59)
Interest Only Payment Estimate				

**Estimated Real Estate Loan Fees**

Loan Fee %*	0.500%	0.650%	0.500%	0.650%
Loan Fee	\$11,367.50	\$12,072.20	\$11,367.50	\$12,072.20**
Appraisal & Review*	\$2,500.00	Fee Combined	\$2,500.00	Fee Combined
Environmental*	\$0.00	Fee Combined	\$0.00	Fee Combined
Legal*	\$0.00	\$250.00	\$0.00	\$250.00
Title (.006% of Loan Amount)	\$2,050.00	Fee Combined	\$2,050.00	Fee Combined
Escrow*	\$1,820.00	Fee Combined	\$1,820.00	Fee Combined
Other*	\$1,500.00	\$0.00	\$1,500.00	\$0.00
Total	\$19,237.50	\$0.00	\$19,237.50	\$0.00
*For 504, this is Bank Interim Loan Fee	504 Total	\$19,237.50	504 Total	\$19,237.50
Total Out of Pocket Expenses (Down Payment and Closing Costs)	504 Out of Pocket Expense	\$473,938	504 Out of Pocket Expense	\$473,938

\* Required Field - variable information  
 \*\* SBA Loan fee is financed with Debenture  
 \*\*\* Loan fee can be discounted based on Bank of America relationship

Any transaction arising from this comparison is expressly subject to credit approval by Bank of America and to the execution and delivery of transaction documentation satisfactory to Bank of America. Additional Terms and Conditions not presented in this comparison will apply. Amounts shown are for comparative purposes only. Actual final transaction amounts may differ. Equal Opportunity Lender.