

## Team Newsletter

### Leasing vs. Buying Equipment

To lease or not to lease? This question is commonly asked by entrepreneurs and business owners. Do you invest today's profits or your start-up cash in the equipment you need? Or, do you go into debt to borrow money for needed equipment? Buying gives you control and no contract hassles. But, Leasing is an attractive option for business because it allows small capital outflow at the time of equipment acquisition. The best way to determine whether Leasing or Buying is best suited for your business is to understand the advantages and the disadvantages of both options.

#### Advantages of Buying

**Ownership:** It is often a practice for businesses with cash reserves to purchase

the equipment outright. As the owner of the asset, you will have more control of the equipment. This provides more flexibility if you decide to sell the

**Leasing allows small capital outflow at the time of equipment acquisition.**



asset. **Tax Benefits:** Tax incentives can be another good reason for purchasing equipment. Section 179 of the Internal Revenue Code allows you to fully deduct the cost of some newly purchased assets in

the first year. In 2006, you can deduct up to \$108,000 of equipment (subject to a phase-out if you placed more than \$430,000 of equipment in service in any one year). You will need to consult with your tax preparer for all eligible assets for deductions.

**Overall Costs:** When you purchase the equipment outright, it will cost less than leasing the asset over time. For example, a 3-year lease on a computer of \$3,000 at a rate of \$30 per month per \$1,000. It will cost a total of \$3,240 in the end of 3-year period.

**Maintenance and Insurance Schedule:** Once ownership is obtained, you will retain the control for your own maintenance and insurance schedule.

**No lock-in contract:** You can dispose or replace the asset at any time.

*Continued on pg. 2...*

### Technology HD Radio...

Chris Cox

Radio just got a lot cooler. Unfortunately you will have to buy a new one to take advantage of the new features of HD Radio.

HD (hybrid Digital) Radio allows radio stations to broadcast multiple channels of radio on a single frequency. This means your favorite radio station can devote one channel to the music you love and use others for things like weather and traffic.

This is all broadcast in a crystal clear digital format that

makes regular AM & FM radio seem very outdated.



**A transportable HD Radio for multiple channels in both in the car, as well as in the home.**

The new HD Radio technology is already available with receivers

running from \$125-\$1000.

Good news too is that the HD Radio format is widely accepted by US radio stations and as of December 2006, there are 1146 stations in the United States broadcasting 1674 HD Radio channels on both AM and FM bands.

More good news is that stations broadcasting are broadcasting multiple programs, without commercials on the extra digital-only channels for a period of at least 18 months.

On the down side HD radio has been criticized for being incompatible with the standards selected by most other countries, and the first generation home receiver systems lack the ability to truly output the full power of the digital signal.



**HD -Hybrid Digital- Radio Allows Crystal clear reception on AM&FM frequencies with multiple channels**

### Real Estate Snapshot

Average age of a US home-buyer.....	25
Percentage home sales dropped in fourth quarter of 2006.....	12.6%
Inventory of homes on US market for fourth quarter 2006.....	3.92m
Percentage price drop from 2005 prices.....	1.7%
Rise in consumer confidence in late 2006 despite real estate level off.....	4.3

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## Leasing vs. Buying Equipment cont...

### Advantages of Leasing

**No worries of Obsolescence:** If you are purchasing high-tech equipment, the risk of the equipment becoming obsolete can be high. You may have to purchase replacement equipment sooner than you planned. In a leasing situation, the lessor takes the risk of obsolescence.

**Lease payment is tax-deductible:** The lease payment can be an overhead expense, which means you can deduct the lease payments from your corporate income. Also, an operating lease isn't considered a long-term debt or liability. This means the lease does not appear as debt on your financial statement, which in turn makes you more attractive to traditional lenders, if and when you need a loan. This is equal to an immediate write-off of the dollars you spend.

**Less money out initially:** If you have a start-up company, you may not have a lot of cash reserve to pay for the down payment or the full price of the asset. By deferring the purchase expenses of equipment you can invest your capital into more income-generating activities. Some leases may not need initial down payment which means that you can obtain a 100% financing for your equipment. In this method, you can include your software, hardware, consulting, maintenance, freight, installation, and training costs into your leasing agreement.

**Improve cash flow:** You can customize the term and the payment according to your budget and needs. The lease payment can be easily projected into your monthly cash flow analysis.

**Flexible term:** Depending on your cash flow needs, you can decide the length of

the lease and option of buyout in the end of the term. If the buyout price is \$1 dollar versus the buyout price equal to the fair market value in the same term, the monthly leasing amount will be greater with the buyout price of \$1. In addition, you may have the option to renew the lease depending on whether there's any residual value. The new lease payment will be lower.

**It is a decision each business needs to make, only after looking at the advantages and disadvantages that buying and leasing offer that particular business.**

**Easier to obtain:** Applying a lease agreement is easy. Equipment leasing can start as small as \$2,000 which often needs as little as one page of application. You can receive a final decision and funding within days. For a smaller equipment leasing amount (typically \$100,000 or less), there's no tax returns or financial statements required for the process.

**Leasing company takes all the risks:** In the leasing situation, the leasing company will take all the risks in the case of obsolescence or breakdown. If you were to dispose the asset in the end of the term, you would simply return it to the leasing company. You can also choose

to purchase the equipment at the end of the term if you would like to keep it.

### Leasing Options

Should you choose to lease the equipment, you have a variety of choices for obtaining the leasing agreement. Sometimes the vendor/manufacture will have a program available, or a broker may have many programs and different lenders available to choose from, or friends and business associates are often willing to help with a lease as well. An experienced broker can be beneficial since he/she has the experience and tools to help you to structure a good deal that will fit your needs. That will save your time and effort for handling the due diligence.

Getting back to the question of buying or leasing equipment, it's best to know the facts for each. Buying is used by many businesses because it fits their needs. Leasing is also used by many companies. It is a decision each business needs to make only after looking at the advantages and disadvantages that buying and leasing offer that particular business. Once you understand and analyze the options, the choice should be easier to make.

*Annie Chang is a Senior Loan Agent specializing in commercial mortgage financing. She has closed over \$200 million dollars, and has an MBA from*

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**Reverse Mortgage**  
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## Team

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More programs to come next month...

## Commercial Mortgage Financing

Equipment Leasing

Factoring Financing

- Wide variety of Conventional/ standard loan programs
- #1 Hard money loan program—100K-1M
  - Low as 2.5 points
  - Rates starting at 10.5%
  - Up to 80% loan to value with 90% combined loan to value
  - No seasoning requirement
  - Assumable loan
  - 100% loan proceed in cash

