STATE OF NEW MEXICO

CAPITOL BUILDINGS PLANNING COMMISSION

Lease vs. Own

September 3, 2013

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Architectural Research Consultants, Incorporated

Lease vs. Own

State owns about 16.4 m sf of space and leases about 3.1 m sf of space (~15% of the total) … most (90%) of the leased space is general office use

- State pays about $48 million state wide for leases (not including judicial leases)
  - Albuquerque: $17 m ($18.80 / sf)
  - Santa Fe: $12 m ($22.33 / sf)
  - Rest of State: $19 m ($18.81 / sf)

Since cost of capital to the public sector is less than that available to the private sector – all things being equal, the public sector should be able to own assets at a lower total cost than leasing over the long-term

LEASE VS. OWN

The Life Cycle Cost Analysis (LCCA) Application developed by the Capitol Buildings Planning Commission for analyzing lease-purchase submittals demonstrates the cost differences between different acquisition methods.

LCCA is a method for assessing the total cost of facility ownership, taking into account the cost of acquiring, owning, operating and disposing of a building or a system

Total Life Cycle Costs =

Discounted (**Initial investment Cost + Operations Cost + Maintenance & Repair Cost + Replacement Cost - Residual value)**

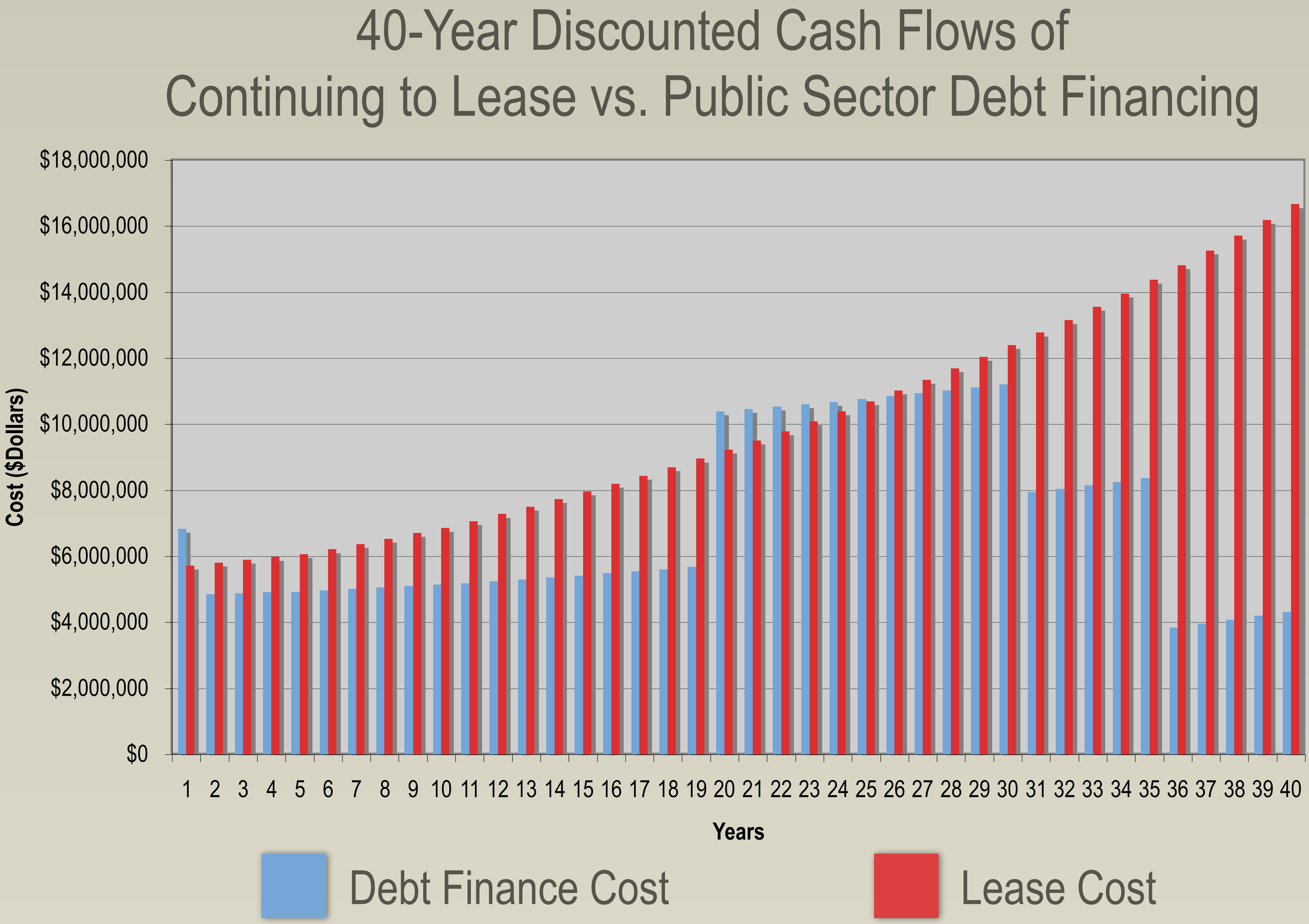
Lowest LCC of given alternatives is generally favored

LEASE VS. OWN

Sample Summary Table of
Discounted Cash Flow Life-Cycle Cost of Project Alternatives

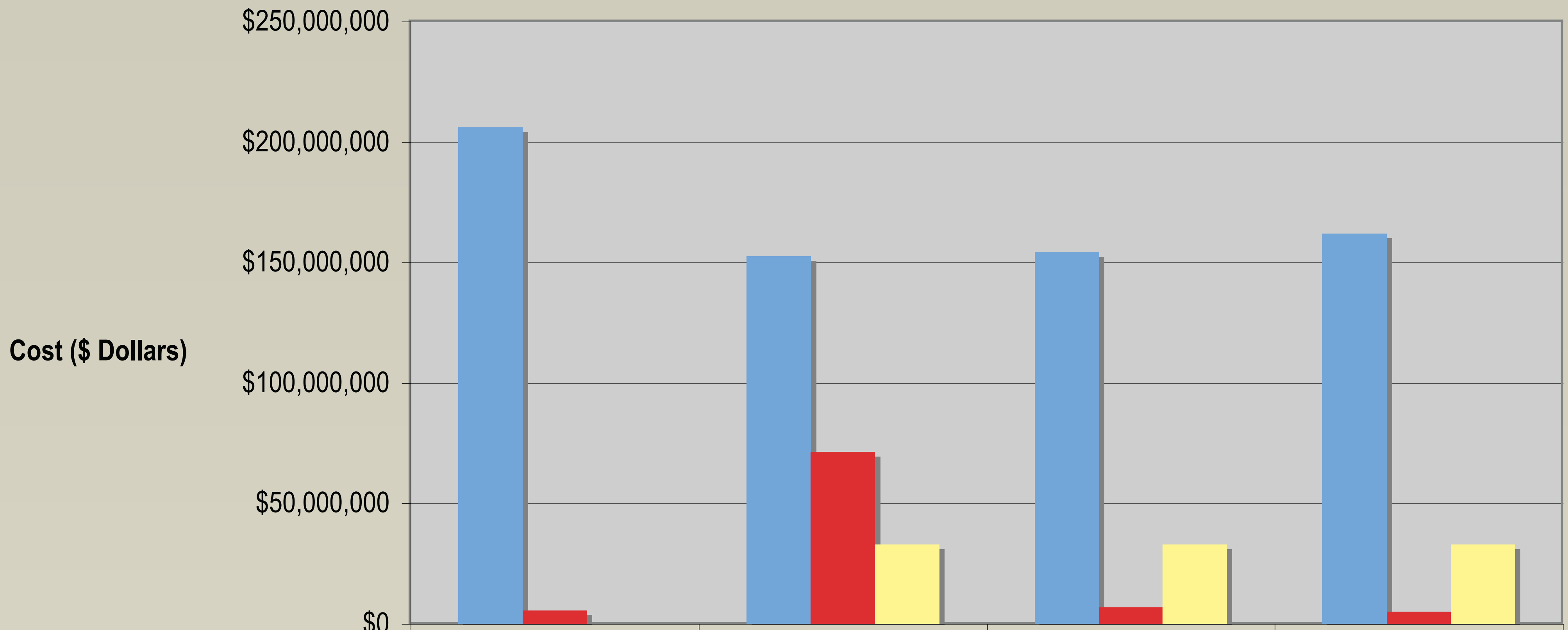
Discounted Cash Flow LCCA				
	Alternative #1 **Continue Existing Lease(s)**	**Alternative #2** **Buy (construct with cash, public sector)**	**Alternative #3** **Buy (debt finance, public sector)**	**Alternative #4** **Buy (lease - purchase, private sector)**
40 Year Costs (present value)	$206,142,576	$152,818,830	$155,834,447	$162,136,402
First Year Costs	$5,721,014	$71,643,379	$6,912,792	$5,252,060
Residual Value	$0	$31,909,825	$31,909,825	$31,909,825
Total Cost Less Residual Value	**$206,142,576**	**$120,909,005**	**$123,924,622**	**$130,226,577**

Lease vs. Own


40-Year Discounted Cash Flows of
Continuing to Lease vs. Public Sector Debt Financing
$18,000,000
$16,000,000
$14,000,000
$12,000,000
$10,000,000
$8,000,000
$6,000,000
$4,000,000
$2,000,000
$0
Cost ($Dollars)
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40
Years
Debt Finance Cost
Lease Cost

LEASE VS. OWN

40-Year Discounted Cash Flows of Alternatives



	Continue Existing Lease(s)	Buy (construct with cash, public sector)	Buy (debt finance, public sector)	Buy (lease - purchase, private sector)
40 Year Costs (net present value)	$206,142,576	$152,655,990	$154,462,151	$161,959,889
First Year Costs	$5,721,014	$71,475,654	$6,842,778	$5,243,055
Residual Value	$0	$33,159,825	$33,159,825	$33,159,825

Alternatives

40 Year Cost (Net Present Value)

First Year Costs

Residual Value

When Leasing May Be a Better Choice

Provides flexibility – When the need is short-term or uncertain

When State does not own appropriate space

- Not the right kind of space
- Not in the right location
- Requires specialized space
- Not available when needed

When the lease rate is below a certain level and facilities are of acceptable quality

When State does not have (or want to) invest capital costs – frees working capital for other uses

Federal leases are reimbursed to the state (but can be capitalized if done correctly)