Lease vs. Buy Decision:

# BUY

NPV: $9,092,959.15

## · Assumptions ·

| Loan Terms | |
|---|---|
| Loan -Type | Amortizing |
| Loan Term | 30 Years |
| Loan Rate | 5.57% |
| Loan-to-Value | 60.00% |
| **Required Return On Equity** | |
| 10 Year Treasury | 1.92% |
| Beta (5Y Monthly) | 0.70 |
| S&P 500 Avg. Return | 14.33% |
| CAPM | 10.61% |
| Additioanl Risk Premium | 2.00% |
| Required Return On Equity | 12.61% |
| **Land & Rental Value** | |
| Land Price / Acre | $169,156.02 |
| Implied Land Value | $4,228,900.40 |
| Building-to-Value Ratio | 78.38% |
| NNN Rent Price / SF | $5.88 |
| Year 1 Total Rent Price | $2,942,000.00 |
| Annual Appreciation | 3.00% |

## · Strategic Fit for TEMU ·

### 1. Logistics Needs Align with Warehouse Facilities

TEMU, a cross-border e-commerce platform under PDD Holdings Inc. (PDD), relies on an efficient logistics system to maintain its competitive advantage of "high cost-effectiveness + fast delivery." As a cross-border e-commerce company, TEMU needs to establish an efficient warehousing and distribution network in North America to meet the growing demand for rapid delivery from North American consumers.

Jacksonville boasts a strategic geographical location, close to major population centers along the East Coast, making it an ideal choice for logistics and warehousing facilities.

Meanwhile, Jacksonville International Airport and several deep-water ports provide convenient transportation options, particularly for the import and export of goods in cross-border e-commerce.

### 2. TEMU's Market Growth Potential

TEMU is rapidly expanding in the North American market, backed by strong supply chain and marketing capabilities from its parent company, Pinduoduo. As TEMU's business scale grows, its demand for regional warehousing facilities will naturally increase.

Jacksonville offers lower industrial rental costs compared to other East Coast cities, providing TEMU with a cost advantage to reduce operational expenses.

The region's steadily growing consumer base makes it a suitable location for an operations hub to support distribution needs.

## · Company Highlights ·

As of the first half of 2024, TEMU has performed exceptionally well in the global market, achieving a gross merchandise volume (GMV) of $20 billion, surpassing its full-year performance of $18 billion in 2023.

In terms of user activity, TEMU recorded 467 million unique visitors in December 2023, on par with AliExpress, the second-largest globally, and second only to Amazon’s 2.659 billion users.

Additionally, TEMU ranked first in shopping app downloads across multiple markets, including the United States, Europe, Latin America, the Middle East, Japan, South Korea, and Australia, demonstrating its rapid growth and widespread acceptance in global markets.

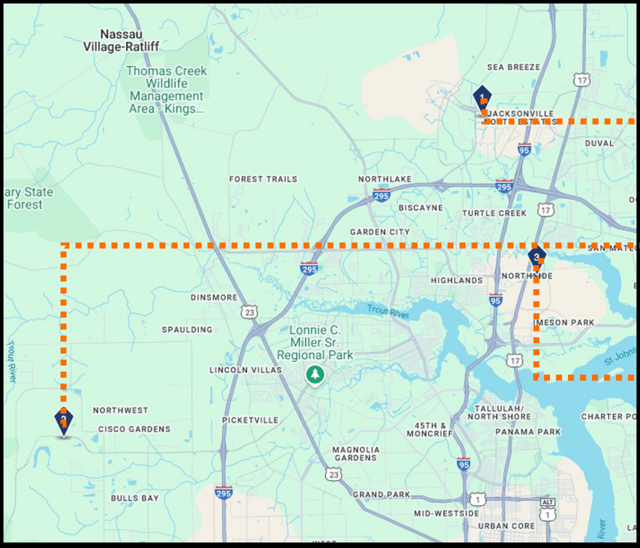

*Data sourced from FRED, CoStar, LoopNet and Bloomberg.*

## · Financial Metrics Overview ·

PDD currently holds a credit rating of **Baa**, placing its cost of debt at approximately 5.57%, based on Moody's Seasoned Baa Corporate Bond Yield data (source: https://fred.stlouisfed.org/series/DBAA). Additionally, PDD's 5-year monthly averaged Beta stands at around 0.7, while the 10-year Treasury Yield, averaged over the same period, is 1.92%. The market rate of return, benchmarked against the S&P 500, has a 5-year average of 14.33%. Through the CAPM model, the cost of equity of PDD is around 10.61%. Taking into consideration the additional risks associated with PDD's business model and market volatility, an additional 2% risk premium was added. With this addition, the final cost of equity now comes to 12.61%.

## · Property Sales Comps ·

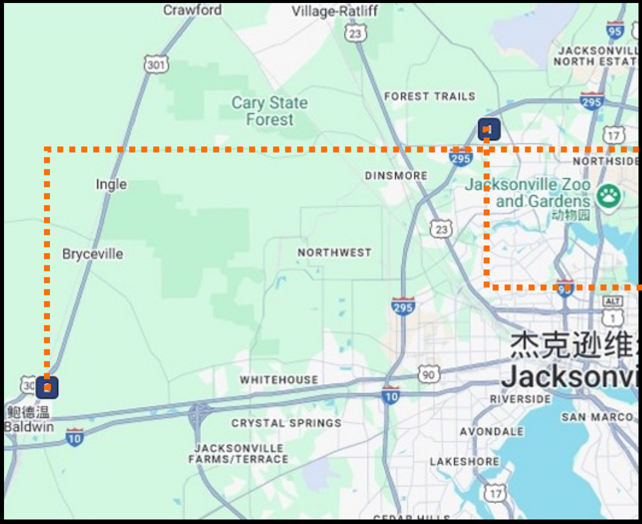
This section provides a comparative analysis of property sales in Jacksonville. It includes data on three key properties with details about their location, year of construction or renovation, size, and price per square foot (SF). The weighted average price per square foot for the properties is calculated to be $30.90. Based on the estimated rent area of 500,000 SF, the total cost for renting the property is projected to be $15,452,250.




| Location | Built/Renov | Size | Price/SF | Weight |
|---|---|---|---|---|
| 13470 International Pky | 2006 | 533,558 SF | $32.63 | 30% |
| 9950 Pritchard Rd | 2020 | 491,372 SF | $29.34 | 35% |
| 250 E Busch Dr | 2020/2021 | 477,946 SF | $30.99 | 35% |
| **Weighted Average Price / SF** | | | $30.90 | 100% |
| **Rent Area** | 500,000 SF | **Est. Cost** | **$15,452,250.00** | |

## · Land Sales Comps ·

This section focuses on land sales comps in Jacksonville, detailing two prominent sales with location, total price, lot size, and price per acre. The weighted average price per acre is calculated at $169,156.02. For a total land area of 25 acres, the estimated land price comes to $4,228,900.. Land Property 2 has a lower weight for distant reason.

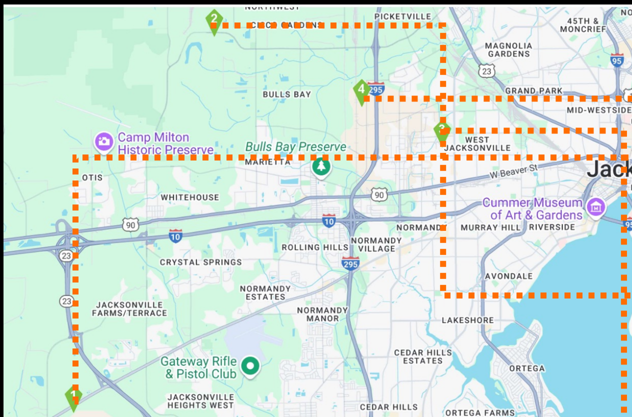



| Location | Price | Lot Size (Acres) | Price Per Acre ($) | Weight |
|---|---|---|---|---|
| 0 Tradeplex Way | $5,288,000 | 26.44 | $199,902.12 | 80% |
| 0 Wingate Rd N | $1,200,000 | 25.99 | $46,171.60 | 20% |
| **Weighted Average Price per Acre** | | | $169,156.02 | 100% |
| **Land Area** | 25 Acre | **Est. Land Price** | **$4,228,900.40** | |



*Data sourced from FRED, CoStar, LoopNet and Bloomberg.*

## · Triple Net Lease Comps ·




The analysis assigns higher weights to properties geographically closer to the target area and with similar characteristics, reflecting their higher relevance for comparison. Two properties located farther away but with comparable features are given a lower weight of 10% each. In contrast, closer properties with more aligned location and market factors are weighted at 60% and 20%, respectively.

| Location | Size | Start | End | NNN Cost | Weight |
|---|---|---|---|---|---|
| 12970 Normandy Blvd | 510,433 SF | Dec-23 | Jan-31 | $7.00 | 60% |
| 9950 Pritchard Rd | 486,146 SF | Nov-21 | Mar-32 | $4.77 | 20% |
| 5245 Commonwealth Ave | 552,651 SF | Jan-10 | Oct-15 | $2.95 | 10% |
| 2300 Pickettville Rd | 601,500 SF | Jul-08 | Jan-19 | $4.35 | 10% |
| **Weighted Average NNN Cost** | | | | $5.88 | 100% |
| **Rent Area** | 500,000 SF | **NNN Cost** | | **$2,942,000.00** | |

## · Financial Analysis | Lease vs. Buy ·

The property has a purchase price of $19,681,150.40, with a building value of $15,452,250.00, forming the depreciable basis. Over a 39-year depreciable life, the annual depreciation is $396.21k, gradually reducing the adjusted basis to $15,719.04k by 2035. A loan of $11,808.69k, based on a 60% loan-to-value ratio, is amortized over 30 years at a 5.57% interest rate, with annual payments of $818.79k. By 2035, the loan balance decreases to $9,728.32k. Assuming a 3% annual appreciation rate, the est. future sale price in 2035 is $26,449.82k, with tax considerations including depreciation recapture of $3,962.12k and capital gains of $6,768.67k, both taxed at 21%.

| **Depreciation Schedule** | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | 2035 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Purchase Price | $19,681,150.40 | | | | | | | | | | |
| Building Value | $15,452,250.00 | | | | | | | | | | |
| Depreciable Basis | $15,452.25k | $396.21k | $396.21k | $396.21k | $396.21k | $396.21k | $396.21k | $396.21k | $396.21k | $396.21k | $396.21k |
| Depreciable Life in years | 39 | | | | | | | | | | |
| Annual Depreciation | $396.21k | | | | | | | | | | |
| Adjusted Basis | | $19,284.94k | $18,888.73k | $18,492.52k | $18,096.30k | $17,700.09k | $17,303.88k | $16,907.67k | $16,511.46k | $16,115.25k | $15,719.04k |
| **Reversion** | | | | | | | | | | | |
| Estimated Annual Appreciation Rate | 3% | | | | | | | | | | |
| Estimated Future Sale Price | | | | | | | | Estimated Future Sale Price | | | $26,449.82k |
| Depreciation Recapture | | | | | | | | Depreciation Recapture | | | $3,962.12k |
| Recapture Tax Rate | 21% | | | | | | | | | | |
| Capital Gain | | | | | | | Capital Gain | | | | $6,768.67k |
| Capital Gain Tax Rate | 21% | | | | | | | | | | |
| **Amortization Schedule** | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | 2035 |
| LTV | 60% | | | | | | | | | | |
| Loan Amount | $11,808.69k | | | | | | | | | | |
| Loan Rate | 5.57% | | | | | | | | | | |
| Amortization Term in years | 30 | | | | | | | | | | |
| Loan Payment | ($818.79k) | | | | | | | | | | |
| Beginning Balance | | $11,808.69k | $11,647.64k | $11,477.62k | $11,298.13k | $11,108.64k | $10,908.60k | $10,697.42k | $10,474.47k | $10,239.11k | $9,990.63k |
| Interest | | $657.74k | $648.77k | $639.30k | $629.31k | $618.75k | $607.61k | $595.85k | $583.43k | $570.32k | $556.48k |
| Principle | | ($161.05k) | ($170.02k) | ($179.49k) | ($189.49k) | ($200.04k) | ($211.18k) | ($222.95k) | ($235.37k) | ($248.48k) | ($262.32k) |
| Ending Balance | | $11,647.64k | $11,477.62k | $11,298.13k | $11,108.64k | $10,908.60k | $10,697.42k | $10,474.47k | $10,239.11k | $9,990.63k | $9,728.32k |

# · Financial Analysis | Lease vs. Buy ·

| Owner's Disposition Tax and Cash Flow Statement | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | 2035 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Future Sale Price | | | | | | | Future Sale Price | | | | $26,449.82k |
| Loan Balance | | | | | | | Loan Balance | | | | $9,728.32k |
| Tax on Recaptured Depreciation | 21% | | | | | | Tax On Recaptured Depreciation | | | | $832.04k |
| Tax on Capital Gain | 21% | | | | | | Tax On Capital Gain | | | | $1,421.42k |
| Net After-Tax Cash Flow at Disposition | | | | | | | Net After-Tax Cash Flow at Disposition | | | | $14,468.04k |
| **Potential Triple Net Lease Payment SAVED:** | **2025** | **2026** | **2027** | **2028** | **2029** | **2030** | **2031** | **2032** | **2033** | **2034** | **2035** |
| Building Rentable Area | | **500,000** | | | | | | | | | |
| TRIPLE Net Rent psf | | **$5.88** | | | | | | | | | |
| Rent Escalation Rate | | | **3.00%** | **3.00%** | **3.00%** | **3.00%** | **3.00%** | **3.00%** | **3.00%** | **3.00%** | **3.00%** |
| **Triple Net Lease Payment Saved** | | $2,940.00k | $3,028.20k | $3,119.05k | $3,212.62k | $3,309.00k | $3,408.27k | $3,510.51k | $3,615.83k | $3,724.30k | $3,836.03k |
| **After-Tax Incremental Lease vs. Buy Analysis** | **2025** | **2026** | **2027** | **2028** | **2029** | **2030** | **2031** | **2032** | **2033** | **2034** | **2035** |
| Before Tax Required Return on Real Estate Investment- Opportunity Cost! | | **12.61%** | | | | | | | | | |
| Owner's Ordinary Income Tax Bracket (Owner could be a corporation, a wealthy individual or an LLC or a Fund | | **21%** | | | | | | | | | |
| Required After-Tax Return on Owner's Equity Invested in Real Estate | | 9.96% | | | | | | | | | |
| Additional Risk Premium on Reversion, if desired | | **2%** | | | | | | | | | |
| **Annual After-Tax Incremental Cash Flow to Owning** | | | | | | | | | | | |
| Depreciation Tax Shield | | $83.20k | $83.20k | $83.20k | $83.20k | $83.20k | $83.20k | $83.20k | $83.20k | $83.20k | $83.20k |
| Interest on an After-Tax Basis | | ($519.62k) | ($512.53k) | ($505.05k) | ($497.15k) | ($488.81k) | ($480.01k) | ($470.72k) | ($460.91k) | ($450.55k) | ($439.62k) |
| After-Tax Lease Payment SAVED | | $2,322.60k | $2,392.28k | $2,464.05k | $2,537.97k | $2,614.11k | $2,692.53k | $2,773.31k | $2,856.51k | $2,942.20k | $3,030.47k |
| Loan Principal Paid | | ($161.05k) | ($170.02k) | ($179.49k) | ($189.49k) | ($200.04k) | ($211.18k) | ($222.95k) | ($235.37k) | ($248.48k) | ($262.32k) |
| **Net Annual After-Tax Incremental Cash Flow to Owning** | | $1,725.14k | $1,792.93k | $1,862.71k | $1,934.53k | $2,008.46k | $2,084.54k | $2,162.84k | $2,243.44k | $2,326.38k | $2,411.74k |
| **Net After-Tax Cash Flow at Reversion** | | | | | | | | | | | $14,468.04k |

**Owner's Disposition Tax and Cash Flow Statement** section outlines the financial outcome upon the disposition of the property in 2035. With a projected future sale price of $26,449.82k and a remaining loan balance of $9,728.32k, the net cash flow from the sale is calculated after deducting taxes. Taxes include $832.04k for recaptured depreciation and $1,421.42k for capital gains, both taxed at 21%. The resulting Net After-Tax Cash Flow at Disposition is $14,468.04k, representing the owner's realized cash flow from the sale.

**Triple Net Lease Payment Saved section** calculates the savings from avoided triple net lease payments over the holding period. With a rentable area of 500,000 square feet and an initial rent rate of $5.88 per square foot, adjusted annually by a 3% escalation rate, the annual savings range from $2,940.00k in 2025 to $3,836.03k in 2035. These savings highlight the economic advantage of ownership over leasing under favorable financial conditions.

**After-Tax Incremental Lease vs. Buy Analysis section** compares the financial benefits of owning versus leasing, factoring in taxes and opportunity costs. The analysis includes components such as depreciation tax shields, after-tax savings from avoided lease payments, and loan principal repayments. The Net Annual After-Tax Incremental Cash Flow to Owning increases yearly, from $1,725.14k in 2025 to $2,411.74k in 2035, demonstrating the growing advantage of ownership over time. Additionally, the Net After-Tax Cash Flow at Reversion further strengthens the case for ownership.

## Lease vs. Buy Summary

| | |
|---|---|
| Present Value of Annual After-Tax Incremental Cash Flow | $12,290.23k |
| Present Value of Reversion | $4,675.19k |
| - Purchase Price | ($19,681.15k) |
| + Loan | $11,808.69k |
| **NPV of the Decision to Own INSTEAD of Lease** | ***$9,092.96k*** |

| NPV Sensitive Analysis | | Annual Appreciation Rate 1% | 2% | 3% | 4% | 5% |
|---|---|---|---|---|---|---|
| After Tax Required Return | 7.5% | $10,263.38k | $10,980.94k | $11,764.68k | $12,619.99k | $13,552.60k |
| | 8.5% | $9,241.09k | $9,896.30k | $10,611.93k | $11,392.91k | $12,244.48k |
| | **9.96%** | $7,890.70k | $8,465.33k | **$9,092.96k** | $9,777.90k | $10,524.75k |
| | 10.5% | $7,429.36k | $7,976.97k | $8,575.10k | $9,227.83k | $9,939.57k |
| | 11.5% | $6,625.93k | $7,127.16k | $7,674.63k | $8,272.08k | $8,923.54k |

| NPV Sensitive Analysis | | LTV 50% | 55% | 60% | 65% | 70% |
|---|---|---|---|---|---|---|
| Loan Rate | 5.1% | $8,545.23k | $8,933.04k | $9,320.84k | $9,708.65k | $10,096.45k |
| | 5.3% | $8,464.79k | $8,844.55k | $9,224.31k | $9,604.07k | $9,983.83k |
| | **5.57%** | $8,355.33k | $8,724.14k | **$9,092.96k** | $9,461.77k | $9,830.59k |
| | 5.8% | $8,261.32k | $8,620.74k | $8,980.15k | $9,339.56k | $9,698.98k |
| | 6.0% | $8,179.03k | $8,530.21k | $8,881.39k | $9,232.58k | $9,583.76k |

## · Lease vs. Buy | Conclusion ·

**Based on the analysis, buying industrial land in the Jacksonville MSA is the financially superior option compared to leasing, with a calculated NPV of $9,092,959.15 for ownership.** This conclusion is supported by cost savings, tax advantages, and long-term value growth associated with owning the property.

### 1. Logistics and Market Potential:

TEMU's logistics needs align well with Jacksonville's strategic location, which offers proximity to major East Coast population centers, international transportation hubs, and cost-effective warehousing options. As TEMU continues to expand in North America, Jacksonville emerges as a key hub for its operational efficiency and cost-effectiveness.

### 2. Property and Land Analysis:

Local properties were evaluated based on size, age, and price per square foot, revealing a weighted average price of $30.90 per SF. The total estimated rental cost for a 500,000 SF property is $15,452,250.

Two land properties were compared, with the weighted average price per acre calculated as $169,156.02. This provided an estimated land cost of $4,228,900 for 25 acres.

### 3. Ownership offers substantial benefits over leasing:

With a purchase price at $19,681,150.40 and a building value at $15,452,250.00, annual depreciation and loan generate tax shields and gradually reduce the loan balance.

By 2035, the property is projected to appreciate at 3% annually, with a future sale price of $26,449,820, yielding significant after-tax cash flow even after taxes on depreciation recapture and capital gains.

### 4. Cost Savings and Incremental Cash Flows:

Avoiding triple net lease payments provides significant savings over time, ranging from $2,940,000 in 2025 to $3,836,030 in 2035.

The annual after-tax incremental cash flow to owning increases from $1,725,140 in 2025 to $2,411,740 in 2035, emphasizing the growing financial advantage of ownership.

## · Sensitive Analysis ·

The decision's robustness was tested under varying assumptions, After adjusting appreciation rates and tax assumptions to reflect potential market volatility, and incorporating changes in the discount rate or loan interest rates to measure their impact on NPV difference between Lease and Buy.

**Results indicate that the NPV of ownership remains positive under most scenarios**, reaffirming the financial viability of the decision to buy. However, higher sensitivity to market appreciation and tax rates highlights the importance of monitoring these variables for long-term success.


*Data sourced from FRED, CoStar, LoopNet and Bloomberg.*