

**Warehouse on Port Property**

3851 Sound Way  
Bellingham, WA

Seller will consider a lease with option to purchase



**\$479,000**

**(Building & Improvements)**

Long-Term Land-Lease with Port of Bellingham  
6,450 SF Building on 25,000 SF Lot  
Paved Yard (fenced & secure)

**Inquiries:**

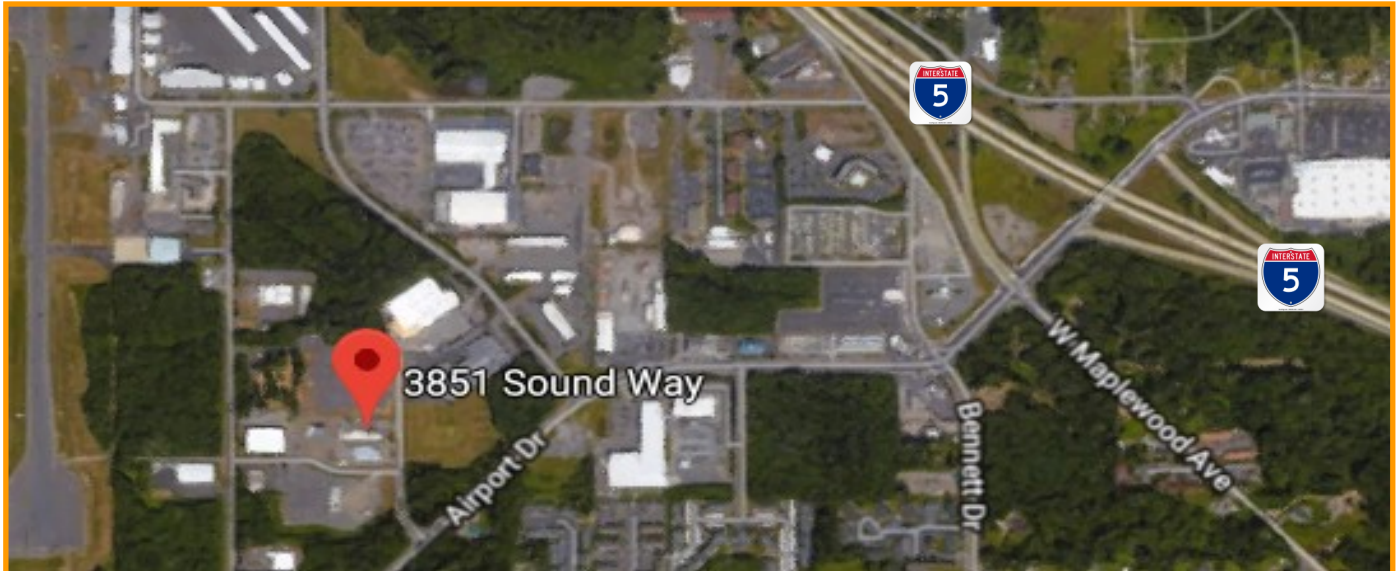
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# Warehouse on Port Property

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Bellingham, WA

Building includes 5,000 SF Warehouse + 960 SF Office + 500 SF Mezzanine + 700 SF covered & secure storage.	Building & Improvements are "For Sale" only. Land-lease with Port: 10 year initial term with four, 5-year options (30 years total). Current property rent \$1,292.55 plus 12.84% leasehold excise tax..
City Water & City Sewer.	8100 SF Fenced Yard + 18 parking spaces.
Heated Warehouse.	Located Near I-5 (Exit 258).
Power: Single Phase 200 Amps.	5 Grade Level Doors: 14'-16' High.
County Zone: Light Industrial (LII).	Compressor / Freezer + Cooler.



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## 3851 Sound Way

### Building Purchase with a Land Lease with the Port of Bellingham

rev. 03/08/19

#### **Buying Commercial Buildings on Leased Land:**

**The tax deductions are maximized and the capital outlay is minimized when a building on leased land is purchased.**

Lease info with the Port of Bellingham:

- Location: The land is located in the Airport Industrial Park. That area overlays within the Whatcom County zoning codes; it is also within the City of Bellingham UGA
- Size of Land: 25,000 sf
- Size of Building: 6,450 sf
- Lease Term: 10 years (8/1/2019 through 7/31/2029)
- Options to renew: Four (4) consecutive five (5)-year renewals
  - The tenant will control the property for a total of 30 years
- Lease payment:
  - Years 1-5: \$1,516.60/mo (\$1,344.00/mo rent + \$172.60 leasehold excise tax)
  - Years 6-10: \$1,562.07/mo (\$1,384.32/mo rent + \$177.75 leasehold excise tax)
  - Leasehold excise tax (LET): Because the Port of Bellingham is a government and does not pay property taxes the State of Washington charges a “leasehold excise tax” on the value of the leasehold, which is measured by the rent paid. The LET is 12.84% applied to the base rent.

#### **Benefits of a Land Lease:**

- 1. There are NO property taxes to pay on this Property.**
- 2. The present value of the Initial capital outlay is reduced.**
  - The purchaser is only paying for the value of the improvements, not the land.
  - **Today’s cost of leasing the land:**
    - **10-year lease term: \$129,423 (before tax)**
      - The present value of the original **10-year lease term** at 7%/yr discount rate (the discount rate takes into account the time value of money, inflation, risk, etc.) is \$129,423.
    - **20-year lease term (exercise two options): \$206,107 (before tax)**
      - If two of the options to renew are exercised and the rent increases 10% for every options period, then the present value of **20-years** of payments at 7%/yr discount rate is \$206,107.
  - **Today’s cost of purchasing the land:**
    - **Estimated fee simple land value today: \$200,000**
      - The land value is estimated to be worth \$200,000 today (industrial land parcels are about \$8/sf)

## 3851 Sound Way

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Page two

### 3. Lease payments are fully deductible from annual income.

- Lease payments are deductible as expenses. With that deduction, the after-tax cost is diminished by the owner's marginal tax rate.
  - If the lessee is in a 30% tax bracket, these lease payments only cost the lessee 70% of the amount paid because 30% of the cost is not taxed.
    - **Present Value After Tax (10 year lease payments): \$90,596**
    - **Present Value After Tax (20 year lease payments): \$144,275**
  - Today's value of the after-tax cost of the lease payments is less than half the cost of purchasing the land at \$200,000 if leased for 10 years, and less than 75% of the value of the land if leased for 20 years.
    - [Note: If a purchase is financed, the interest portion only – not the principal - is deductible.]

### 4. 100% of your purchase price is available for 39-year cost recovery

- Improvements are fully depreciable thus the value of the purchase of a building on leased land is completely depreciable.
- Land is *not depreciable* thus the purchase value has no tax benefits, just a large capital outlay at the outset.