

36.4 A commercial tenant entering into a 17 year lease has the option to make a down payment to lower the monthly rent. Assuming a 6% interest rate, which option has the best present value?

- A. \$0 down, \$12,500/month
- B. \$250K down, \$10,000/month
- C. \$500K down, \$8,000/month
- D. \$1M down, \$5,000/month

Find the present value for each option. Use the $i = 6\%$ Factor Table to find P/A . The minimum present value is the best choice.

$$PV_1 = (12) (\$12,500) (P/A, 6\%, 17)$$

$$PV_1 = (12) (\$12,500) (10.4773) = \$1,571,595$$

$$PV_2 = \$250,000 + (12) (\$10,000) (P/A, 6\%, 17)$$

$$PV_2 = \$250,000 + (12) (\$10,000) (10.4773) = \$1,507,276$$

$$PV_3 = \$500,000 + (12) (\$8,000) (P/A, 6\%, 17)$$

$$PV_3 = \$500,000 + (12) (\$8,000) (10.4773) = \$1,505,821$$

$$PV_4 = \$1,000,000 + (12) (\$5,000) (P/A, 6\%, 17)$$

$$PV_4 = \$1,000,000 + (12) (\$5,000) (10.4773) = \$1,628,638$$

Answer C