

Office lease comparison based on AW

Location A	Location B
FC -15	-18
AC -3.5	-3.1
Deposit Return C.F.E 6	2 9

MARR = 15%

Assume cash flows repeat for at least 18 years (LCM)

$$AW_A = -15(A/P, 15\%, 6) + 1(A/F, 15\%, 6) - 3.5$$
$$= -\$7.349 \text{ K}$$

$$AW_B = -18(A/P, 15\%, 9) + 2(A/F, 15\%, 9) - 3.1$$
$$= -\$6.753 \text{ K}$$

→ Choose B

Remark. Recall from Chapter 5 that the PWs of A and B over the LCM of 18 years are $-\$45.036 \text{ K}$ and $-\$41.384 \text{ K}$. If one applies AW analysis over the LCM, then $AW_A = -45.036(A/P, 15\%, 18) = -\7.349 K and $AW_B = -41.384(A/P, 15\%, 18) = -\6.753 . Same thing!