

LEASE ANALYSIS LANDLORD INDUSTRIAL CND EXAMPLE TENANT RENTING SINGLE SPACE

INTRODUCTION

This Lease Analysis example analyses an industrial lease from a Landlord's perspective where the tenant is renting one space in the building and uses the Investor Pro "Lease Analysis Landlord Indust Single Space" template to carryout the analysis.

If the tenant rents several spaces in the building the Investor Pro "Lease Analysis Landlord Indust Multiple Spaces" template would be used.

Tenant: Unit No. 3 Apex Manufacturing Rentable Area: 6,000 Sq. Ft

This practice example consists of two Sections;

1. The input information for the project
2. The instructions for entering the project data

PROJECT INFO. Folder

Property Name: Lakewood Industrial Building

Description: Unit No. 3 Apex Manufacturing

Analysis Period: 10 Years

Starting Date: Year 1 Jan

LANDLORD Folder

Investor's Marginal Tax Rate: 42.00%

Discount Rate: Before Tax 10.00%

LEASEHOLD IMPROVEMENTS Folder

Description: Leasehold Improvements

Amount: \$15,000

Year 1 Jan

CCA Class: Building

EXPENSES Folder

Expenses are expenses paid by the landlord which are allocated to the space such as the proportional share of property taxes, insurance, common area maintenance, property management etc.

Expenses paid by the Landlord

\$5.00 per Unit of Tenant's Rentable Area per Yr then increasing at 3.00% compounding per year.

Leasing Fee.

Year 1 Jan \$12,000

REVENUE Folder

Revenue is entered in the Revenue folder as follows;

Base Rent

\$14.00 per Unit of Tenant's Rentable Area per Yr paid monthly. Two terms of 5 years. Increase for the second term based on 3.00% compounding for five years

Free Rent

First two months. 100% of Base Rent

Recoverable Expenses

\$4.00 per Unit of Tenant's Rentable Area per Yr paid monthly for 12 months then increasing at 3.00% compounding per year

Parking

12 spaces at \$20 per month for 12 months then increasing at 4.00% compounding until the end of the lease. The parking is subject to a **Rent Cap** of \$300 per month for the full 10 years. This means that the maximum that will be paid by the tenant for parking per month is \$300

VACANCY Folder

This analysis assumes there are no vacancies

FINANCING Folder

The Financing folder allows you to enter two types of financing;

Mortgage (Borrowing)

Money borrowed by the landlord to fund tenant and other improvements associated with the space being rented

Description: Leasehold Improvement Loan
Commencing: Year 1 January
Type: Standard Mortgage
Amount: \$12,000
Time Period: 10 years
Amortization: 10 years
Nominal Interest Rate: 8.00%
Compounding Frequency: Semi-Annually

Tenant Loans

The landlord lends money to the tenant to fund their leasehold improvements and moving costs and the tenant repays the loan principle and interest every month.

Description: Tenant Loan
Commencing: Year 1 January
Type: Standard Mortgage
Amount: \$8,000
Time Period: 5 years
Amortization: 5 years
Nominal Interest Rate: 10.00%
Compounding Frequency: Semi-Annually

TERMINATION Folder

Cost incurred by the landlord at the end of the lease for cleaning up the space in preparation for leasing to a new tenant.

Cleanup and Restoration Costs: \$7,500

Value of leasehold improvements on termination is zero.

TENANCY INFORMATION

Information on the tenancy is entered in Tenancy Information dialog in two parts:

1. Lease Information
2. Building Attributes

The Tenancy Information appears on the following reports;

Lease Summary Report which shows;

- Tenancy Information
- Building Attributes
- Financial Summary
- Photos and Images
 - Building
 - Floor Plan
 - Site Plan
 - Location Map

To enter the Tenancy Information click on the Tenancy Information Button and complete the entries.



Following is the completed “Lease Information” and “Building Attribute” screens

Lease Information entries for the example

Tenancy Information		Industrial Space Building Attributes	
Lease Information			
Suite Number and Floor	3	Other Monthly Starting Costs	No
Type of Lease	Triple Net	Parking Ratio	N/A
Start Date	01/01/2011 mm/dd/yyyy	Reserved Parking No. & Rate	No
Expiration Date	12/31/2015 mm/dd/yyyy	Unreserved Parking No. & Rate	12 spaces \$20 per space per m ...
Lease Term	Five Years	Total Moving Costs	N/A
Renewal Options	Option to renew for another five years	TI Allowances by Landlord	No
Starting Lease Rate	\$14.00 per Sq. Ft per Yr	Other Allowances by Landlord	N/A
Rent Escalation Steps	No		
Free Rent	First two months		
Rent Cap	Parking, \$300 per month maximum		
Starting Recov. Expenses	\$4.00 per Sq. Ft per Yr		
Expense Cap or Stop	No		

OK Cancel Help

Building Attribute entries for the example

Tenancy Information		Industrial Space Building Attributes	
Lease Information			
Sub Market Area	Commercial Drive & Hastings Industrail	Signage	Visible from Hastings Street
Type of Property	Industrial Distribution	Storage Yard	No
Building Class & Age	35 years Masonary Class C	Rail	1/2 Mile
Number of Floors	1	Security	No
Ceiling Height	18 Feet clear	Property Manager	By owner
Column Spacing	16 Ft x 16 Ft	Comment	
Office Area	1,200 Sq. Ft		
Air Conditioning	Office area		
Elevators	No		
Loading Docks	Two. Dock High		
Overhead Doors	Two. 8 Ft x 8 Ft		
Power	200 Amp, 550 volt, 3 phase		
Sprinklers	Yes		

OK Cancel Help

The Tenancy Information entries appear in the "Lease Summary" and "Lease Summary Comparison" reports.

Lease Summary Report

Page 1. Lease Information and Building Attributes and imported images

Lease Summary		May 31, 2011
Lakewood Industrial Building		Investor Pro
Unit No. 3 Apex Manufacturing		Lease Analysis Landlord Indust Single Space
Lakewood Industrial Building 1400 Franklin Vancouver BC		
Unit Number & Floor	3	
Total Rentable Area	6,000 Sq. Ft	
Type of Lease	Triple Net	
Start Date	Jan/01/2011	
Expiration Date	Dec/31/2015	
Lease Term	Five Years	
Renewal Options	Option to renew for another five years	
Starting Lease Rate	\$14.00 per Sq. Ft per Yr	
Rent Escalation Steps	No	
Free Rent	First two months	
Rent Cap	Parking: \$300 per month maximum	
Starting Recov. Expenses	\$4.00 per Sq. Ft per Yr	
Expense Cap or Stop	No	
Other Monthly Starting Costs	No	
Parking Ratio	N/A	
Reserved Parking No. & Rate	No	
Unreserved Parking No. & Rate	12 spaces \$20 per space per month	
Total Moving Costs	N/A	
TI Allowance by Landlord	No	
Other Allowances by Landlord	N/A	
Building Attributes Sub Market Area: Commercial Drive & Hastings Industrial Type of Property: Industrial Distribution Building Class & Age: 35 years Masonary Class C Number of Floors: 1 Ceiling Height: 18 Feet clear Column Spacing: 16 Ft x 16 Ft Office Area: 1,200 Sq. Ft Air Conditioning: Office area Elevators: No Loading Docks: Two, Dock High Overhead Doors: Two, 8 Ft x 8 Ft Power: 200 Amp, 550 volt, 3 phase Sprinklers: Yes Signage: Visible from Hastings Street Storage Yard: No Rail: 1/2 Mile Security: No Property Manager: By owner		



Lakewood Industrial Building



Floor Plan



Great location near downtown Vancouver

Lease Summary Report**Page 2. Financial Summary**

Lease Summary			May 31, 2011
Lakewood Industrial Building			Investor Pro
Unit No. 3 Apex Manufacturing			Lease Analysis Landlord Indust Single Space
Financial Summary			
Analysis Period: 10 years			
	<u>Before Tax</u>	<u>After Tax</u>	
Total Net Cash Flow	\$ 819,982	\$ 472,439	
Average Annual Net Cash Flow	\$ 81,998	\$ 47,244	
Average Monthly Net Cash Flow	\$ 6,833	\$ 3,937	
Average Rent Rates			
Based on Rentable Area			
Average Effective Annual Rate	\$ 13.67 Sq. Ft per Yr	\$ 7.87 Sq. Ft per Yr	
Average Effective Monthly Rate	\$ 1.14 Sq. Ft per Yr	\$ 0.66 Sq. Ft per Yr	
Net Present Value and Net Effective Rent			
Net Present Value (NPV)	\$ 486,023	\$ 283,893	
NPV Discount Rate	10.00 %	9.60 %	
Based on Rentable Area			
Net Effective Rent Yearly	\$ 8.10 Sq. Ft per Yr	\$ 4.73 Sq. Ft per Yr	
Net Effective Rent Monthly	\$ 0.68 Sq. Ft per Yr	\$ 0.39 Sq. Ft per Yr	

Importing Images and photos

The following images can be imported into the project:

Company Logo

Personal Photograph (Appears on the "Title Page")

Building Photograph for the "Title Page"

Five photos or images which are displayed on the "Photo Gallery" along with the Title Page Photograph

Location Map

Aerial Map

Site Plan

Space Plan

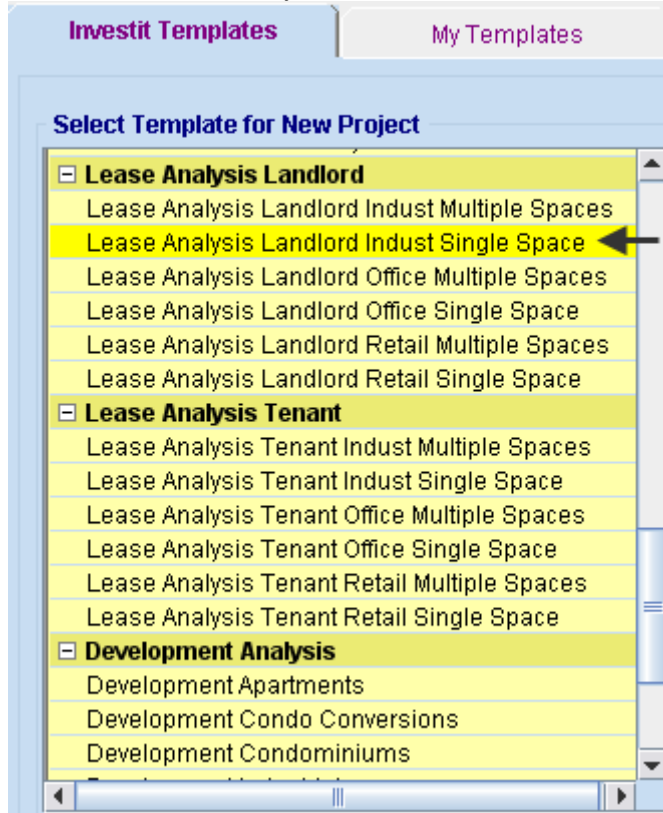
Visit the Investit **Online Learning Center** to learn how to import photos and images.

INSTRUCTIONS FOR ENTERING THE PROJECT INTO INVESTOR PRO

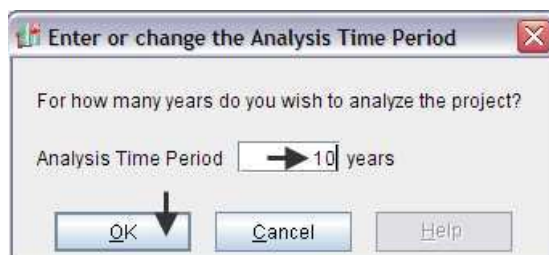
Getting started

The first step is to open the Investor Pro Template “Lease Analysis Landlord Indust Single Space” as follows:

1. Open Investor Pro.
2. Select the New Project Folder then select the Investit Template folder



3. Select and open the Investit template “Lease Analysis Landlord Indust Single Space”. The analysis period dialog will open at this point.
4. Enter 10 years and click OK



Entering the project data and information

PROJECT INFO. Folder

1. Enter the Property Name: Lakewood Industrial Building
2. Enter Description: Unit No. 3 Apex Manufacturing
3. Enter the Rentable Area: 6,000 Sq. Ft

The screenshot shows the 'PROJECT INFO.' folder selected in a tabbed interface. The tabs include Project Info., Landlord, Leasehold Improvements, Expenses, Revenue, Vacancy, Financing, and Termination. The 'Report Headers' section contains input fields for 'Property Name' (Lakewood Industrial Building) and 'Description' (Unit No. 3 Apex Manufacturing). The 'Analysis Time Period' section shows '10 Years' and a 'Change Analysis Time Period' button. The 'Entry Information' section shows 'Enter Revenue and Expenses' set to 'Monthly' and 'Starting Date' set to 'January Year 1', with a 'Change Entry Information' button. The 'Tenant' section shows 'Rentable Area' set to '6,000 Sq. Ft'. There is also an 'Edit Unit of Measure' button at the bottom left.

LANDLORD Folder

1. Enter the Investor's Marginal Tax Rate: 42.00%
2. Enter the Discount Rate Before Tax: 10.00%

Notes:

The Discount Rate is used to calculate the Net Present Value and Net Effective Rent

The program automatically calculates the Discount Rate After Tax

The screenshot shows the 'LANDLORD' folder selected in a tabbed interface. The tabs include Project Info., Landlord, Leasehold Improvements, and Expenses. The 'Turn off Tax Calculations' checkbox is unchecked. The 'Investor's Marginal Tax Rate' is set to '42.00%'. The 'Discount Rate' section shows 'Before Tax' set to '10.00%' and 'After Tax' set to '9.60%'.

LEASEHOLD IMPROVEMENTS Folder

First Row

1. Enter the Amount: \$15,000

The Leasehold Improvement folder should look like this;

Project Info.	Landlord	Leasehold Improvements	Expenses	Revenue	Vacancy	Financing	Termination
CCA Claim Option: <input type="text" value="Full CCA Claim"/>							
Leasehold Improvements							
Inflate			CCA Claim Setting				
Description	Amount	Year	Month	CCA Class	CCA Rate	First Year	Claim CCA in Last Year
Leasehold Improvements	\$ 15,000	Year 1	Jan	Building	4.00%	50.00%	<input checked="" type="checkbox"/>
Enter							

EXPENSES Folder

Expenses are expenses paid by the landlord which are allocated to the space such as the proportional share of property taxes, insurance, common area maintenance, property management etc.

Expenses paid by the Landlord

\$5.00 per Unit of Tenant's Rentable Area per Yr then increasing at 3.00% compounding per year.

Leasing Fee.

Year 1 Jan \$12,000

Using Projection Wizard enter and project the Expenses paid by the Landlord

Projection Wizard										
Entry Information										
Description: Expenses paid by Landlord										
Entry Choice: \$ per Unit of Total Rentable Area per Yr										
Projections										
Paid	Project Entry Using...	Entry	Start Date		Time Period			Increase	Cont. Proj	
			Year	Month	To End	Yrs	Mos			
Monthly for 12 Months	Annual Compounding	\$ 5.00	Year 1	Jan	<input checked="" type="checkbox"/>	10	0	3.00%		
Select	Select	Enter			Check			Enter		

Enter the Leasing Fee directly into the grid

Project Info.	Landlord	Leasehold Improvements	Expenses	Revenue	Vacancy	Financing	Termination
Expenses							
Description	Entry Choice	Qty	Year 1 Jan...	Year 1 Feb...	Year 1 Mar...	Year 1 .	
Expenses paid by Landlord	\$ per Unit of Total Rentable Area per Yr	6,000	\$ 5.00	\$ 5.00	\$ 5.00		
Leasing Fee	Amount	—	\$ 12,000	\$ 0	\$ 0		

Enter ↑

REVENUE Folder

Revenue is entered in the Revenue folder as follows;

Base Rent

\$14.00 per Unit of Tenant's Rentable Area per Yr paid monthly. Two terms of 5 years. Increase for the second term based on 3.00% compounding for five years

Free Rent

First two months. 100% of Base Rent

Recoverable Expenses

\$4.00 per Unit of Tenant's Rentable Area per Yr paid monthly for 12 months then increasing at 3.00% compounding per year

Parking

12 spaces at \$20 per month for 12 months then increasing at 4.00% compounding until the end of the lease. The parking is subject to a **Rent Cap** of \$300 per month for the full 10 years. This means that the maximum that will be paid by the tenant for parking per month is \$300

1. Select row with Description 'Parking'
2. Click on the **Apply Cap or Stop** button to access the Rent Cap & Stop dialog and select "Rent Cap" and click Ok.

Caps & Stops

Select

☒ Rent Cap ← **Select**

☐ Recoverable Expense Cap (Tenant pays expenses up to the Cap)

☐ Recoverable Expense Stop (Landlord pays expenses up to the Stop)

OK Cancel Help

The completed screen

Project Info.	Landlord	Leasehold Improvements	Expenses	Revenue	Vacancy	Financing
Revenue						
Description	Entry Choice	Qty	Year 1 Jan...	Year 1 Feb...	Year 1	
Base Rent	\$ per Unit of Total Rentable Area per Yr	6,000	\$ 0.00	\$ 0.00		
Free Rent	% of Rent	—	0.00%	0.00%		
Recoverable Expenses (TIM...	\$ per Unit of Total Rentable Area per Yr	6,000	\$ 0.00	\$ 0.00		
Parking	\$ per Space per Mo	0	\$ 0.00	\$ 0.00		
Rent Cap	Amount	—	\$ 0	\$ 0		

Using Projection Wizard enter and project the Base Rent

Projection Wizard

Entry Information

Description: Base Rent

Entry Choice: \$ per Unit of Total Rentable Area per Yr

Projections

Select

Paid	Project Entry Using...	Entry	Term	Start Date		Time Period			Increase	Cont. Proj
				Year	Month	To End	Yrs	Mos		
Monthly	Stepped Proj. (Lease)	\$ 14.00	1	Year 1	Jan	5	0	3.00%		
			2	Year 6	Jan	5	0			

Stepped Projection

New value at "End of Term" based on:

☒ Annual Compounding Rate Increase **Check**

☐ Enter Value

☐ \$ Increase

☐ % Increase

No. of Time Periods: **Enter**

☐ Show Example ->

OK Cancel Help

Enter the Free Rent Directly into the grid

Project Info.	Landlord	Leasehold Improvements	Expenses	Revenue	Vacancy	Financing	Termination
Revenue							
Description	Entry Choice	Qty	Year 1 Jan...	Year 1 Feb...	Year 1 Mar...	Year 1 .	
Base Rent	\$ per Unit of Total Rentable Area per Yr	6,000	\$ 14.00	\$ 14.00	\$ 14.00	\$	
Free Rent	% of Rent	—	100.00%	100.00%	0.00%		
Recoverable Expenses (TIM...	\$ per Unit of Total Rentable Area per Yr	6,000	\$ 0.00	\$ 0.00	\$ 0.00		
Parking	\$ per Space per Mo	0	\$ 0.00	\$ 0.00	\$ 0.00		
Rent Cap	Amount	—	\$ 0	\$ 0	\$ 0		

Using Projection Wizard enter and project the Recoverable Expenses (TIM's)

Projection Wizard

Entry Information

Description: Recoverable Expenses (TIM's)

Entry Choice: \$ per Unit of Total Rentable Area per Yr

Projections

Paid	Project Entry Using...	Entry	Start Date		Time Period			Increase	Cont. Proj
			Year	Month	To End	Yrs	Mos		
Monthly for 12 Months	Annual Compounding	\$ 4.00	Year 1	Jan	<input checked="" type="checkbox"/>	10	0	3.00%	

Select ↑ **Select** ↑ **Enter** ↑ **Check** ↑ **Enter** ↑

Using Projection Wizard enter and project the Parking

Projection Wizard

Entry Information

Description: Parking

Entry Choice: \$ per Space per Mo

Projections

Paid	Project Entry Using...	Entry	Start Date		Time Period			Increase	Cont. Proj
			Year	Month	To End	Yrs	Mos		
Monthly for 12 Months	Annual Compounding	\$ 20.00	Year 1	Jan	<input checked="" type="checkbox"/>	10	0	4.00%	

Select ↑ **Select** ↑ **Enter** ↑ **Check** ↑ **Enter** ↑

Using Projection Wizard enter and project the Rent Cap

Projection Wizard

Entry Information

Description: Rent Cap

Entry Choice: Amount

Projections

Paid	Project Entry Using...	Amount	Start Date		Time Period			Increase	Cont. Proj
			Year	Month	To End	Yrs	Mos		
Monthly for 12 Months	Constant (Fill Right)	\$ 300	Year 1	Jan	<input checked="" type="checkbox"/>	10	0		

Select ↑ **Select** ↑ **Enter** ↑ **Check** ↑

VACANCY Folder

This analysis assumes no vacancies

FINANCING Folder

Mortgage (Borrowing)

Money borrowed by the landlord to fund tenant and other improvements associated with the space being rented

Description: Leasehold Improvement Loan
 Commencing: Year 1 January
 Type: Standard Mortgage
 Amount: \$12,000
 Time Period: 10 years
 Amortization: 10 years
 Nominal Interest Rate: 8.00%
 Compounding Frequency: Semi-annually

Setting up a mortgage

1. Click on the Financing folder tab
 2. Click on the Add Mortgage button
- Add Mortgage Edit Mortgage Delete Mortgage Move
3. Amount box: \$12,000
 4. Description box: "Leasehold Improvement Loan"
 5. Time Period box: 10 Years
 6. Amortization box: 10 Years
 7. Nominal Interest Rate box: 8.00%

The mortgage dialog should look like this;

Mortgage

Mortgage Details

Analysis Period: Year 1 Jan to Year 10 Dec

Commencing: Year 1 Month: January

Type: Standard Mortgage

Amount: \$12,000 Interest Rate: Fixed

Description: Leasehold Improvement Loan

Mortgage Settings

Payment Frequency: Monthly

Additional Payments/Borrowing: ☐

Payment Rounded: Up to Nearest Cent

Compounding Frequency: Semi-annually

Terms and Amortization Details

No of (Balloon) Terms: 1

Term No	Time Period		Amortization		Nominal Interest Rate
	Years	Months	Years	Months	
1	10	0	10	0	8.000%

OK Compute Fill Down Cancel Help Comments

8. Press the **Compute** button
9. Press OK to return to the Financing folder

Your Financing folder should appear like this;

Mortgage (Borrowing)

Description	Type	Amount	Start Date
Leasehold Improvement Loan	Standard Mortgage	\$12,000	Year 1 Jan

Add Mortgage Edit Mortgage Delete Mortgage Move

Tenant Loans

The landlord lends money to the tenant for improvements and moving costs and the tenant repays the loan and interest every month

Description: Tenant Loan
 Commencing: Year 1 January
 Type: Standard Mortgage
 Amount: \$8,000
 Time Period: 5 years
 Amortization: 5 years
 Nominal Interest Rate: 10.00%
 Compounding Frequency: Semi-annually

Setting up a Tenant Loan

1. Press The Add Loan button near the bottom of the Financing Folder

2. Amount box: \$8,000
3. Description box: "Tenant Loan"
4. Time Period box: 5 Years
5. Amortization box: 5 Years
6. Nominal Interest Rate Box: 10.00%

The Mortgage dialog should look like this;

Mortgage

Mortgage Details

Analysis Period: Year 1 Jan to Year 10 Dec

Commencing Year 1 Month January

Type Standard Mortgage

Amount \$ 8,000 Interest Rate Fixed

Description Tenant Loan

Mortgage Settings

Payment Frequency Monthly

Additional Payments/Lending ☐

Payment Rounded Up to Nearest Cent

Compounding Frequency Semi-annually

Terms and Amortization Details

No of (Balloon) Terms 1

Term No	Time Period		Amortization		Nominal Interest Rate
	Years	Months	Years	Months	
1	5	0	5	0	10.000%

OK Compute Fill Down Cancel Help Comments

7. Press the button
8. Press the OK button to return to the Financing folder

Upon completion the Financing folder should look like this;

Mortgage (Borrowing)			
Description	Type	Amount	Start Date
Leasehold Improvement Loan	Standard Mortgage	\$ 12,000	Year 1 Jan

Tenant Loans			
Description	Type	Amount	Start Date
Tenant Loan	Standard Mortgage	\$ 8,000	Year 1 Jan

TERMINATION Folder

Cost incurred by the tenant at the end of the lease for cleaning up the space.

Cleanup and restoration costs \$7,500

The Termination Expenses should appear like this;

Termination Expenses	
Description	Expense
Cleanup and restoration costs	\$ 0

Entering the Termination Costs

1. Expense column: \$7,500

The Termination Expenses should now appear as;

Termination Expenses	
Description	Expense
Cleanup and restoration costs	\$ 7,500
<div><input type="button" value="Add"/> <input type="button" value="Insert"/> <input type="button" value="Delete"/> <input type="button" value="Move"/></div>	

SAVE YOUR PROJECT

CHECKING YOUR ENTRIES

You can compare your project against the Investit example "Lease Analysis Landlord Indust Single Space"