

LEASE ANALYSIS LANDLORD OFFICE 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 Office Single Space" template to carryout the analysis.

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

CTA Realty is considering renting unit 306;

Rentable Area: 5,900 Sq. Ft

Usable Area: 5,200 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: Capital Plaza

Description: Unit 306 CTA Realty

Analysis Period: 10 Years

Starting Date: Year 1 Jan

Rentable Area: 5,900 Sq. ft

Usable Area: 5,200 Sq. ft

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

Depreciation Method: Commercial Prop. St Line

EXPENSES Folder

Expenses paid by Landlord

\$9.00 per Sq Ft per year paid monthly for 12 months. Increasing at 3.00% per year compounding

Leasing Fee

Year 1 Jan \$12,000

REVENUE Folder

Use to enter the rent, parking, additional rent (TIM's) etc., paid by the tenant.

Base Rent

\$26.00 per Unit of Tenant's Rentable Area per Yr paid monthly. Two terms of 5 years. Increase for the second term base on 3.00% compounding for five years

Free Rent

First two months. 100% of Base Rent

Recoverable Expenses (TIM's)

\$9.00 per Unit of Tenant's Rentable Area per Yr paid monthly for 12 months then increasing at 3.00% compounding per year. **Subject to a Recoverable Expense Cap** of \$4,500 per month.

This means that the maximum Additional Rent (TIM's) the tenant will pay is \$4,500 per month

VACANCY Folder

Used to enter vacancies for the space subleased by the tenant. The analysis assumes no vacancy for the subleased space

FINANCING Folder

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

Mortgage (Borrowing)

Description: Leasehold Improvement Loan
Commencing: Year 1 January 1
Type: Standard Mortgage
Amount: \$25,000
Time Period: 10 years
Amortization: 10 years
Nominal Interest Rate: 8.00%
Compounding Frequency: Semi-annually

Money loaned by the landlord to the tenant for leasehold improvements

Mortgage (Tenant Loan)

Description: Tenant Loan
Commencing: Year 1 January 1
Type: Standard Mortgage
Amount: \$12,000
Time Period: 5 years
Amortization: 5 years
Nominal Interest Rate: 10.00%
Compounding Frequency: Semi-annually

TERMINATION Folder

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

Cleanup and restoration costs: \$15,000

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		Office Space Building Attributes	
Lease Information			
Suite Number and Floor	306 Third floor	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	Free. Six spaces
Lease Term	Five years	Total Moving Costs	N/A
Renewal Options	Option to renew for another five years	TI Allowances by Landlord	\$15,000
Starting Lease Rate	\$26.00 per Sq. Ft per Yr	Other Allowances by Landlord	N/A
Rent Escalation Steps	No		
Free Rent	First two months		
Rent Cap	No		
Starting Recov. Expenses	\$9.00 per Sq. Ft per Yr		
Expense Cap or Stop	Expense Cap \$4,500 per month		

OK Cancel Help

Building Attribute entries for the example




Tenancy Information		Office Space Building Attributes	
Lease Information		Office Space Building Attributes	
Sub Market Area	Vancouver Broadway Corridor	Property Manager	BC Property Managers
Type of Property	Office Building	Comment	
Building Class & Age	Built 1986 Class B Office		
Number of Floors	Four		
Column Spacing	16 Ft x 16 Ft		
Air Conditioning	Yes		
Elevators	Two		
Sprinklers	Yes		
Signage	N/A		
Kitchen/Lunchroom	Yes		
Bathrooms	Two		
Storage Area	No		
Security	5 pm to 8 am		

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
Capital Plaza Unit 306 CTA Realty		Investor Pro
		Lease Analysis Landlord Office Single Space
Capital Plaza		
1200 West Broadway		
Vancouver		
BC		
Unit Number & Floor	306 Third Floor	 <p style="text-align: center;">Capital Plaza</p>  <p style="text-align: center;">Floor Plan</p>  <p style="text-align: center;">Great Location</p>
Total Rentable Area	5,900 Sq. Ft	
Total Usable Area	5,200 Sq. Ft	
Add On Factor	13.46%	
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	\$26.00 per Sq. Ft per Yr	
Rent Escalation Steps	No	
Free Rent	First two months	
Rent Cap	No	
Starting Recov. Expenses	\$9.00 per Sq. Ft per Yr	
Expense Cap or Stop	Expense Cap \$4,500 per month	
Other Monthly Starting Costs	No	
Parking Ratio	N/A	
Reserved Parking No. & Rate	No	
Unreserved Parking No. & Rate	Free. Six spaces	
Total Moving Costs	N/A	
TI Allowance by Landlord	\$15,000	
Other Allowances by Landlord	N/A	
Building Attributes		
Sub Market Area	Vancouver Broadway Corridor	
Type of Property	Office Building	
Building Class & Age	Built 1986 Class B Office	
Number of Floors	Four	
Column Spacing	16 Ft x 16 Ft	
Air Conditioning	Yes	
Elevators	Two	
Sprinklers	Yes	
Signage	N/A	
Kitchen/Lunchroom	Yes	
Bathrooms	Two	
Storage Area	No	
Security	5 pm to 8 am	
Property Manager	BC Property Managers	

Lease Summary Report

Page 2. Financial Summary

		Lease Summary		May 31, 2011
		Capital Plaza		Investor Pro
		Unit 306 CTA Realty	Lease Analysis Landlord Office Single Space	
Financial Summary				
Analysis Period: 10 years				
		Before Tax	After Tax	
Total Net Cash Flow		\$ 1,510,995	\$ 870,077	
Average Annual Net Cash Flow		\$ 151,099	\$ 87,008	
Average Monthly Net Cash Flow		\$ 12,592	\$ 7,251	
Average Rent Rates				
Based on Rentable Area				
Average Effective Annual Rate		\$ 25.61 Sq. Ft per Yr	\$ 14.75 Sq. Ft per Yr	
Average Effective Monthly Rate		\$ 2.13 Sq. Ft per Yr	\$ 1.23 Sq. Ft per Yr	
Based on Usable Area				
Average Effective Annual Rate		\$ 29.06 Sq. Ft per Yr	\$ 16.73 Sq. Ft per Yr	
Average Effective Monthly Rate		\$ 2.42 Sq. Ft per Yr	\$ 1.39 Sq. Ft per Yr	
Net Present Value and Net Effective Rent				
Net Present Value (NPV)		\$ 912,918	\$ 536,320	
NPV Discount Rate		10.00%	9.60%	
Based on Rentable Area				
Net Effective Rent Yearly		\$ 15.47 Sq. Ft per Yr	\$ 9.09 Sq. Ft per Yr	
Net Effective Rent Monthly		\$ 1.29 Sq. Ft per Yr	\$ 0.76 Sq. Ft per Yr	
Based on Usable Area				
Net Effective Rent Yearly		\$ 17.56 Sq. Ft per Yr	\$ 10.31 Sq. Ft per Yr	
Net Effective Rent Monthly		\$ 1.46 Sq. Ft per Yr	\$ 0.86 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

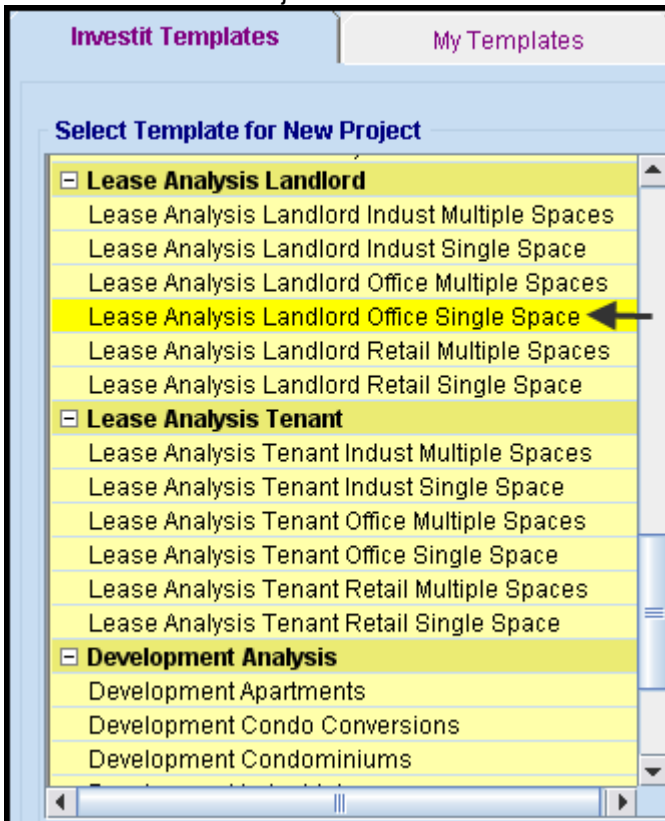
Visit the Investit **Online Learning Center** to learn how to import photos and images.

INSTRUCTIONS FOR ENTERING THE PROJECT INTO INVESTOR PRO

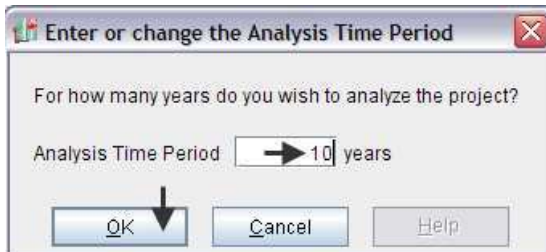
Getting started

The first step is to open the Investor Pro Template “Lease Analysis Tenant Office 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 Tenant Office 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: Capital Plaza
2. Enter Description: Unit 306 CTA Realty
3. Enter the Rentable Area: 5,900 Sq. Ft
4. Enter the Usable Area: 5,200 Sq. Ft

The screenshot shows the 'Project Info' folder with the following fields and values:

- Report Headers:**
 - Property Name: Capital Plaza
 - Description: Unit 306 CTA Realty
- Analysis Time Period:**
 - 10 Years
 - Change Analysis Time Period button
- Entry Information:**
 - Enter Revenue and Expenses: Monthly
 - Change Entry Information button
 - Starting Date: January Year 1
 - Edit Unit of Measure button
- Tenant Office:**
 - Rentable Area: 5,900 Sq. Ft
 - Usable Area: 5,200 Sq. Ft
 - Add On Factor: 13.46%

Landlord Folder

1. 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 with the following fields and values:

- Turn off Tax Calculations
- Investor's Marginal Tax Rate: 42.00%
- Discount Rate:**
 - Before Tax: 10.00%
 - After Tax: 9.60%

LEASEHOLD IMPROVEMENTS Folder

First Row

1. Enter the Amount: \$15,000

Your entries for the Leasehold improvements should look like this;

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"/>

EXPENSES Folder

Expenses paid by Landlord

\$9.00 per Sq Ft per year paid monthly for 12 months. Increasing at 3.00% per year compounding

Leasing Fee

Year 1 Jan \$12,000

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

Paid	Project Entry Using...	Entry	Year	Month	To End	Yrs	Mos	Increase	Cont. Proj
Monthly for 12 Months	Annual Compounding	\$ 9.00	Year 1	Jan	<input checked="" type="checkbox"/>	10	0	3.00%	

Enter the Leasing Fee directly into the grid

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 (Office) per Yr	5,900	\$ 9.00	\$ 9.00	\$ 9.00	
Leasing Fee	Amount	—	\$ 12,000	\$ 0	\$ 0	

REVENUE Folder

Revenue is entered in the Revenue folder as follows;

Base Rent

\$26.00 per Unit of Tenant's Rentable Area per Yr paid monthly. Two terms of 5 years. Increase for the second term base on 3.00% compounding for five years

Free Rent

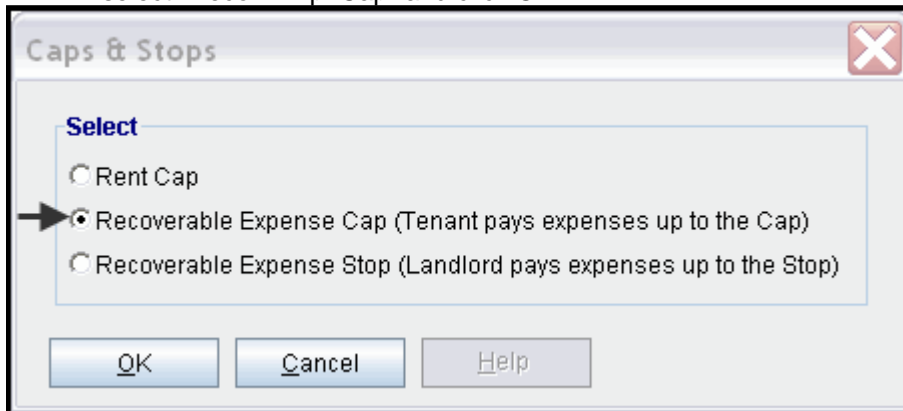
First two months. 100% of Base Rent

Recoverable Expenses (TIM's)

\$9.00 per Unit of Tenant's Rentable Area per Yr paid monthly for 12 months then increasing at 3.00% compounding per year. **Subject to a Recoverable Expense Cap** of \$4,500 per month.

This means that the maximum Additional Rent (TIM's) the tenant will pay is \$4,500 per month

1. Select row with Description 'Parking' and click on the delete button
2. Select row with Description 'Recoverable Expenses (TIM's)'
3. Click on the Apply Cap or Stop button to access the Rent Cap & Stop dialog and select "Recov. Exp. Cap" and click Ok.



The completed screen

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 (Office) per Yr	5,900	\$ 0.00	\$ 0.00	\$ 0.00		
Free Rent	% of Rent	—	0.00%	0.00%	0.00%		
Recoverable Expenses (TIM...)	\$ per Unit of Total Rentable Area (Office) per Yr	5,900	\$ 0.00	\$ 0.00	\$ 0.00		
Recov. Exp. Cap	Amount	—	\$ 0	\$ 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 (Office) per Yr

Projections

Paid	Project Entry Using...	Entry	Term	Start Date		Time Period			Increase	Cont. Proj.
				Year	Month	To End	Yrs	Mos		
Monthly	Stepped Proj. (Lease)	\$ 26.00	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
- Enter Value
- \$ Increase
- % Increase

No. of Time Periods:

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 (Office) per Yr	5,900	\$ 26.00	\$ 26.00	\$ 26.00		
Free Rent	% of Rent	—	100.00%	100.00%	0.00%		
Recoverable Expenses (TIM...	\$ per Unit of Total Rentable Area (Office) per Yr	5,900	\$ 0.00	\$ 0.00	\$ 0.00		
Recov. Exp. 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 (Office) 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	\$ 9.00	Year 1	Jan	<input checked="" type="checkbox"/>	10	0	3.00%	

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

Using Projection Wizard enter and project the Recoverable Expense Cap

Projection Wizard

Entry Information

Description: Recoverable Expense 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)	\$ 4,500	Year 1	Jan	<input checked="" type="checkbox"/>	10	0		

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

VACANCY Folder

This analysis assumes no sublease vacancies

FINANCING Folder

Mortgage (Borrowing)

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

Description: Leasehold Improvement Loan
 Commencing: Year 1 January 1
 Type: Standard Mortgage
 Amount: \$25,000
 Time Period: 10 years
 Amortization: 10 years
 Nominal Interest Rate: 8.00%
 Compounding Frequency: Semi-annually

Setting up a mortgage

1. Click on the Add Mortgage button



2. Amount box: \$25,000
3. Description box: "Leasehold Improvement Loan"
4. Time Period box: 10 Years
5. Amortization box: 10 Years
6. 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 \$ 25,000 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%

Buttons: OK, Compute, Fill Down, Cancel, Help, Comments

7. Press the **Compute** button
8. Press the OK button

The Financing Folder should now look like this;

Mortgage (Borrowing)

Description	Type	Amount	Start Date
Leasehold Improvement Loan	Standard Mortgage	\$ 25,000	Year 1 Jan

Buttons: 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 1
 Type: Standard Mortgage
 Amount: \$12,000
 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: \$12,000
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: \$ 12,000 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%

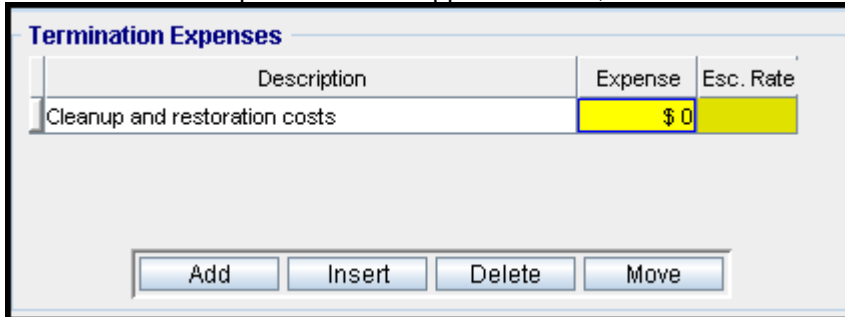
Buttons: OK, Compute, Fill Down, Cancel, Help, Comments

TERMINATION Folder

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

Cleanup and restoration costs \$15,000

The Termination Expenses should appear like this;



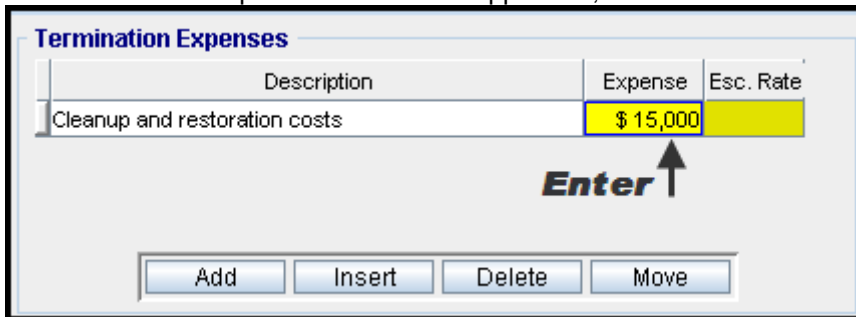
Description	Expense	Esc. Rate
Cleanup and restoration costs	\$ 0	

Buttons: Add, Insert, Delete, Move

Entering the Termination Costs

1. Expense column: \$15,000

The Termination Expenses should now appear as;



Description	Expense	Esc. Rate
Cleanup and restoration costs	\$ 15,000	

Enter ↑

Buttons: Add, Insert, Delete, Move

SAVE YOUR PROJECT

CHECKING YOUR ENTRIES

You can compare your project against the Investit example "Lease Analysis Tenant Office Single Space"