

LEASE ANALYSIS TENANT INDUSTRIAL CND EXAMPLE TENANT RENTING SINGLE SPACE

INTRODUCTION

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

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

Apex Manufacturing is considering a proposal from the landlord to rent Unit. 3

Unit No. 3 Rentable Area: 6,000 Sq. Ft in Lakewood Estates Industrial Building

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

Rentable Area: 6,000 Sq. ft

TENANT 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

LEASING EXPENSES Folder

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 base on 3.00% compounding for five years

Free Rent

First two months. 100% of Base Rent

Additional Rent (TIM's)

\$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 10 year period. This means that the maximum that will be paid by the tenant for parking per month is \$300

SUBLEASE REVENUE Folder

Tenant is not planning to sublease any of the space

VACANCY

Used to enter vacancies for space that has been subleased by the tenant. In this example there is no subleasing and hence no subleasing vacancies.

FINANCING Folder

Mortgage (Borrowing)

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

Description: Bank 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

TERMINATION Folder

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

Cleanup and Restoration Costs \$10,000

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

Building Attribute entries for the example

Lease Information		Industrial Space Building Attributes	
Sub Market Area	Commercial Drive & Hasting Industrial	Signage	Visible from Hasting 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		

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 Tenant Indust Single Space
<u>Lakewood Industrial Building</u>		
1400 Franklin Street		
Vancouver		
BC		
Unit Number & Floor	3	
Total Rentable Area	6,000 Sq. Ft	
Type of Lease	Triple Net	
Start Date	Jan01/2011	
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	
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	
TI's paid by Tenant	\$15,000	
Other Allowances by Landlord	N/A	
Building Attributes		
Sub Market Area	Commercial Drive & Hasting 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 Hasting 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 Tenant Indust Single Space
Financial Summary			
Analysis Period: 10 years			
	Before Tax	After Tax	
Total Net Cash Flow	\$ 1,231,935	\$ 718,722	
Average Annual Net Cash Flow	\$ 123,194	\$ 71,872	
Average Monthly Net Cash Flow	\$ 10,266	\$ 5,989	
Average Rent Rates			
Based on Rentable Area			
Average Effective Annual Rate	\$ 20.53 Sq. Ft per Yr	\$ 11.98 Sq. Ft per Yr	
Average Effective Monthly Rate	\$ 1.71 Sq. Ft per Yr	\$ 1.00 Sq. Ft per Yr	
Net Present Value and Net Effective Rent			
Net Present Value (NPV)	\$ 737,813	\$ 438,735	
NPV Discount Rate	10.00%	9.60%	
Based on Rentable Area			
Net Effective Rent Yearly	\$ 12.30 Sq. Ft per Yr	\$ 7.31 Sq. Ft per Yr	
Net Effective Rent Monthly	\$ 1.02 Sq. Ft per Yr	\$ 0.61 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

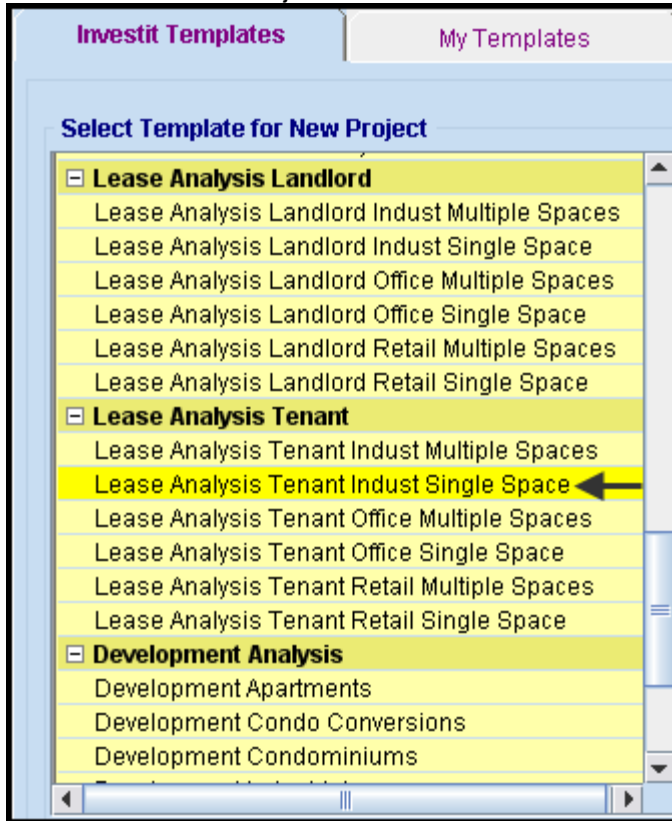
Visit the Investit **Online Learning Center** to learn how to import photos and images.

INSTRUCTIONS FOR ENTERING THE PROJECT INTO INVESTOR PRO

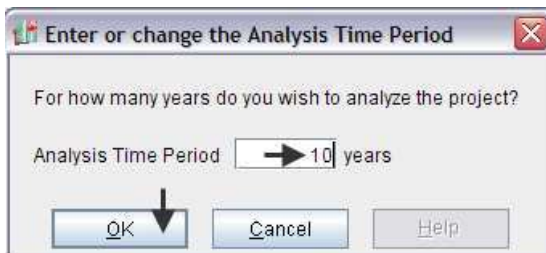
Getting started

The first step is to open the Investor Pro Template “Lease Analysis Tenant 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 Tenant 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 the top navigation bar. The interface is divided into two main sections: 'Report Headers' and 'Tenant'.

Report Headers:

- Property Name:** Lakewood Industrial Building
- Description:** Unit No. 3 Apex Manufacturing
- Analysis Time Period:** 10 Years (with a 'Change Analysis Time Period' button)
- Entry Information:** Enter Revenue and Expenses Monthly (with a 'Change Entry Information' button). Starting Date: January Year 1. (with an 'Edit Unit of Measure' button)

Tenant:

- Rentable Area:** 6,000 Sq. Ft

TENANT 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 'TENANT' folder selected in the top navigation bar. The interface displays the following fields:

- ☐ 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;

CCA Claim Option: Full CCA Claim

Leasehold Improvements

Inflate

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

LEASING EXPENSES Folder

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 base on 3.00% compounding for five years

Free Rent

First two months. 100% of Base Rent

Additional Rent (TIM's)

\$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 10 year period. This means that the maximum that will be paid by the tenant for parking per month is \$300

1. Select row with Description ' Additional Rent (TIM's)'
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

3. Enter the Parking Qty as follows

Project Info.	Tenant	Leasehold Improvements	Leasing Expenses	Sublease Revenue	Vacancy	Financing	Termination
Leasing Expenses							
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	\$ 0.00	\$ 0.00	\$ 0.00		
Free Rent	% of Rent	—	0.00%	0.00%	0.00%		
Additional Rent (TIM's)	\$ per Unit of Total Rentable Area per Yr	6,000	\$ 0.00	\$ 0.00	\$ 0.00		
Parking	\$ per Space per Mo	12	\$ 0.00	\$ 0.00	\$ 0.00		

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: 2 **Enter**

☐ Show Example ->

OK Cancel Help

Enter the Free Rent Directly into the grid

Project Info.	Tenant	Leasehold Improvements	Leasing Expenses	Sublease Revenue	Vacancy	Financing	Termination
Leasing Expenses							
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%		
Additional Rent (TIM's)	\$ per Unit of Total Rentable Area per Yr	6,000	\$ 0.00	\$ 0.00	\$ 0.00		
Parking	\$ per Space per Mo	12	\$ 0.00	\$ 0.00	\$ 0.00		

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** ↑

SUBLEASE REVENUE Folder

Tenant is not planning to sublease any of the space

VACANCY Folder

This analysis assumes no vacancy

FINANCING Folder

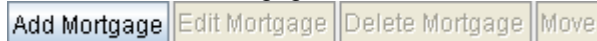
Mortgage (Borrowing)

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

Description: Bank 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
3. Amount box: \$12,000
4. Description box: "Bank Loan"
5. Time Period box: 10 Years
6. Amortization box: 10 Years
7. Nominal Interest Rate box: 8.00%

A horizontal row of four buttons: 'Add Mortgage' (highlighted in blue), 'Edit Mortgage', 'Delete Mortgage', and 'Move'.

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 Bank 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
Bank Loan	Standard Mortgage	\$12,000	Year 1 Jan

1. Click on the Termination Tab

TERMINATION EXPENSES

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

Cleanup and restoration costs \$10,000

The Termination Expenses should appear like this;

The screenshot shows a window titled "Termination Expenses". Inside, there is a table with two columns: "Description" and "Expense". The first row contains the text "Cleanup and restoration costs" in the "Description" column and "\$ 0" in the "Expense" column. Below the table, there are four buttons: "Add", "Insert", "Delete", and "Move".

Description	Expense
Cleanup and restoration costs	\$ 0

Entering the Termination Costs

1. Expense column: \$10,000

The Termination Expenses should now appear as;

The screenshot shows the same "Termination Expenses" window. The table now shows the "Expense" column with the value "\$ 10,000" for the "Cleanup and restoration costs" row. The buttons "Add", "Insert", "Delete", and "Move" remain at the bottom.

Description	Expense
Cleanup and restoration costs	\$ 10,000

SAVE YOUR PROJECT

CHECKING YOUR ENTRIES

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