

LEASE ANALYSIS TENANT OFFICE CANADIAN EXAMPLE

INTRODUCTION

This Lease Analysis example analyses an office lease from a tenant's perspective

This comprehensive Tenant Office example uses all the lease features including entering a variety of leases with Free Rent and the application of Rent Caps and Recoverable Expense Caps and Stops and subleasing.

CTA Realty is considering renting two spaces in the building;

Suite 105 Rentable Area: 5,900 Sq. Ft. Usable Area: 5,000 Sq. Ft.
Suite 306 Rentable Area: 2,500 Sq. Ft. Usable Area: 2,119 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: Office Lease Analysis Tenant
Analysis Period: 10 Years
Starting Date: Year 1 Jan

TENANT Folder

Marginal Tax Rate: 42.00%
Discount Rate: Before Tax 13.00%

LEASEHOLD IMPROVEMENTS Folder

Suite 105

Description: Leasehold Improvements
Amount: \$15,000
Year 1 Jan
CCA Class: Building
CCA Rate: 4.00%
First Year: 50.00%
Claim CCA in last year: Yes

Suite 306

Description: Leasehold Improvements
Amount: \$10,000
Year 1 Jan
CCA Class: Building
CCA Rate: 4.00%
First Year: 50.00%
Claim CCA in last year: Yes

GENERAL EXPENSES

General Expenses are expenses paid for by the tenant that are common to the two spaces being rented by the tenant which is Suite 105 and Suite 306 such as security services, parking etc.

Sign rental \$500 paid monthly for 12 months then increasing at 3.00% compounding per year.

Parking 25 parking spaces at \$25 per month for 12 months then increasing at 3.00% compounding per year.

SUBLEASE REVENUE Folder

The tenant has subleased 2,400 Sq. Ft of Suite 105 at \$27 per Sq Ft per year paid monthly for two years

LEASING EXPENSES Folders

Consists of two folders

1. **Tenancy Information Folder** Used to enter information on the tenancy
2. **Rent Folder** Used to enter the rent, parking, additional rent etc paid by the tenant to the landlord

TENANCY INFORMATION Folder

Suite/Unit No: No. 105

Floor No: 1

Tenant Name: CTA Realty

Rentable Area: 5,900 Sq. Ft

Usable Area: 5,000 Sq. Ft

Suite/Unit No: No. 306

Floor No: 3

Tenant Name: CTA Realty

Rentable Area: 2,500 Sq. Ft

Usable Area: 2,119 Sq. Ft

RENT Folder

Use to enter the rent, parking, additional rent etc., paid by the tenant as follows;

Suite 105 Rentable Area: 5,900 Sq Ft. Usable Area: 5,000 Sq Ft

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 three months. 100% of Base Rent

Additional Rent (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.

Suite 306 Rentable Area: 2,500 Sq Ft. Usable Area: 2,119 Sq. Ft.

Base Rent

\$17.00 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

Additional Rent (TIM's)

\$8.00 per Unit of Tenant's Rentable Area per Yr paid monthly for 12 months then increasing at 3.00% compounding per year for 9 years.

VACANCY Folder

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

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

Type: Standard Mortgage

Amount: \$35,000

Time Period: 10 years

Amortization: 10 years

Nominal Interest Rate: 8.00%

Compounding Frequency: Semi-annually

TERMINATION Folder

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

Termination Expenses \$10,000

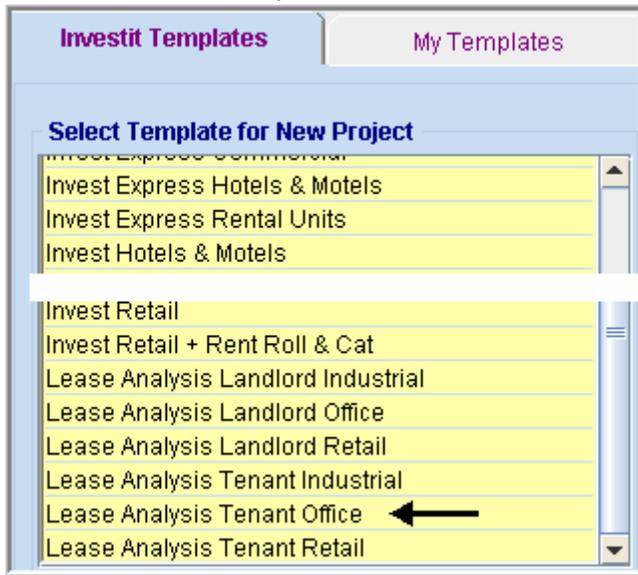
Value of leasehold improvements on termination is zero.

INSTRUCTIONS FOR ENTERING THE PROJECT INTO INVESTOR PRO

Getting started

The first step is to open the Investor Pro Template “Lease Analysis Tenant Office” 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” 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: Office Lease Analysis Tenant

TENANT Folder

1. Enter the Marginal Tax Rate: 42.00%
2. Enter the Discount Rate Before Tax: 13.00%

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

LEASEHOLD IMPROVEMENTS Folder

First Row

1. Enter the Description: “No. 105 Leasehold Improvements”
2. Enter the Amount: \$15,000

Second Row

1. Add the second row by clicking on the  button
2. Enter the Description: “No. 306 Leasehold improvements”
3. Enter the Amount: \$10,000
4. Select CCA Class: Building

SUBLEASE REVENUE Folder

The tenant has subleased 2,400 Sq. Ft of Suite 105 at \$27 per Sq Ft per year paid monthly for two years

The Sublease Revenue Folder should look like this when opened;

Sublease Revenue			
Description	Entry Choice	Qty	Year 1 Jan...
Base Rent	\$ per Sq. Ft per Yr	0	\$ 0.00
Free Rent	% of Rent	—	0.00%
Additional Rent	\$ per Sq. Ft per Yr	0	\$ 0.00
Parking	\$ per Space per Mo	0	\$ 0.00

1. Select row 1 'Base Rent'
2. Change Description to "Suite 105 sublease for 2 yrs"
3. Select row 2 'Free Rent'
4. Press the button
5. Select row with Description Additional Rent (TIM's)'
6. Press the button
7. Select row with Description 'Parking'
8. Press the button

The Sublease Revenue folder should look like this;

Sublease Revenue			
Description	Entry Choice	Qty	Year 1 Jan...
Suite 105 sublease for 2 yrs	\$ per Sq. Ft per Yr	0	\$ 0.00

Steps for projecting the Sublease Revenue

1. Select row 1 "Suite 105 sublease for 2 yrs"
2. Enter Qty: 2,400
3. Click on the button
4. **Entry column:** \$27.00
5. **Time Period column:** change Yrs to 2

Your entries in the Projection Wizard should look like this;

Projection Wizard									
Entry Information									
Description: Suite 105 sublease for 2 yrs									
Entry Choice: \$ per Sq. Ft 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	Constant (Fill Right)	\$ 27.00	Year 1	Jan	<input type="checkbox"/>	2	0	<input type="checkbox"/>	<input type="checkbox"/>

Press Ok to return to the Sublease Revenue folder

Upon completion your Sublease Revenue folder should look like this;

Sublease Revenue			
Description	Entry Choice	Qty	Year 1 Jan...
Suite 105 sublease for 2 yrs	\$ per Sq. Ft per Yr	2,400	\$ 27.00

6. Click on the Leasing Expenses Tab

LEASING EXPENSES Folder

Tenancy Information Sub-Folder

This folder is a sub-folder within the RENTAL REVENUE & EXPENSES Folder and is used to set up the tenants and information on the tenants

Because the tenant CTA Realty has two spaces in the building we need to set up two tenants in the Tenancy Information Folder.

First row enter the following information on the retail space;

1. Suite/Unit No: 105
2. Tenant's Name: CTA Realty
3. Rentable Area: 5,900 Sq. Ft
4. Usable Area: 5,000 Sq. Ft

Click on the button to add a second row and enter the following information on the Office Space;

1. Suite/Unit No: 306
2. Tenant's Name: CTA Realty
3. Rentable Area: 2,500 Sq. Ft
4. Usable Area: 2,119

Note: For each tenant you can enter information on the tenancy and lease arrangements by completing the Tenancy Information grid.

Expiration Date	Lease Term	Renewal Options	Estimated Renewal Rate

The only information that needs to be entered is the Tenant Name and Rentable Area

Click on the Rent sub-folder

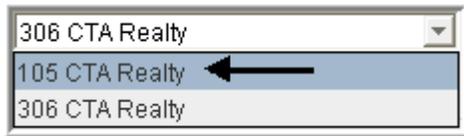
RENT

The Rent sub-folder is used to enter the Tenant's rent and other payments to the Landlord.

You can use the following buttons to enter Free Rent, Rent Caps and Recoverable Expense Caps and Stops.

<input type="button" value="Apply Free Rent"/>	<input type="button" value="Apply Cap or Stop"/>
------------------------------------------------	--------------------------------------------------

Follow these steps to enter and project the revenues;
 Select Tenant 105 from the scroll down menu



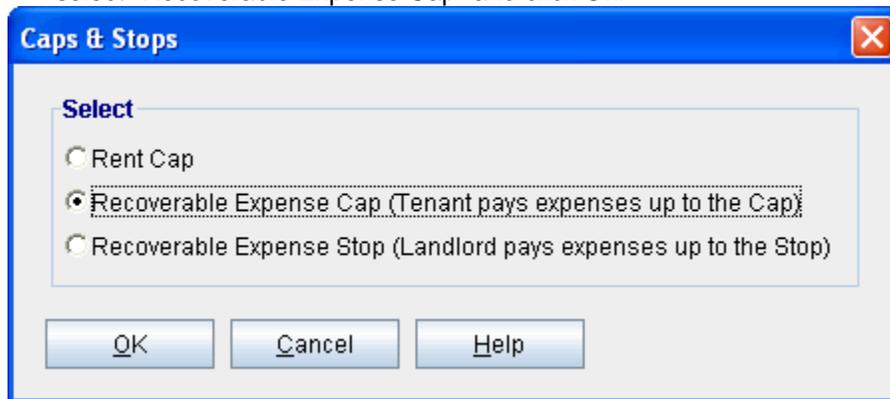
The Rent Sub-folder should appear like this;

105 CTA Realty Rentable Area 5,900 Sq. Ft
 Usable Area 5,000 Sq. Ft

Revenues

Description	Entry Choice	Qty	Year 1 Jan...
Base Rent	\$ per Unit of Tenant's Rentable Area per Yr	5,900	\$ 0.00
Free Rent	% of Rent	—	0.00%
Additional Rent (TIM's)	\$ per Unit of Tenant's Rentable Area per Yr	5,900	\$ 0.00
Parking	\$ per Space per Mo	0	\$ 0.00

1. Click on the row with the Description "Additional Rent (TIM's)"
2. Click on the **Apply Cap or Stop** button to access the Rent Cap & Stop dialog and select "Recoverable Expense Cap" and click Ok.



3. Select the row with the Description Parking
4. Click on the **Delete** button

The Rent sub-folder should look like this;

105 CTA Realty Rentable Area 5,900 Sq. Ft
 Usable Area 5,000 Sq. Ft

Revenues

Description	Entry Choice	Qty	Year 1 Jan...
Base Rent	\$ per Unit of Tenant's Rentable Area per Yr	5,900	\$ 0.00
Free Rent	% of Rent	—	0.00%
Additional Rent (TIM's)	\$ per Unit of Tenant's Rentable Area per Yr	5,900	\$ 0.00
Recov. Exp. Cap	Amount	—	\$ 0

The next step is the enter and project the revenues, Free Rent, Caps and Stops using



Suite 105 Rentable Area: 5,900 Sq Ft Usable Area 5,000 Sq Ft

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

100% of Base rent. First three months

Following are the steps for entering and projecting the revenue for tenant Unit 105 CTA Realty

1. Select row 1: 'Base Rent'

2. Click on  which displays the Projection Wizard

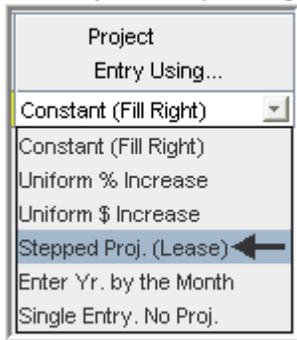
Entry Information

Unit/Suit No.: 105 CTA Realty
 Description: Base Rent
 Entry Choice: \$ per Unit of Tenant's Rentable Area per Yr

Projections

Paid	Project Entry Using...	Entry	Start Date		Time Period			Increase	Cont. Proj.
			Year	Month	To End	Yrs	Mos		
Monthly	Constant (Fill Right)	\$ 0.00	Year 1	Jan	<input type="checkbox"/>	1	0	<input type="checkbox"/>	

3. **Project Entry Using.. column:** select "Stepped Proj. (Lease



Project Entry Using...

- Constant (Fill Right)
- Constant (Fill Right)
- Uniform % Increase
- Uniform \$ Increase
- Stepped Proj. (Lease) ←
- Enter Yr. by the Month
- Single Entry. No Proj.

The dialog box titled "Stepped Projection" contains the following elements:

- Header: "Stepped Projection" with a close button (X).
- Text: "New value at 'End of Term' based on:"
- Radio buttons:
 - Annual Compounding Rate Increase
 - Enter Value
 - \$ Increase
 - % Increase
- Text: "No. of Terms:" followed by a text box containing the number "2".
- Text: "Show Example ->" with a checkbox.
- Buttons: "OK", "Cancel", and "Help".

4. Set the No. of Terms to 2, which is the default entry and click OK
5. **Entry column:** Enter the lease rate \$26.00
6. **Time Period column:** Set Term 1 (the first row) to 5 years and Term 2 (second row) to 5 years (or check the "To End" box).
7. **Increase column:** Enter the Annual Compounding Rate of 3.00%

To view your entries, click on the  button, which describes the entries and projections.

The "Projection Description" window displays the following information:

- 105 CTA Realty
- Base Rent
- Entry Choice: \$ per Unit of Tenant's Rentable Area per Year
- Quantity: 5,900
- Year 1 Jan
- Stepped Projection (Lease)
- Term 1: \$26.00 per Unit of Tenant's Rentable Area per Year paid monthly for 5 years
- Term 2: Increased by 3.00% compounding per year to \$30.14 per Unit of Tenant's Rentable Area per Year paid monthly for 5 years

Press OK to return to the Projection Wizard

The Projection Wizard should look like this;

The "Projection Wizard" window shows the following details:

- Entry Information:**
 - Unit/Suit No.: 105 CTA Realty
 - Description: Base Rent
 - Entry Choice: \$ per Unit of Tenant's Rentable Area per Yr
- Projections:**

Paid	Project Entry Using...	Entry	Term	Start Date		Time Period			Increase
				Year	Month	To End	Yrs	Mos	
Monthly	Stepped Proj. (Lease)	\$ 26.00	1	Year 1	Jan		5	0	3.00%
			2	Year 6	Jan	<input checked="" type="checkbox"/>	5	0	

Press OK to return to the Rent sub-folder.

Entering the **Free Rent**.

100% of the Base Rent for the for the first three months

1. Enter 100% in Year 1 Jan, Feb and March on the entry grid

Revenues							
Description	Entry Choice	Qty	Year 1 Jan...	Year 1 Feb...	Year 1 Mar...	Year 1 Apr...	
Base Rent	\$ per Unit of Tenant's Rentable Area per Yr	5,900	\$ 26.00	\$ 26.00	\$ 26.00	\$ 26.00	
Free Rent	% of Rent	—	100.00%	100.00%	100.00%	← 0.00%	

Additional Rent (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.

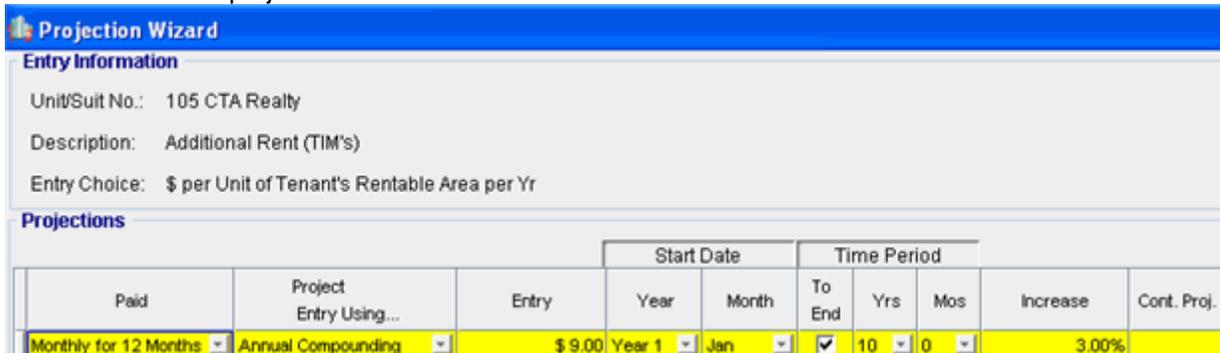
Entering the Additional Rent (TIM's)

1. Select row with Description "Additional Rent (TIM's)"
2. Click on  which displays the Projection Wizard

In the **Projection Wizard**

3. **Paid column:** Select "Monthly for 12 Months"
4. **Project Entry Using column:** Select "Annual Compounding"
5. **Entry column:** Enter \$9.00
6. **Time Period column:** Check the "To End" box.
7. **Increase column:** Enter the compounding rate of 3.00%

Your entries in the projection wizard should look like this:



Projection Wizard										
Entry Information										
Unit/Suit No.: 105 CTA Realty										
Description: Additional Rent (TIM's)										
Entry Choice: \$ per Unit of Tenant's 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	\$ 9.00	Year 1	Jan	<input checked="" type="checkbox"/>	10	0	3.00%		

Press OK to return to the Rent sub-folder.

Entering the Recoverable Expense Cap

1. Select the row with the entry choice: Recov. Exp. Cap
2. Click on  which displays the Projection Wizard
3. Amount column: Enter \$4,500
4. Check the "To End" box

Your entries in the projection wizard should look like this;

Entry Information							
Unit/Suit No.: 105 CTA Realty							
Description: Recoverable Expense Cap							
Entry Choice: Amount							
Projections							
Paid	Project Entry Using...	Amount	Start Date		Time Period		
			Year	Month	To End	Yrs	Mos
Monthly	Constant (Fill Right)	\$ 4,500	Year 1	Jan	<input checked="" type="checkbox"/>	10	0

Press ok to return to the Rent sub-folder

5. Select tenant 306 from the scroll down menu

Suite 306 Rentable Area: 2,500 Sq. Ft. Usable Area: 2,119 Sq. Ft. Follow these steps to enter and project the revenues

1. Enter Description: 'Base Rent'
2. Press the button to add another row
3. Enter Description: 'Additional Rent (TIM's)'
4. Entry Choice column: "\$ per Unit of Tenant's Rentable Area per Yr"

The Rent folder should look like this;

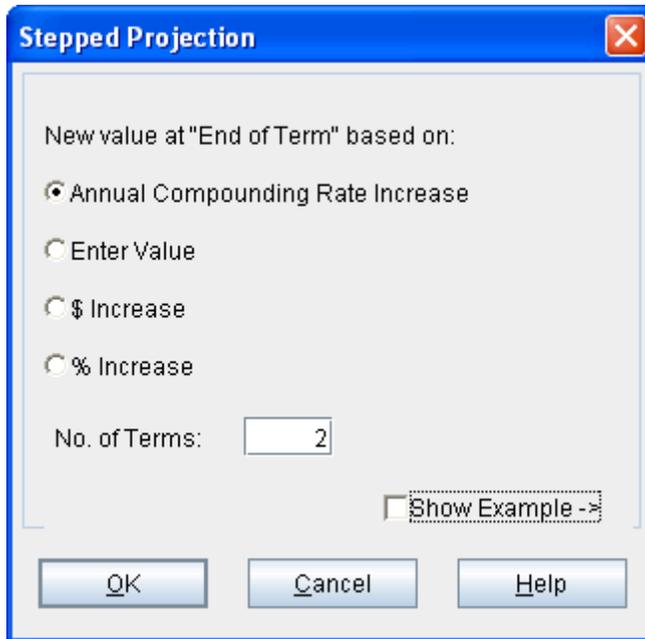
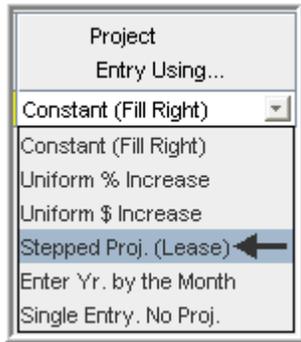
306 CTA Realty	Rentable Area	2,500	Sq. Ft
	Usable Area	2,119	Sq. Ft
Revenues			
Description	Entry Choice	Qty	Year 1 Jan...
Base Rent	\$ per Unit of Tenant's Rentable Area per Yr	2,500	\$ 0.00
Additional rent	\$ per Unit of Tenant's Rentable Area per Yr	2,500	\$ 0.00

Base Rent

\$17.00 per Unit of Tenant's Rentable Area paid Monthly. Two terms of 5 years. Increase for the second term base on 3.00% compounding for five years

Following are the steps for entering the Rent for tenant Suite 306 CTA Realty

1. Select row 1: 'Base Rent'
2. Click on which displays the Projection Wizard
3. **Project Entry Using... column:** Select "Stepped Proj. (Lease)"



4. Set the No. of Terms to 2, which is the default and click OK
5. **Entry column:** Enter the lease rate \$17.00
6. **Time Period column:** Set Term 1 (the first row) to 5 years and term 2 (the second row) to 5 years or check the "To End" box
7. **Increase column:** Enter the Annual Compounding Rate of 3.00%

The projection should look like this;

Entry Information									
Unit/Suit No.: 306 CTA Realty									
Description: Base Rent									
Entry Choice: \$ per Unit of Tenant's Rentable Area per Yr									
Projections									
Paid	Project Entry Using...	Entry	Term	Start Date		Time Period			Increase
				Year	Month	To End	Yrs	Mos	
Monthly	Stepped Proj. (Lease)	\$ 17.00	1	Year 1	Jan		5	0	3.00%
			2	Year 6	Jan	<input checked="" type="checkbox"/>	5	0	

Press OK to return to the Rent folder

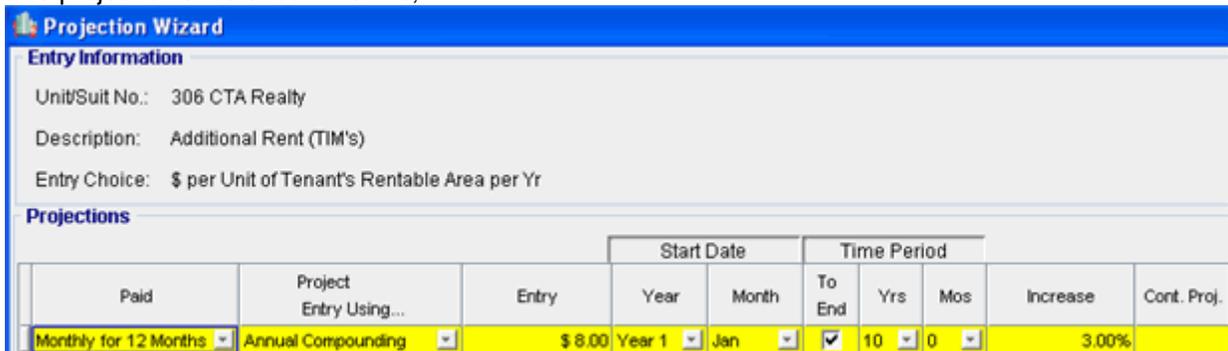
Additional Rent (TIM's)

\$8.00 per Unit of Tenant's Rentable Area per Yr paid monthly for 12 months then increasing at 3.00% compounding per year for 9 years.

Entering the Additional Rent (TIM's)

1. Select row with description: 'Additional Rent (TIM's)'
2. Entry Choice: "\$ per Unit of Tenant's Rentable Area per Yr"
3. Click on  which displays the Projection Wizard
4. **Paid column:** Select "Monthly for 12 months"
5. **Project Entry Using... column:** Select "Annual Compounding"
6. **Entry column:** \$8.00
7. **Time Period column:** select "To End" box
8. **Increase column:** Enter the Annual Compounding Rate of 3.00%

The projection should look like this;



Paid	Project Entry Using...	Entry	Start Date		Time Period			Increase	Cont. Proj.
			Year	Month	To End	Yrs	Mos		
Monthly for 12 Months	Annual Compounding	\$ 8.00	Year 1	Jan	<input checked="" type="checkbox"/>	10	0	3.00%	

Press OK to return to the Rent Sub folder

VACANCY Folder

This analysis assumes no sublease vacancies

Select the Financing tab

FINANCING Folder

Mortgage (Borrowing)

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

Description: Improvement Loan

Year 1 January, \$35,000 Time Period 10 years, Amortization 10 years, Interest Rate 8.00%

Type: Standard Mortgage

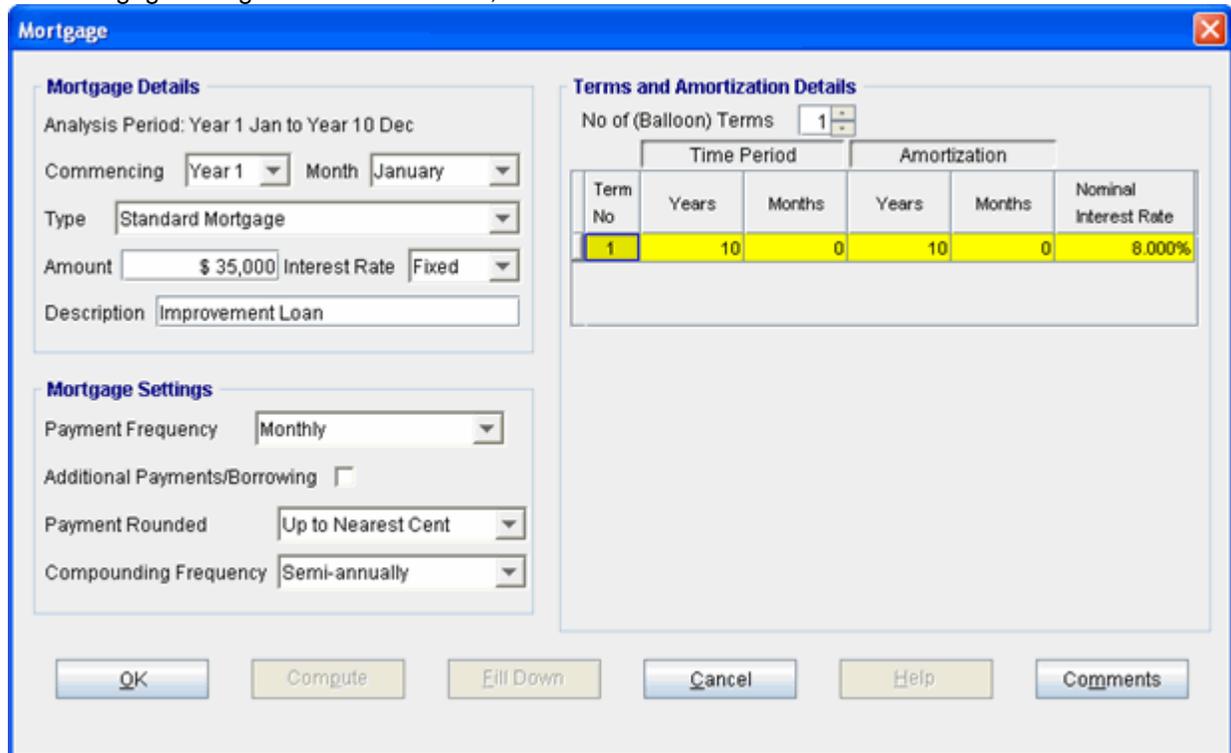
Setting up a mortgage

1. Click on the Add Mortgage button



2. Amount box: \$35,000
3. Description box: "Improvement Loan"
4. Time Period box: 10 Years
5. Amortization box: 10 Years
6. Nominal Interest Rate box: 8.00%
7. Compounding Frequency: Semi-annually

The mortgage dialog should look like this;



The screenshot shows the Mortgage dialog box with the following details:

- Mortgage Details:**
 - Analysis Period: Year 1 Jan to Year 10 Dec
 - Commencing: Year 1, Month: January
 - Type: Standard Mortgage
 - Amount: \$ 35,000, Interest Rate: Fixed
 - Description: 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
 - Table with columns: Term No, Years, Months, Years, Months, Nominal Interest Rate.
 - Table content:

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

8. Press the  button
9. Press the OK button

The Financing Folder should now look like this;

Mortgage (Borrowing)			
Description	Type	Amount	Start Date
Improvement Loan	Standard Mortgage	\$ 35,000	Year 1 Jan

Click on the Termination tab

TERMINATION Folder

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

Cleanup and restoration costs \$10,000

The Termination Expenses should appear like this;

Termination Expenses	
Description	Expense
Cleanup and restoration costs	\$ 0

Add Insert Delete Move

Entering the Termination Costs

1. Expense column: \$10,000

The Termination Expenses should now appear as;

Termination Expenses	
Description	Expense
Cleanup and restoration costs	\$ 10,000

Add Insert Delete Move

SAVE YOUR PROJECT

CHECKING YOUR ENTRIES

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