

## LEASE ANALYSIS LANDLORD INDUSTRIAL USA EXAMPLE

### INTRODUCTION

This Lease Analysis example analyses an industrial lease from a Landlords perspective.

The landlord is considering a proposal from Apex Manufacturing to rent;

Unit No. 4 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 Estates

Description: Industrial Lease Analysis Landlord

Tenant: Apex Manufacturing

Analysis Period: 10 Years

Starting Date: Year 1 Jan

### LANDLORD Folder

Landlord's Marginal Tax Rate: 35.00%

Discount Rate: Before Tax 13.00%

### LEASEHOLD IMPROVEMENTS Folder

Description: Leasehold Improvements

Amount: \$12,000

Year 1 Jan

Depreciation Method: Commercial Prop. St Line

### GENERAL EXPENSES Folder

General Expenses are only used if the tenant is leasing several spaces in the building and there are expenses common to the spaces such as parking, security costs etc.

In this case the tenant only occupies one space so there isn't any General Expenses to enter.

### GENERAL REVENUE Folder

General Revenues are only used if the tenant is leasing several spaces in the building and there are revenues common to the spaces such as sign rental and parking. etc.

In this example the tenant only occupies one space so there are no General Revenues.

### RENT REVENUE AND EXPENSES Folders

Consists of three folders

1. **Tenancy Information Folder** Used to enter information on the tenant
2. **Revenue Folder** Used to enter the rent, parking etc paid by the tenant to the landlord
3. **Rental Expenses Folder** Used to enter the costs incurred by the landlord related to the space

### TENANCY INFORMATION Folder

Suite/Unit No: No. 4

Tenant Name: Apex Manufacturing

Rentable Area Sq. Ft: 6,000

**REVENUE Folder**

Revenue is entered in the Rental Revenue & Expenses, Revenue sub-folder as follows;

**Unit No. 4 Tenant's Rentable Area: 6,000 Sq. Ft**

**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 three 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

**RENTAL EXPENSES Folder**

Rental 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

**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: Monthly

**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: Monthly

**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

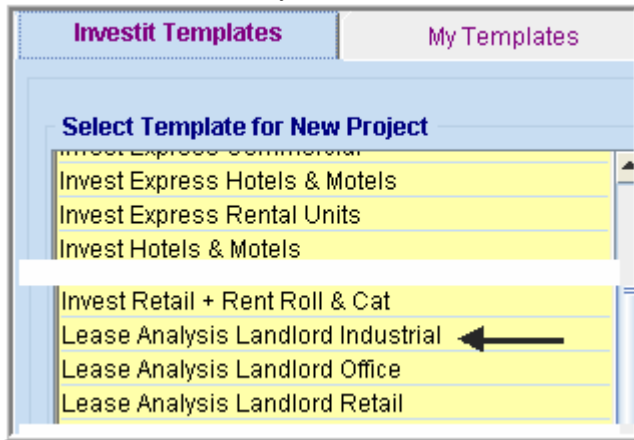
Value of leasehold improvements on termination is zero.

## INSTRUCTIONS FOR ENTERING THE PROJECT INTO INVESTOR PRO

### Getting started

The first step is to open the Investor Pro Template “Lease Analysis Landlord Industrial” 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 Industrial” 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 Estates
2. Enter Description: Industrial Lease Analysis Landlord

#### LANDLORD Folder

1. 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 Amount: \$12,000

The Leasehold Improvement folder should look like this;

Leasehold Improvements						
<input type="button" value="Inflate"/>						
Description	Amount	Year	Month	Depreciation Method	Recovery Period [yrs]	
Leasehold Improvements	\$ 12,000	Year 1	Jan	Commercial Prop. St Line	39.0	

**GENERAL EXPENSES**

General Expenses are only used if the tenant is leasing several spaces in the building and there are expenses common to the spaces such as parking, security costs etc.

In this case the tenant only occupies one space so there isn't any General Expenses to enter.

**GENERAL REVENUE**

General revenue is only used if the tenant is leasing several spaces in the build and there is revenue that is common to both spaces such as Sign Rental and Parking.

In this example the tenant only occupies one space so there are no General Revenues to enter.

2. Click on the Rental Revenue and Expenses folder

**RENTAL REVENUE AND 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

First row enter the following information on the industrial space;

1. Suite/Unit No: 4
2. Tenant's Name: Apex Manufacturing
3. Tenant's Rentable Area: 6,000 Sq. Ft

The Tenancy Information sub-folder should look like this;

Tenancy Information			Revenue		Rental	
Suite / Unit No.	Floor No.	Tenant Name	Rentable Area Sq. Ft	Pro Rata Expense Share	Start Date	Expiration Date
4		Apex Manufacturing	6,000	0.00%		

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

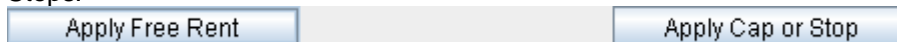
The only information that needs to be entered is the Tenant Name and Rentable Area


4. Click on the Revenue sub-folder

**Revenue Sub-Folder**

The Revenue 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.



The  button provides access to the Projection Wizard, which allows you to enter and project the revenues.


Follow these steps to enter and project the revenues;

The Revenue sub-folder should look like this;

4 Apex Manufacturing Rentable Area 6,000 Sq. Ft

Description	Entry Choice	Qty	Year 1 Jan...
Base Rent	\$ per Unit of Tenant's Rentable Area per Yr	6,000	\$ 0.00
Free Rent	% of Rent	—	0.00%
Recoverable Expenses	\$ per Unit of Tenant's Rentable Area per Yr	6,000	\$ 0.00
Parking	\$ per Space per Mo	0	\$ 0.00

The above rows appear automatically for the first tenant

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

**Caps & Stops**

Select

Rent Cap

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

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

OK Cancel Help

The Revenue sub-folder should look like this;

4 Apex Manufacturing Rentable Area 6,000 Sq. Ft

Description	Entry Choice	Qty	Year 1 Jan...
Base Rent	\$ per Unit of Tenant's Rentable Area per Yr	6,000	\$ 0.00
Free Rent	% of Rent	—	0.00%
Recoverable Expenses	\$ per Unit of Tenant's Rentable Area per Yr	6,000	\$ 0.00
Parking	\$ per Space per Mo	0	\$ 0.00
Rent Cap	Amount	—	\$ 0

The next step is to enter and project the Revenues using 

**Revenue**

Revenue is entered in the Revenue sub folder as follows;

**Unit No. 4 Industrial space. Tenant's Rentable Area: 6,000 Sq. Ft**

**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 three 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 next 10 years. This means that the maximum that will be paid by the tenant for parking per month is \$300

Following are the steps for entering the for tenant Unit No. 4 Apex Manufacturing

1. Select row 1: 'Base Rent'
2. Click on  which displays the Projection Wizard

**Entry Information**

Unit/Suit No.: 4 Apex Manufacturing  
 Description: Base Rent  
 Entry Choice: \$ per Unit of Tenant's Rentable Area per Yr

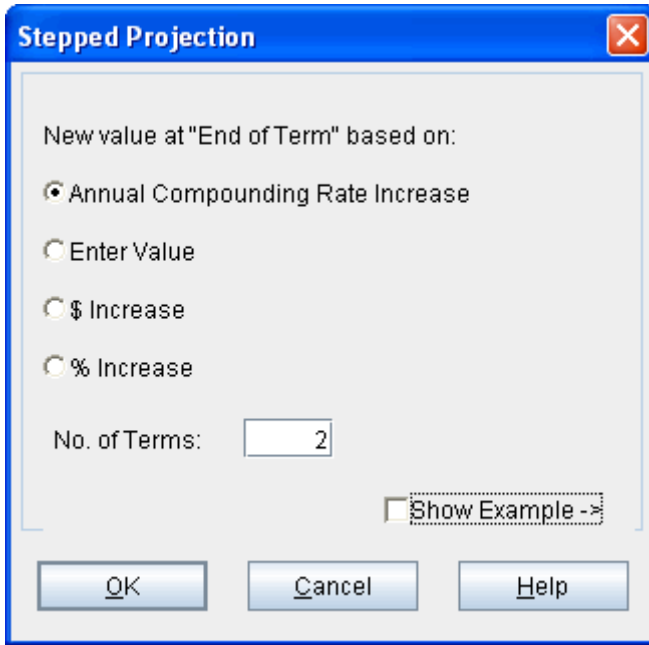
**Projections**

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.



4. Set the No. of Terms to 2, which is the default entry and click OK to return to the Projection wizard
5. **Entry column:** Enter the lease rate \$14.00
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 at 3.00%

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

Your projection description should look like this;



Press OK to return to the Projection Wizard



The Projection Wizard should look like this;

Entry Information										
Unit/Suit No.: No. 4 Apex Manufacturing										
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)	\$ 14.00	1	Year 1	Jan		5	0	3.00%	
			2	Year 6	Jan	<input checked="" type="checkbox"/>	5	0		


Press OK to return to the Revenue 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


Year 1 Jan...	Year 1 Feb...	Year 1 Mar...	Year 1 Apr...
\$ 14.00	\$ 14.00	\$ 14.00	\$ 14.00
100.00%	100.00%	100.00%	0.00%

Entering the Recoverable Expenses

1. Select row with Description " Recoverable Expenses"
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 \$4.00
6. **Time Period column:** Check the "To End" box.
7. **Increase column:** Enter the compounding rate of 3.00%

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

Your projection description should look like this;

No. 4 Apex Manufacturing	
Recoverable Expenses	
Entry Choice: \$ per Unit of Tenant's Rentable Area per Year	
Quantity: 6,000	
Year 1 Jan	\$4.00 per Unit of Tenant's Rentable Area per Year paid monthly for 12 months
	Compounding at 3.00% per year for next 9 years


Press OK to return to the Projection Wizard


Your entries in the projection wizard 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	\$ 4.00	Year 1	Jan	<input checked="" type="checkbox"/>	10	0	3.00%	

Press OK to return to the Revenue sub-folder.

### Entering Parking

1. Select the row with the Description: 'Parking'
2. Enter Qty: 12
3. Click on the  button
4. In the **Projection Wizard** make the following entries;
5. **Paid column:** Select "Monthly for 12 Months"
6. **Project Entry Using column:** Select "Annual Compounding"
7. **Entry Column:** Enter \$20.00
8. **Time Period column:** Check the "To End" box. This allows the projection to continue until the end of the 10 year Analysis Period
9. **Increase column:** Enter the Compounding Rate of 4.00%

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

Your projection description should look like this;

No. 4 Apex Manufacturing	
Parking	
Entry Choice: \$ per Space per Month	
Quantity: 12	
Year 1 Jan	\$20.00 per Space per Month paid monthly for 12 months
	Compounding at 4.00% per year for next 9 years

Click OK to return to the projection wizard

Your entries in the Projection Wizard should look like this;

**Entry Information**

Unit/Suit No.: No. 4 Apex Manufacturing  
 Description: Parking  
 Entry Choice: \$ per Space per Mo

**Projections**

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

Press OK to return to Revenue sub folder

Entering the Rent Cap

1. Select the row with the entry choice: Rec. Exp. Cap
2. Click on **Projection Wizard** which displays the Projection Wizard
3. **Amount** column: Enter \$300
4. Check the "To End" box

Your entries in the projection wizard should look like this;

**Entry Information**

Unit/Suit No.: No. 4 Apex Manufacturing  
 Description: Rent Cap  
 Entry Choice: Amount

**Projections**

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

Press OK to return to the Revenue sub-folder

Upon completion your Revenue sub-folder should look like this;

Tenancy Information	Revenue		
No. 4 Apex Manufacturing	Rentable Area	6,000 Sq. Ft	
<b>Revenues</b>			
Description	Entry Choice	Qty	Year 1 Jan...
Base Rent	\$ per Unit of Tenant's Rentable Area per Yr	6,000	\$ 14.00
Free Rent	% of Rent	—	100.00%
Additional Rent	\$ per Unit of Tenant's Rentable Area per Yr	6,000	\$ 4.00
Parking	\$ per Space per Mo	12	\$ 20.00
Rent Cap	Amount	—	\$ 300

10. Click on the Rental Expenses sub-folder

**Rental Expenses Subfolder**

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

The Rental Expenses sub-folder should look like this;

Tenancy Information		Revenue	
4 Apex Manufacturing	Rentable Area	6,000	Sq. Ft
<b>Expenses</b>			
Description	Entry Choice	Qty	Year 1 Jan...
Expenses paid by Landlord	\$ per Unit of Tenant's Rentable Area per Yr	6,000	\$ 0.00
Leasing Fee	Amount	—	\$ 0


For this tenant the default Entry Choices and Descriptions are correct

**RENTAL EXPENSES**

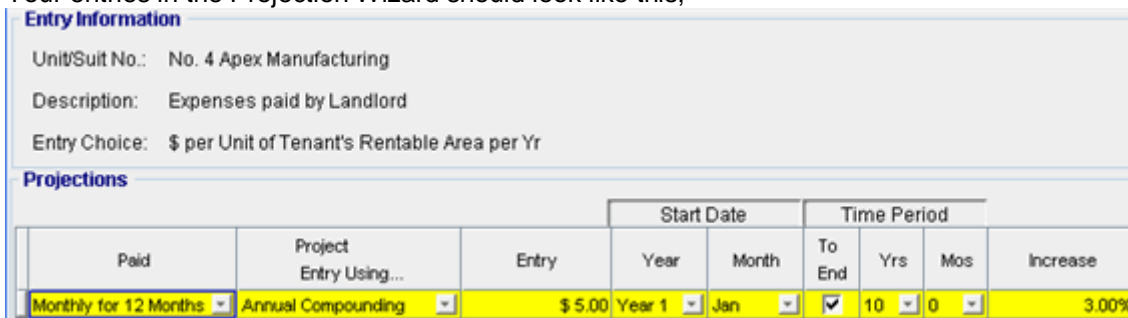
Expenses Paid by Landlord \$5.00 per Tenant's Rentable Area then increasing at 3.00% compounding per year.

Leasing Fee. Year 1 Jan \$12,000

Following are the steps for entering the above information for tenant Unit 4 Apex Manufacturing

1. Select row 1: 'Expenses Paid by Landlord'
2. Click on  which displays the Projection Wizard
3. **Paid column:** Select "Monthly for 12 Months"
4. **Project Entry Using... column:** Select "Annual Compounding"
5. **Entry column:** \$5.00
6. **Time Period column:** Select the "To End" box
7. **Increase column:** Enter the Annual Compounding Rate at 3.00%

Your entries in the Projection Wizard should look like this;

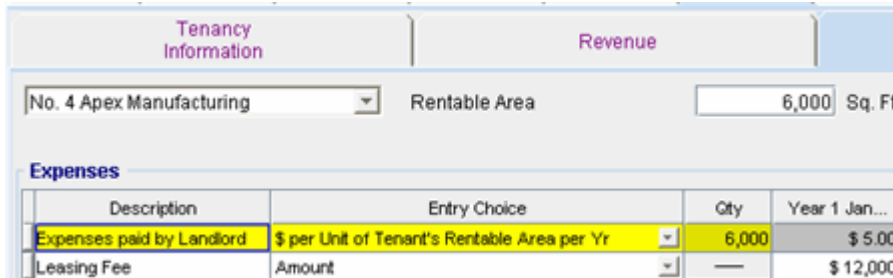


Click on the OK button to return to the Rental Expenses sub-folder

Entering the Leasing Fee

1. Select row 2: 'Leasing Fee'
2. Enter \$12,000 into grid for Year 1 Jan

The screen should look like this;



3. Click on the Financing tab

**VACANCY Folder**

This analysis assumes no vacancies

## FINANCING Folder

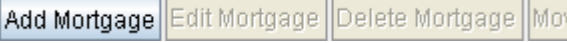
### Mortgage (Borrowing)

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

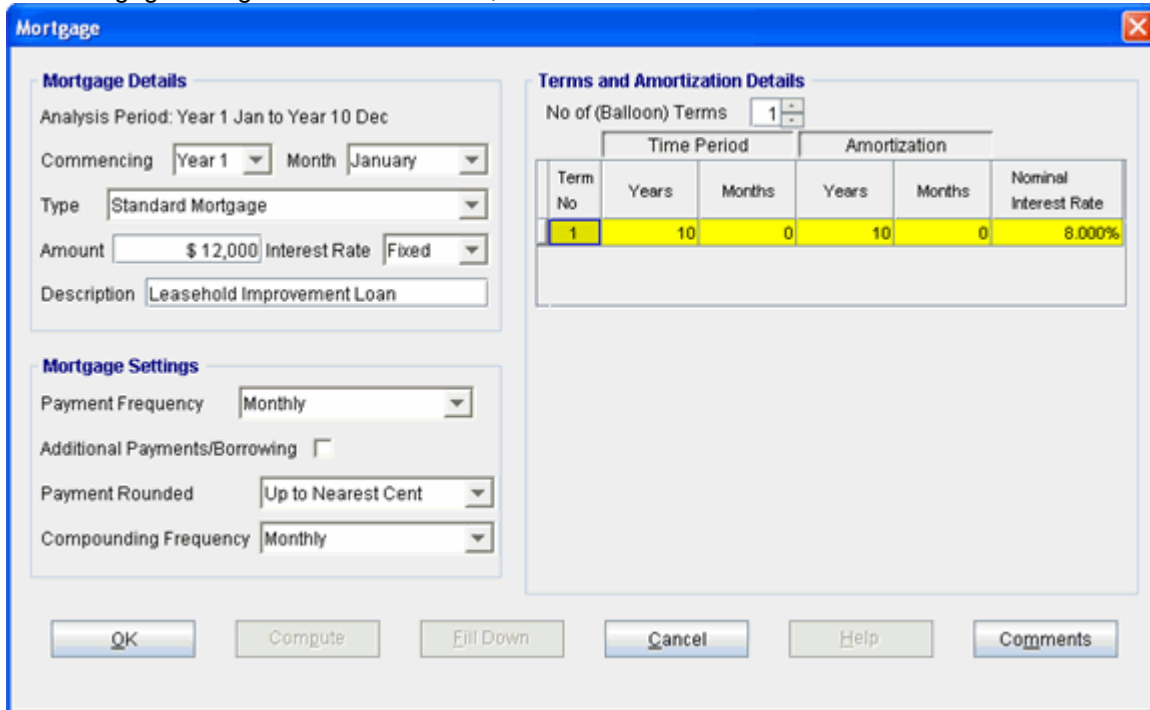
Description: Leasehold Improvement Loan

Year 1 January, \$12,000, 10 year amortization, Interest Rate 8.00% Type "Standard Mortgage"

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: "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;



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 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

### Tenant Loans

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

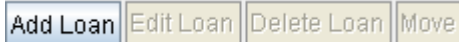
Description: Tenant loan

Year 1 January, \$8,000, Time Period 5 years, Amortization 5 years, Interest Rate 10.00%

Type: Standard Mortgage

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: 8.00%


The Mortgage dialog should look like this;

**Mortgage** ✖

<p><b>Mortgage Details</b></p> <p>Analysis Period: Year 1 Jan to Year 10 Dec</p> <p>Commencing Year 1 Month January</p> <p>Type Standard Mortgage</p> <p>Amount \$ 8,000 Interest Rate Fixed</p> <p>Description Tenant Loan</p>	<p><b>Terms and Amortization Details</b></p> <p>No of (Balloon) Terms 1</p> <table border="1" style="width: 100%; text-align: center;"> <thead> <tr> <th rowspan="2">Term No</th> <th colspan="2">Time Period</th> <th colspan="2">Amortization</th> <th rowspan="2">Nominal Interest Rate</th> </tr> <tr> <th>Years</th> <th>Months</th> <th>Years</th> <th>Months</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>5</td> <td>0</td> <td>5</td> <td>0</td> <td>10.000%</td> </tr> </tbody> </table>	Term No	Time Period		Amortization		Nominal Interest Rate	Years	Months	Years	Months	1	5	0	5	0	10.000%
Term No	Time Period		Amortization		Nominal Interest Rate												
	Years	Months	Years	Months													
1	5	0	5	0	10.000%												

<p><b>Mortgage Settings</b></p> <p>Payment Frequency Monthly</p> <p>Additional Payments/Lending <input type="checkbox"/></p> <p>Payment Rounded Up to Nearest Cent</p> <p>Compounding Frequency Monthly</p>	
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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

4. 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 \$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

Add   Insert   Delete   Move

**SAVE YOUR PROJECT**

**CHECKING YOUR ENTRIES**

You can compare your project against the Investit example “ Lease Analysis Landlord Indust”