

LEASE ANALYSIS LANDLORD OFFICE USA 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 suite 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 Office Complex

Description: Suite 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

Marginal Tax Rate: 35.00%

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: Monthly

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: Monthly

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	Suburban Denver	Property Manager	JAMON 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 Capital Plaza 306 CTA Realty	May 30, 2011 Investor Pro Lease Analysis Tenant Office Single Space
Capital Plaza 1200 E Colfax Denver CO		 <p style="text-align: center;">Capital Plaza</p>  <p style="text-align: center;">Floor Plan</p>  <p style="text-align: center;">Great Location</p>	
Suite Number & Floor Total Rentable Area Total Usable Area Add On Factor Type of Lease Start Date Expiration Date Lease Term Renewal Options Starting Lease Rate Rent Escalation Steps Free Rent Rent Cap Starting Recov. Expenses Expense Cap or Stop Other Monthly Starting Costs Parking Ratio Reserved Parking No. & Rate Unreserved Parking No. & Rate Total Moving Costs TI Allowance by Landlord TI's paid by Tenant Other Allowances by Landlord	306 Third Floor 5,900 Sq. Ft 5,200 Sq. Ft 13.46% Triple Net Jan/01/2011 Dec/31/2015 Five years Option to renew for another five years \$26.00 per Sq. Ft per Yr No First two months No \$9.00 per Sq. Ft per Yr Expense Cap \$4,500 per Month No N/A No Free. Six spaces N/A No \$15,000 N/A		
Building Attributes Sub Market Area Type of Property Building Class & Age Number of Floors Column Spacing Air Conditioning Elevators Sprinklers Signage Kitchen/Lunchroom Bathrooms Storage Area Security Property Manager	Suburban Denver Office Building Built 1986 Class B Office Four 16 Ft x 16 Ft Yes Two Yes N/A Yes Two No 5 pm to 8 am JAMON Property Managers		

Lease Summary Report

Page 2. Financial Summary

		Lease Summary Capital Plaza 306 C TA Realty		May 30, 2011 Investor Pro Lease Analysis Tenant Office Single Space
Financial Summary Analysis Period: 10 years				
		Before Tax <hr/>	After Tax <hr/>	
Total Net Cash Flow		\$ 2,024,684	\$ 1,319,545	
Average Annual Net Cash Flow		\$ 202,468	\$ 131,954	
Average Monthly Net Cash Flow		\$ 16,872	\$ 10,996	
Average Rent Rates Based on Rentable Area				
Average Effective Annual Rate	\$ 34.32 Sq. Ft per Yr		\$ 22.37 Sq. Ft per Yr	
Average Effective Monthly Rate	\$ 2.86 Sq. Ft per Yr		\$ 1.86 Sq. Ft per Yr	
Based on Usable Area				
Average Effective Annual Rate	\$ 38.94 Sq. Ft per Yr		\$ 25.38 Sq. Ft per Yr	
Average Effective Monthly Rate	\$ 3.24 Sq. Ft per Yr		\$ 2.11 Sq. Ft per Yr	
Net Present Value and Net Effective Rent				
Net Present Value (NPV)	\$ 1,175,232		\$ 915,118	
NPV Discount Rate	10.00%		6.50%	
Based on Rentable Area				
Net Effective Rent Yearly	\$ 19.92 Sq. Ft per Yr		\$ 15.51 Sq. Ft per Yr	
Net Effective Rent Monthly	\$ 1.66 Sq. Ft per Yr		\$ 1.29 Sq. Ft per Yr	
Based on Usable Area				
Net Effective Rent Yearly	\$ 22.60 Sq. Ft per Yr		\$ 17.60 Sq. Ft per Yr	
Net Effective Rent Monthly	\$ 1.88 Sq. Ft per Yr		\$ 1.47 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

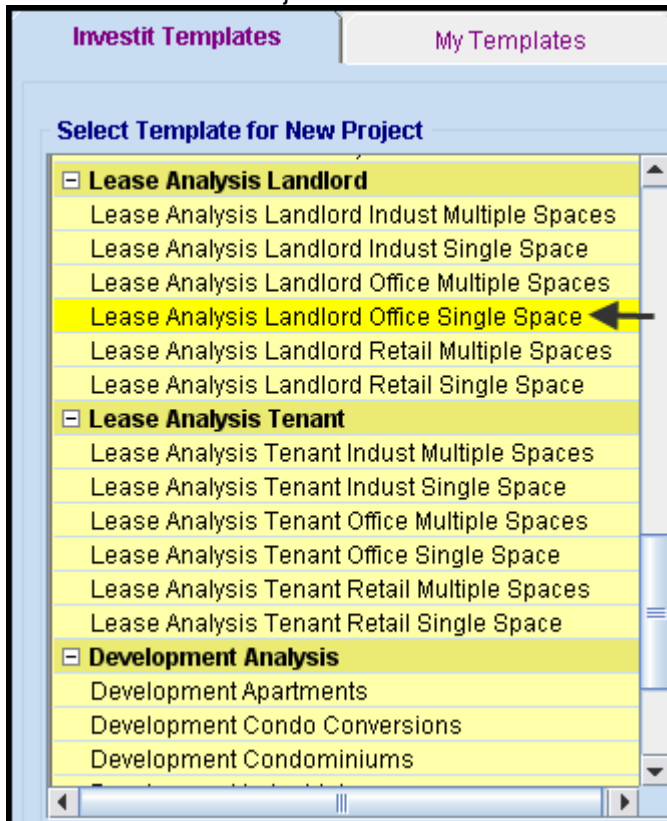
Visit the Investit **Online Learning Center** to learn how to import photos and images.

INSTRUCTIONS FOR ENTERING THE PROJECT INTO INVESTOR PRO

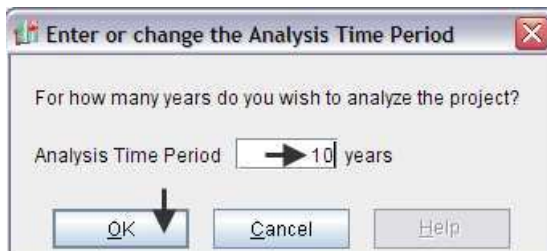
Getting started

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 Office Complex
2. Enter Description: Suite 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 selected in a software interface. The 'Report Headers' section contains text boxes for 'Property Name' (Capital Plaza Office Complex) and 'Description' (Suite 306 CTA Realty). The 'Analysis Time Period' section shows '10 Years' and a 'Change Analysis Time Period' button. The 'Entry Information' section shows 'Enter Revenue and Expenses Monthly' and a 'Change Entry Information' button. The 'Tenant Office' section includes 'Rentable Area' (5,900 Sq. Ft), 'Usable Area' (5,200 Sq. Ft), and '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 selected in the software interface. It features a checkbox for 'Turn off Tax Calculations'. Under the 'Tax Rate' section, 'Investor's Marginal Tax Rate' is set to 35.00%. Under the 'Discount Rate' section, 'Before Tax' is set to 10.00% (indicated by an arrow) and 'After Tax' is set to 6.50%.

LEASEHOLD IMPROVEMENTS Folder

First Row

1. Enter the Amount: \$15,000

Your entries for the Leasehold improvements should look like this;

Project Info.	Landlord	Leasehold Improvements	Expenses	Revenue	Vacancy	Financing	Termination
Leasehold Improvements							
Inflate							
Description			Amount	Year	Month	Depreciation Method	Recovery Period [yrs]
Leasehold Improvements ←			\$ 15,000	Year 1	Jan	Commercial Prop. St Line	39.0

Enter ↑

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

Projection Wizard									
Entry Information									
Description: Expenses paid by Landlord									
Entry Choice: \$ per Unit of Total Rentable Area (Office) per Yr									
Projections									
Paid	Project Entry Using...	Entry	Start Date		Time Period			Increase	Cont. Pro
			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** ↑

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

Enter ↑

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

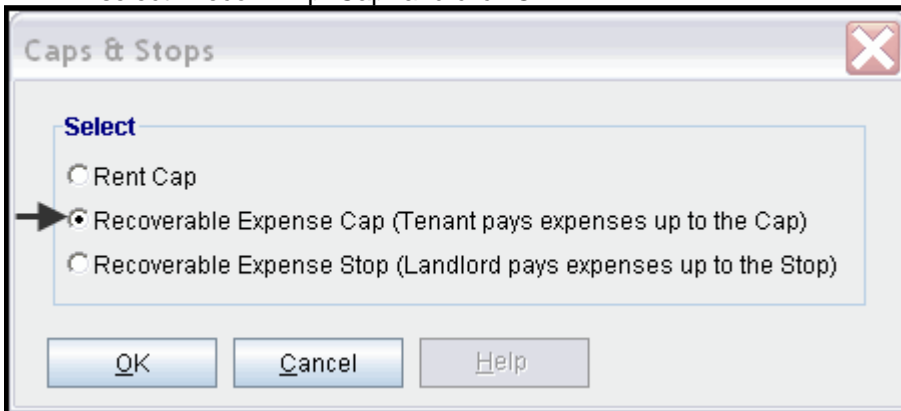
First two months. 100% of Base Rent

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: Monthly

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 Monthly

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: Monthly

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

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%

Mortgage Settings

Payment Frequency Monthly

Additional Payments/Lending

Payment Rounded Up to Nearest Cent

Compounding Frequency Monthly

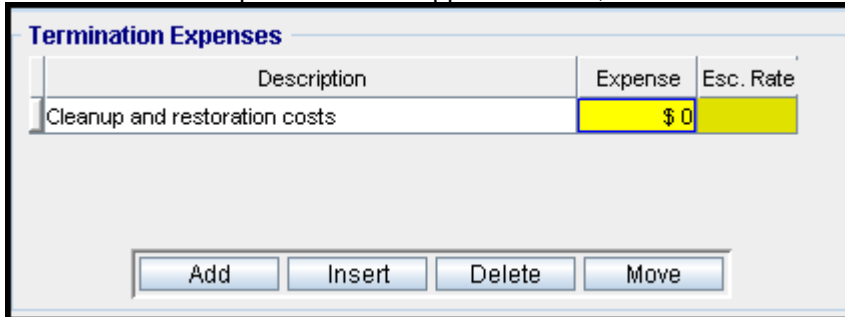
OK
Compute
Fill Down
Cancel
Help
Comments

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;



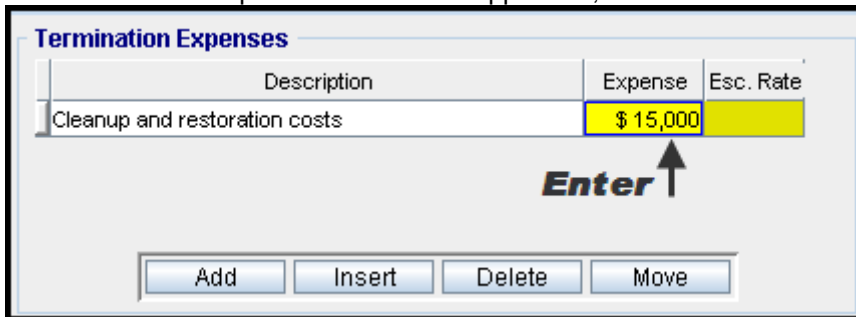
Description	Expense	Esc. Rate
Cleanup and restoration costs	\$ 0	

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"