

LEASE ANALYSIS TENANT INDUSTRIAL USA EXAMPLE

INTRODUCTION

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

Apex Manufacturing is considering a proposal to rent:

Unit No. 4 Rentable Area: 6,000 Sq. Ft in Lakewood Estates industrial park

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 Tenant

Analysis Period: 10 Years

Starting Date: Year 1 Jan

TENANT Folder

Marginal Tax Rate: 35.00%

Discount Rate: Before Tax 13.00%

LEASEHOLD IMPROVEMENTS Folder

Unit No. 4

Description: Leasehold Improvements

Amount: \$4,000

Year 1 Jan

Depreciation Method: Commercial Prop. St Line

GENERAL EXPENSES Folder

General Expenses are expenses paid by the Tenant to the Landlord that are common if the tenant is renting more than one space in the building

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

SUBLEASE REVENUE Folder

Tenant is not planning to sublease any of the space

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. 4

Tenant Name: Apex Manufacturing

Rentable Area: 6,000 Sq. Ft

RENT Folder

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

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 month. 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

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: Landlord 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

TERMINATION Folder

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

Cleanup and Restoration Costs \$10,000

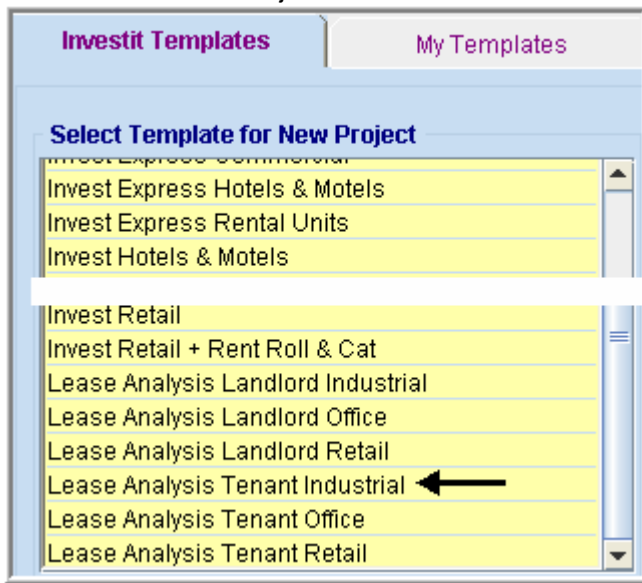
Value of leasehold improvements on termination is zero.

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 Tenant

TENANT 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. Description: Leasehold Improvements
2. Enter the Amount: \$4,000

The Leasehold Improvement folder should look like this;

Leasehold Improvements						
Inflate						
Description	Amount	Year	Month	Depreciation Method	Recovery Period [yrs]	
Leasehold Improvements	\$ 4,000	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.

SUBLEASE REVENUE

There are no Sublease Revenues in this example

3. Click on the Leasing Expenses folder

LEASING EXPENSES

Tenancy Information Sub-Folder

This folder is a sub-folder within the LEASING 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. Rentable Area: 6,000 Sq. Ft

The Tenancy Information sub-folder should look like this;

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

Note: You can enter information on the tenancy and lease arrangements by completing the remainder of the Tenancy Information grid.

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


4. Click on the Rent sub-folder

Rent Sub-folder

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

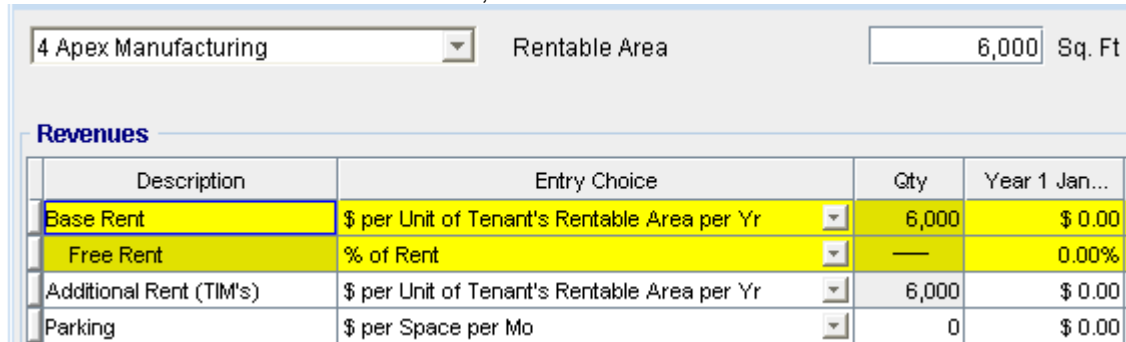
You can use the following buttons to enter Free Rent, Rent Caps and Recoverable Expense Caps and Stops.



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;

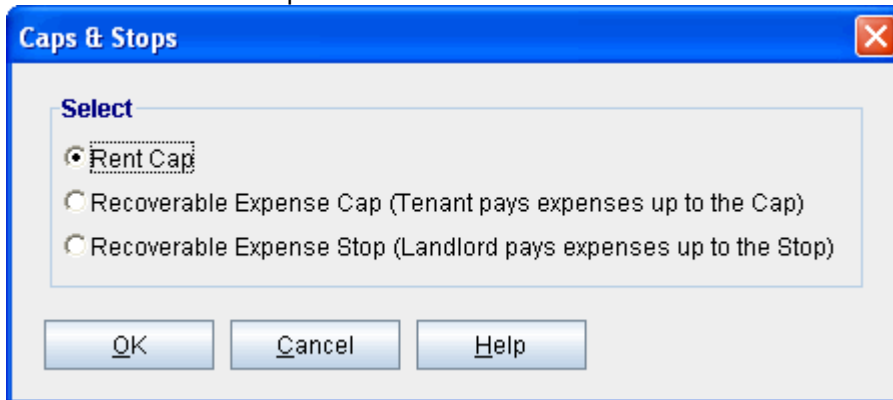
The Rent sub-folder should look like this;



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%
Additional Rent (TIM's)	\$ 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 to allow the user to enter their data more quickly

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 Rent 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%
Additional Rent (TIM's)	\$ 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 and Free Rent using

Projection Wizard

RENT

Rent is entered in the Leasing Expenses, Rent sub-folder as follows;

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

Base Rent Lease

\$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 month. 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 full 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 **Projection Wizard** which displays the Projection Wizard

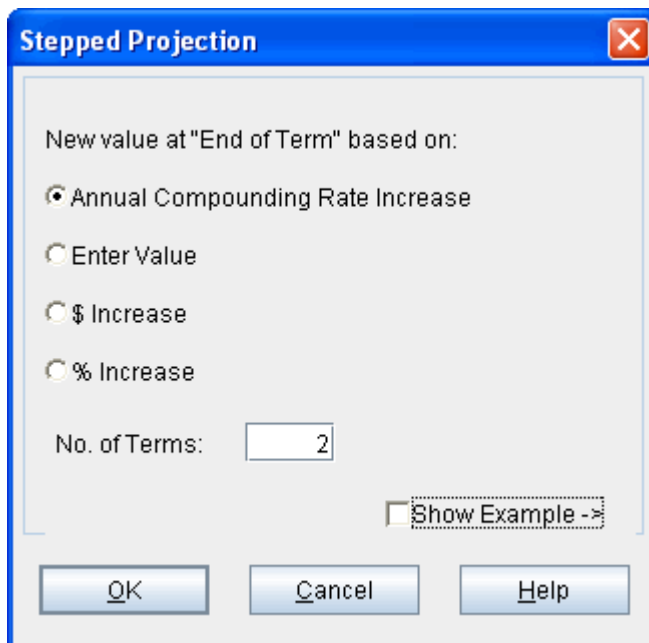
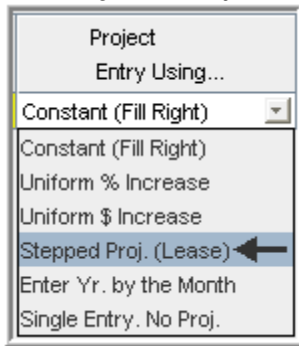
Entry Information

Unit/Suit No.: 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)"



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 **Projection Description** button, which describes the entries and projections.

4 Apex Manufacturing
 Base Rent
 Entry Choice: \$ per Unit of Tenant's Rentable Area per Year
 Quantity: 6,000
 Year 1 Jan Stepped Projection (Lease)
 Term 1: \$14.00 per Unit of Tenant's Rentable Area per Year paid monthly for 5 years
 Term 2: Increased by 3.00% compounding per year to \$16.23 per Unit of Tenant's Rentable Area per Year paid monthly for 5 years

Press OK to return to the Projection Wizard

Your entries in the projection wizard should look like this:

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	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 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	6,000	\$ 14.00	\$ 14.00	\$ 14.00	\$ 14.00
Free Rent	% of Rent	—	100.00%	100.00%	100.00%	← 0.00%

Entering the Additional Rent (TIM's)

1. Select row with Description "Additional Rent (TIM's)"
2. Click on **Projection Wizard** 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%

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

4 Apex Manufacturing		Rentable Area	6,000	Sq. Ft
Revenues				
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	

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: Landlord Loan

Year 1 January, \$12, 000, 10 year Time Period, 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: "Landlord Loan"
5. Time Period box: 10 Years
6. Amortization box: 10 Years
7. Nominal Interest Rate box: 8.00%

Add Mortgage Edit Mortgage Delete Mortgage Move

The mortgage dialog should look like this;

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
Landlord 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;

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;

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 Indust"