

## LEASE ANALYSIS TENANT OFFICE USA 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: 35.00%  
Discount Rate: Before Tax 13.00%

### LEASEHOLD IMPROVEMENTS Folder

#### Suite 105

Description: No. 105 Leasehold Improvements  
Amount: \$15,000  
Year 1 Jan  
Depreciation Method: Commercial Prop. St Line

#### Suite No. 306

Description: No. 306 Leasehold Improvements  
Amount: \$10,000  
Year 1 Jan  
Depreciation Method: Commercial Prop. St Line

### 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.

### **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. **Subject to a Recoverable Expense Stop** of \$1,800 per month. This means that the Tenant doesn't pay any Additional Rent (TIM's) until the Additional Rent (TIM's) exceeds \$1,800 per month and then the Tenant pays the difference between the Additional Rent (TIM's) and the Expense Stop of \$1,800 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 tenant 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: \$35,000  
Time Period: 10 years  
Amortization: 10 years  
Nominal Interest Rate: 8.00%  
Compounding Frequency: Monthly

**TERMINATION Folder**

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

Cleanup and restoration costs: \$10,000

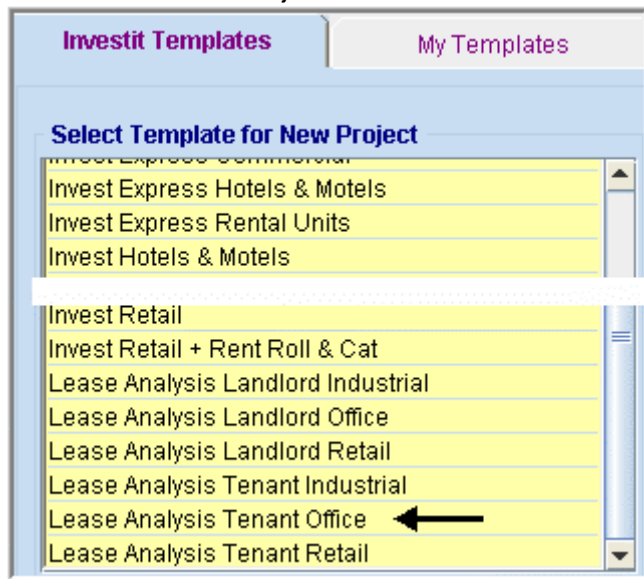
Value of leasehold improvements on termination is zero.

## INSTRUCTIONS FOR ENTERING THE PROJECT INTO INVESTOR PRO

### Getting started

The first step is to open the Investor Pro Template “Lease Analysis 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: 35.00%
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 Depreciation Method: Commercial Prop. St Line

Your entries for the Leasehold improvements should look like this;

Leasehold Improvements						
Inflate						
Description	Amount	Year	Month	Depreciation Method	Recovery Period [yrs]	
No. 105 Leasehold Improvements	\$ 15,000	Year 1	Jan	Commercial Prop. St Line	39.0	
No. 306 Leasehold Improvements	\$ 10,000	Year 1	Jan	Commercial Prop. St Line	39.0	

## GENERAL EXPENSES Folder

### Sign rental

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

1. Enter Description: Sign Rental
2. Select the Entry Choice: \$ per Mo
3. Click on the Projection Wizard button

In the **Projection Wizard** make the following entries;

4. **Paid column:** Select "Monthly for 12 Months"
5. **Project Entry Using column:** Select "Annual Compounding"
6. **Entry column:** Enter \$500
7. **Time Period column:** Check the "To End" box. This allows the projection to continue until the end of the 10 year Analysis Period
8. **Increase column:** Enter the Compounding Rate of 3.00%

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

Sign Rental	
Entry Choice: \$ per Month	
Year 1 Jan	\$500 per Month 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;

Entry Information									
Description: Sign Rental									
Entry Choice: \$ per Mo									
Projections									
Paid	Project Entry Using...	Entry	Start Date		Time Period			Increase	
			Year	Month	To End	Yrs	Mos		
Monthly for 12 Months	Annual Compounding	\$ 500	Year 1	Jan	<input checked="" type="checkbox"/>	10	0	3.00%	

9. Click on the "Ok" button to return to the "General Expenses" folder



Select the Sublease Revenue folder

**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;

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;

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"/>	

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

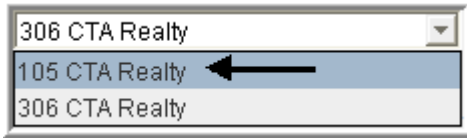
## RENT

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.

	
---	--

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



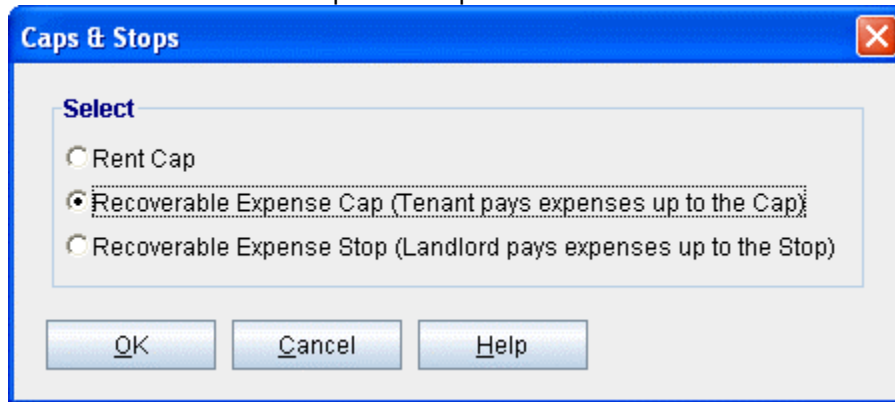
The Rent Sub-folder should appear like this;

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 Expenses 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

[Projection Wizard](#)

**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 [Projection Wizard](#) 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.

**Stepped Projection** [X]

New value at "End of Term" based on:

Annual Compounding Rate Increase

Enter Value

\$ Increase

% Increase

No. of Terms:

Show Example ->

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

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;

**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.

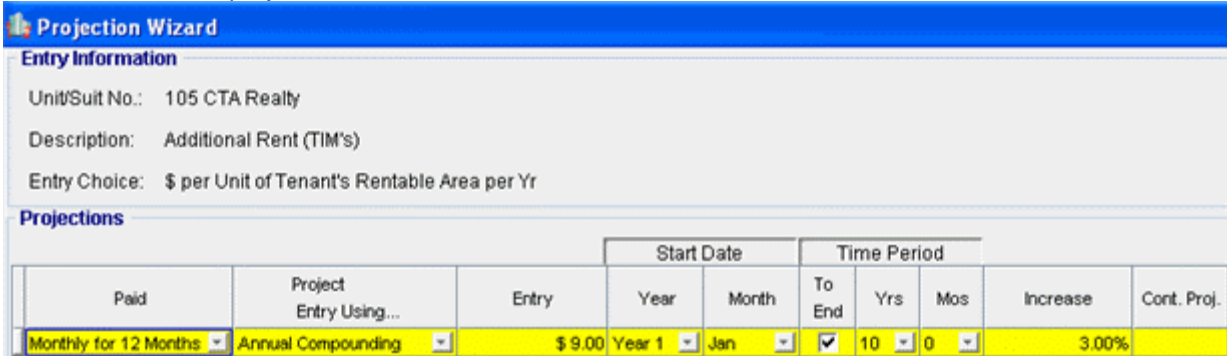
Entering the Additional Rent (TIM's)

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: Select "\$ per Unit of Tenant's Rentable Area per Yr"
5. Click on the  button to access the Rent Cap & Stop dialog and select "Recoverable Expense Stop" and click Ok


The Rent folder should look like this;

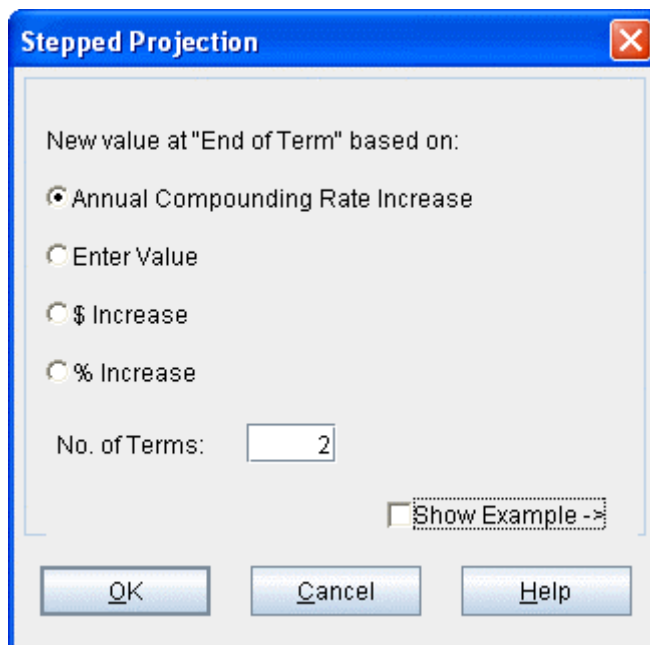
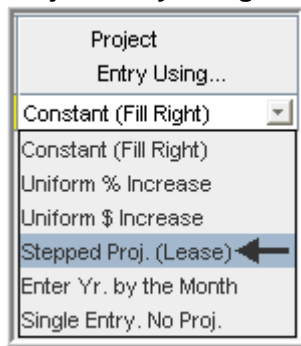
306 CTA Realty	Rentable Area	2,500	Sq. Ft
	Usable Area	2,119	Sq. Ft
Revenues			
Description	Entry Choice	Qty	Year 1 Jan...
Base Rent	\$ per Unit of Tenant's Rentable Area per Yr	2,500	\$ 0.00
Recoverable Expenses	\$ per Unit of Tenant's Rentable Area per Yr	2,500	\$ 0.00
Recov. Exp. Stop	Amount	—	\$ 0

### 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 entry 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. **Subject to a Recoverable Expense Stop** of \$1,800 per month. This means that the Tenant doesn't pay any Additional Rent (TIM's) until the Additional Rent (TIM's) exceeds \$1,800 per month and then pays the difference between the Additional Rent (TIM's) and the Expense Stop.

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;

Projection Wizard										
Entry Information										
Unit/Suit No.: 306 CTA Realty										
Description: Additional Rent (TIM's)										
Entry Choice: \$ per Unit of Tenant's Rentable Area per Yr										
Projections										
Paid	Project Entry Using...	Entry	Term	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

Entering the Recoverable Expense Stop

1. Select the row with the Description: Recov. Exp. Stop
2. Click on  which displays the Projection Wizard
3. **Amount column:** \$1,800
4. **Time Period column:** check "To End" box

The projection should look like this;

Entry Information							
Unit/Suit No.: 306 CTA Realty							
Description: Recoverable Expense Stop							
Entry Choice: Amount							
Projections							
Paid	Project Entry Using...	Amount	Start Date		Time Period		
			Year	Month	To End	Yrs	Mos
Monthly	Constant (Fill Right)	\$ 1,800	Year 1	Jan	<input checked="" type="checkbox"/>	10	0

Click 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

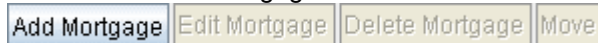
Description: Improvement Loan

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%

The mortgage dialog should look like this;

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
Improvement Loan	Standard Mortgage	\$ 35,000	Year 1 Jan

1. 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"