

LEASE ANALYSIS TENANT OFFICE USA EXAMPLE TENANT RENTING SINGLE SPACE

INTRODUCTION

This Lease Analysis example analyses an industrial lease from a tenant's perspective where the tenant is renting one space in the building and uses the Investor Pro "Lease Analysis Tenant Indust Single Space" template.

If the tenant rents several spaces in the building the Investor Pro "Lease Analysis Tenant Indust 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

Description: 306 CTA Realty

Analysis Period: 10 Years

Starting Date: Year 1 Jan

Rentable Area: 5,900 Sq. ft

Usable Area: 5,200 Sq. ft

TENANT 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

LEASING EXPENSES 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

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

SUBLEASE REVENUE Folder

The tenant has subleased 2,400 Sq. Ft of Suite 105

Base Rent: \$27 per Sq Ft per year paid monthly for two years
Additional Rent: \$9 per Sq Ft per year paid monthly for two years. **Subject to a Rent Cap** of \$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 tenant to fund tenant and other improvements associated with the space being rented

Mortgage (Borrowing)

Description: Bank Loan for Improvements
Commencing: Year 1 January 1
Type: Standard Mortgage
Amount: \$15,000
Time Period: 5 years
Amortization: 5 years
Nominal Interest Rate: 7.00%
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: \$10,000

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




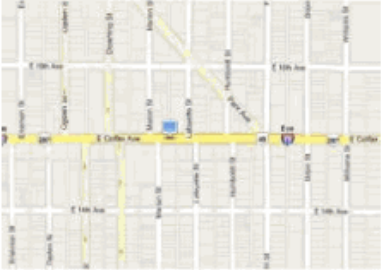
Lease Information entries for the example

Building Attribute entries for the example

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>	
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		 <p style="text-align: center;">Floor Plan</p>  <p style="text-align: center;">Great Location</p>	
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 CTA Realty		May 30, 2011 Investor Pro Lease Analysis Tenant Office Single Space
Financial Summary Analysis Period: 10 years				
		Before Tax	After Tax	
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

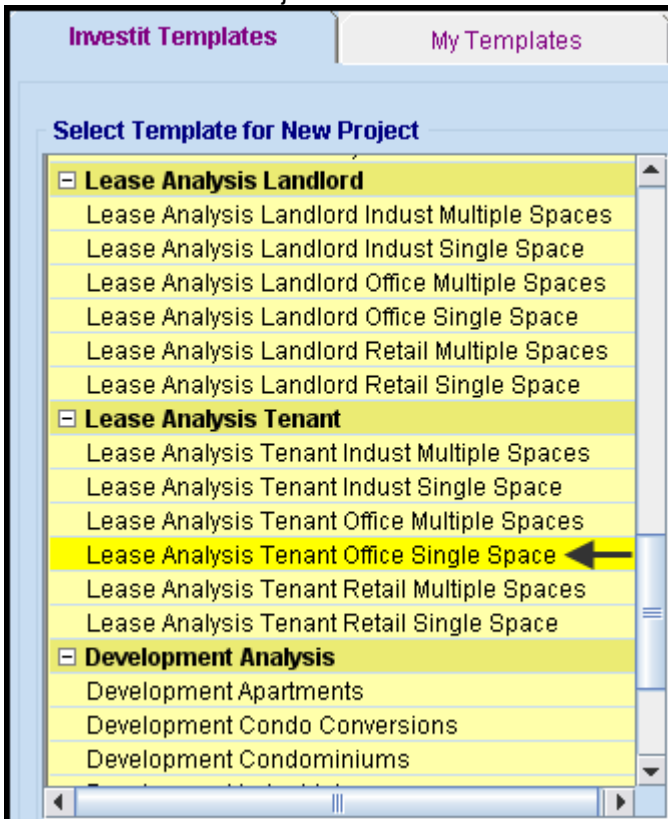
Visit the Investit **Online Learning Center** to learn how to import photos and images.

INSTRUCTIONS FOR ENTERING THE PROJECT INTO INVESTOR PRO

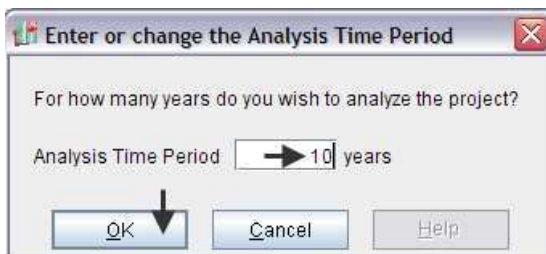
Getting started

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
2. Enter Description: 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 with the following data entered:

- Report Headers:**
 - Property Name: Capital Plaza
 - Description: 306 CTA Realty
- Analysis Time Period:** 10 Years
- Entry Information:**
 - Enter Revenue and Expenses: Monthly
 - Starting Date: January Year 1
- Tenant Office:**
 - Rentable Area: 5,900 Sq. Ft
 - Usable Area: 5,200 Sq. Ft
 - Add On Factor: 13.46%

TENANT 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 'Tenant' folder with the following data entered:

- Turn off Tax Calculations
- Tax Rate:** Investor's Marginal Tax Rate: 35.00%
- Discount Rate:**
 - Before Tax: 10.00%
 - After Tax: 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.	Tenant	Leasehold Improvements	Leasing Expenses	Sublease Revenue	Vacancy	Financing	Termination
Leasing Expenses							
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%		
Additional Rent (TIM's)	\$ 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			

Annotations: "Enter" points to the Entry column, "Check" points to the To End column, and "Enter" points to the Increase column.

Stepped Projection

New value at "End of Term" based on:

- Annual Compounding Rate Increase
- Enter Value
- \$ Increase
- % Increase

No. of Time Periods:

Show Example ->

Buttons: OK, Cancel, Help

Enter the Free Rent Directly into the grid

Project Info.	Tenant	Leasehold Improvements	Leasing Expenses	Sublease Revenue	Vacancy	Financing	Termination
Leasing Expenses							
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%		
Additional Rent (TIM's)	\$ 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** ↑

SUBLEASE REVENUE Folder

The tenant has subleased 2,400 Sq. Ft of Suite 105

Base Rent: \$27 per Sq Ft per year paid monthly for two years

Additional Rent: \$9 per Sq Ft per year paid monthly for two years

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

Caps & Stops

Select

Rent Cap ← **Select**

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

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

OK **Cancel** **Help**

4. Enter Qty as follows;

Project Info.	Tenant	Leasehold Improvements	Leasing Expenses	Sublease Revenue	Vacancy	Financing	Termination
Sublease Revenue							
Description	Entry Choice	Qty	Year 1 Jan...	Year 1 Feb...	Year 1 Mar...	Year 1 .	
Base Rent	\$ per Sq. Ft per Yr	2,400	\$ 0.00	\$ 0.00	\$ 0.00		
Free Rent	% of Rent	—	0.00%	0.00%	0.00%		
Additional Rent (TIM's)	\$ per Sq. Ft per Yr	2,400	\$ 0.00	\$ 0.00	\$ 0.00		
Rent Cap	Amount	—	\$ 0	\$ 0	\$ 0		

Using Projection Wizard enter and project the Base Rent

Projection Wizard

Entry Information
 Description: Base Rent
 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"/>	

Select ↑ **Select** ↑ **Enter** ↑ **Select** ↑

Using Projection Wizard enter and project the Additional Rent (TIM's)

Projection Wizard

Entry Information
 Description: Additional Rent (TIM's)
 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)	\$ 9.00	Year 1	Jan	<input type="checkbox"/>	2	0	<input type="checkbox"/>	

Select ↑ **Select** ↑ **Enter** ↑ **Select** ↑

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: Bank Loan for Improvements

Commencing: Year 1 January 1

Type: Standard Mortgage

Amount: \$15,000

Time Period: 5 years

Amortization: 5 years

Nominal Interest Rate: 7.00%

Compounding Frequency: Monthly

Setting up a mortgage

1. Click on the Add Mortgage button



2. Amount box: \$15,000
3. Description box: "Bank Loan for Improvements"
4. Time Period box: 5 Years
5. Amortization box: 5 Years
6. Nominal Interest Rate box: 7.00%

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 \$ 15,000 Interest Rate Fixed

Description Bank Loan for Improvements

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	5	0	5	0	7.000%

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
Bank Loan for Improvements	Standard Mortgage	\$ 15,000	Year 1 Jan

Add Mortgage Edit Mortgage Delete Mortgage Move

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;

Description	Expense
Cleanup and restoration costs	\$ 0

Buttons: 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

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"