INVESTMENT ANALYSIS OFFICE USA EXAMPLE
USING RENT ROLL

INTRODUCTION
This comprehensive office example uses the Rent Roll but not Categories and includes all the lease features such as Free Rent, % Rent and the application of Rent Caps and Recoverable Expense Caps and Stops.

Note: Since there is no need to break the building into profit centres the "Category" column is left at the default setting, which is "Office"

Using one Category is the same as having no Categories

For simplicity there are only two tenants used in the example.

    Suite 101 Star Financial Inc. Rentable Area: 5,900 Sq. Ft Usable Area: 5,000
    Suite 306 Alliance Holdings. Rentable Area: 2,500 Sq. Ft Usable Area: 2,119

The Investit Template used is "Invest Office + Rent Roll & Cat"

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: Investment Analysis Office with Rent Roll
Starting Date: Year 1 Jan
Building Area 9,500 Sq Ft
Total Rentable Area: 8,400 Sq. Ft
Total Usable Area: 7,119 Sq Ft
Land Area: 20,000 Sq Ft
Frontage: 120 Ft
Analysis Period: 9 Year
Purchase Price: $2,970,000
Acquisition Costs: $30,000

INVESTOR Folder
Marginal Tax Rate: 35.00%
Discount Rate: Before Tax 13.00%
Capital Gain Rate: 15.00%
Recaptured Deprec. Rate: 25.00%
Short Term Rates Before Tax for calculating the Modified Internal Rate of Return (MIRR)
    Financing Rate: 8.000%
    Reinvestment Rate: 3.000%

INVESTMENT Folder

Description: Land
Amount: $1,000,000
Year 1 Jan
Depreciation Method: Land (No Deprec.)

Description: Building
Amount: $2,000,000
Year 1 Jan
Depreciation Method: Commercial Prop. St Line

EXPENSES Folder
Operating expenses paid for by the investor such as taxes, insurance, maintenance, property management etc

For simplicity the total operating expenses are expressed as $ per Sq. Ft per Yr which includes Taxes, insurance, maintenance and property information

Operating Expenses
$8.00 per Unit of Total Rentable Area (Office) per Yr paid monthly for 12 months then increasing at 3.00% per year compounding

GENERAL REVENUE Folder
Public Parking
General revenue is revenue that is not specific to an individual tenant such as public parking.

15 spaces generating $450 per Space per Mo for the first 12 months then increasing at 4.00% per year compounding

RENT ROLL REVENUE Folder
Is the rent paid by the tenant to the landlord and is entered in the "Rent Roll Revenue sub folder" and "Revenue" subfolder for each of the two spaces as follows;

  Suite 101 Star Financial Inc.
    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

  Recoverable Expenses
  $9.00 per Unit of Tenant's Rentable Area per Yr paid monthly for one year then increasing at 3.00% compounding per year. **Subject to a Recoverable Expense Cap** of $4,500 per month. This means that the maximum recoverable expenses the tenant will pay is $4,500 per month.

  Parking
  10 cars at $60 per Space per Month for 12 months then increasing at 5.00% per year compounding

Suite 306 Alliance Holdings
Rentable Area: 2,500 Sq. Ft. Usable Area: 2,119 Sq. Ft.

Base Rent
$17.00 per Unit of Tenant's Rentable Area per Year 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%.

Recoverable Expenses
$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 recoverable expenses until the additional rent exceeds $1,800 per month
and then pays the difference between the Recoverable Expenses and the Expense Stop.

Parking
6 cars at $60 per Space per Month for 12 months then increasing at 5.00% per year
compounding
Subject to a Rent Cap of $450 per month. This means that this tenant's will never pay more
than $450 per month for parking.

VACANCY Folder

General Revenue: Vacancy & Credit Loss Allowance
3.00% using Global option

Rent Roll: Vacancy & Credit Loss Allowance
5.00% using Global option

FINANCING Folder

1. Mortgage (Borrowing)

Type: Standard Mortgage
Year 1 January 1, $2,000,000
Time Period: 10 years
Amortization: 25 years
Interest Rate: 8.00%

SALE Folder
Real Estate Commissions
6.00% of Sale Price

Selling Expenses
Selling Expenses 2.00% of Sale Price
Legal Fees: $15,000

Sale Price
Base on a Cap Rate of 7.500% using Based on the Income for the year following the Sale i.e.,
based on the Income & Expenses for year 10.

INSTRUCTIONS FOR ENTERING THE PROJECT INTO INVESTOR PRO

Getting started
The first step is to open the Investit Pro Template "Invest Office + Rent Roll & Cat" as follows:

1. Open Investor Pro.
2. Select the New Project Folder then select the Investit Template folder
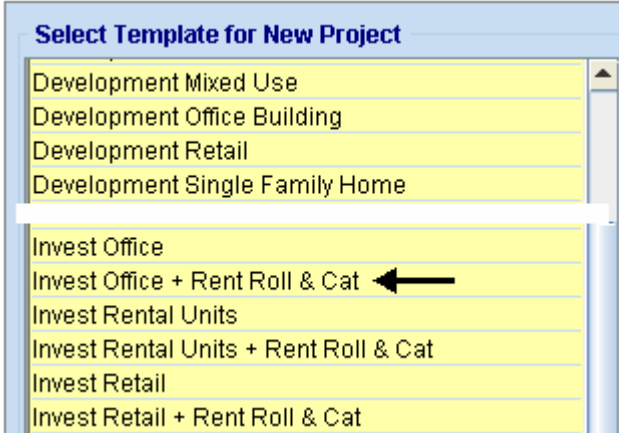
3. Select and open the Investit template ""Invest Office + Rent Roll & Cat" The analysis period dialog will open at this point.
4. Enter 9 years and click OK

Entering the project data and information

PROJECT INFO Folder
1. Enter the Property Name: Capital Plaza
2. Enter Description: Investment Analysis Office with Rent Roll
3. Enter Purchase Price: $2,970,000
4. Enter Acquisition Costs: a) Select type "Amount" from the scrolling menu
                                                    b) Enter $30,000 into the entry field
5. Enter Building Area: 9,500 Sq. Ft
6. Enter Rentable Area: 8,400 Sq. Ft
7. Enter Usable Area: 7,119
8. Enter Land Area: 20,000 Sq. Ft
9. Enter Frontage: 120 Sq. Ft

The Project Info screen should look like this;

Investor 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

2. Enter Short Term Rates Before Tax
   Financing Rate: 8.00%
   Reinvestment Rate: 3.00%

INVESTMENT Folder

The Investment Folder should appear like this;

First Row
1. Enter the Amount: $1,000,000

Second Row
1. Select row 2 'Building'
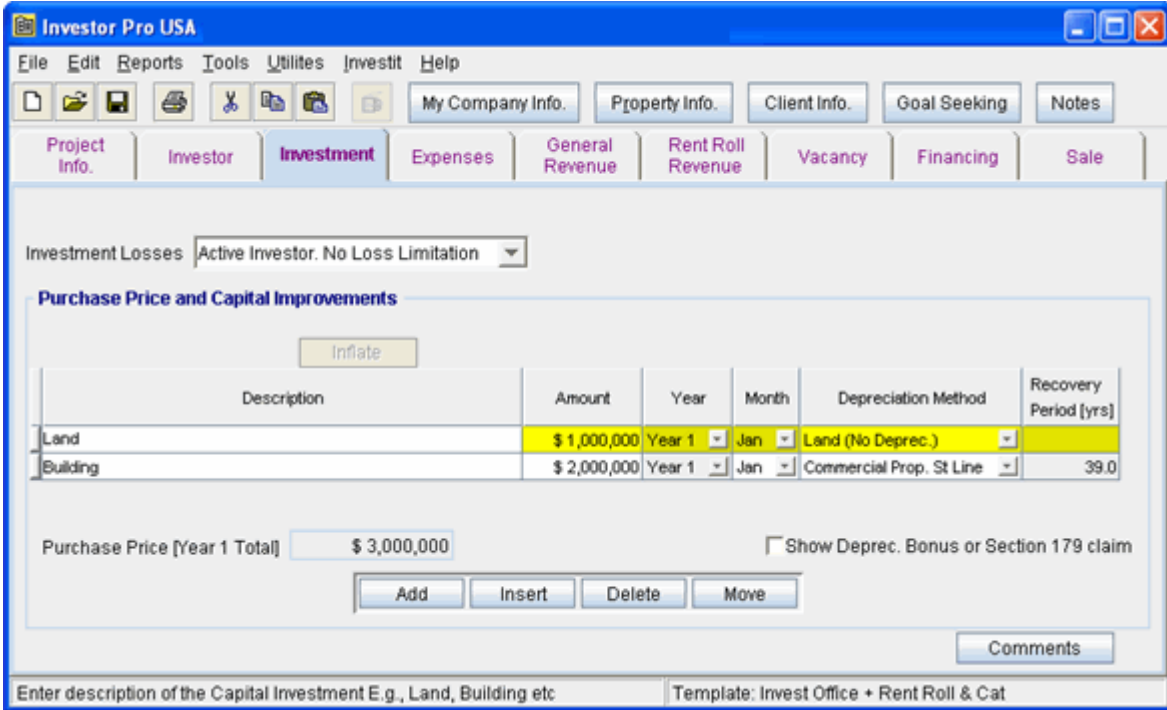2. Enter the Amount: $2,000,000

Third Row
1. Select row 3 'Land Improvements'
2. Click on the Delete button

Fourth Row
1. Select row 4 with Description 'Mortgage Fees and points'
2. Click on the Delete button
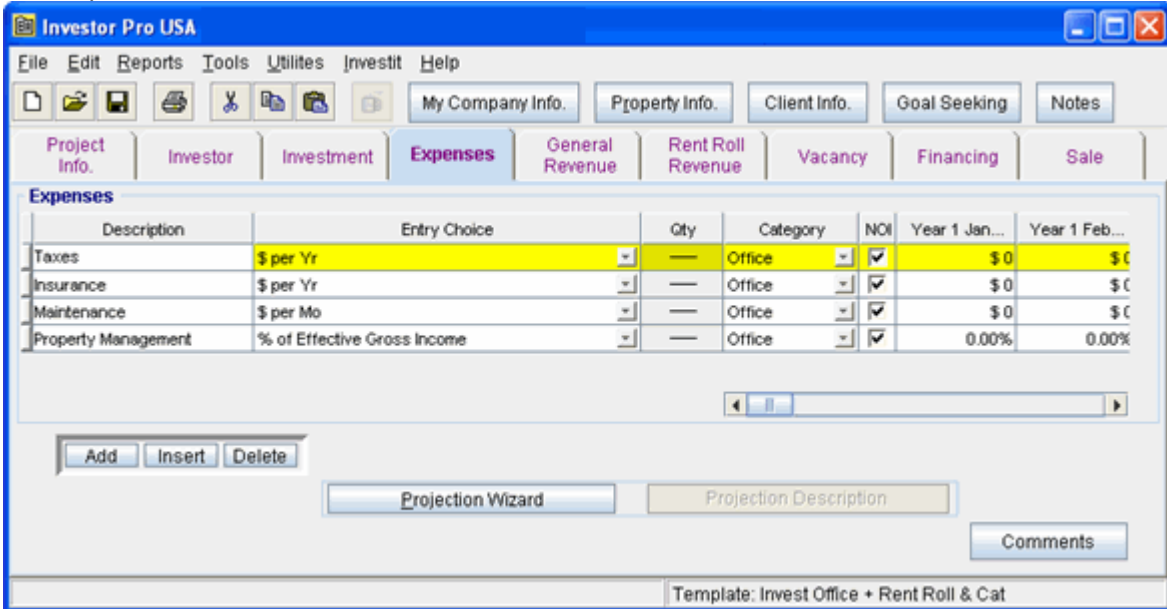
Your entries for the Investment should look like this;

EXPENSES Folder
Operating Expenses
$8.00 per Unit of Total Rentable Area (Office) per Mo paid monthly for 12 months then increasing at 3.00% per year compounding

The Expenses folder should look like this;

Steps for setting up the Expenses folder

1. Select row 1 'Taxes'
2. Enter Description "Operating Expenses"

3. Select Entry Choice "$ per Unit of Total Rentable Area (Office) per Yr"

4. Select row 2 'Insurance'
5. Click on the [Delete] button

6. Select row with Description 'Maintenance'
7. Click on the [Delete] button

8. Select row with Description 'Property Management'
9. Click on the [Delete] button
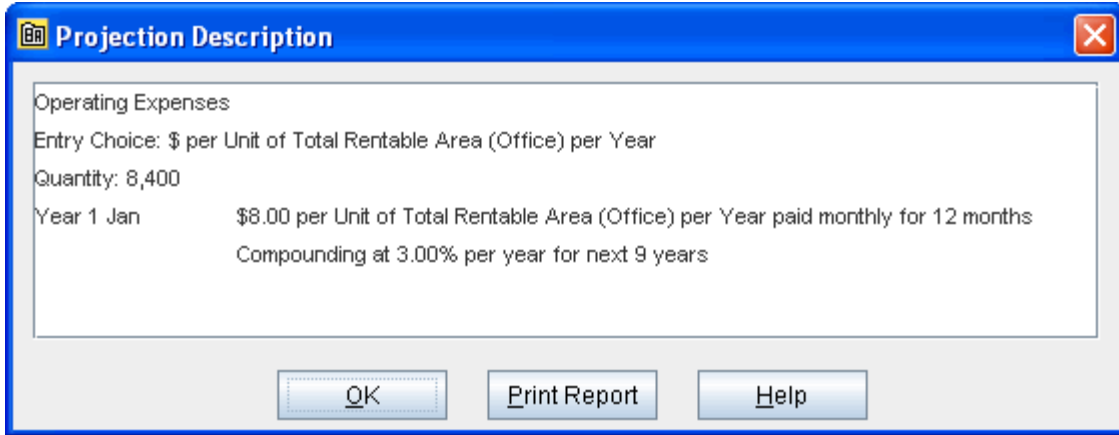
The Expenses folder should now look like this;
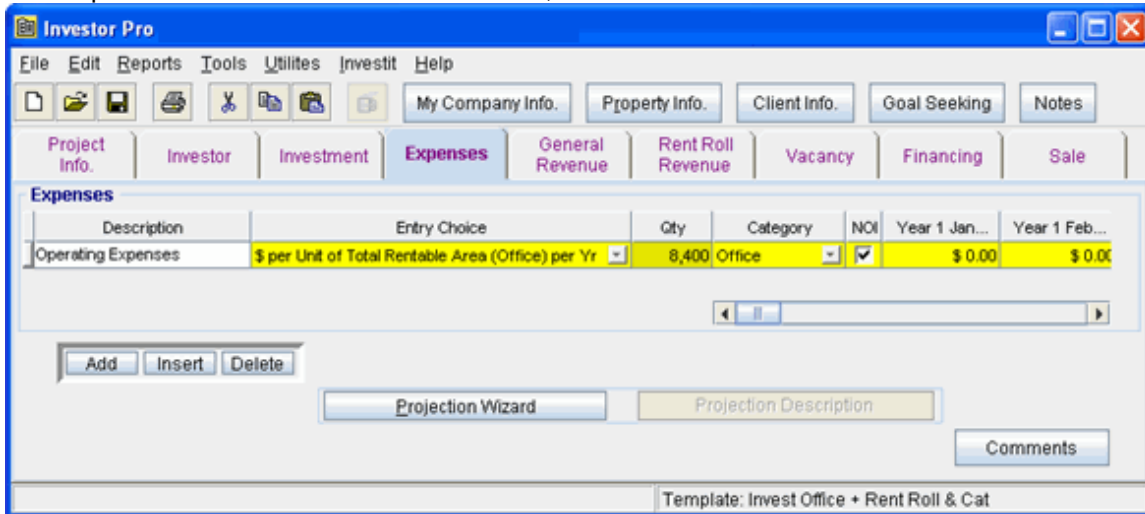
Steps for setting up Operating Expenses
1. Select row 1 'Operating Expenses'

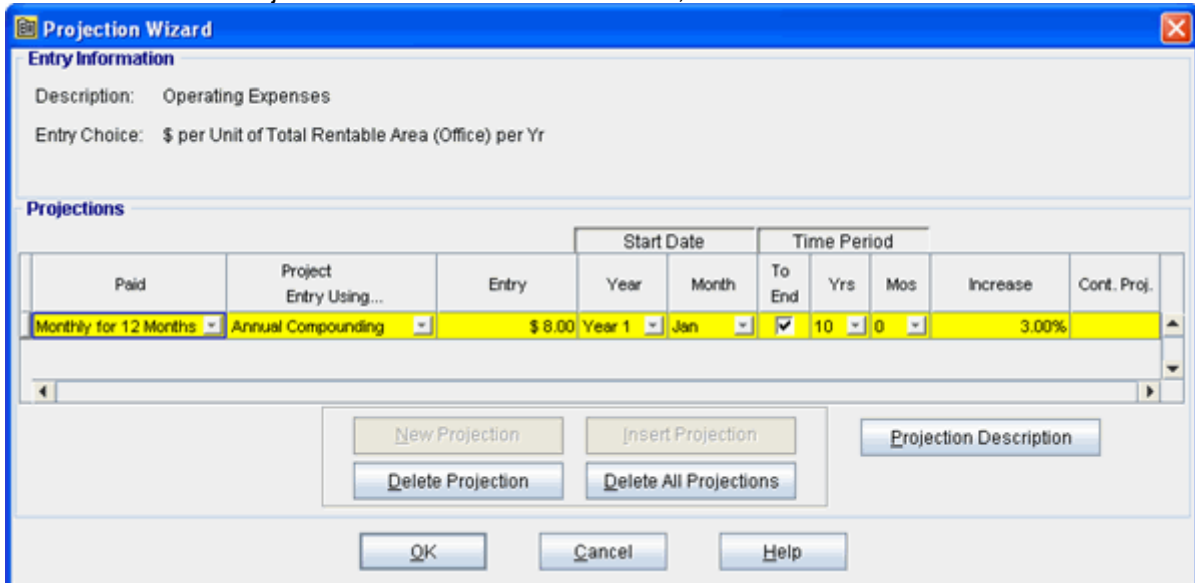2. Click on the [Projection Wizard] button
In the **Projection Wizard**

3. **Paid column:** Select "Monthly for 12 Months"
4. **Project Entry Using column:** Select "Annual Compounding"
5. **Entry column:** Enter $8.00
6. **Time Period column:** Check the "To End" box. This allows the projection to continue until the end of the 10 year Analysis Period
7. **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.

Press OK to return to the Projection Wizard

Your entries in the Projection Wizard should look like this;

Press OK to return to the Expenses folder
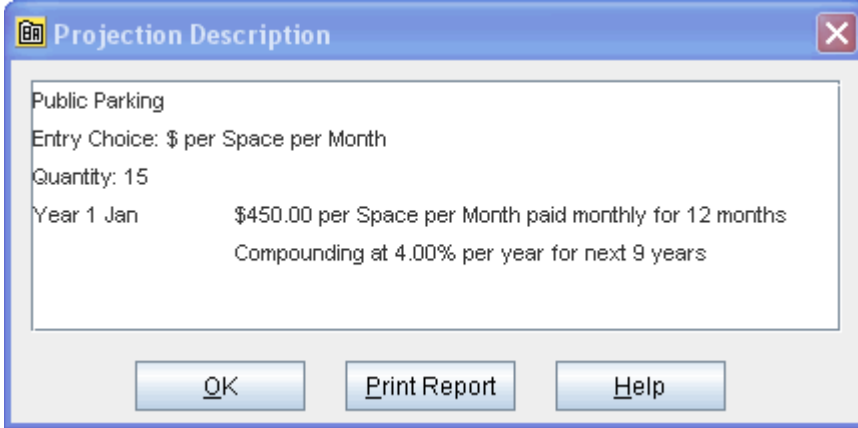
GENERAL REVENUE Folder
Public Parking
15 spaces generating $450 per Space per Mo for the first 12 months then increasing at 4.00% per year compounding

Steps for setting up the Expenses folder

1. Select row 1
2. Enter Description "Public Parking"
3. Select Entry Choice "$ per Space per Mo"
4. Enter QTY: 15

5. Click on the ⌐ Projection Wizard ⌐ button
In the **Projection Wizard**

6. **Paid column:** Select "Monthly for 12 Months"

7. **Project Entry Using column:** Select "Annual Compounding"
8. **Entry column:** Enter $450.00
9. **Time Period column:** Check the "To End" box. This allows the projection to continue until the end of the 10 year Analysis Period
10. **Increase column:** Enter the Compounding Rate of 4.00%

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

Press OK to return to the Projection Wizard

Your entries in the Projection Wizard should look like this;
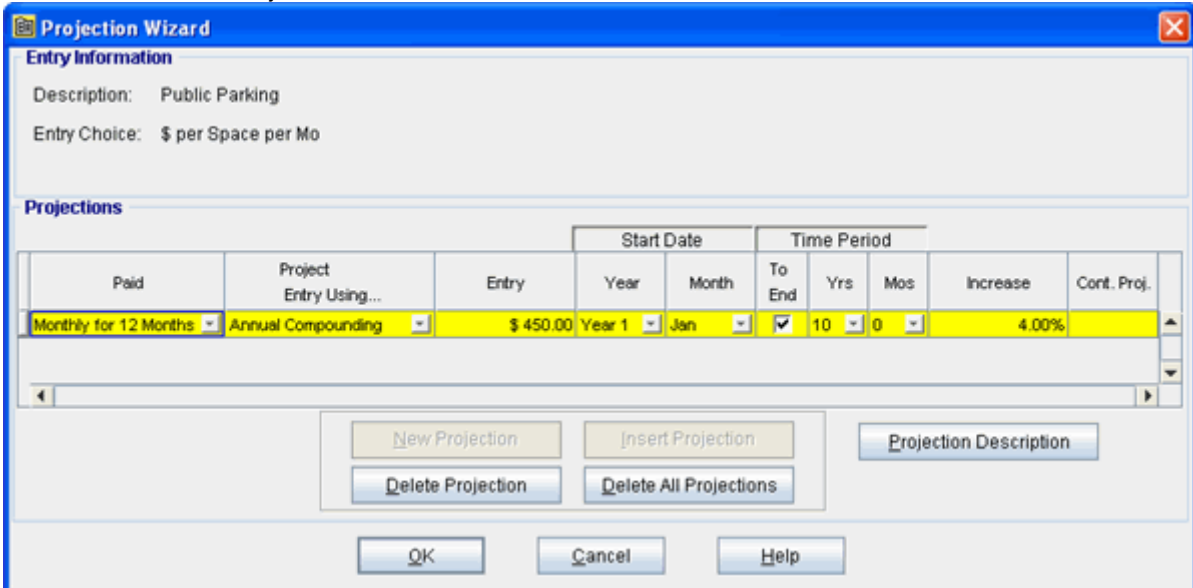
Press OK to return to the General Revenue Folder

RENT ROLL REVENUE Folder

Tenancy Information Sub-Folder

First row enter the following information for Star Financial Inc.'s space;

1. Suite/Unit No: 101
2. Tenant's Name: Star Financial Inc.
3. Rentable Area: 5,900 Sq. Ft
4. Usable Area: 5,000 Sq. Ft

Click on the [Add] button to add a second row and enter the following information on the Alliance Holdings' space;

Second row enter the following for Alliance Holdings' space

1. Suite/Unit No: 306
2. Tenant's Name: Alliance Holdings
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, Tenant's Rentable Area and Tenant's Usable Area

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.

[Apply Free Rent]   [Apply Cap or Stop]
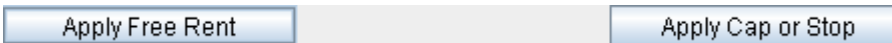
The [Projection Wizard] button provides access to the Projection Wizard, which allows you to enter and project the revenues.

Follow these steps to enter and project the revenues;

Select Tenant 101 Star Financial Inc. from the scroll down menu

The Revenue sub-folder should appear like this;

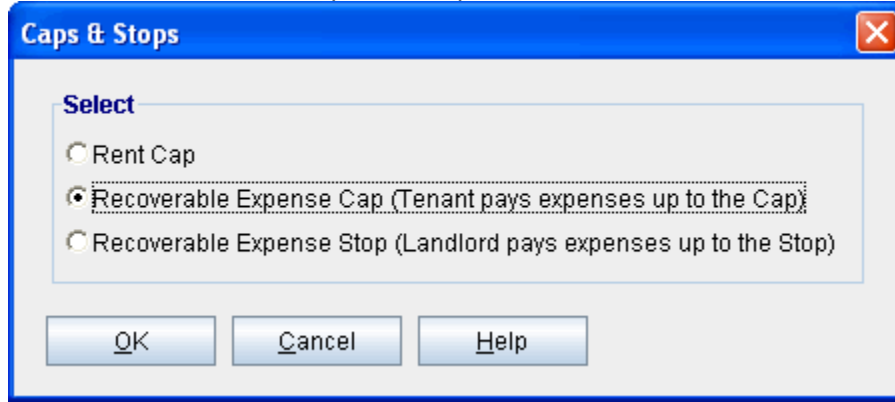| 101 Star Financial Inc.		Rentable Area		5,900 Sq. Ft
		Usable Area		5,000 Sq. Ft

Revenues

Description	Entry Choice	Qty	Category	NOI	Year 1 Jan...
Base Rent	$ per Unit of Tenant's Rentable Area per Yr	5,900	Office	✔	$ 0.00
Free Rent	% of Rent	—			0.00%
Recoverable Expenses	$ per Unit of Tenant's Rentable Area per Yr	5,900	Office	✔	$ 0.00
Parking	$ per Space per Mo	0	Office	✔	$ 0.00

The above rows appear automatically for the first tenant to allow the user to enter their data more quickly

1. Select Row 1 Base Rent
2. Select Entry Choice: "$ per Unit of Tenant's Rentable Area per Yr

3. Click on the row with the Description "Additional Rent"

4. Select Row 3 with Entry Choice: "$ per Unit of Tenant's Rentable Area per Yr"

5. Click on the [Apply Cap or Stop] button to access the Rent Cap & Stop dialog and select "Recoverable Expenses Cap" and click Ok.

6. Click on the row with the Description 'Parking'
7. Enter QTY: 10

The Revenue sub-folder should look like this;

The next step is the enter and project the revenues, Free Rent, Caps and Stops using [Projection Wizard]

Suite 101 Star Financial Inc.
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%.

Recoverable Expenses
$9.00 per Unit of Tenant's Rentable Area per Yr paid monthly for one year then increasing at 3.00% compounding per year. **Subject to a Recoverable Expense Cap** of $4,500 per month. This means that the maximum recoverable expenses the tenant will pay is $4,500 per month.

Parking

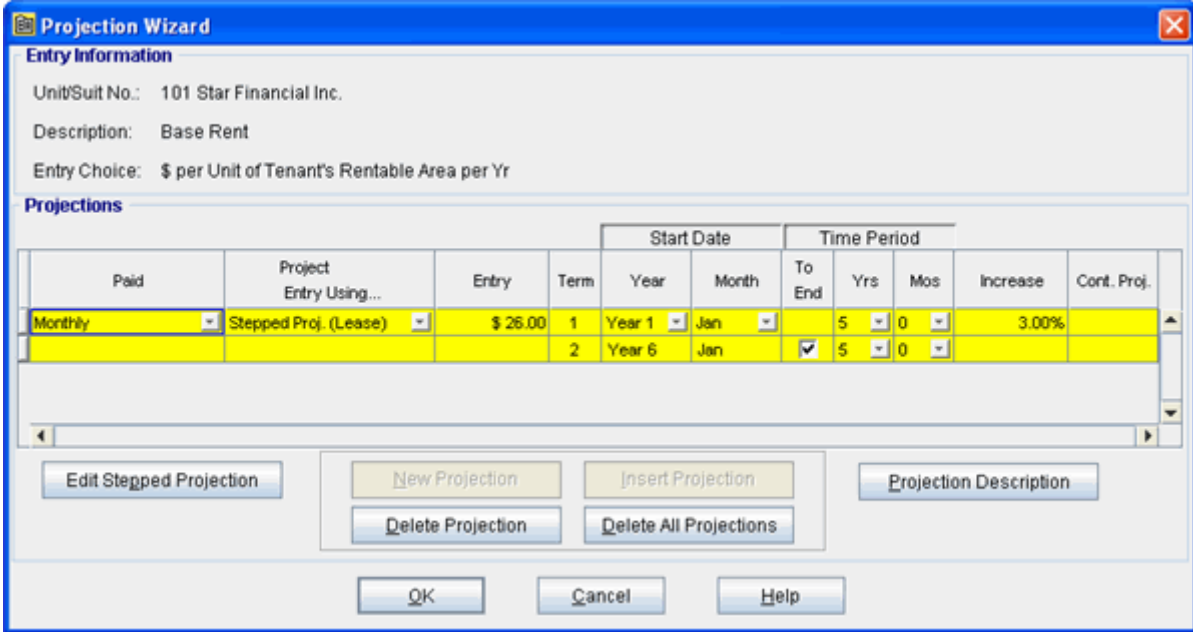10 cars at $60 per Space per Month for 12 months then increasing at 5.00% per year compounding

Following are the steps for entering and projecting the revenues for tenant Unit 101 Star Financial Inc.

1. Select row 1: 'Base Rent'
2. Click on [Projection Wizard] button
3. **Project Entry Using.. column**: select "Stepped Proj. (Lease)
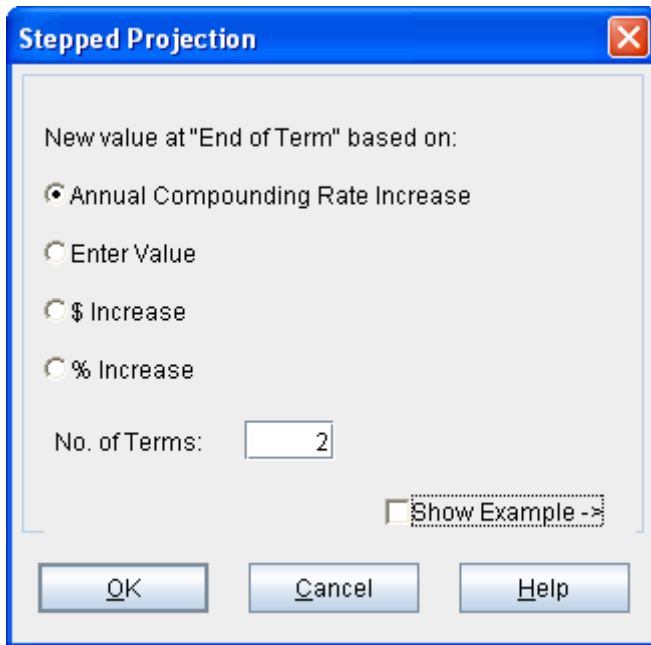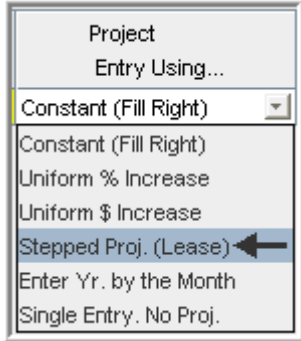
4. Set the No. of Terms to 2, which is the default setting and click OK
5. **Entry column:** Enter the lease rate $26.00
6. **Time Period column:** Set Term 1 (the first row) to 5 years and Term 2 (second row) to 5 years (or check the "To End" box).
7. **Increase column:** Enter the Annual Compounding Rate at 3.00%

The Projection Wizard should look like this;

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

Entering the **Recoverable Expenses**
$9.00 per Unit of Tenant's Rentable Area per Yr paid monthly for one year then increasing at 3.00% compounding per year

1. Select row with Description "Recoverable Expenses"
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 $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:

Press OK to return to the Revenue sub-folder

Entering the Recoverable Expense 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 $4,500
4. **Time Period column:** Check the "To End" box

Your entries in the projection wizard should look like this;

Press OK to return to the Revenue sub-folder

Entering the **Parking**
10 cars at $60 per Space per Month for 12 months then increasing at 5.00% per year compounding

1. Select row with Description "Recoverable Expenses"
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 $60.00
6. **Time Period column:** Check the "To End" box.
7. **Increase column:** Enter the compounding rate of 5.00%

Your entries in the projection wizard should look like this:
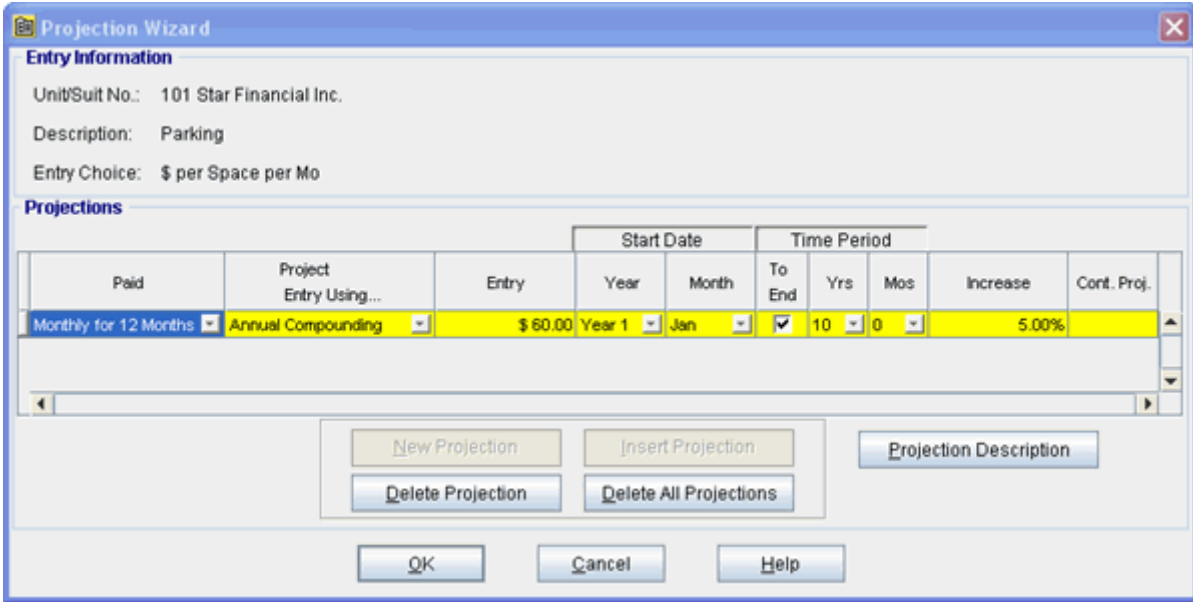
Press OK to return to the Revenue sub-folder

8. Select Tenant 306 Alliance Holdings from the scroll down menu

**Suite 306 Alliance Holdings 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. **Entry Choice column:** Select "$ per Unit of Tenant's Rentable Area per Yr"

3. Click on the [Apply Free Rent] button

4. Press the [Add] button to add another row
5. Enter Description: 'Recoverable Expenses'
6. **Entry Choice column:** Select "$ per Unit of Tenant's Rentable Area per Yr"
7. Click on the [Apply Cap or Stop] bottom to access the Rent Cap & Stop dialog and select "Recoverable Expenses Stop" and click Ok
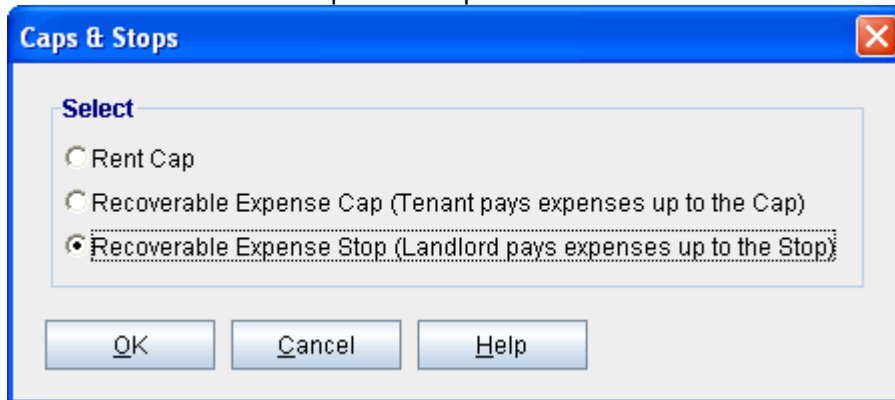
8. Press the [Add] button to add another row
9. Enter Description: 'Parking'
10. **Entry Choice column:** Select "$ per Space per Mo"

11. Enter QTY: 6

12. Click on the [Apply Cap or Stop] button to access the Rent Cap & Stop dialog and select "Rent Cap" and click Ok
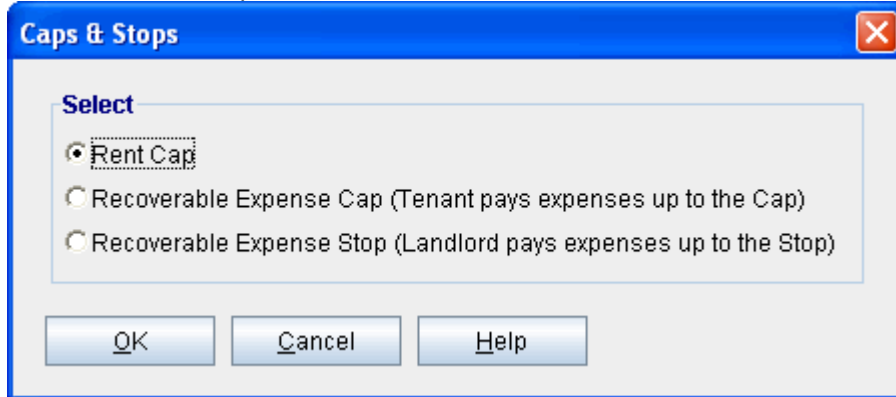

The Revenue sub-folder should look like this;

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

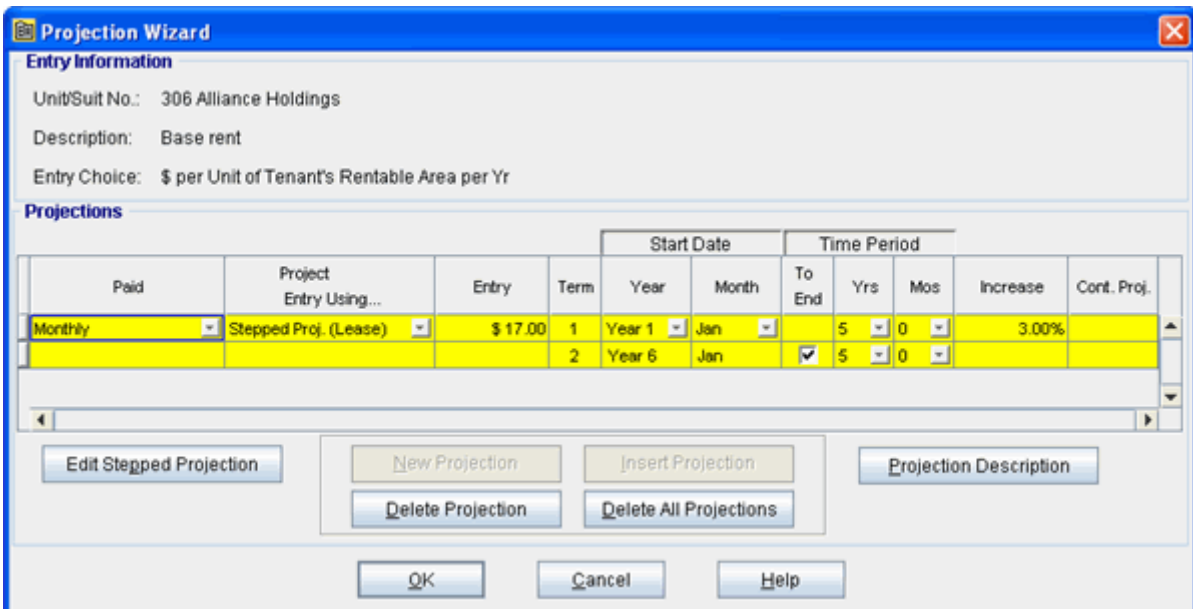Following are the steps for entering the Revenue for tenant Unit 306 Alliance Holdings

1. Select row 1: 'Base Rent'

2. Click on [Projection Wizard] which displays the Projection Wizard

3. **Project Entry Using.. column**: select "Stepped Proj. (Lease)
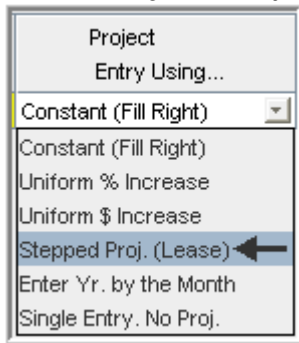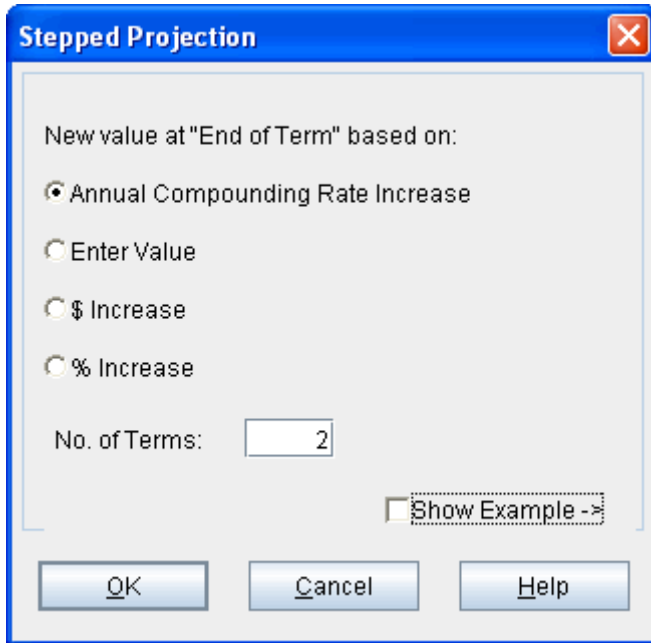
Investit Software Inc. www.investitsoftware.com

4. Set the No. of Terms to 2, which is the default setting 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 at 3.00%

The projection should look like this;

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

Recoverable Expenses
$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.

Entering the Recoverable Expenses
1. Select row with description: Recoverable Expenses
2. Click on [Projection Wizard] which displays the Projection Wizard
3. **Paid column:** Select "Monthly for 12 Months"
4. **Project Entry Using… column:** Select "Annual Compounding"
5. **Entry column:** Enter the lease rate $8.00
6. **Time Period column:** Check the "To End" box
7. **Increase column:** Enter the Annual Compounding Rate at 3.00%

The projection should look like this;

Press OK to return to the Revenue sub-folder

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

The projection should look like this;

Parking
6 cars at $60 per Space per Month for 12 months then increasing at 5.00% per year compounding

Entering the Parking

1. Select the row with Description 'Parking'
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 $60.00
6. **Time Period column:** Check the "To End" box.
7. **Increase column:** Enter the compounding rate of 5.00%

Your entries in the projection wizard should look like this;

Press OK to return to the Revenue sub-folder

Entering the Rent Cap
5. Select the row with the entry choice: Rent Cap
6. Click on [Projection Wizard] which displays the Projection Wizard
7. Amount column: Enter $450
8. Check the "To End" box

Your entries in the projection wizard should look like this;

Select the Vacancy tab

VACANCY Folder
General Revenue: Vacancy & Credit Loss Allowance
3.00% using Global option

Rent Roll: Vacancy & Credit Loss Allowance
5.00% using Global option

Entering the Vacancy
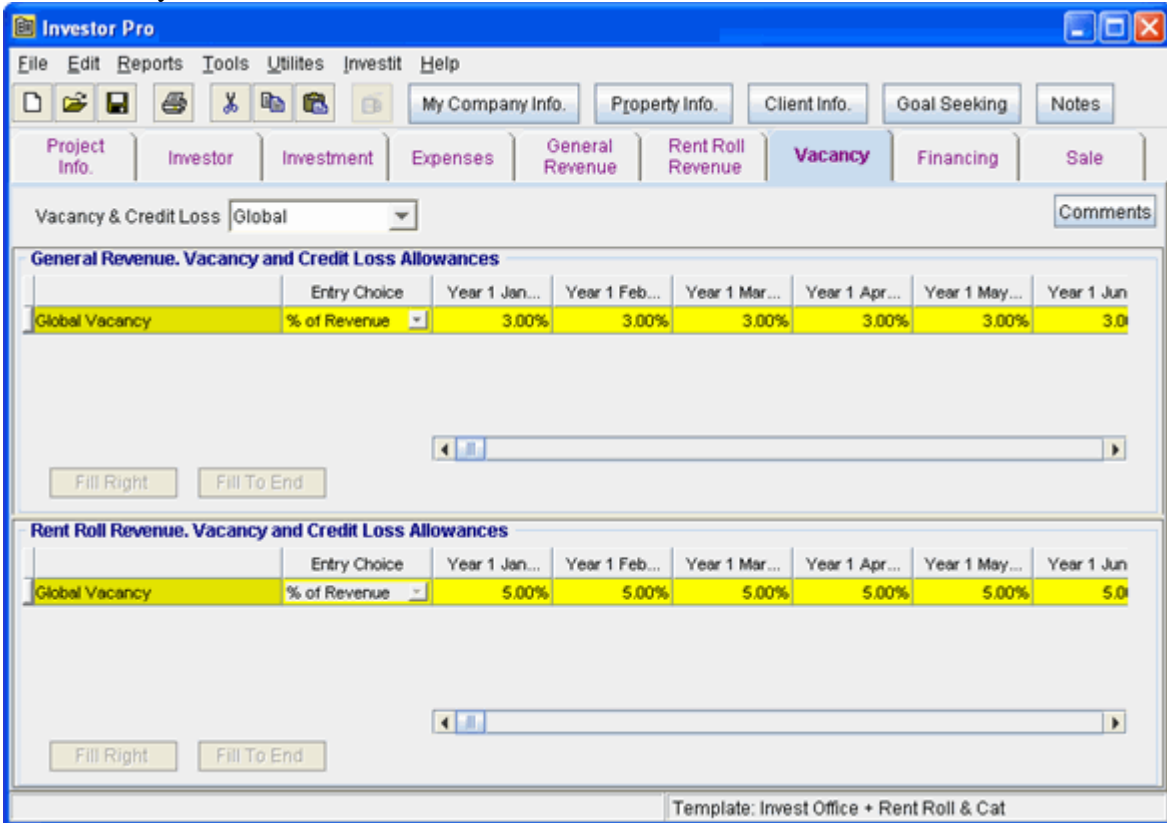1. Select Global Vacancy from the scroll down menu

General Revenue Vacancy
1. Enter 3.00% into Year 1 Jan
2. Click on the [Fill To End] button

Rent Roll Vacancy
1. Enter 5.00% into Year 1 Jan
2. Click on the [Fill To End] button

The Vacancy Folder should look like this;

Select the Financing tab

FINANCING Folder

Mortgage (Borrowing)
Type: Standard Mortgage Year 1 January, $2,000,000 Time Period: 10 years
Amortization: 25 years Interest Rate: 8.00%

Setting up a mortgage
1. Click on the Financing folder tab
2. Click on the Add Mortgage button

| Add Mortgage | Edit Mortgage | Delete Mortgage | Move |

3. Amount box: $2,000,000
4. Description box: "First Mortgage"
5. Time Period box: 10 Years
6. Amortization box: 25 Years
7. Nominal Interest Rate box: 8.00%

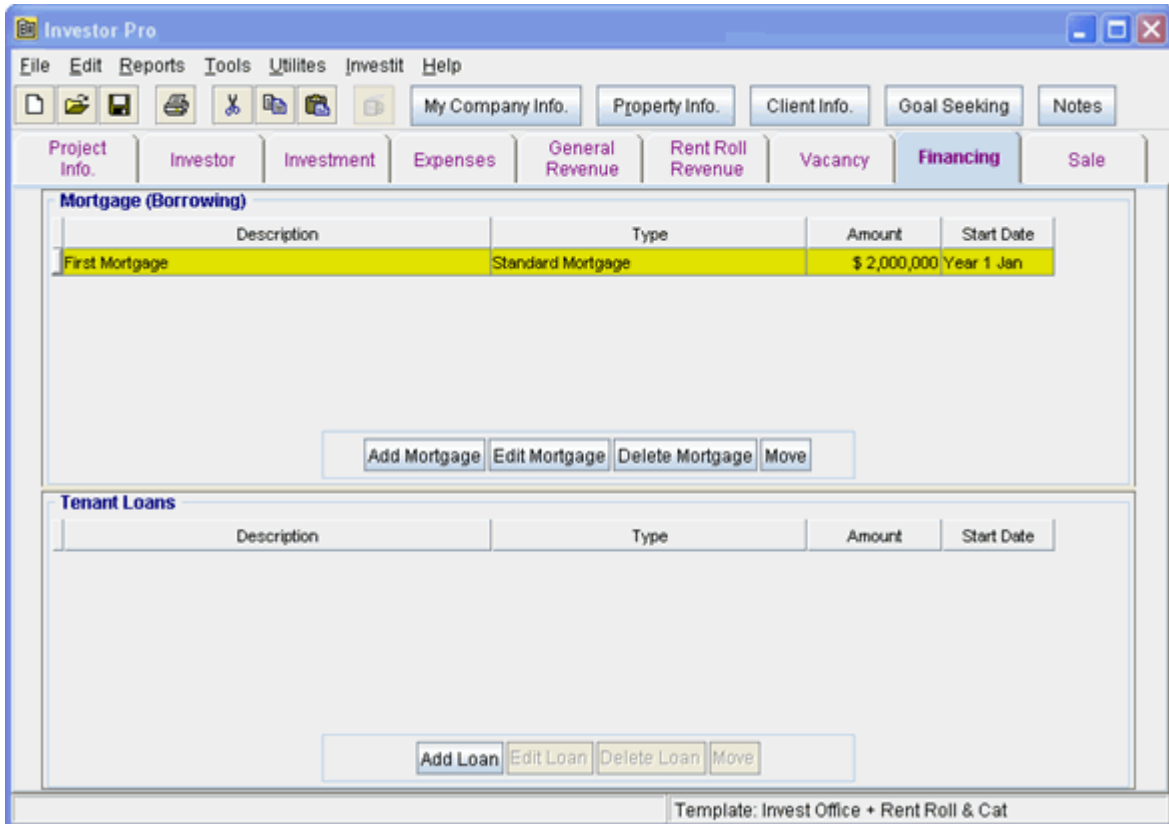The mortgage dialog should look like this;

8. Press the [Compute] button
9. Press the OK button to return to the Financing folder

The financing folder should now look like this;

Select the Sale Folder

Real Estate Commissions
6.00% of Sale Price

The Real Estate Commission should appear like this;

Entering the Real Estate Commission
1. Enter 6.00% in the appropriate box

The Real Estate Commission should now look like this;

Selling Expenses
  Selling Expenses 2.00% of Sale Price
  Legal Fees: $15,000

The Selling Expenses should appear like this;

Entering the Selling Expenses
1. Select row 1 'Selling Expenses'
2. Entry Choice: "% of Sale Price"
3. Enter Expense: 2%

4. Select row 2: 'Legal Fees'
5. Enter Expense: $15,000

The Selling Expenses should now appear like this;

Sale Price
Based on a Cap Rate of 7.50% using the Income for the year following the Sale i.e., based on the Income & Expenses for year 10.

The Sale Price Estimator should appear like this;

1. Press the [Sale Price Wizard] button

The Sale Price Wizard dialog will pop up;

For this example we are using a Cap Rate
  Row 1
  1. In the second entry field to the right of Cap Rate: enter 7.50%
  Note: the field with the red box around it is the correct field on the above screenshot
  The Sale Price should now automatically appear in the field to the right

  2. Click on the selection box next to the Sale Price
  Note: the correct field is circled in red on the above screenshot

The Sale Price Wizard should now look like this;

Press OK to return to the Sale folder

The Sale Price Estimator should look like this;

Sale Price Estimator

Sale Price Wizard

$ 4,149,275

SAVE YOUR PROJECT