LEASE ANALYSIS LANDLORD OFFICE USA EXAMPLE
TENANT RENTING SINGLE SPACE

INTRODUCTION
This Lease Analysis example analyses an office 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	
Lease Information →	Office Space Building Attributes

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
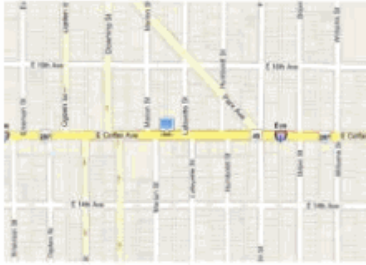
Tenancy Information	
Lease Information	**Office Space Building Attributes** →

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

COMPANY LOGO

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

Suite Number & Floor	306 Third Floor
Total Rentable Area	5,900 Sq. Ft
Total Usable Area	5,200 Sq. Ft
Add On Factor	13.46%
Type of Lease	Triple Net
Start Date	Jan/01/2011
Expiration Date	Dec/31/2015
Lease Term	Five years
Renewal Options	Option to renew for another five years
Starting Lease Rate	$26.00 per Sq. Ft per Yr
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
Other Monthly Starting Costs	No
Parking Ratio	N/A
Reserved Parking No. & Rate	No
Unreserved Parking No. & Rate	Free. Six spaces
Total Moving Costs	N/A
TI Allowance by Landlord	No
TI's paid by Tenant	$15,000
Other Allowances by Landlord	N/A

Capital Plaza

Floor Plan

Great Location

Building Attributes

Sub Market Area	Suburban Denver
Type of Property	Office Building
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
Property Manager	JAMON Property Managers

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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
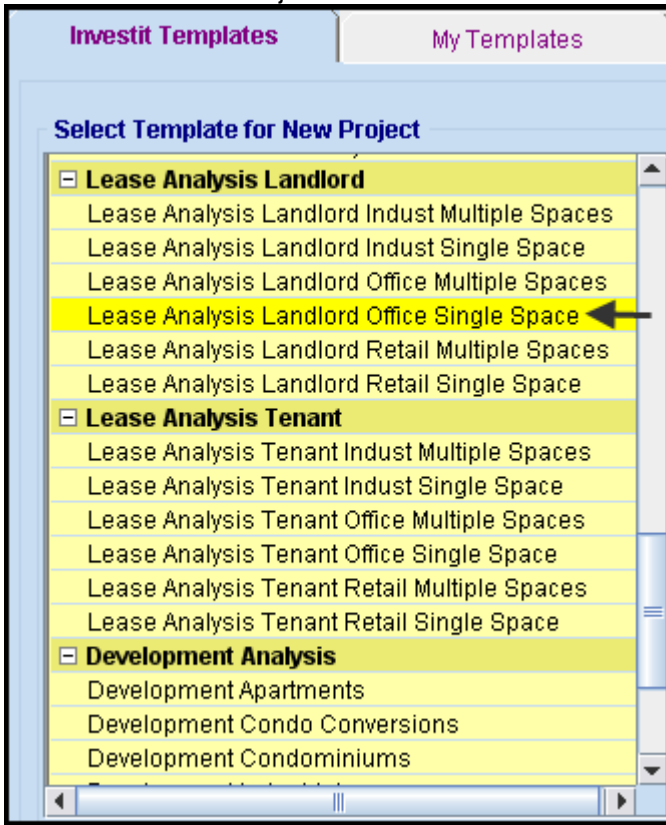
3. Select and open the Investit template "Lease Analysis Tenant Office Single Space" The analysis period dialog will open at this point.
4. Enter 10 years and click OK
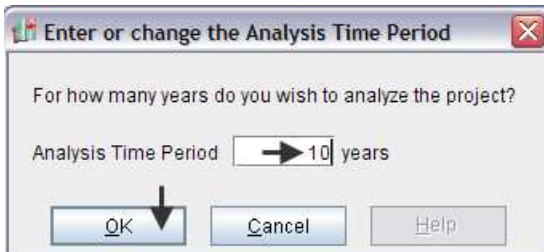
Entering the project data and information

PROJECT INFO Folder
1. Enter the Property Name: Capital Plaza 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

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

LEASEHOLD IMPROVEMENTS Folder
First Row

1. Enter the Amount: $15,000

Your entries for the Leasehold improvements should look like this;

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

Enter the Leasing Fee directly into the grid

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.
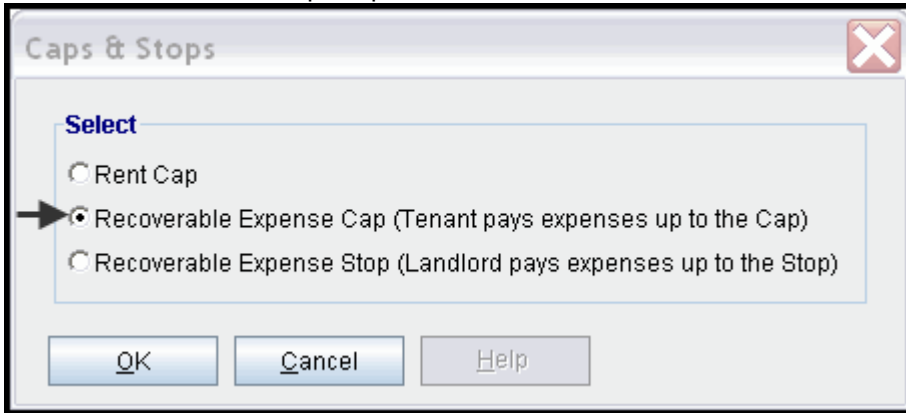
The completed screen

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	

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Using Projection Wizard enter and project the Base Rent

Enter the Free Rent Directly into the grid

Using Projection Wizard enter and project the Recoverable Expenses (TIM's)

Using Projection Wizard enter and project the Recoverable Expense Cap

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;

7. Press the **Compute** button
8. Press the OK button

The Financing Folder should now look like this;

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%
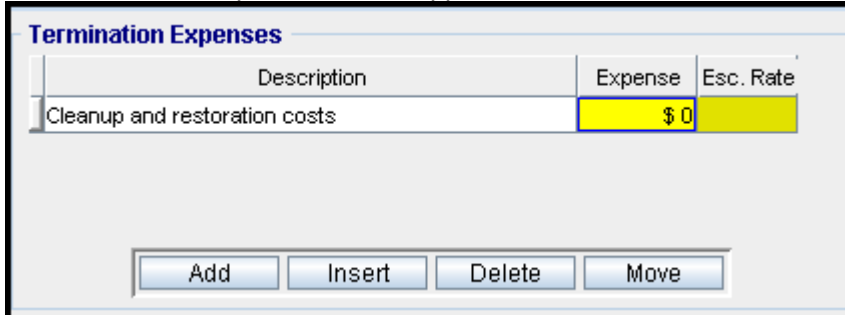
The mortgage dialog should look like this;

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
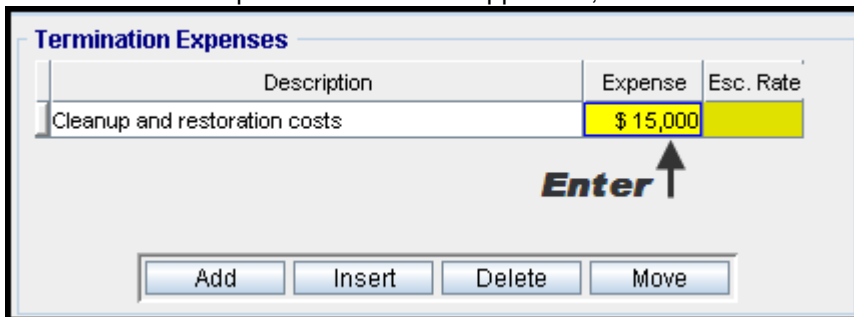
The Termination Expenses should appear like this;

Entering the Termination Costs
1. Expense column: $15,000

The Termination Expenses should now appear as;

SAVE YOUR PROJECT

CHECKING YOUR ENTRIES
You can compare your project against the Investit example "Lease Analysis Tenant Office Single Space"