

**LEASE ANALYSIS LANDLORD RETAIL USA EXAMPLE
LANDLORD RENTING SINGLE SPACE**

INTRODUCTION

This Lease Analysis example analyzes a retail lease from a landlord's perspective where the tenant is renting one space in the building and uses the Investor Pro "Lease Analysis Landlord Retail Single Space" template.

If the tenant rents several spaces in the building the Investor Pro "Lease Analysis Landlord Retail Multiple Spaces" template would be used.

This comprehensive Tenant Retail example uses all the lease features including entering a lease with Free Rent, % Rent and the application of Rent Caps and Recoverable Expense Caps and Stops.

Sport's Affair is considering leasing Unit 105
Gross Leaseable Area (GLA): 7,000 Sq. Ft

This practice example consists of two sections;

1. The input information for the project
2. The instructions for entering the data

PROJECT INFO. Folder

Property Name: Park Royal Village
Description: Unit 105 Sport's Affair
Starting Date: Year 1 Jan
Analysis Period: 10 Years
Gross Leasable Area (GLA): 7,000 Sq. ft

LANDLORD Folder

Landlord's Marginal Tax Rate: 35.00%
Landlord's Discount Rate: Before Tax 10.00%

LEASEHOLD IMPROVEMENTS Folder

Description: Leasehold Improvements
Amount: \$25,000
Year 1 Jan
Depreciation Method: Commercial Prop. St Line

EXPENSES Folder

Rental Expenses are expenses paid by the landlord which are allocated to the space such the proportional share of property taxes, insurance, common area maintenance, property management etc.

Expenses paid by Landlord

\$10.00 per Unit of Tenant's GLA per Yr paid monthly for 12 months then increasing at 4.00% compounding per year for 9 years

Leasing Fees

Year 1 Jan \$65,000

REVENUE Folder

Is the rent paid by the tenant to the landlord and is entered in the Revenue.

Base Rent

\$26.00 per Unit of Tenant's GLA Area per Yr paid monthly. Two terms of 5 years. Increase for the second term based on 3.00% compounding for five years

Free Rent

First two months. 100% of Base Rent

% Rent

6.00% of retail sales

Retail Sales for the first year are as follows;

Year 1	Retail Sales
Jan	\$200,000
Feb	\$200,000
Mar	\$200,000
Apr	\$300,000
May	\$300,000
June	\$400,000
July	\$400,000
Aug	\$400,000
Sept	\$300,000
Oct	\$300,000
Nov	\$300,000
Dec	\$500,000

The retail sales are projected to increase at 4.00% compounding per year for remaining 9 years.

Additional Rent (TIM's)

\$9.00 per Unit of Tenant's GLA per Yr paid monthly for 12 months then increasing at 4.00% compounding per year. **Subject to a Recoverable Expense Cap** of \$6,000 per month. This means that the maximum Additional Rent (TIM's) the tenant will pay is \$6,000 per month.

VACANCY Folder

This analysis assumes there are no vacancies

FINANCING Folder

The Financing folder allows you to enter two types of financing;

1. Mortgage (Borrowing)

Money borrowed by the landlord to fund tenant and other improvements associated with the space being rented

Description: Leasehold Improvements

Commencing: Year 1 January

Type: Standard Mortgage

Amount: \$60,000

Time Period: 10 years

Amortization: 10 years

Nominal Interest Rate: 7.00%

Compounding Frequency: Monthly

2. Tenant Loans

The landlord lends money to the tenant to fund their leasehold improvements and moving costs and the tenant repays the loan principle and interest every month.

Description: Loan to Tenant
Commencing: Year 1 January
Type: Standard Mortgage
Amount: \$35,000
Time Period: 5 years
Amortization: 5 years
Nominal Interest Rate: 10.00%
Compounding Frequency: Monthly

TERMINATION Folder

Cost incurred by the landlord at the end of the lease for cleaning up the two spaces in preparation for leasing to a new tenant.

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

Lease Information		Retail Space Building Attributes	
Suite Number and Floor	105	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	Unlimited. Free staff parking
Lease Term	Five Years	Total Moving Costs	N/A
Renewal Options	Option to renew for another five years	TI Allowances by Landlord	No
Starting Lease Rate	\$26.00 per Sq. Ft per Year	TI's paid by Tenant	\$25,000
Rent Escalation Steps	No	Other Allowances by Landlord	N/A
Free Rent	First two months		
Rent Cap	No		
Starting Recov. Expenses	\$9.00 per Sq. Ft per Yr		
Expense Cap or Stop	Recov. Expense Cap \$6,000 per month		
Percentage Rent	6.00%		

OK Cancel Help

Building Attribute entries for the example



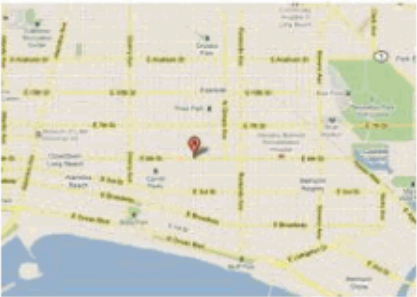
Lease Information		Retail Space Building Attributes	
Sub Market Area	Suburban Long beach	Security	24 hours
Type of Property	Street Retail	Property Manager	Pelec Property Management
Building Class & Age	Built 1986	Comment	
Site Location	On busy main road		
Anchor Tenants	Vons Supermarket		
Traffic Count	32,400 vehicles per day		
Column Spacing	18 Ft x 16 Ft		
Air Conditioning	Yes		
Sprinklers	Yes		
Signage	Pole & Store signs		
Kitchen/Lunchroom	Yes		
Bathrooms	One		
Storage Area	15 Feet x 15 Feet		

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

	<p>Lease Summary Park Royal Village Unit 105 Sport's Affair</p>	<p>May 30, 2011 Investor Pro Lease Analysis Tenant Retail Single Space</p>
<p>Park Royal Village East Fourth Street Long Beach CA</p>		
<p>Suite Number & Floor Total Rentable Area Type of Lease Start Date Expiration Date Lease Term Renewal Options Starting Lease Rate Rent Escalation Steps Free Rent Rent Cap Percentage Rent 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</p>	<p>105 7,000 Sq. Ft Triple Net Jan/01/2011 Dec/31/2015 Five Years Option to renew for another five years \$26.00 per Sq. Ft per Year No First two months No 6.00% \$9.00 per Sq. Ft per Yr Recov. Expense Cap \$6,000 per month No N/A No Unlimited. Free staff parking N/A No \$25,000 N/A</p>	
<p>Park Royal Village</p>		
		
<p>Great location</p>		
<p>Building Attributes Sub Market Area Type of Property Building Class & Age Site Location Anchor Tenants Traffic Count Column Spacing Air Conditioning Sprinklers Signage Kitchen/Lunchroom Bathrooms Storage Area Security Property Manager</p>	<p>Suburban Long beach Street Retail Built 1986 On busy main road Vons Supermarket 32,400 vehicles per day 18 Ft x 16 Ft Yes Yes Pole & Store signs Yes One 15 Feet x 15 Feet 24 hours Pelec Property Management</p>	

Lease Summary Report

Page 2. Financial Summary

	Lease Summary		May 30, 2011
	Park Royal Village Unit 105 Sport's Affair		Investor Pro Lease Analysis Tenant Retail Single Space
Financial Summary Analysis Period: 10 years			
	<u>Before Tax</u>	<u>After Tax</u>	
Total Net Cash Flow	\$ 3,277,668	\$ 2,135,669	
Average Annual Net Cash Flow	\$ 327,767	\$ 213,567	
Average Monthly Net Cash Flow	\$ 27,313	\$ 17,797	
Average Rent Rates			
Based on Rentable Area			
Average Effective Annual Rate	\$ 46.82 Sq. Ft per Yr	\$ 30.51 Sq. Ft per Yr	
Average Effective Monthly Rate	\$ 3.90 Sq. Ft per Yr	\$ 2.54 Sq. Ft per Yr	
Net Present Value and Net Effective Rent			
Net Present Value (NPV)	\$ 1,906,665	\$ 1,482,856	
NPV Discount Rate	10.00%	6.50%	
Based on Rentable Area			
Net Effective Rent Yearly	\$ 27.24 Sq. Ft per Yr	\$ 21.18 Sq. Ft per Yr	
Net Effective Rent Monthly	\$ 2.27 Sq. Ft per Yr	\$ 1.77 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

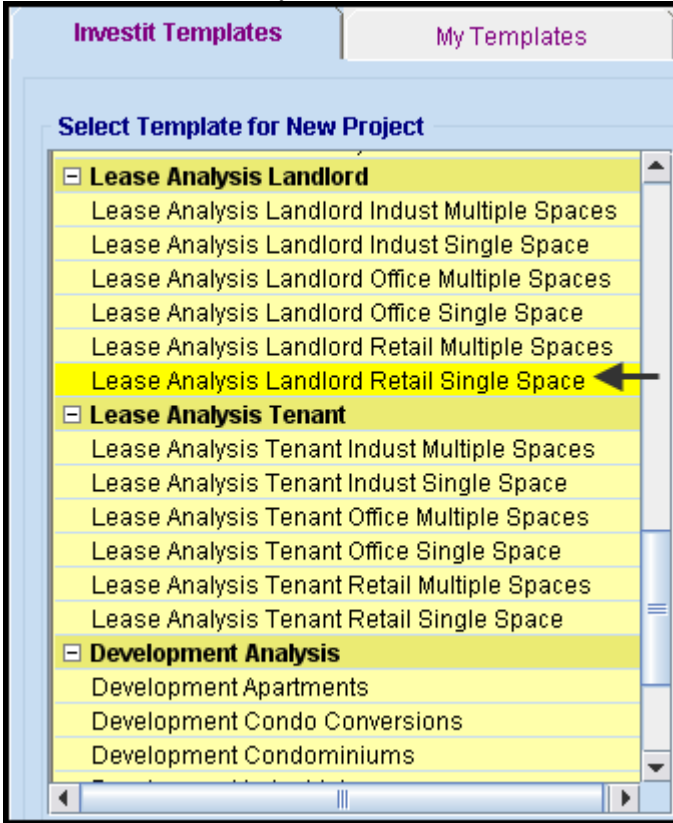
Visit the Investit **Online Learning Center** to learn how to import photos and images.

INSTRUCTIONS FOR ENTERING THE PROJECT INTO INVESTOR PRO

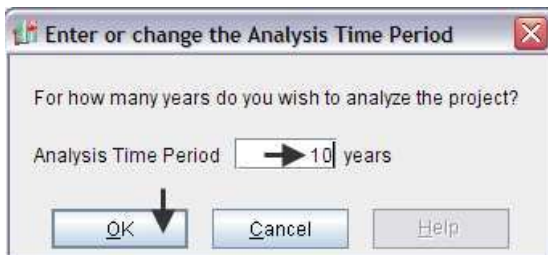
Getting started

The first step is to open the Investor Pro Template “Lease Analysis Landlord Retail 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 Landlord Retail 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: Park Royal Village
2. Enter Description: Unit 105 Sport's Affair
3. Enter the Gross Leasable Area (GLA): 7,000 Sq. ft

The screenshot shows the 'Project Info' folder selected in a software interface. The 'Report Headers' section contains text boxes for 'Property Name' (Park Royal Village) and 'Description' (Unit 105 Sport's Affair). The 'Analysis Time Period' section shows '10 Years' and a 'Change Analysis Time Period' button. The 'Entry Information' section shows 'Enter Revenue and Expenses Monthly' and a 'Change Entry Information' button. The 'Starting Date' is set to 'January Year 1'. There is an 'Edit Unit of Measure' button. On the right, the 'Tenant Retail' section shows 'Gross Leaseable Area (GLA)' set to '7,000 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

The screenshot shows the 'Landlord' folder selected in the software interface. It features a checkbox for 'Turn off Tax Calculations'. Under the 'Tax Rate' section, 'Investor's Marginal Tax Rate' is set to '35.00%'. Under the 'Discount Rate' section, 'Before Tax' is set to '10.00%' and 'After Tax' is set to '6.50%'. An arrow points to the '10.00%' input field.

LEASEHOLD IMPROVEMENTS Folder

First Row

1. Enter the Amount: \$25,000

Your entries for the Leasehold improvements should look like this;

Project Info.	Landlord	Leasehold Improvements	Expenses	Revenue	Vacancy	Financing	Termination
Leasehold Improvements							
Inflate							
Description			Amount	Year	Month	Depreciation Method	Recovery Period [yrs]
Leasehold Improvements			\$ 25,000	Year 1	Jan	Commercial Prop. St Line	39.0
			Enter ↑	Select ↑			

EXPENSES Folder

Rental Expenses are expenses paid by the landlord which are allocated to the space such the proportional share of property taxes, insurance, common area maintenance, property management etc.

Expenses paid by Landlord

\$10.00 per Unit of Tenant's GLA per Yr paid monthly for 12 months then increasing at 4.00% compounding per year for 9 years

Leasing Fees

Year 1 Jan \$65,000

Using Projection Wizard enter and project the Expenses paid by the Landlord

Projection Wizard										
Entry Information										
Description: Expenses paid by Landlord										
Entry Choice: \$ per Unit of Total Gross Leasable 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	\$ 10.00	Year 1	Jan	<input checked="" type="checkbox"/>	10	0	4.00%		
Select ↑	Select ↑	Enter ↑	Check ↑			Enter ↑				

Enter the Leasing Fees directly into the grid

Project Info.	Landlord	Leasehold Improvements	Expenses	Revenue	Vacancy	Financing	Termination
Expenses							
Description	Entry Choice		Qty	Year 1 Jan...	Year 1 Feb...	Year 1 Mar...	Year 1...
Expenses paid by Landlord	\$ per Unit of Total Gross Leasable Area per Yr		7,000	\$ 10.00	\$ 10.00	\$ 10.00	\$
Leasing Fees	Amount		—	\$ 65,000	\$ 0	\$ 0	
				Enter ↑			

REVENUE Folder

Is the rent paid by the tenant to the landlord and is entered in the Revenue.

Base Rent

\$26.00 per Unit of Tenant's GLA Area per Yr paid monthly. Two terms of 5 years. Increase for the second term based on 3.00% compounding for five years

Free Rent

First two months. 100% of Base Rent

% Rent

6.00% of retail sales

Retail Sales for the first year are as follows;

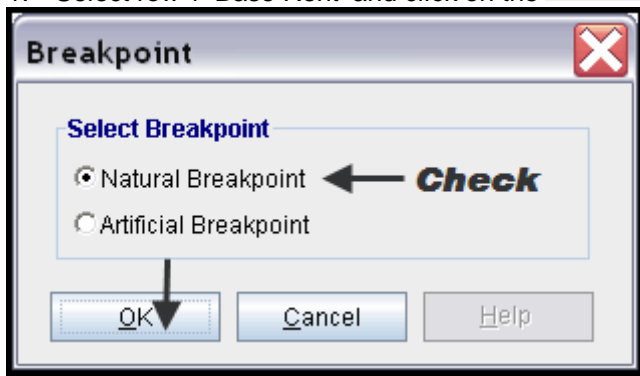
Year 1	Retail Sales
Jan	\$200,000
Feb	\$200,000
Mar	\$200,000
Apr	\$300,000
May	\$300,000
June	\$400,000
July	\$400,000
Aug	\$400,000
Sept	\$300,000
Oct	\$300,000
Nov	\$300,000
Dec	\$500,000

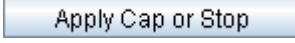
The retail sales are projected to increase at 4.00% compounding per year for remaining 9 years.

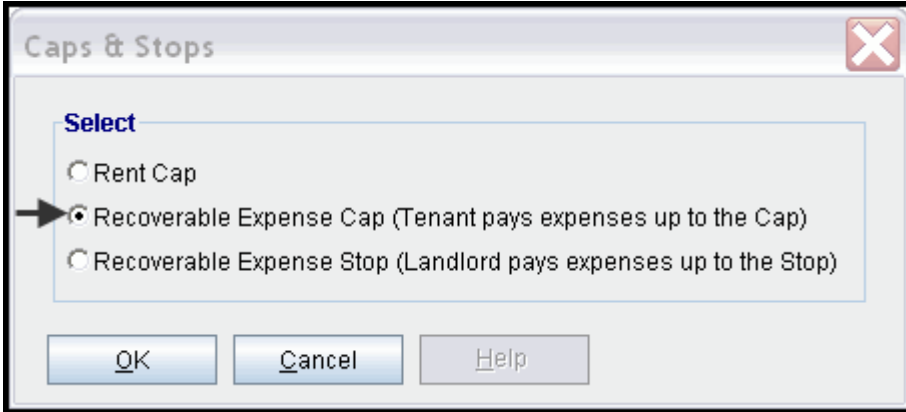
Additional Rent (TIM's)

\$9.00 per Unit of Tenant's GLA per Yr paid monthly for 12 months then increasing at 4.00% compounding per year. **Subject to a Recoverable Expense Cap** of \$6,000 per month. This means that the maximum Additional Rent (TIM's) the tenant will pay is \$6,000 per month.

1. Select row 1 'Base Rent' and click on the 



2. Select row with Description 'Recoverable Expenses (TIM's)
3. Click on the  button to access the Rent Cap & Stop dialog and select "Recov. Exp. Cap" and click Ok.



4. Select row with Description 'Parking' and click on the delete button

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 Gross Leasable Area per Yr	7,000	\$ 26.00	\$ 26.00	\$ 26.00	\$	
% Rent		—	6.00%	6.00%	6.00%		
Retail Sales	Amount	—	\$ 200,000	\$ 200,000	\$ 200,000	\$ 3	
Free Rent	% of Rent	—	100.00%	100.00%	0.00%		
Recoverable Expenses (TIM...	\$ per Unit of Total Gross Leasable Area per Yr	7,000	\$ 9.00	\$ 9.00	\$ 9.00		
Recov. Exp. Cap	Amount	—	\$ 6,000	\$ 6,000	\$ 6,000	\$	

Using Projection Wizard enter and project the Base Rent

Projection Wizard

Entry Information
 Description: Base Rent
 Entry Choice: \$ per Unit of Total Gross Leasable Area 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	<input checked="" type="checkbox"/>	5	0		

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

Annotations: "Select" points to "Project Entry Using..."; "Enter" points to "Entry"; "Check" points to "To End" and "Annual Compounding Rate Increase"; "Enter" points to "No. of Time Periods"; "Check" points to "OK".

Using Projection Wizard enter and project the % Rent

Projection Wizard

Entry Information
 Description: % Rent
 Entry Choice: % Rent

Projections

Enter	Project Entry Using...	%	Start Date		Time Period			Increase	Cont. Proj
			Year	Month	To End	Yrs	Mos		
Monthly for 12 Months	Constant (Fill Right)	6.00%	Year 1	Jan	<input checked="" type="checkbox"/>	10	0		

Annotations: "Select" points to "Monthly for 12 Months"; "Select" points to "Constant (Fill Right)"; "Enter" points to "6.00%"; "Check" points to "To End".

Using Projection Wizard enter and project the Retail Sales

Projection Wizard

Entry Information
 Description: % Rent: Retail Sales
 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	Enter Yr. by the Month		Year 1	Jan					<input checked="" type="checkbox"/>
	Annual Compounding		Year 2	Jan	<input checked="" type="checkbox"/>	9	0	4.00%	<input checked="" type="checkbox"/>

Enter Year by the Month

Starting Year: Year 1
 Starting Month: Jan

Month	Amount
Year 1 - Jan	200,000
Year 1 - Feb	200,000
Year 1 - Mar	200,000
Year 1 - Apr	300,000
Year 1 - May	300,000
Year 1 - Jun	400,000
Year 1 - Jul	400,000
Year 1 - Aug	400,000
Year 1 - Sep	300,000
Year 1 - Oct	300,000
Year 1 - Nov	300,000
Year 1 - Dec	500,000
Total	3,800,000

Buttons: OK, Cancel, Help

Enter the Free Rent Directly into the grid

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 Gross Leasable Area per Yr	7,000	\$ 26.00	\$ 26.00	\$ 26.00	\$	
% Rent		—	6.00%	6.00%	6.00%		
Retail Sales	Amount	—	\$ 200,000	\$ 200,000	\$ 200,000	\$ 3	
Free Rent	% of Rent	—	100.00%	100.00%	0.00%		
Recoverable Expenses (TIM...	\$ per Unit of Total Gross Leasable Area per Yr	7,000	\$ 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 Gross Leasable 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	4.00%	

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)	\$ 6,000	Year 1	Jan	<input checked="" type="checkbox"/>	10	0		

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

VACANCY Folder

This analysis assumes no vacancies

FINANCING Folder

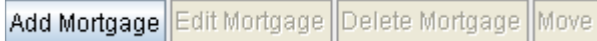
Mortgage (Borrowing)

Money borrowed by the landlord to fund tenant and other improvements associated with the space being rented

Description: Leasehold Improvements
 Commencing: Year 1 January
 Type: Standard Mortgage
 Amount: \$60,000
 Time Period: 10 years
 Amortization: 10 years
 Nominal Interest Rate: 7.00%
 Compounding Frequency: Monthly

Setting up a mortgage

1. Click on the Financing folder tab
2. Click on the Add Mortgage button



3. Amount box: \$60,000
4. Description box: "Leasehold Improvements "
5. Time Period box: 10 Years
6. Amortization box: 10 Years
7. 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 \$ 60,000 Interest Rate Fixed

Description Leasehold Improvements

Terms and Amortization Details

No of (Balloon) Terms 1

Term No	Time Period		Amortization		Nominal Interest Rate
	Years	Months	Years	Months	
1	10	0	10	0	7.000%

Mortgage Settings

Payment Frequency Monthly

Additional Payments/Borrowing

Payment Rounded Up to Nearest Cent

Compounding Frequency Monthly

OK
Compute
Fill Down
Cancel
Help
Comments

8. Press the Compute button
9. Press the OK button

Tenant Loans

The landlord may lend money to the tenants for improvements and moving costs

Description: Loan to Tenant
 Commencing: Year 1 January
 Type: Standard Mortgage
 Amount: \$35,000
 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: \$35,000
3. Description box: "Loan to Tenant"
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;

Mortgage

Mortgage Details

Analysis Period: Year 1 Jan to Year 10 Dec

Commencing Year 1 Month January

Type Standard Mortgage

Amount \$ 35,000 Interest Rate Fixed

Description Loan to Tenant

Mortgage Settings

Payment Frequency Monthly

Additional Payments/Lending

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	10.000%

Buttons: 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
Leasehold Improvements	Standard Mortgage	\$ 60,000	Year 1 Jan

Tenant Loans			
Description	Type	Amount	Start Date
Loan to Tenant	Standard Mortgage	\$ 35,000	Year 1 Jan

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;

Termination Expenses		
Description	Expense	Esc. Rate
Cleanup and restoration costs	\$ 0	

Entering the Termination Costs

1. Expense column: \$15,000

The Termination Expenses should now appear as;

Termination Expenses		
Description	Expense	Esc. Rate
Cleanup and restoration costs	\$ 15,000	

Enter ↑

SAVE YOUR PROJECT

CHECKING YOUR ENTRIES

You can compare your project against the Investit example "Lease Analysis Landlord Retail Single Space"