LEASE ANALYSIS LANDLORD RETAIL USA EXAMPLE
LANDLORD RENTING SINGLE SPACE

INTRODUCTION

This Lease Analysis example analyses 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.

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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:

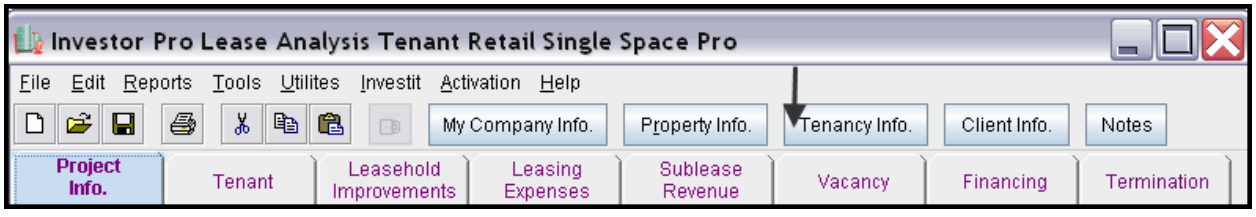
1. Lease Information
2. Building Attributes

The Tenancy Information appears on the following reports;

Lease Summary Report which shows;

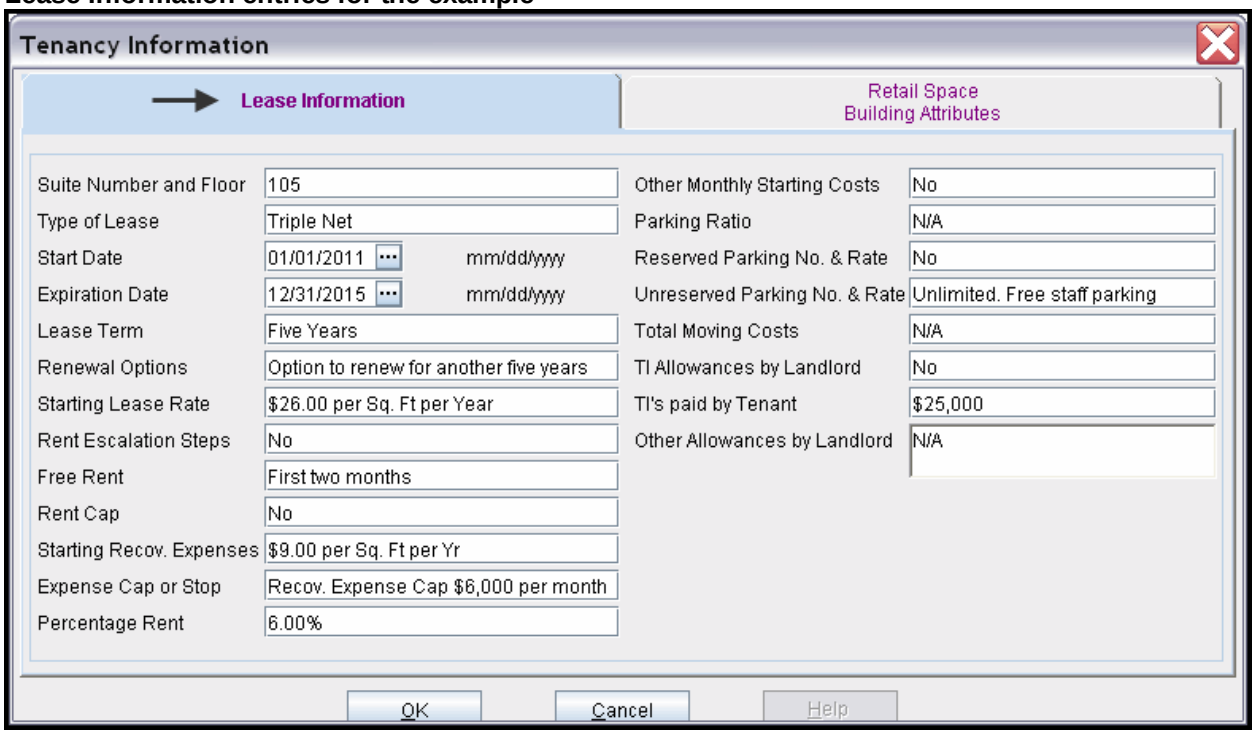
- Tenancy Information
- Building Attributes
- Financial Summary
- Photos and Images
  - Building
  - Floor Plan
  - Site Plan
  - Location Map

To enter the Tenancy Information click on the Tenancy Information Button and complete the entries.

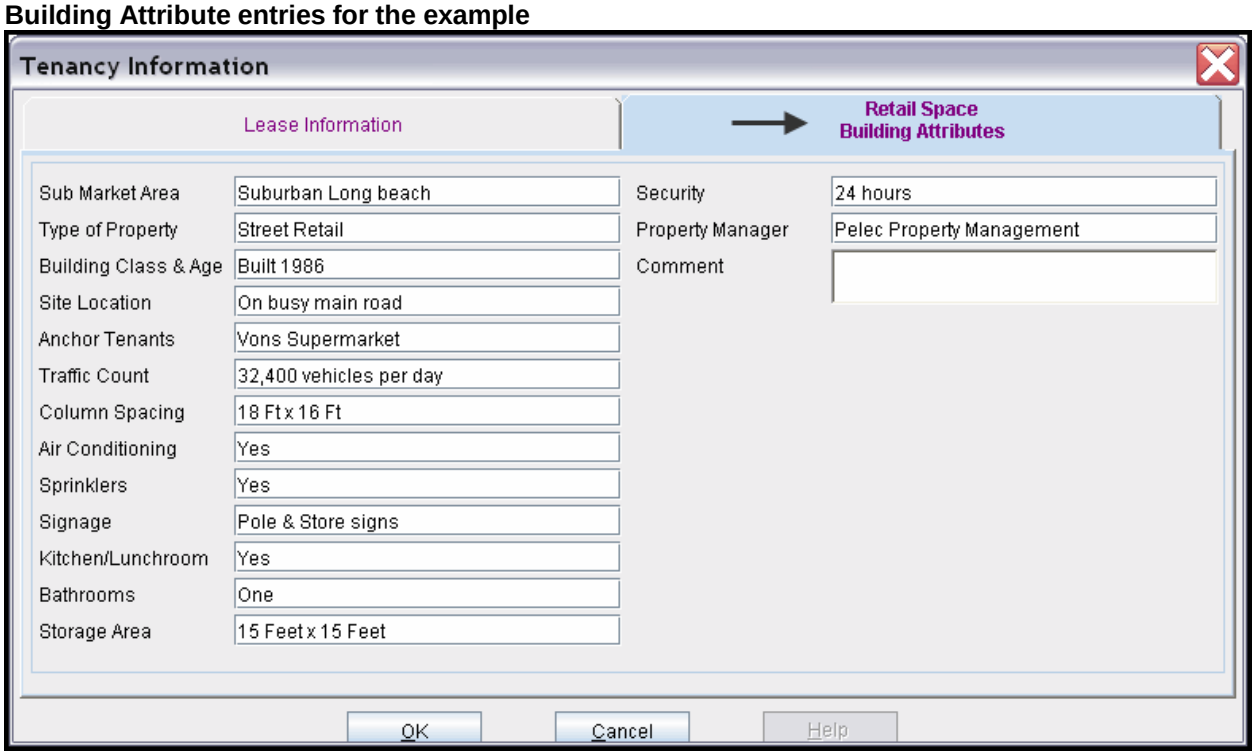


Following is the completed “Lease Information” and “Building Attribute” screens

Lease Information entries for the example



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

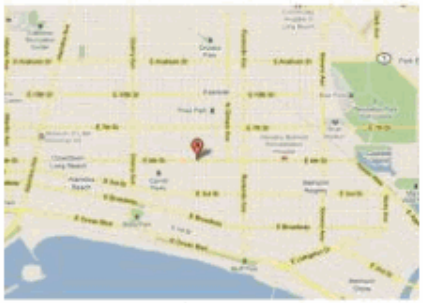
COMPANY LOGO

Lease Summary
Park Royal Village
Unit 105 Sport's Affair

May 30, 2011
Investor Pro
Lease Analysis Tenant Retail Single Space

Park Royal Village
East Fourth Street
Long Beach
CA

Park Royal Village



Great location

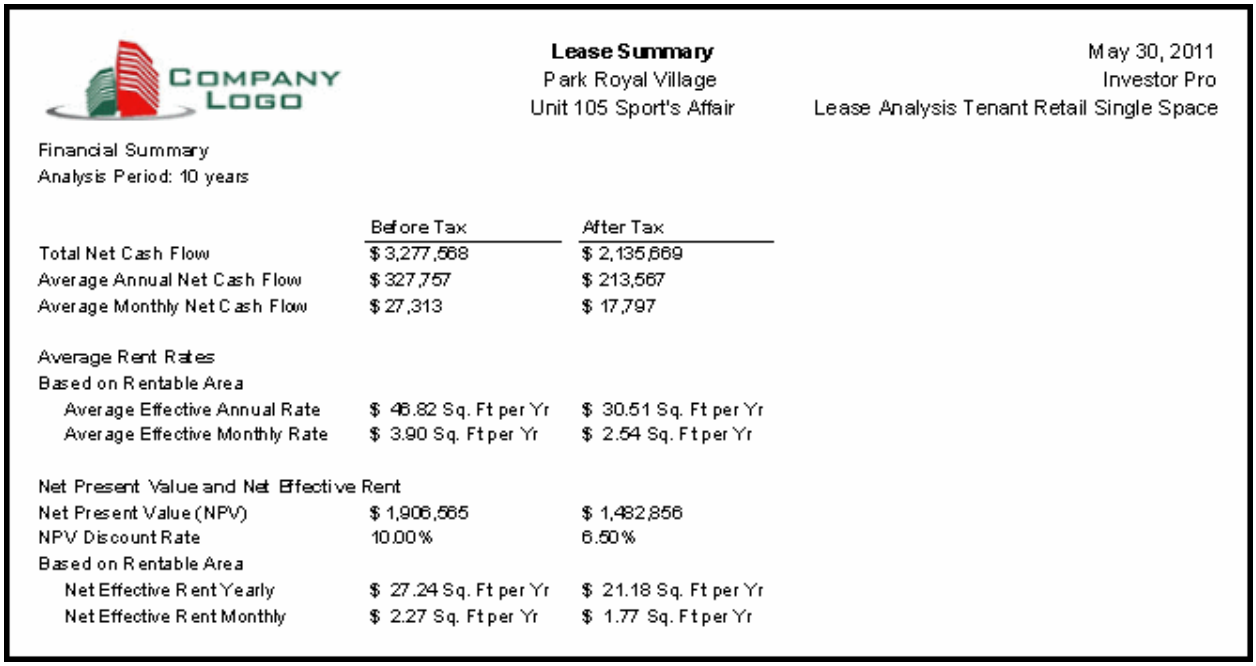
Suite Number & Floor	105
Total Rentable Area	7,000 Sq. Ft
Type of Lease	Triple Net
Start Date	Jan/01/2011
Expiration Date	Dec/31/2015
Lease Term	Five Years
Renewal Options	Option to renew for another five years
Starting Lease Rate	$26.00 per Sq. Ft per Year
Rent Escalation Steps	No
Free Rent	First two months
Rent Cap	No
Percentage Rent	6.00%
Starting Recov. Expenses	$9.00 per Sq. Ft per Yr
Expense Cap or Stop	Recov. Expense Cap $6,000 per month
Other Monthly Starting Costs	No
Parking Ratio	N/A
Reserved Parking No. & Rate	No
Unreserved Parking No. & Rate	Unlimited. Free staff parking
Total Moving Costs	N/A
TI Allowance by Landlord	No
TI's paid by Tenant	$25,000
Other Allowances by Landlord	N/A

Building Attributes

Sub Market Area	Suburban Long beach
Type of Property	Street Retail
Building Class & Age	Built 1986
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
Security	24 hours
Property Manager	Pelec Property Management

Lease Summary Report

Page 2. Financial Summary



COMPANY LOGO

Lease Summary
Park Royal Village
Unit 105 Sport's Affair

May 30, 2011
Investor Pro
Lease Analysis Tenant Retail Single Space

Financial Summary
Analysis Period: 10 years

	Before Tax	After Tax
Total Net Cash Flow	$ 3,277,568	$ 2,135,669
Average Annual Net Cash Flow	$ 327,757	$ 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)	$ 1,906,565	$ 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

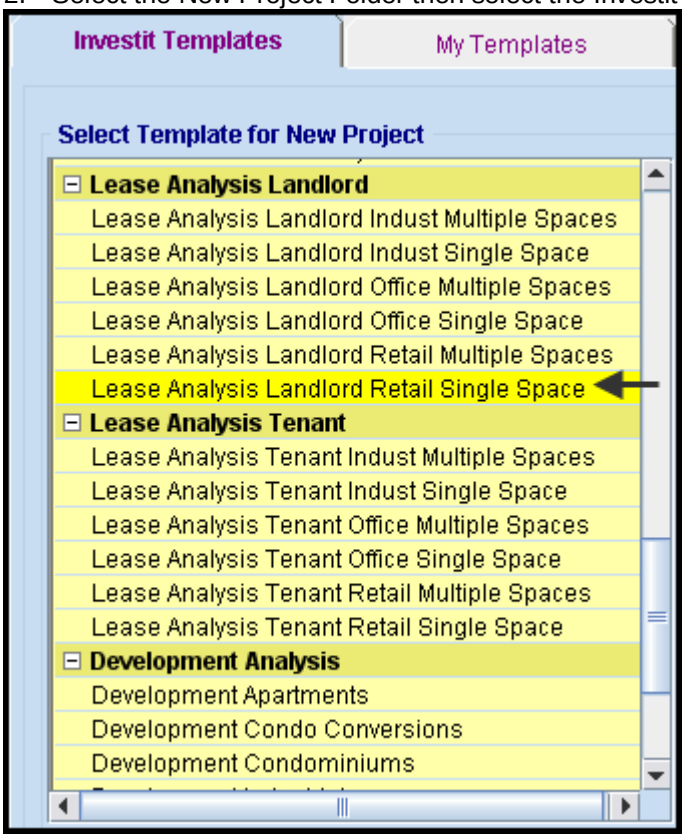
Visit the Investit **Online Learning Center** to learn how to import photos and images.

INSTRUCTIONS FOR ENTERING THE PROJECT INTO INVESTOR PRO

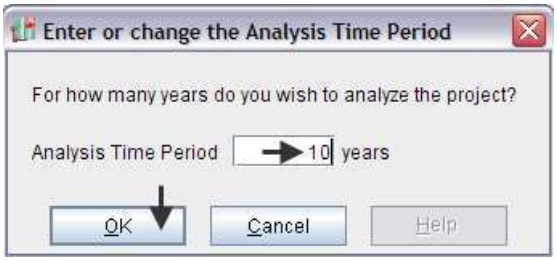
Getting started

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



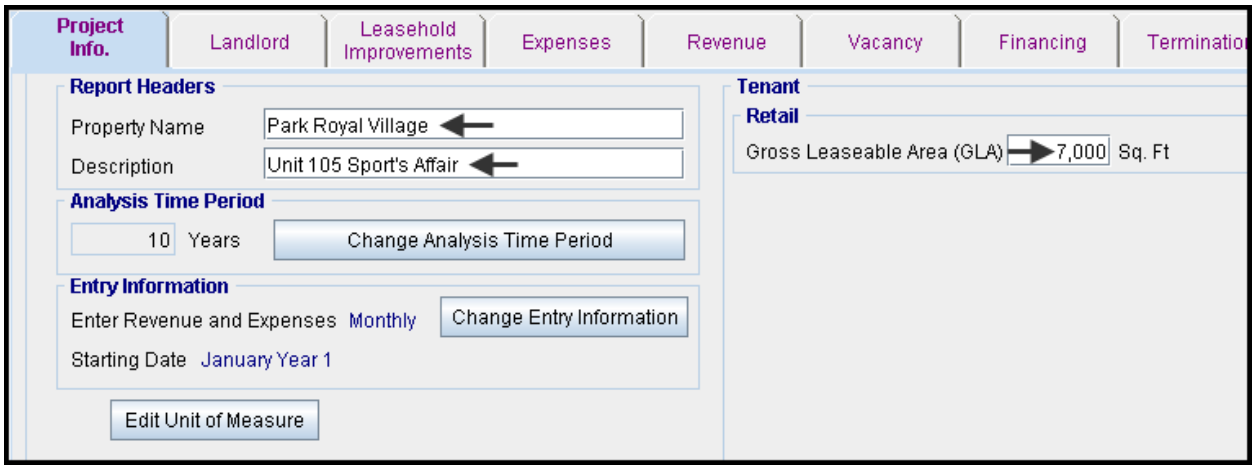
3. Select and open the Investit template ""Lease Analysis Landlord Retail Single Space" The analysis period dialog will open at this point.
4. Enter 10 years and click OK



Entering the project data and information

PROJECT INFO Folder

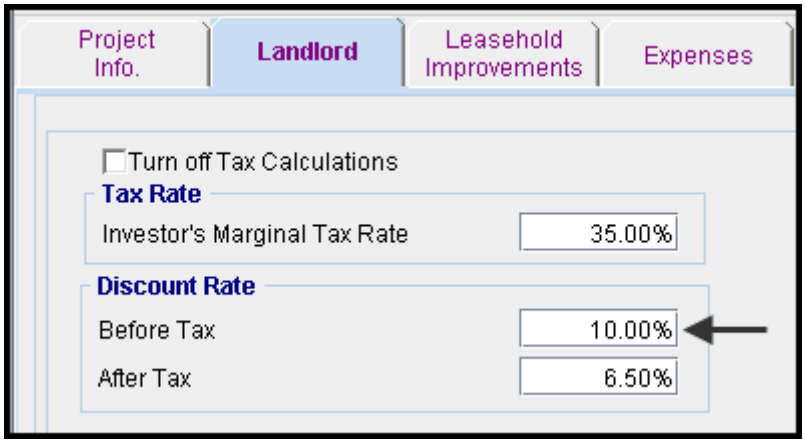
1. Enter the Property Name: Park Royal Village
2. Enter Description: Unit 105 Sport's Affair
3. Enter the Gross Leasable Area (GLA): 7,000 Sq. ft



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: $25,000

Your entries for the Leasehold improvements should look like this;

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.

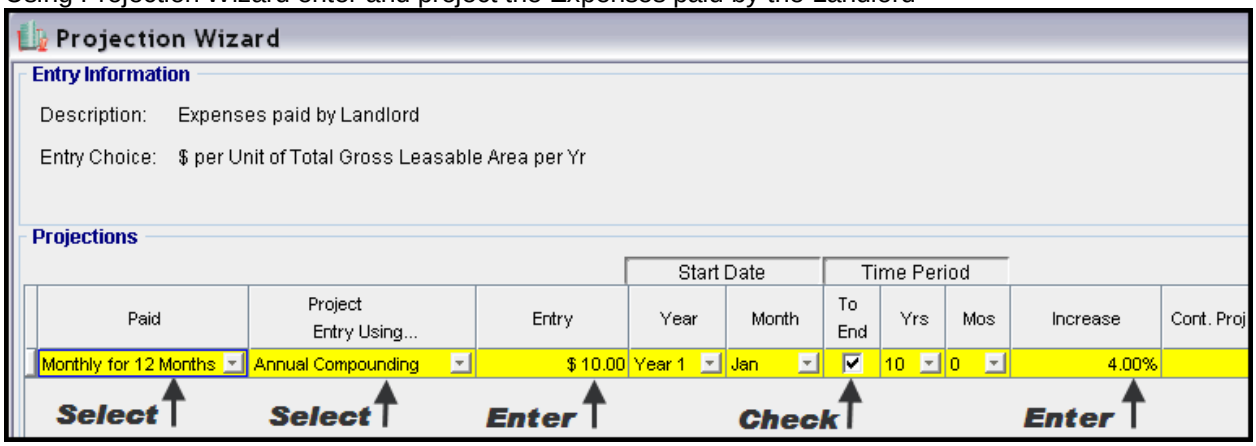
Expenses paid by Landlord

$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

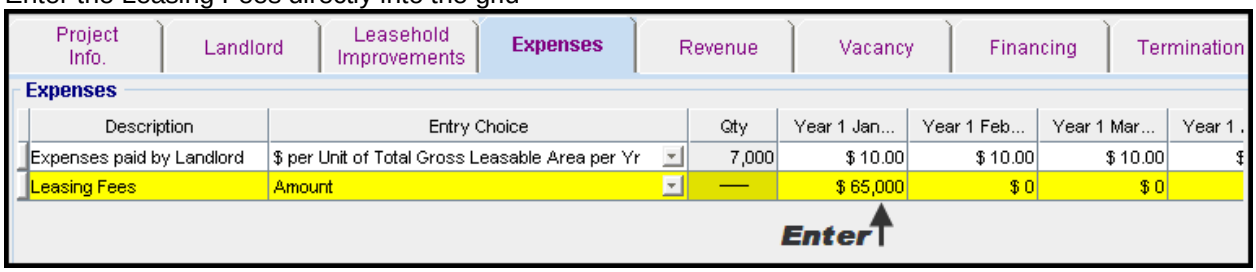
Leasing Fees

Year 1 Jan $65,000

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



Enter the Leasing Fees directly into the grid



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;

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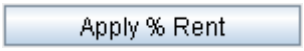
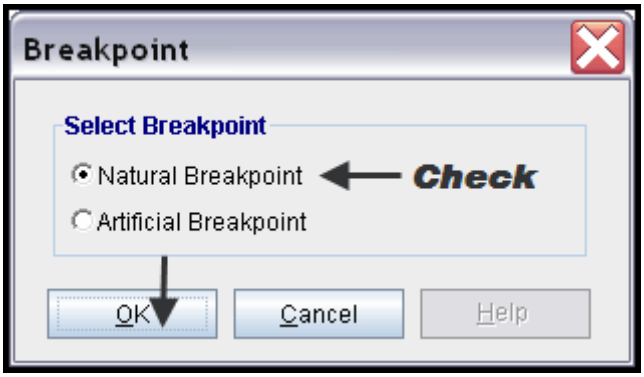
The retail sales are projected to increase at 4.00% compounding per year for remaining 9 years.

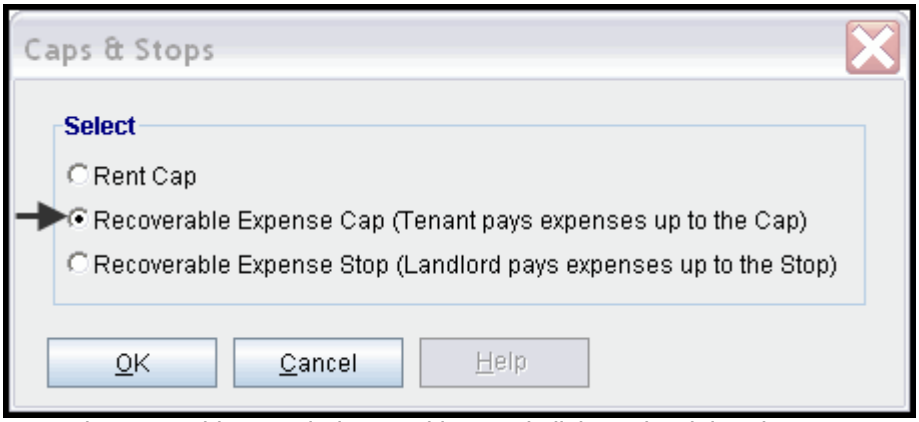
Additional Rent (TIM's)
$9.00 per Unit of Tenant's GLA per Yr paid monthly for 12 months then increasing at 4.00% compounding per year. **Subject to a Recoverable Expense Cap** of $6,000 per month. This means that the maximum Additional Rent (TIM's) the tenant will pay is $6,000 per month.

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



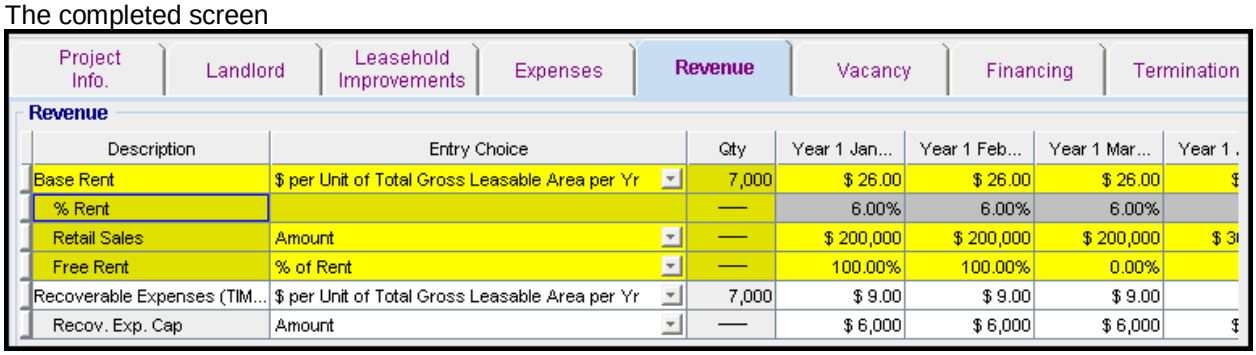
2. Select row with Description 'Recoverable Expenses (TIM's)'
3. Click on the

button to access the Rent Cap & Stop dialog and select "Recov. Exp. Cap" and click Ok.



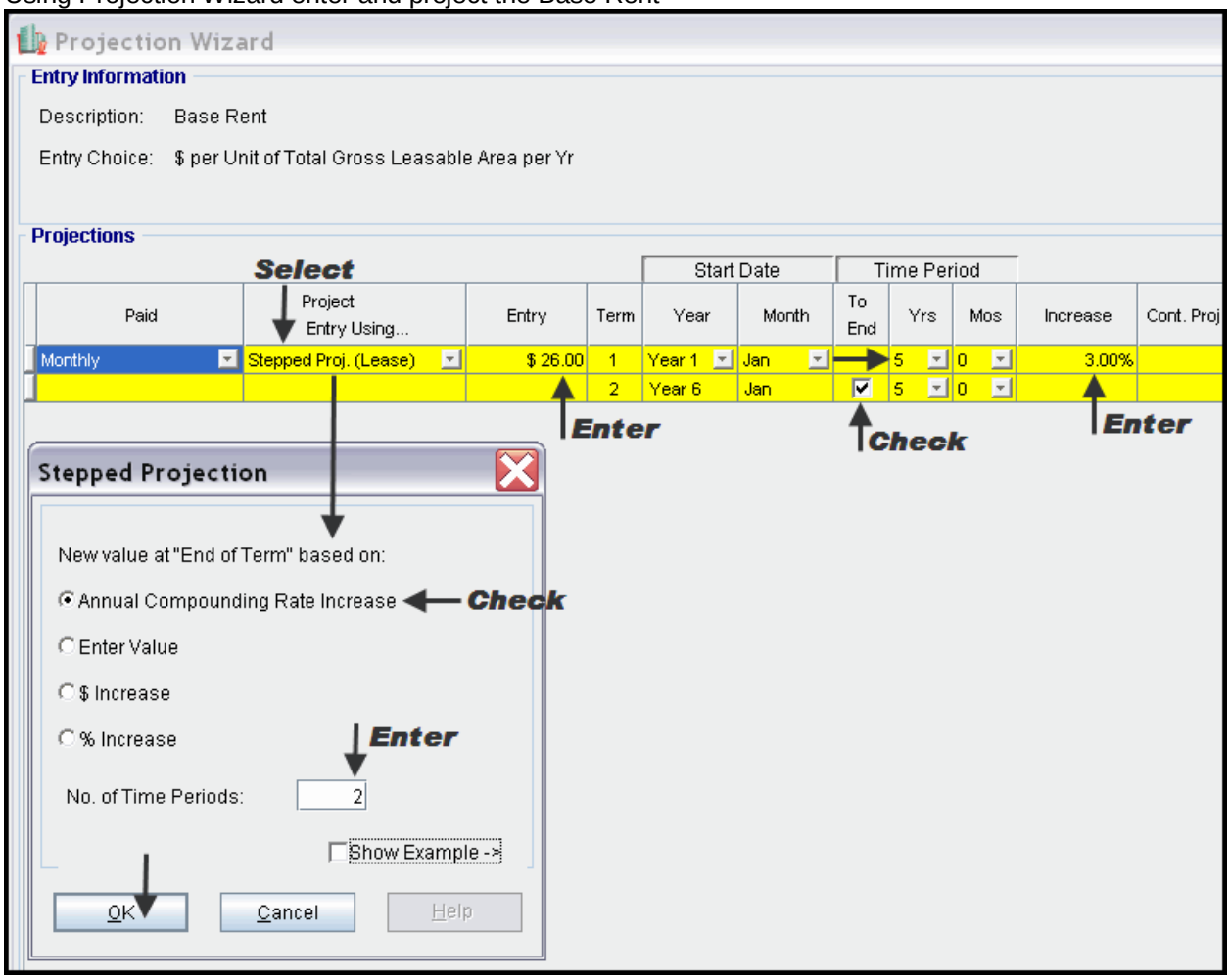
4. Select row with Description 'Parking' and click on the delete button

The completed screen

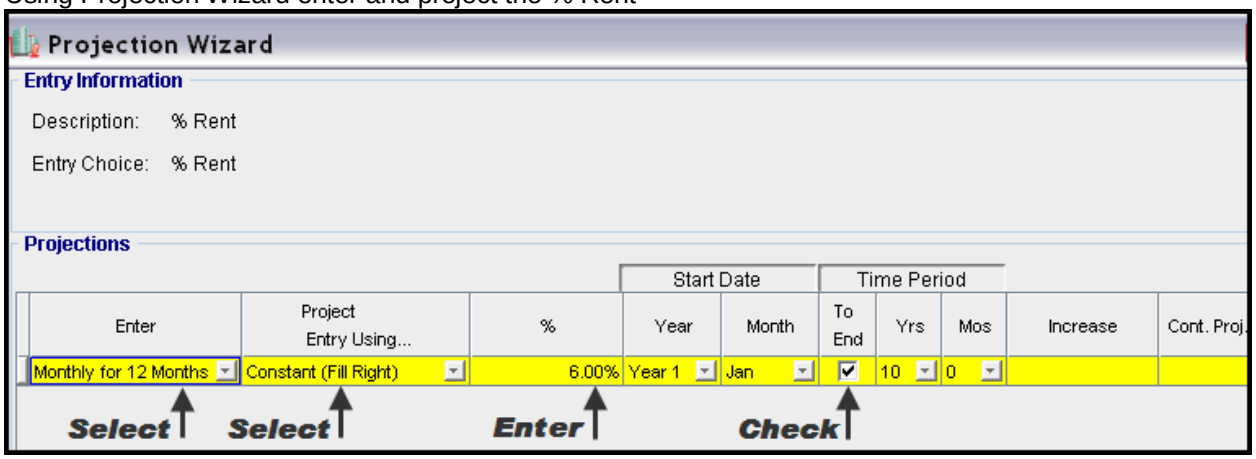


Description	Entry Choice	Qty	Year 1 Jan...	Year 1 Feb...	Year 1 Mar...	Year 1 .
Base Rent	$ per Unit of Total Gross Leasable Area per Yr	7,000	$ 26.00	$ 26.00	$ 26.00	$
% Rent		—	6.00%	6.00%	6.00%	
Retail Sales	Amount	—	$ 200,000	$ 200,000	$ 200,000	$ 3
Free Rent	% of Rent	—	100.00%	100.00%	0.00%	
Recoverable 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	$

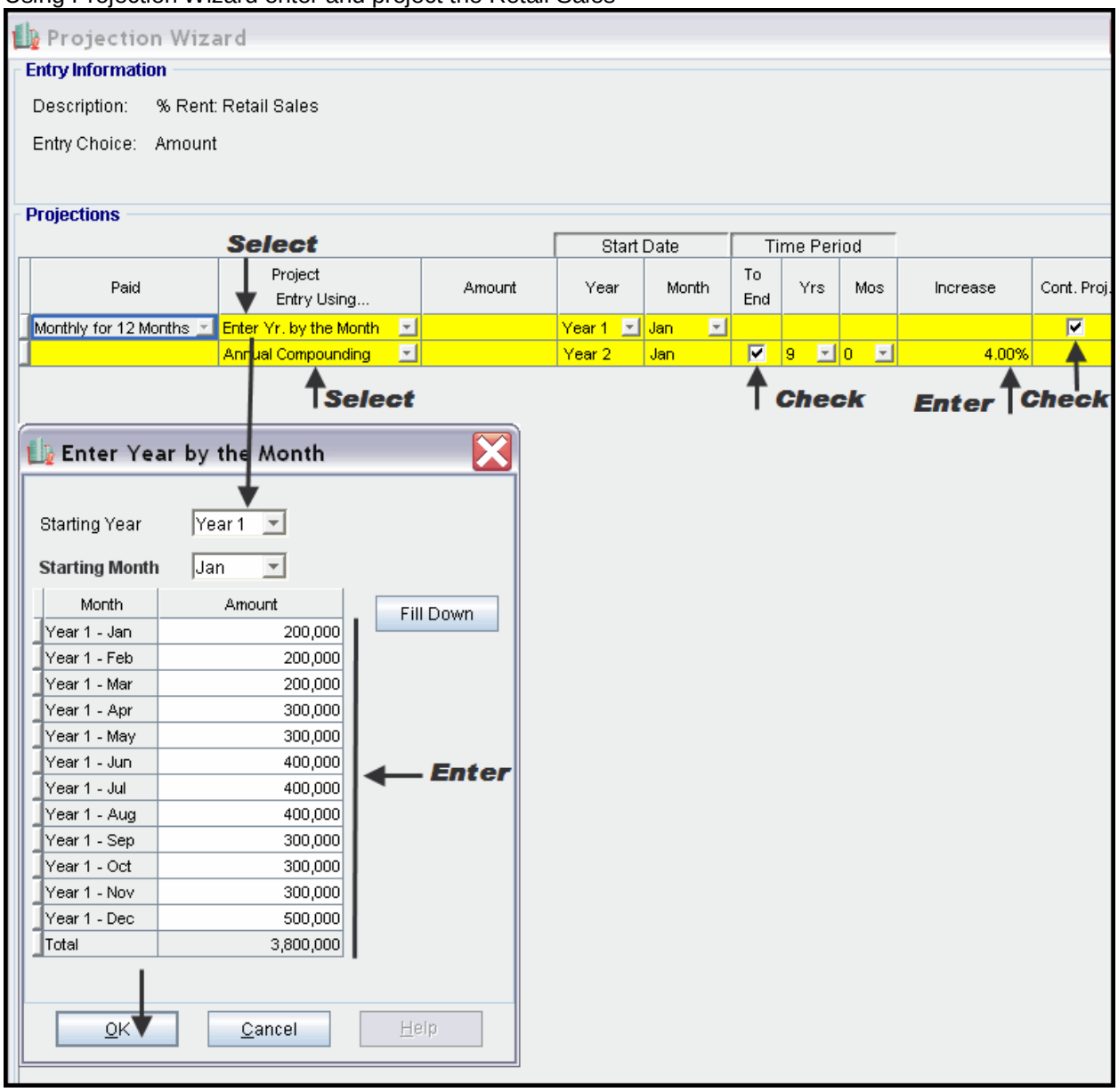
Using Projection Wizard enter and project the Base Rent



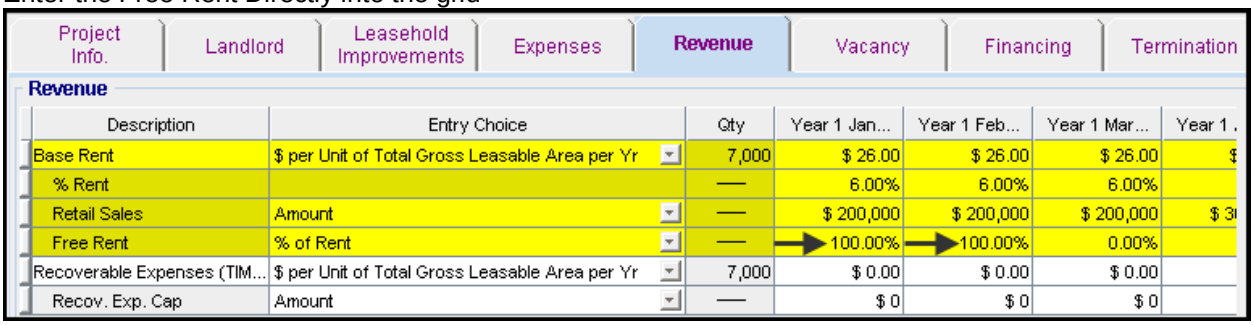
Using Projection Wizard enter and project the % Rent



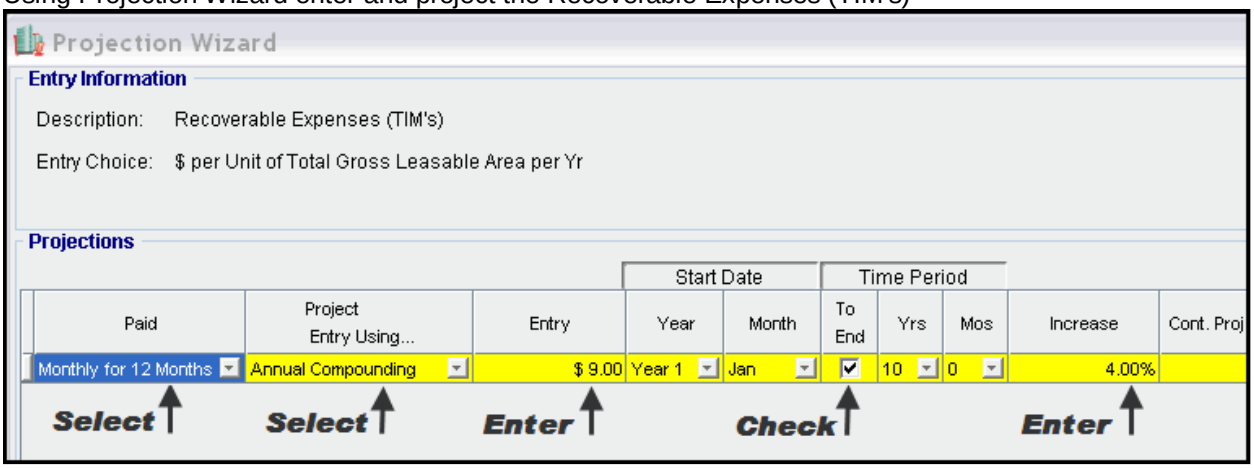
Using Projection Wizard enter and project the Retail Sales



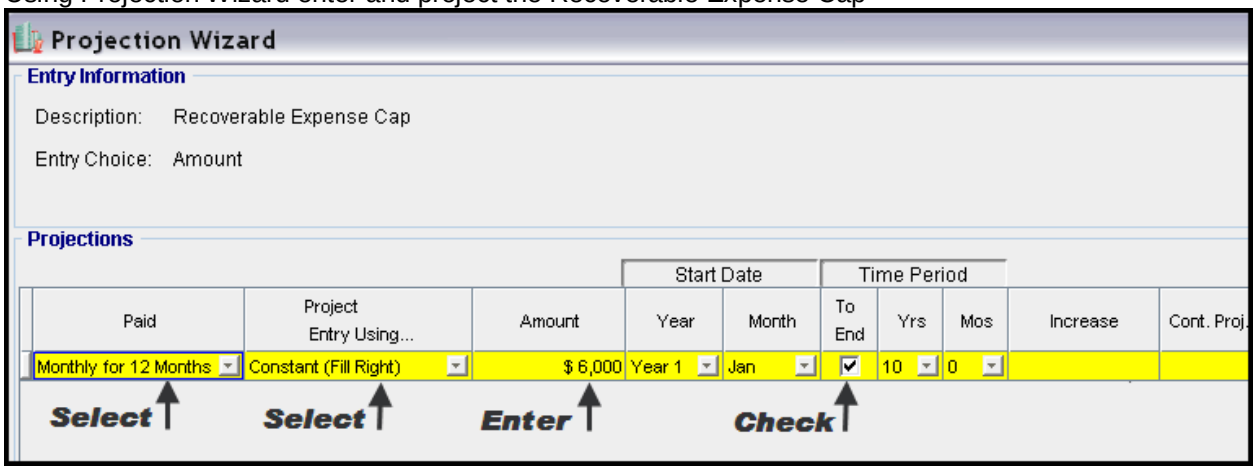
Enter the Free Rent Directly into the grid



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 vacancies

FINANCING Folder

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

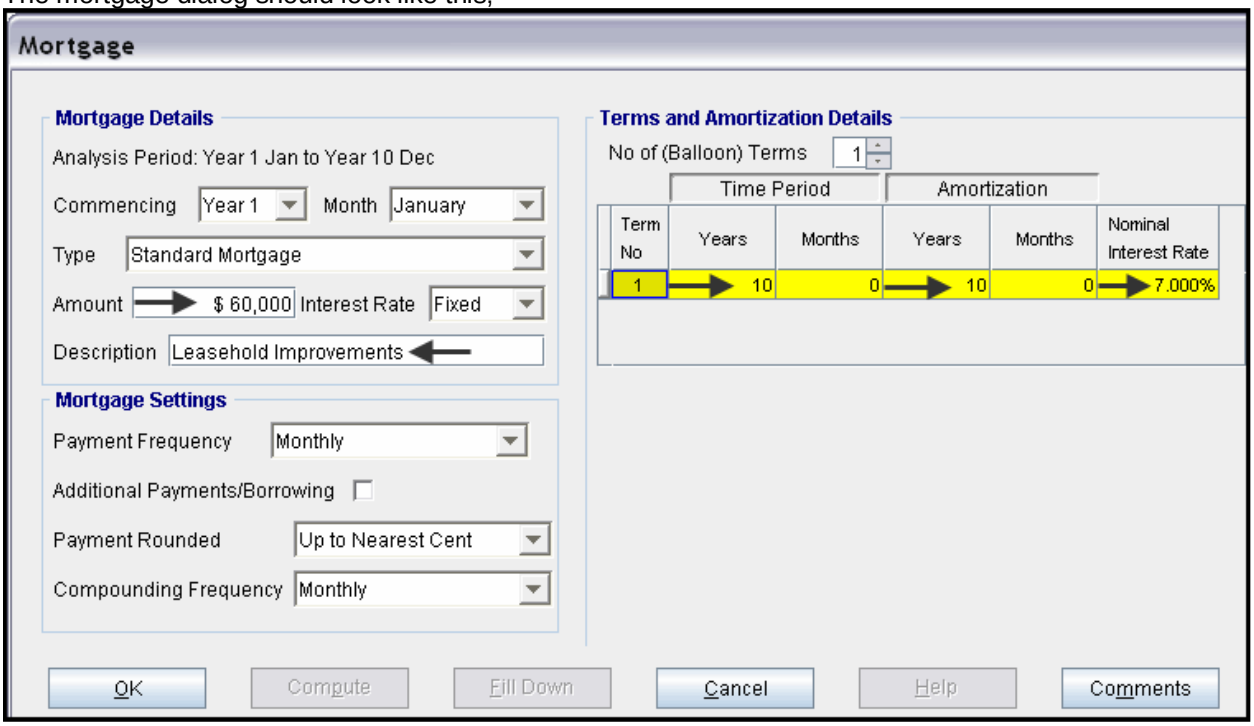
Description: Leasehold Improvements
Commencing: Year 1 January
Type: Standard Mortgage
Amount: $60,000
Time Period: 10 years
Amortization: 10 years
Nominal Interest Rate: 7.00%
Compounding Frequency: Monthly

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;



8. Press the

button
9. Press the OK button

Tenant Loans

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

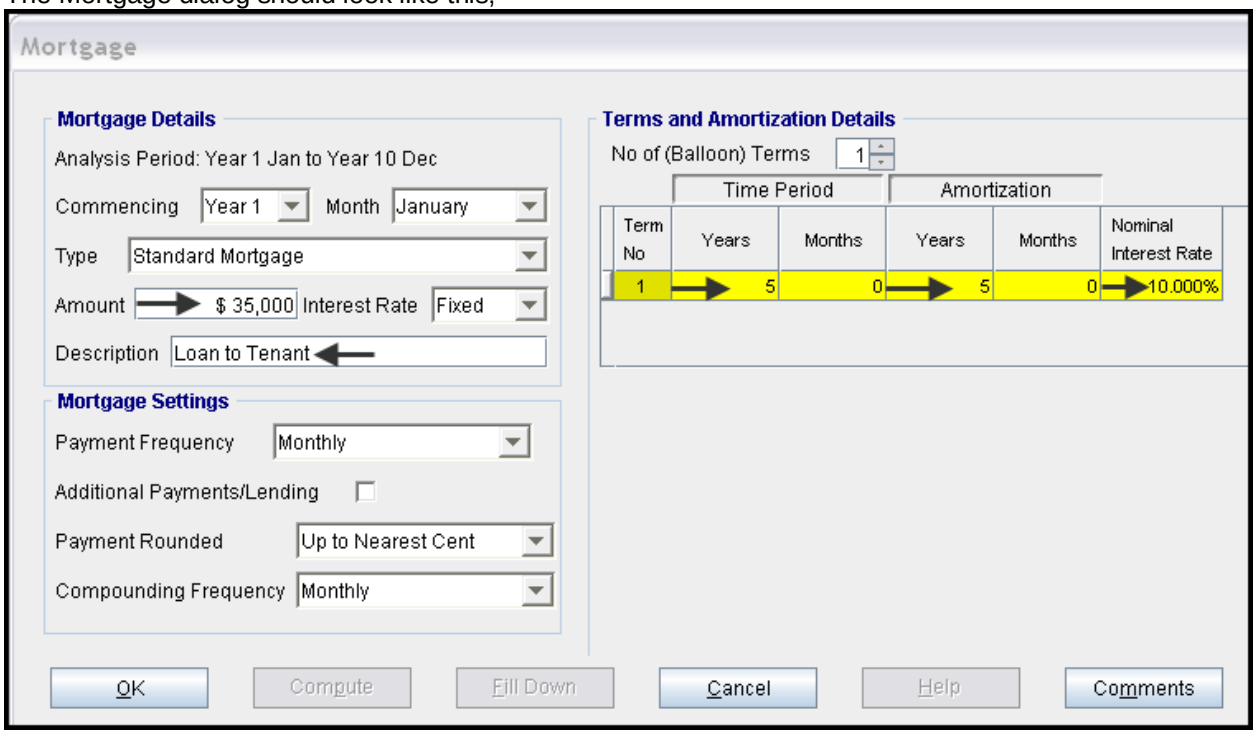
Description: Loan to Tenant
Commencing: Year 1 January
Type: Standard Mortgage
Amount: $35,000
Time Period: 5 years
Amortization: 5 years
Nominal Interest Rate: 10.00%
Compounding Frequency: Monthly

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%

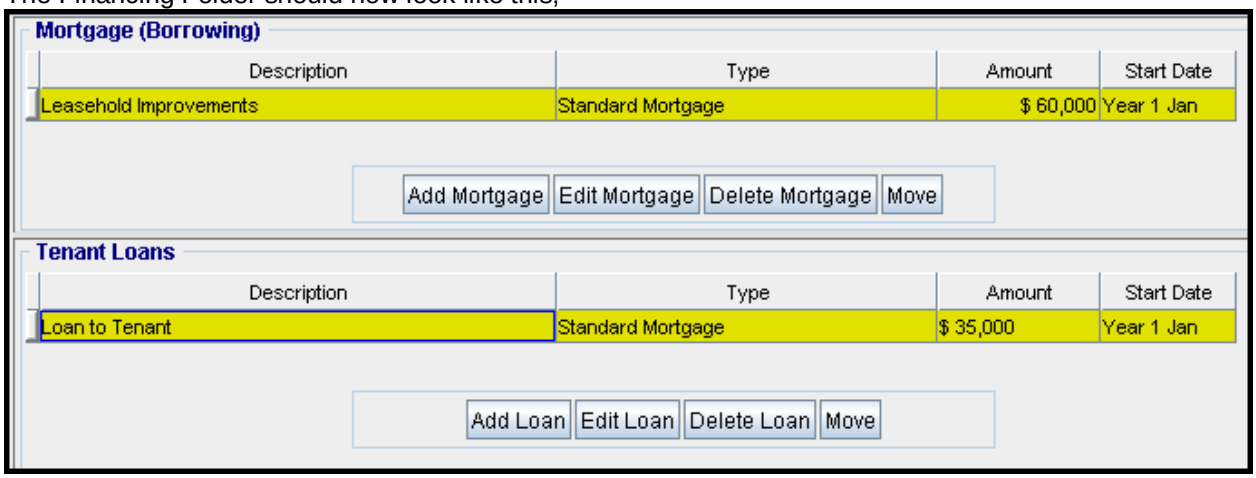
The Mortgage dialog should look like this;



7. Press the

button
8. Press the OK button

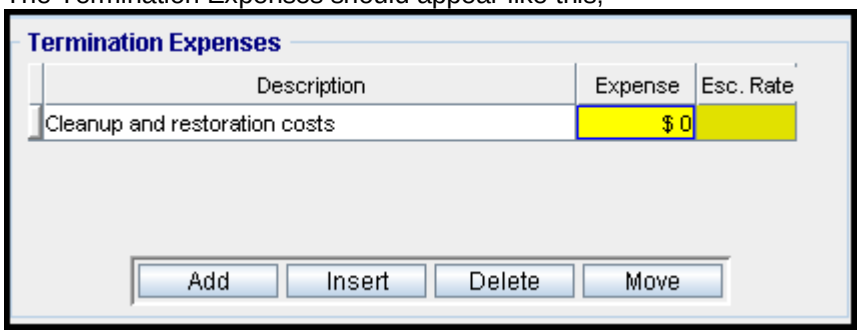
The Financing Folder should now look like this;



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

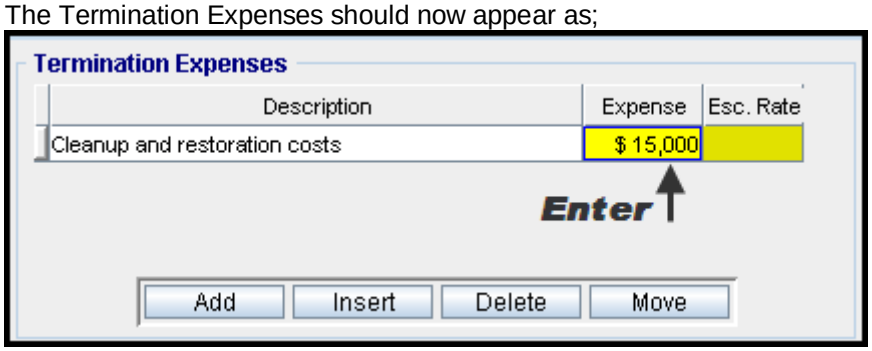
The Termination Expenses should appear like this;



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 Landlord Retail Single Space”