

## LEASE ANALYSIS TENANT INDUSTRIAL 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 to carryout the analysis.

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

Apex Manufacturing is considering a proposal from the landlord to rent Unit. 3

Unit No. 3 Rentable Area: 6,000 Sq. Ft in Lakewood Estates Industrial Building

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: Lakewood Industrial Building  
Description: Unit No. 3 Apex Manufacturing  
Analysis Period: 10 Years  
Starting Date: Year 1 Jan  
Rentable Area: 6,000 Sq. ft

### TENANT Folder

Marginal Tax Rate: 35.00%  
Discount Rate: Before Tax 10.00%

### LEASEHOLD IMPROVEMENTS Folder

#### Unit No. 4

Description: Leasehold Improvements  
Amount: \$15,000  
Year 1 Jan  
Depreciation Method: Commercial Prop. St Line

### LEASING EXPENSE Folder

#### Base Rent

\$14.00 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)

\$4.00 per Unit of Tenant's Rentable Area per Yr paid monthly for 12 months then increasing at 3.00% compounding per year

#### Parking

12 spaces at \$20 per month for 12 months then increasing at 4.00% compounding until the end of the lease. The parking is subject to a **Rent Cap** of \$300 per month for the 10 year period. This means that the maximum that will be paid by the tenant for parking per month is \$300

**SUBLEASE REVENUE Folder**

Tenant is not planning to sublease any of the space

**VACANCY**

Used to enter vacancies for space that has been subleased by the tenant. In this example there is no subleasing and hence no subleasing vacancies.

**FINANCING Folder**

**Mortgage (Borrowing)**

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

Description: Bank Loan  
Commencing: Year 1 January  
Type: Standard Mortgage  
Amount: \$12,000  
Time Period: 10 years  
Amortization: 10 years  
Nominal Interest Rate: 8.00%  
Compounding Frequency: Monthly

**TERMINATION Folder**

Cost incurred by the tenant at the end of the lease 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

Lease Information		Industrial Space Building Attributes	
Suite Number and Floor	3	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	12 spaces \$20 per space per m ...
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	\$14.00 per Sq. Ft per Yr	TI's paid by Tenant	\$15,000
Rent Escalation Steps	No	Other Allowances by Landlord	N/A
Free Rent	First two months		
Rent Cap	Parking \$300 per month		
Starting Recov. Expenses	\$4.00 per Sq. Ft per Yr		
Expense Cap or Stop	No		

Buttons: OK, Cancel, Help

### Building Attribute entries for the example

Lease Information		Industrial Space Building Attributes	
Sub Market Area	Seattle Downtown Industrial	Signage	Visible from the I5
Type of Property	Industrial Distribution	Storage Yard	No
Building Class & Age	35 years Masonary Class C	Rail	No
Number of Floors	1	Security	No
Ceiling Height	18 feet clear	Property Manager	By owner
Column Spacing	16 Ft x 16 ft	Comment	
Office Area	1,200 Sq. Ft		
Air Conditioning	Office area		
Elevators	No		
Loading Docks	Two. Dock High		
Overhead Doors	Two. 8 Ft x 8 Ft		
Power	200 Amp, 550 volt, 3 phase		
Sprinklers	Yes		

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><b>Lease Summary</b>                  Lakewood Industrial Building                  Unit No. 3 Apex Manufacturing</p>	<p>May 30, 2011                  Investor Pro                  Lease Analysis Tenant Indust Single Space</p>
<p><b>Lakewood Industrial Building</b>                  South Brandon St                  Seattle                  Washington</p>		 <p style="text-align: center;"><b>Lakewood Industrial Building</b></p>	
<p>Suite Number &amp; 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                  Starting Recov. Expenses                  Expense Cap or Stop                  Other Monthly Starting Costs                  Parking Ratio                  Reserved Parking No. &amp; Rate                  Unreserved Parking No. &amp; Rate                  Total Moving Costs                  TI Allowance by Landlord                  TI's paid by Tenant                  Other Allowances by Landlord</p>	<p>3                  6,000 Sq. Ft                  Triple Net                  Jan01/2011                  Dec/31/2015                  Five Years                  Option to renew for another five years                  \$14.00 per Sq. Ft per Yr                  No                  First two months                  Parking \$300 per month                  \$4.00 per Sq. Ft per Yr                  No                  No                  N/A                  No                  12 spaces \$20 per space per month                  N/A                  No                  \$15,000                  N/A</p>		
<p><b>Building Attributes</b>                  Sub Market Area                  Type of Property                  Building Class &amp; Age                  Number of Floors                  Ceiling Height                  Column Spacing                  Office Area                  Air Conditioning                  Elevators                  Loading Docks                  Overhead Doors                  Power                  Sprinklers                  Signage                  Storage Yard                  Rail                  Security                  Property Manager</p>		 <p style="text-align: center;"><b>Floor Plan</b></p>  <p style="text-align: center;"><b>Great location. Downtown Seattle</b></p>	
<p>Seattle Downtown Industrial                  Industrial Distribution                  35 years Masonary Class C                  1                  18 feet clear                  16 Ft x 16 ft                  1,200 Sq. Ft                  Office area                  No                  Two. Dock High                  Two. 8 Ft x 8 Ft                  200 Amp, 560 volt, 3 phase                  Yes                  Visible from the I5                  No                  No                  No                  By owner</p>			

## Lease Summary Report

### Page 2. Financial Summary

		<b>Lease Summary</b>		May 30, 2011
		Lakewood Industrial Building Unit No. 3 Apex Manufacturing		Investor Pro Lease Analysis Tenant Indust Single Space
Financial Summary				
Analysis Period: 10 years				
		Before Tax	After Tax	
Total Net Cash Flow		\$ 1,232,034	\$ 804,322	
Average Annual Net Cash Flow		\$ 123,203	\$ 80,432	
Average Monthly Net Cash Flow		\$ 10,267	\$ 6,703	
Average Rent Rates				
Based on Rentable Area				
Average Effective Annual Rate		\$ 20.53 Sq. Ft per Yr	\$ 13.41 Sq. Ft per Yr	
Average Effective Monthly Rate		\$ 1.71 Sq. Ft per Yr	\$ 1.12 Sq. Ft per Yr	
Net Present Value and Net Effective Rent				
Net Present Value (NPV)		\$ 737,874	\$ 568,745	
NPV Discount Rate		10.00%	6.50%	
Based on Rentable Area				
Net Effective Rent Yearly		\$ 12.30 Sq. Ft per Yr	\$ 9.48 Sq. Ft per Yr	
Net Effective Rent Monthly		\$ 1.02 Sq. Ft per Yr	\$ 0.79 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

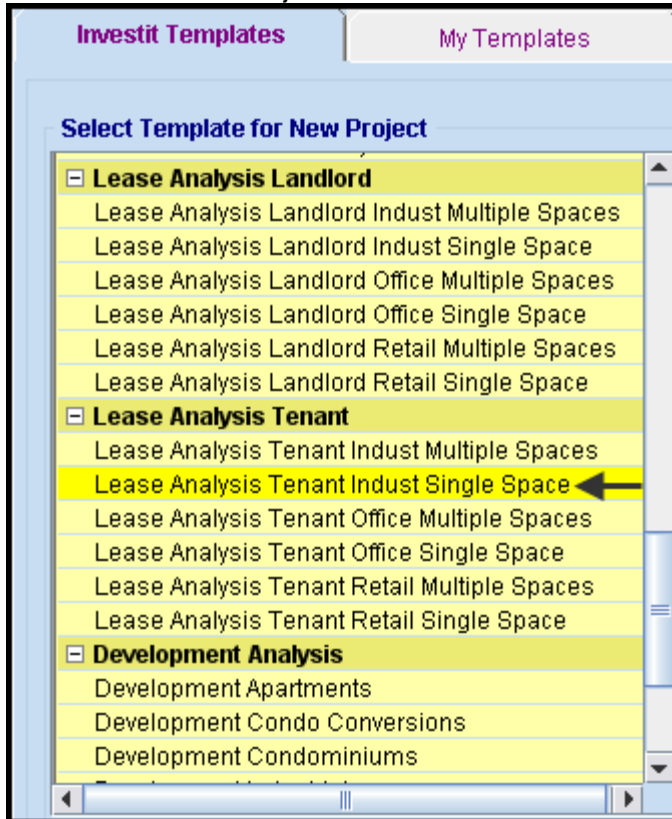
Visit the Investit **Online Learning Center** to learn how to import photos and images.

## INSTRUCTIONS FOR ENTERING THE PROJECT INTO INVESTOR PRO

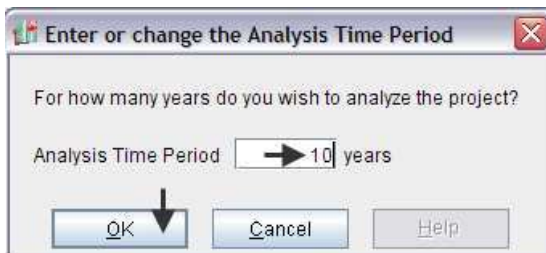
### Getting started

The first step is to open the Investor Pro Template “Lease Analysis Tenant Indust 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 Indust 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: Lakewood Industrial Building
2. Enter Description: Unit No. 3 Apex Manufacturing
3. Enter the Rentable Area: 6,000 Sq. ft

The screenshot shows the 'PROJECT INFO' folder with the following data entered:

- Property Name:** Lakewood Industrial Building
- Description:** Unit No. 3 Apex Manufacturing
- Analysis Time Period:** 10 Years
- Entry Information:** Monthly
- Starting Date:** January Year 1
- Tenant Rentable Area:** 6,000 Sq. Ft

### 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	<b>Leasehold Improvements</b>	Leasing Expenses	Sublease Revenue	Vacancy	Financing	Termination
<b>Leasehold Improvements</b>							
Inflate							
Description	Amount	Year	Month	Depreciation Method	Recovery Period [yrs]		
Leasehold Improvements ←	\$ 15,000	Year 1	Jan	Commercial Prop. St Line	39.0		
Enter ↑		Select ↑					

## LEASING EXPENSES Folder

### Base Rent

\$14.00 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

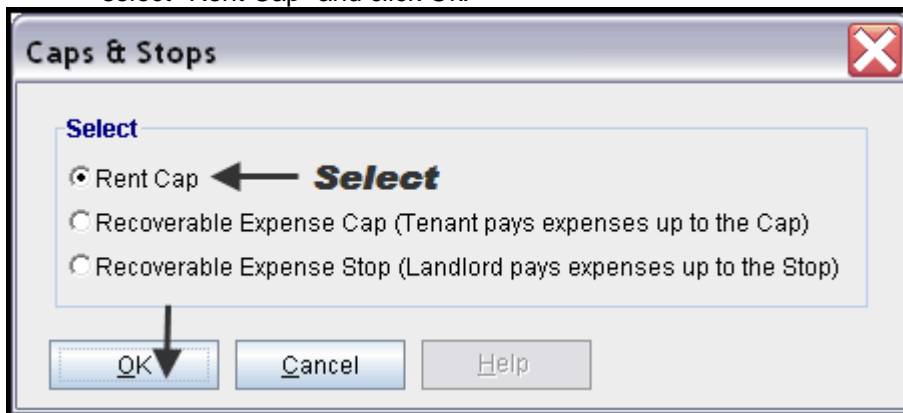
### Additional Rent (TIM's)

\$4.00 per Unit of Tenant's Rentable Area per Yr paid monthly for 12 months then increasing at 3.00% compounding per year

### Parking

12 spaces at \$20 per month for 12 months then increasing at 4.00% compounding until the end of the lease. The parking is subject to a **Rent Cap** of \$300 per month for the 10 year period. This means that the maximum that will be paid by the tenant for parking per month is \$300

1. Select row with Description ' Additional Rent (TIM's)'
2. Click on the  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

3. Enter the Parking Qty as follows

Project Info.	Tenant	Leasehold Improvements	Leasing Expenses	Sublease Revenue	Vacancy	Financing	Termination
<b>Leasing Expenses</b>							
Description	Entry Choice	Qty	Year 1 Jan...	Year 1 Feb...	Year 1 Mar...	Year 1 .	
Base Rent	\$ per Unit of Total Rentable Area per Yr	6,000	\$ 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 per Yr	6,000	\$ 0.00	\$ 0.00	\$ 0.00		
Parking	\$ per Space per Mo	12	\$ 0.00	\$ 0.00	\$ 0.00		

Using Projection Wizard enter and project the Base Rent

**Projection Wizard**

**Entry Information**  
 Description: Base Rent  
 Entry Choice: \$ per Unit of Total Rentable Area per Yr

**Projections**

**Select**

Paid	Project Entry Using...	Entry	Term	Start Date		Time Period			Increase	Cont. Proj
				Year	Month	To End	Yrs	Mos		
Monthly	Stepped Proj. (Lease)	\$ 14.00	1	Year 1	Jan	5	0	3.00%		
			2	Year 6	Jan	<input checked="" type="checkbox"/>	5	0		

*Enter* (pointing to \$ 14.00), *Check* (pointing to To End checkbox), *Enter* (pointing to Increase 3.00%)

**Stepped Projection**

New value at "End of Term" based on:

Annual Compounding Rate Increase *Check*

Enter Value

\$ Increase

% Increase

No. of Time Periods:  *Enter*

Show Example ->

OK Cancel Help

Enter the Free Rent Directly into the grid

Project Info.	Tenant	Leasehold Improvements	Leasing Expenses	Sublease Revenue	Vacancy	Financing	Termination
<b>Leasing Expenses</b>							
Description	Entry Choice	Qty	Year 1 Jan...	Year 1 Feb...	Year 1 Mar...	Year 1 .	
Base Rent	\$ per Unit of Total Rentable Area per Yr	6,000	\$ 14.00	\$ 14.00	\$ 14.00		
Free Rent	% of Rent	—	100.00%	100.00%	0.00%		
Additional Rent (TIM's)	\$ per Unit of Total Rentable Area per Yr	6,000	\$ 0.00	\$ 0.00	\$ 0.00		
Parking	\$ per Space per Mo	12	\$ 0.00	\$ 0.00	\$ 0.00		

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 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	\$ 4.00	Year 1	Jan	<input checked="" type="checkbox"/>	10	0	3.00%	

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

Using Projection Wizard enter and project the Parking

**Projection Wizard**

**Entry Information**  
 Description: Parking  
 Entry Choice: \$ per Space per Mo

**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	\$ 20.00	Year 1	Jan	<input checked="" type="checkbox"/>	10	0	4.00%	

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

Using Projection Wizard enter and project the Rent Cap

**Projection Wizard**

**Entry Information**  
 Description: Rent 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)	\$ 300	Year 1	Jan	<input checked="" type="checkbox"/>	10	0		

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

**SUBLEASE REVENUE Folder**

Tenant is not planning to sublease any of the space

### **VACANCY Folder**

This analysis assumes no vacancy

### **FINANCING Folder**

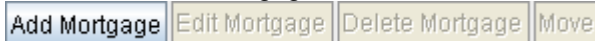
#### **Mortgage (Borrowing)**

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

Description: Bank Loan  
Commencing: Year 1 January  
Type: Standard Mortgage  
Amount: \$12,000  
Time Period: 10 years  
Amortization: 10 years  
Nominal Interest Rate: 8.00%  
Compounding Frequency: Monthly

Setting up a mortgage

1. Click on the Financing folder tab
2. Click on the Add Mortgage button
3. Amount box: \$12,000
4. Description box: "Bank Loan"
5. Time Period box: 10 Years
6. Amortization box: 10 Years
7. Nominal Interest Rate box: 8.00%



A horizontal row of four buttons: "Add Mortgage" (highlighted in blue), "Edit Mortgage", "Delete Mortgage", and "Move".

The mortgage dialog should look like this;

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

Your Financing folder should appear like this;

Mortgage (Borrowing)			
Description	Type	Amount	Start Date
Bank Loan	Standard Mortgage	\$ 12,000	Year 1 Jan

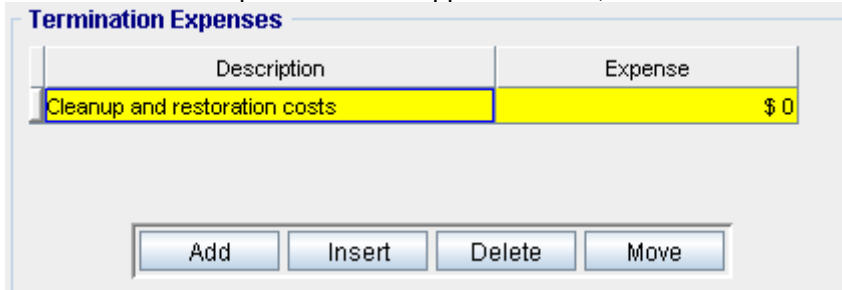
1. Click on the Termination Tab

### TERMINATION EXPENSES

Cost incurred by the tenant at the end of the lease for cleaning up the space.

Cleanup and restoration costs \$10,000

The Termination Expenses should appear like this;



**Termination Expenses**

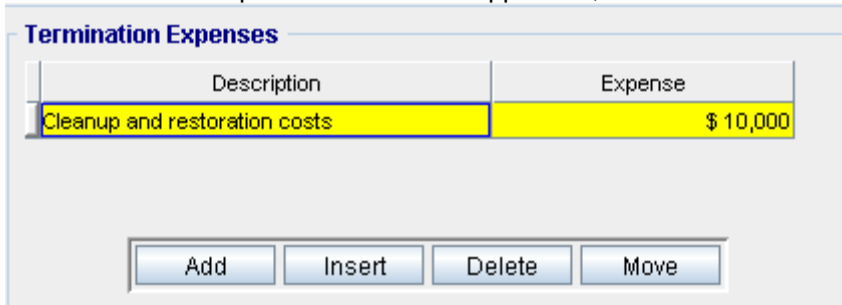
Description	Expense
Cleanup and restoration costs	\$ 0

Add Insert Delete Move

Entering the Termination Costs

1. Expense column: \$10,000

The Termination Expenses should now appear as;



**Termination Expenses**

Description	Expense
Cleanup and restoration costs	\$ 10,000

Add Insert Delete Move

### SAVE YOUR PROJECT

#### CHECKING YOUR ENTRIES

You can compare your project against the Investit example "Lease Analysis Tenant Indust Single Space"