LEASE ANALYSIS TENANT OFFICE USA EXAMPLE
TENANT RENTING SINGLE SPACE

INTRODUCTION

This Lease Analysis example analyses an office lease from a tenant's perspective where the tenant is renting one space in the building and uses the Investor Pro "Lease Analysis Tenant Office Single Space" template.

If the tenant rents several spaces in the building the Investor Pro "Lease Analysis Tenant 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
Description: 306 CTA Realty
Analysis Period: 10 Years
Starting Date: Year 1 Jan
Rentable Area: 5,900 Sq. ft
Usable Area: 5,200 Sq. ft

TENANT 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

LEASING EXPENSES 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

Additional Rent (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

SUBLEASE REVENUE Folder

The tenant has subleased 2,400 Sq. Ft of Suite 105

Base Rent: $27 per Sq Ft per year paid monthly for two years
Additional Rent: $9 per Sq Ft per year paid monthly for two years. **Subject to a Rent Cap** of $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 tenant to fund tenant and other improvements associated with the space being rented

Mortgage (Borrowing)

Description: Bank Loan for Improvements
Commencing: Year 1 January 1
Type: Standard Mortgage
Amount: $15,000
Time Period: 5 years
Amortization: 5 years
Nominal Interest Rate: 7.00%
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: $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:

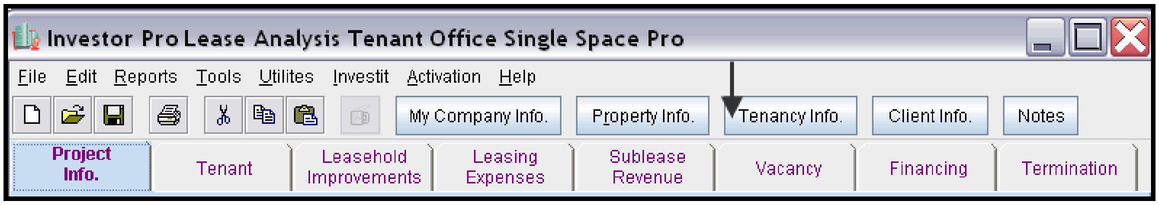
1. Lease Information
2. Building Attributes

The Tenancy Information appears on the following reports;

Lease Summary Report which shows;

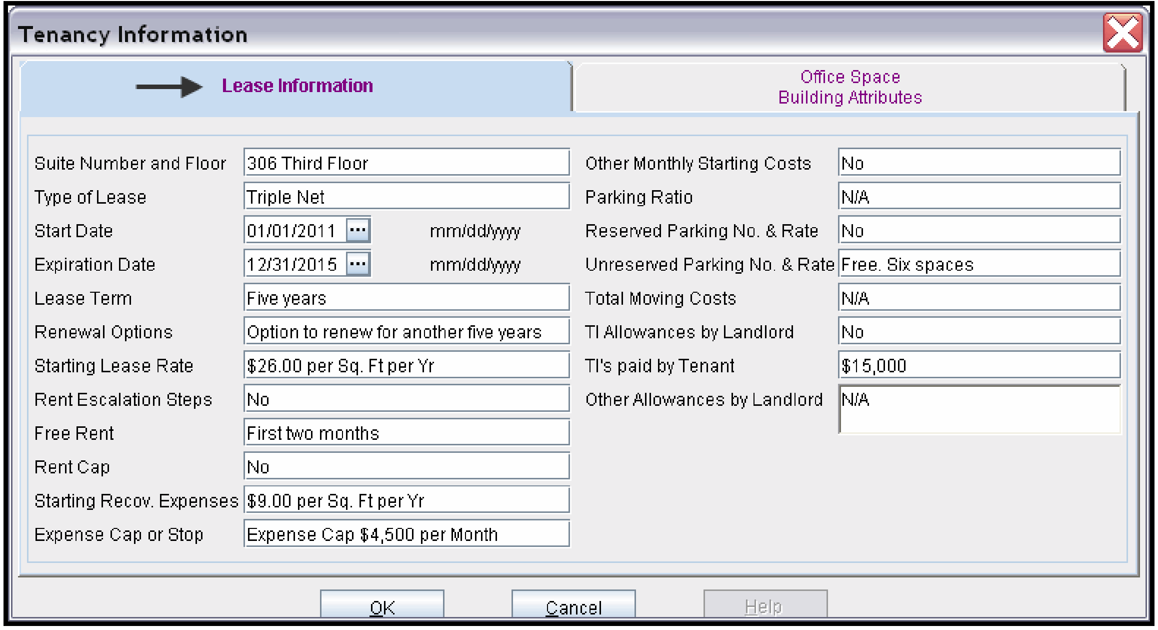
- Tenancy Information
- Building Attributes
- Financial Summary
- Photos and Images
  - Building
  - Floor Plan
  - Site Plan
  - Location Map

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


Investor Pro Lease Analysis Tenant Office Single Space Pro
File
Edit
Reports
Tools
Utilites
Investit
Activation
Help
My Company Info.
Property Info.
Tenancy Info.
Client Info.
Notes
Project Info.
Tenant
Leasehold Improvements
Leasing Expenses
Sublease Revenue
Vacancy
Financing
Termination

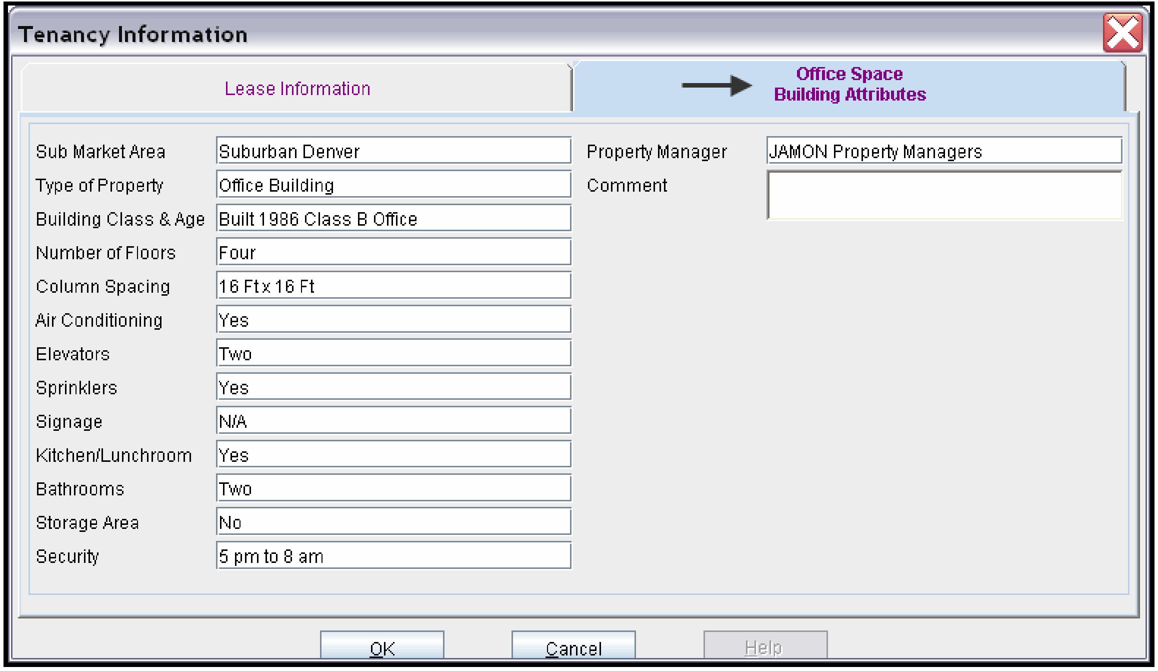
Following is the completed “Lease Information” and “Building Attribute” screens

Lease Information entries for the example


Tenancy Information
Lease Information
Office Space Building Attributes
OK
Cancel
Help

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	No
Starting Lease Rate	$26.00 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	No		
Starting Recov. Expenses	$9.00 per Sq. Ft per Yr		
Expense Cap or Stop	Expense Cap $4,500 per Month		

Building Attribute entries for the example

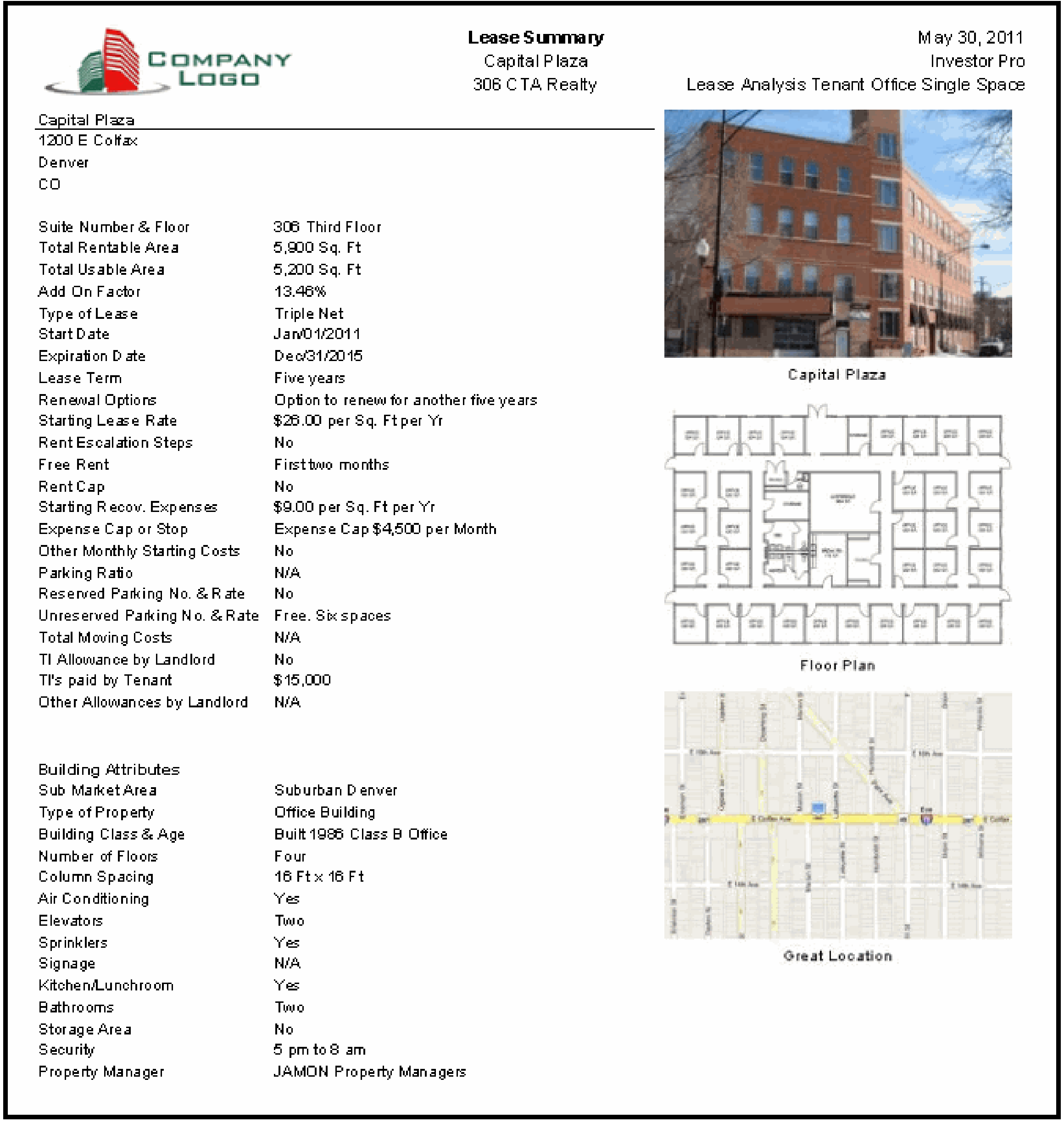

Tenancy Information
Lease Information
Office Space Building Attributes
OK
Cancel
Help

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		

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



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

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

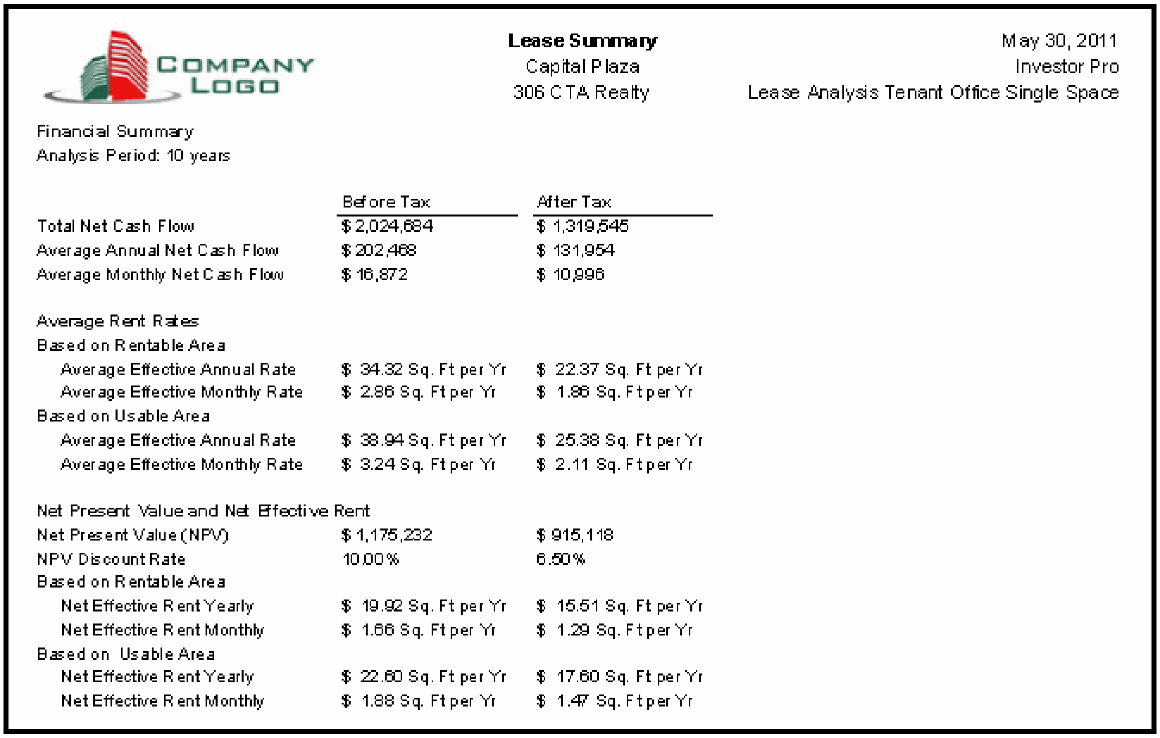
Capital Plaza

Floor Plan

Great Location

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

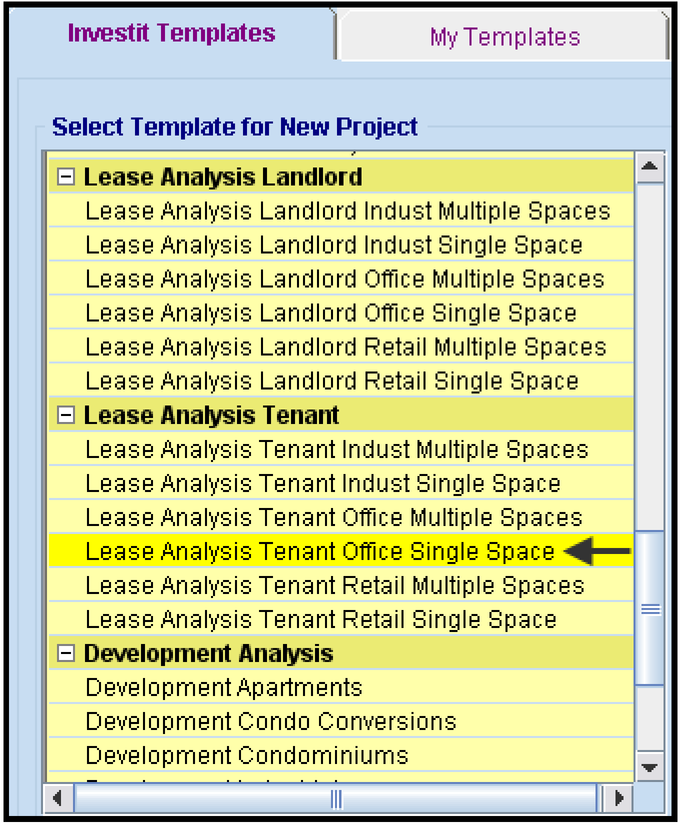
Visit the Investit **Online Learning Center** to learn how to import photos and images.

INSTRUCTIONS FOR ENTERING THE PROJECT INTO INVESTOR PRO

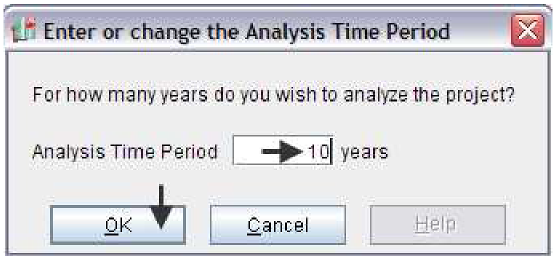
Getting started

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


Investit Templates
My Templates
Select Template for New Project
Lease Analysis Landlord
Lease Analysis Landlord Indust Multiple Spaces
Lease Analysis Landlord Indust Single Space
Lease Analysis Landlord Office Multiple Spaces
Lease Analysis Landlord Office Single Space
Lease Analysis Landlord Retail Multiple Spaces
Lease Analysis Landlord Retail Single Space
Lease Analysis Tenant
Lease Analysis Tenant Indust Multiple Spaces
Lease Analysis Tenant Indust Single Space
Lease Analysis Tenant Office Multiple Spaces
Lease Analysis Tenant Office Single Space
Lease Analysis Tenant Retail Multiple Spaces
Lease Analysis Tenant Retail Single Space
Development Analysis
Development Apartments
Development Condo Conversions
Development Condominiums

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


Enter or change the Analysis Time Period
OK
Cancel
Help

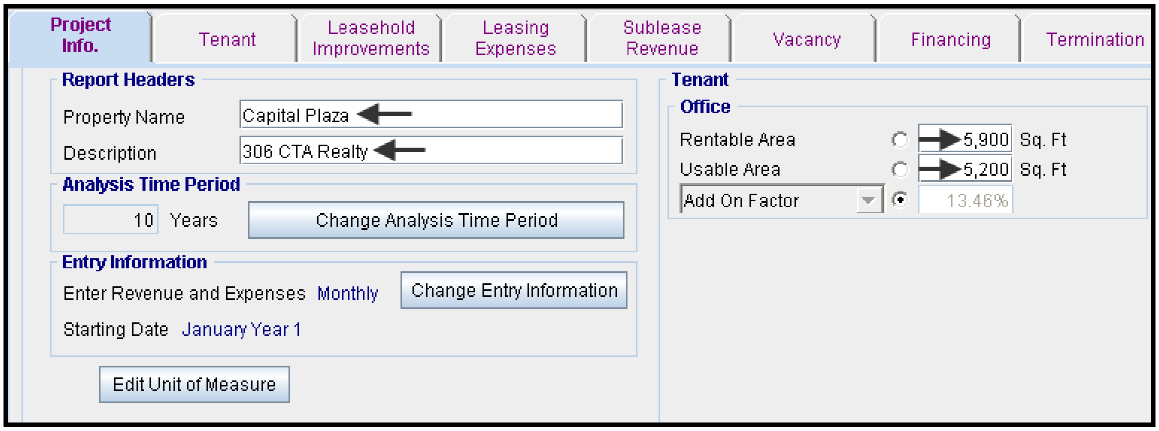
For how many years do you wish to analyze the project?

Analysis Time Period 10 years

Entering the project data and information

PROJECT INFO Folder

1. Enter the Property Name: Capital Plaza
2. Enter Description: 306 CTA Realty
3. Enter the Rentable Area: 5,900 Sq. Ft
4. Enter the Usable Area: 5,200 Sq. Ft


Project Info.
Tenant
Leasehold Improvements
Leasing Expenses
Sublease Revenue
Vacancy
Financing
Termination
Change Analysis Time Period
Change Entry Information
Edit Unit of Measure

Report Headers
Property Name: Capital Plaza
Description: 306 CTA Realty

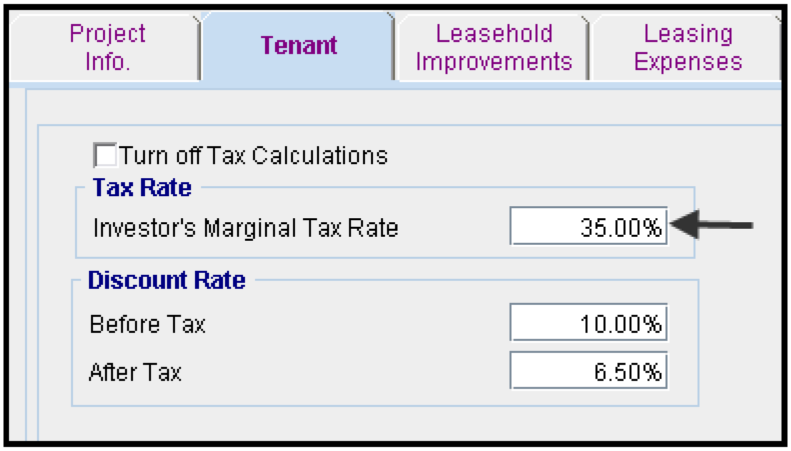
Analysis Time Period
10 Years

Entry Information
Enter Revenue and Expenses: Monthly
Starting Date: January Year 1

Tenant
Office
Rentable Area ○ 5,900 Sq. Ft
Usable Area ○ 5,200 Sq. Ft
Add On Factor ● 13.46%

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


Project Info.
Tenant
Leasehold Improvements
Leasing Expenses

☐ Turn off Tax Calculations

Tax Rate
Investor's Marginal Tax Rate: 35.00%

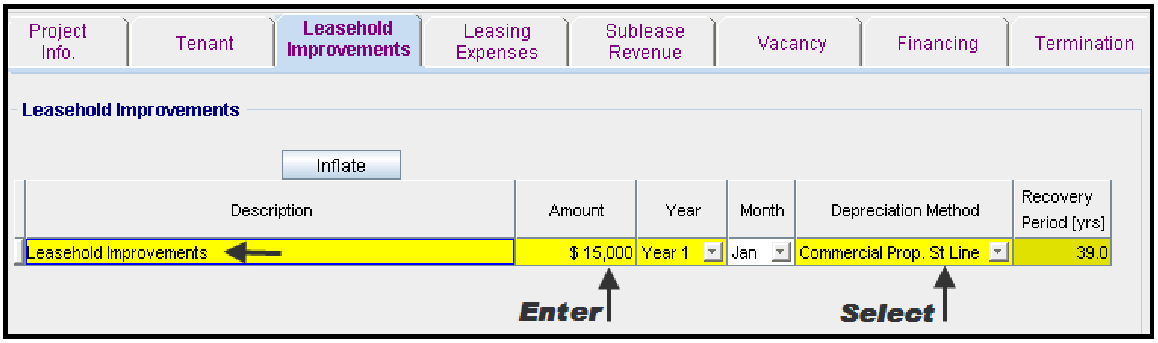
Discount Rate
Before Tax: 10.00%
After Tax: 6.50%

LEASEHOLD IMPROVEMENTS Folder

First Row

1. Enter the Amount: $15,000

Your entries for the Leasehold improvements should look like this;


Project Info.
Tenant
Leasehold Improvements
Leasing Expenses
Sublease Revenue
Vacancy
Financing
Termination
Inflate
Enter
Select

Leasehold Improvements

Description	Amount	Year	Month	Depreciation Method	Recovery Period [yrs]
Leasehold Improvements	$ 15,000	Year 1	Jan	Commercial Prop. St Line	39.0

LEASING EXPENSES Folder

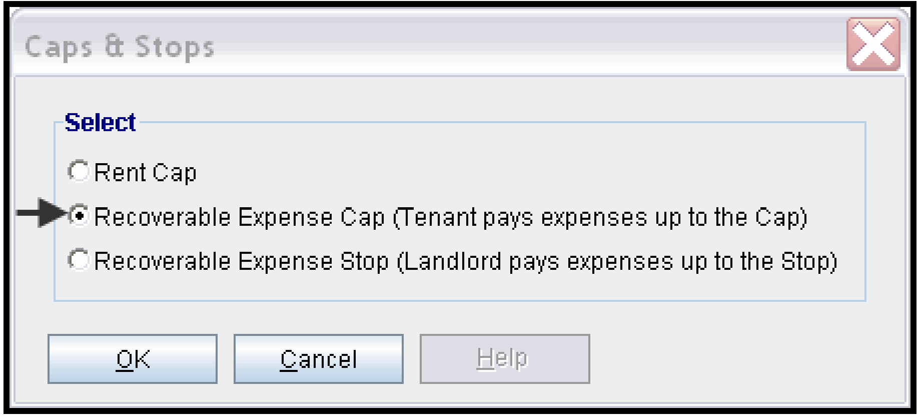
Base Rent
$26.00 per Unit of Tenant’s Rentable Area per Yr paid monthly. Two terms of 5 years. Increase for the second term base on 3.00% compounding for five years

Free Rent
First two months. 100% of Base Rent

Additional Rent (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

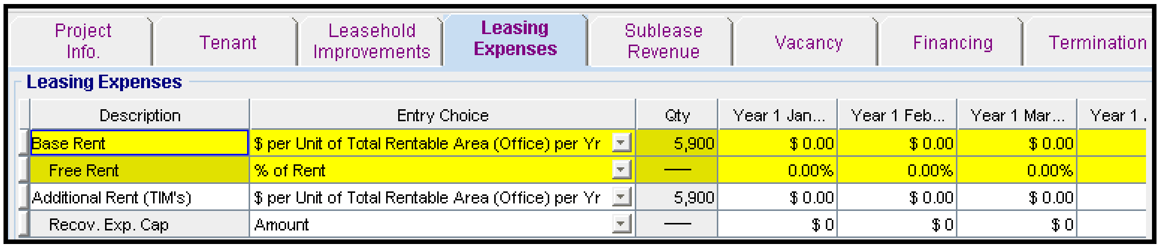
1. Select row with Description 'Parking' and click on the delete button
2. Select row with Description ‘Recoverable Expenses (TIM's)’
3. Click on the Apply Cap or Stop button to access the Rent Cap & Stop dialog and select “Recov. Exp. Cap” and click Ok.


Caps & Stops
OK
Cancel
Help

Select

○ Rent Cap
● Recoverable Expense Cap (Tenant pays expenses up to the Cap)
○ Recoverable Expense Stop (Landlord pays expenses up to the Stop)

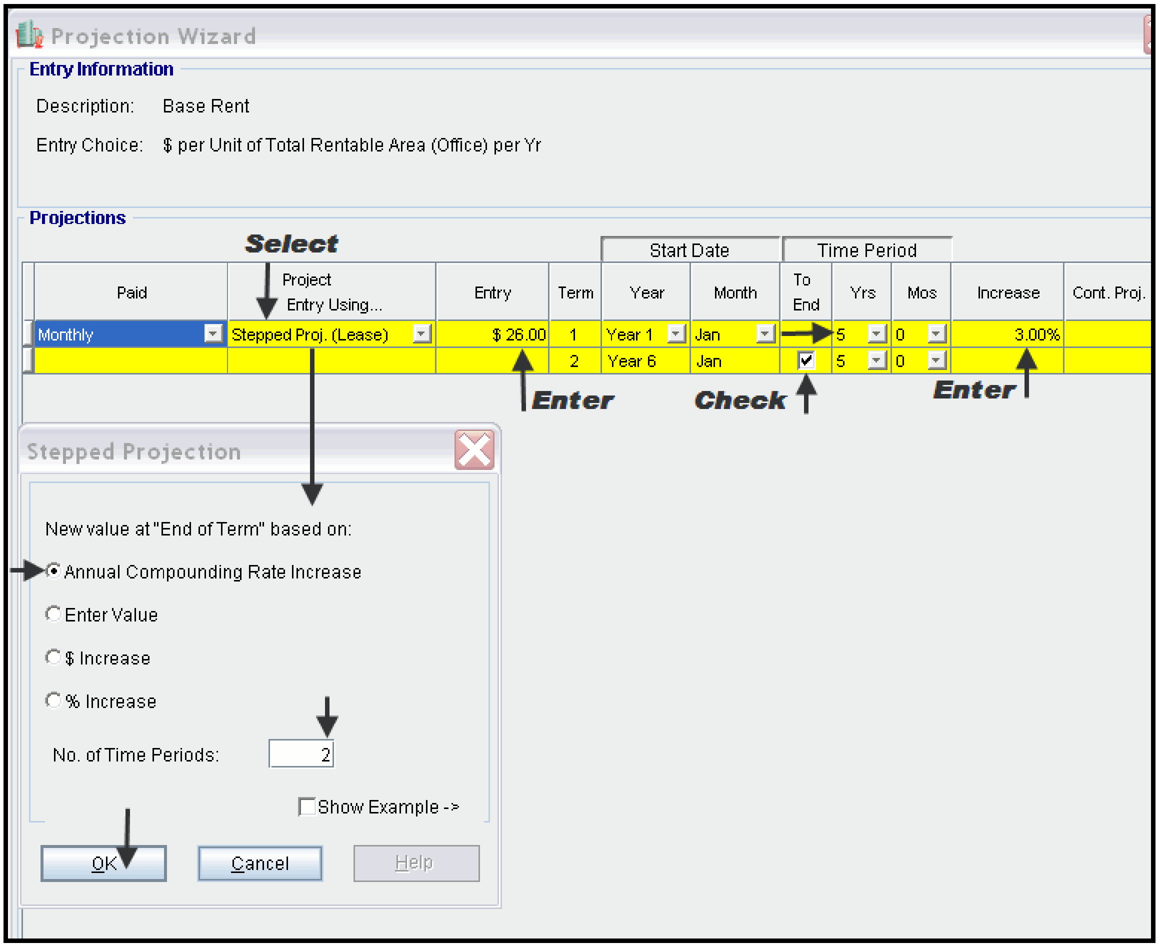
The completed screen


Project Info.
Tenant
Leasehold Improvements
Leasing Expenses
Sublease Revenue
Vacancy
Financing
Termination

Leasing Expenses

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%	
Additional Rent (TIM's)	$ per Unit of Total Rentable Area (Office) per Yr	5,900	$ 0.00	$ 0.00	$ 0.00	
Recov. Exp. Cap	Amount	—	$ 0	$ 0	$ 0	

Using Projection Wizard enter and project the Base Rent


Projection Wizard
Select
Enter
Check
Enter

Entry Information

Description: Base Rent

Entry Choice: $ per Unit of Total Rentable Area (Office) per Yr

Projections

Paid	Project Entry Using...	Entry	Term	Start Date Year	Start Date Month	Time Period To End	Time Period Yrs	Time Period Mos	Increase	Cont. Proj.
Monthly	Stepped Proj. (Lease)	$ 26.00	1	Year 1	Jan		5	0	3.00%	
			2	Year 6	Jan	☑	5	0		

Stepped Projection

New value at "End of Term" based on:

● Annual Compounding Rate Increase

○ Enter Value

○ $ Increase

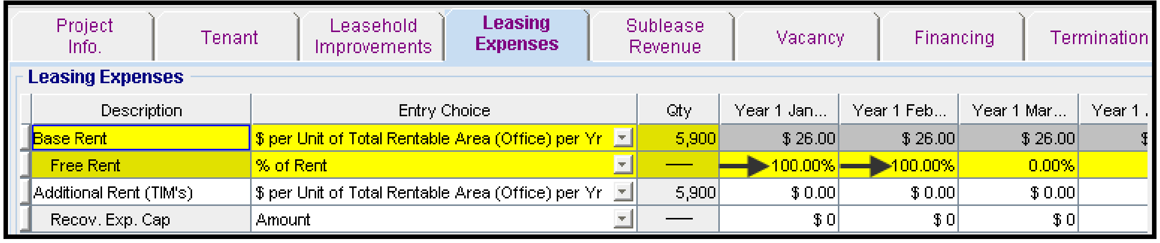
○ % Increase

No. of Time Periods: 2

☐ Show Example ->

OK
Cancel
Help

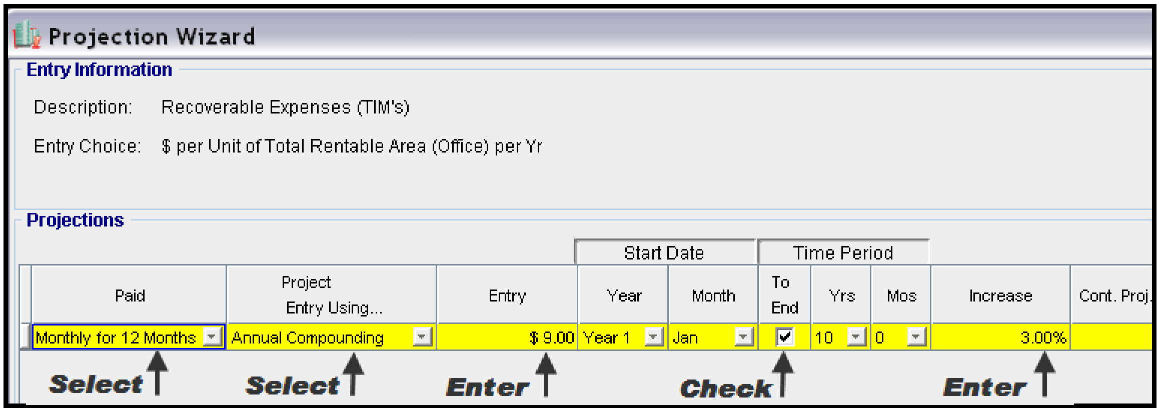
Enter the Free Rent Directly into the grid


Project Info.
Tenant
Leasehold Improvements
Leasing Expenses
Sublease Revenue
Vacancy
Financing
Termination

Leasing Expenses

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	$ 26.00	$ 26.00	$ 26.00	$
Free Rent	% of Rent	—	100.00%	100.00%	0.00%	
Additional Rent (TIM's)	$ per Unit of Total Rentable Area (Office) per Yr	5,900	$ 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

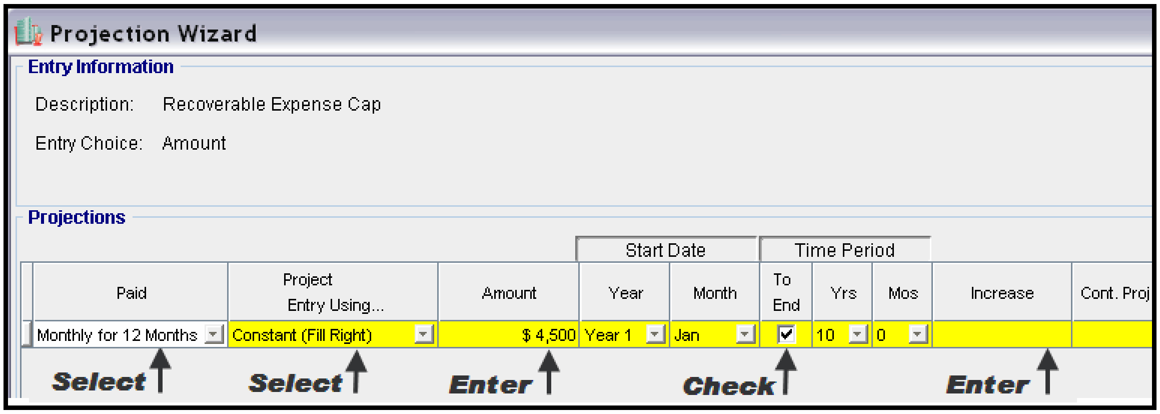
Description: Recoverable Expenses (TIM's)

Entry Choice: $ per Unit of Total Rentable Area (Office) per Yr

Projections

Paid	Project Entry Using...	Entry	Start Date Year	Start Date Month	Time Period To End	Time Period Yrs	Time Period Mos	Increase	Cont. Proj.
Monthly for 12 Months	Annual Compounding	$ 9.00	Year 1	Jan	☑	10	0	3.00%	

Using Projection Wizard enter and project the Recoverable Expense Cap



Projection Wizard

Entry Information

Description: Recoverable Expense Cap

Entry Choice: Amount

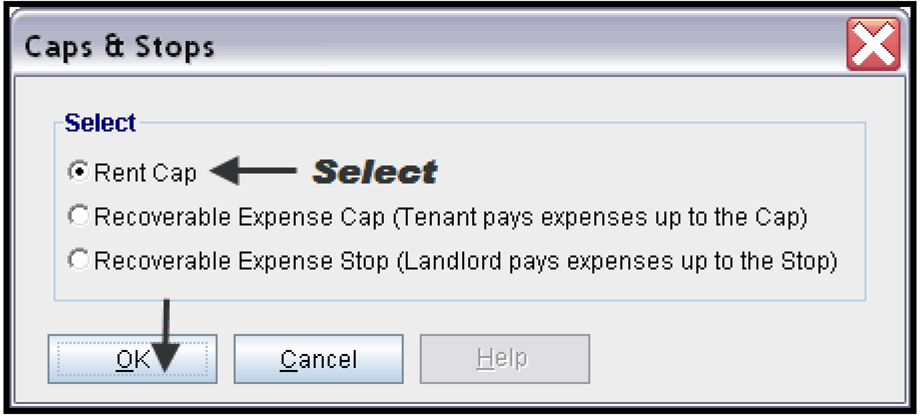
Projections

Paid	Project Entry Using...	Amount	Start Date Year	Start Date Month	Time Period To End	Time Period Yrs	Time Period Mos	Increase	Cont. Proj
Monthly for 12 Months	Constant (Fill Right)	$ 4,500	Year 1	Jan	☑	10	0		

SUBLEASE REVENUE Folder
The tenant has subleased 2,400 Sq. Ft of Suite 105

Base Rent: $27 per Sq Ft per year paid monthly for two years
Additional Rent: $9 per Sq Ft per year paid monthly for two years

1. Select row with Description 'Parking' and click on the delete button
2. Select row with Description 'Additional Rent (TIM's)'
3. Click on the Apply Cap or Stop button to access the Rent Cap & Stop dialog and select "Rent Cap" and click Ok.



Caps & Stops

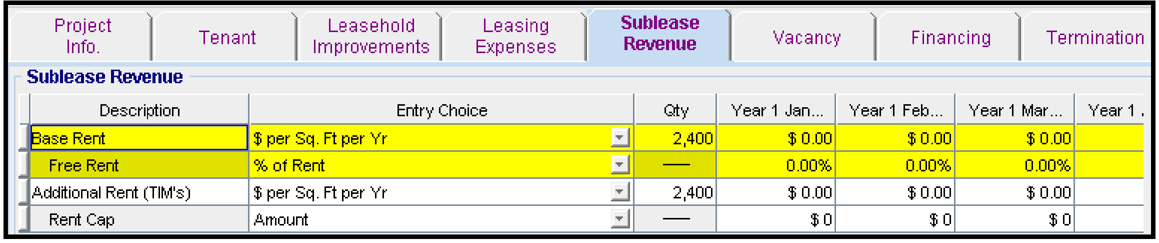
Select

● Rent Cap

○ Recoverable Expense Cap (Tenant pays expenses up to the Cap)

○ Recoverable Expense Stop (Landlord pays expenses up to the Stop)

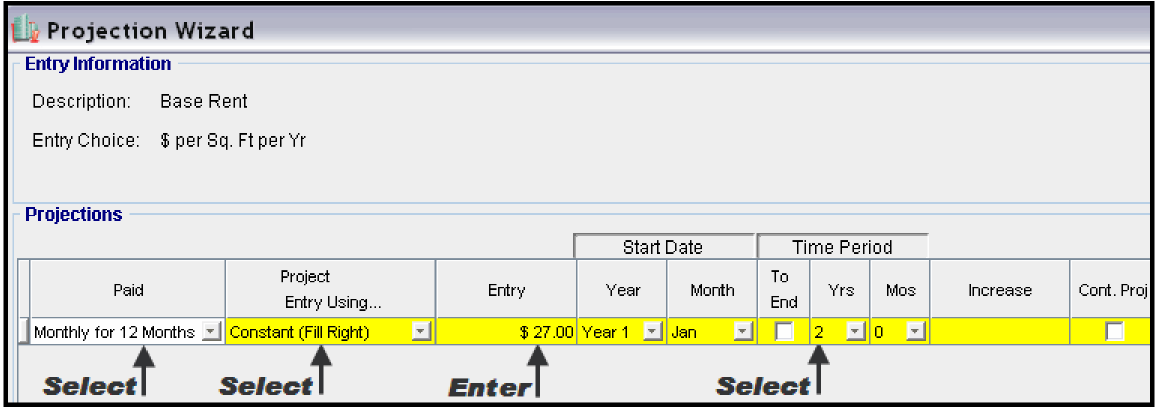
4. Enter Qty as follows;


Project Info.
Tenant
Leasehold Improvements
Leasing Expenses
Sublease Revenue
Vacancy
Financing
Termination

Sublease Revenue

Description	Entry Choice	Qty	Year 1 Jan...	Year 1 Feb...	Year 1 Mar...	Year 1 .
Base Rent	$ per Sq. Ft per Yr	2,400	$ 0.00	$ 0.00	$ 0.00	
Free Rent	% of Rent	—	0.00%	0.00%	0.00%	
Additional Rent (TIM's)	$ per Sq. Ft per Yr	2,400	$ 0.00	$ 0.00	$ 0.00	
Rent Cap	Amount	—	$ 0	$ 0	$ 0	

Using Projection Wizard enter and project the Base Rent


Projection Wizard
Select
Select
Enter
Select

Entry Information

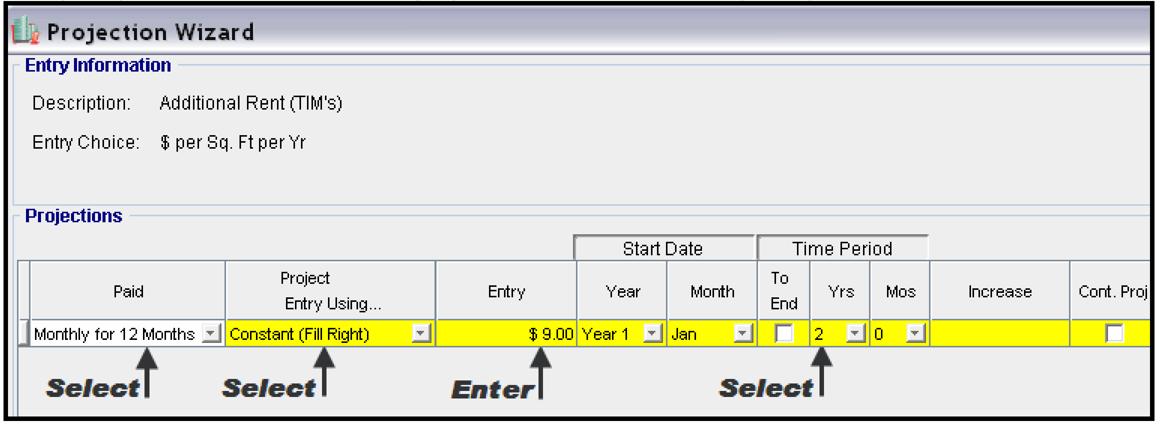
Description: Base Rent

Entry Choice: $ per Sq. Ft per Yr

Projections

Paid	Project Entry Using...	Entry	Start Date Year	Start Date Month	Time Period To End	Time Period Yrs	Time Period Mos	Increase	Cont. Proj
Monthly for 12 Months	Constant (Fill Right)	$ 27.00	Year 1	Jan	☐	2	0		☐

Using Projection Wizard enter and project the Additional Rent (TIM's)


Projection Wizard
Select
Select
Enter
Select

Entry Information

Description: Additional Rent (TIM's)

Entry Choice: $ per Sq. Ft per Yr

Projections

Paid	Project Entry Using...	Entry	Start Date Year	Start Date Month	Time Period To End	Time Period Yrs	Time Period Mos	Increase	Cont. Proj
Monthly for 12 Months	Constant (Fill Right)	$ 9.00	Year 1	Jan	☐	2	0		☐

VACANCY Folder

This analysis assumes no sublease vacancies

Select the Financing tab

FINANCING Folder

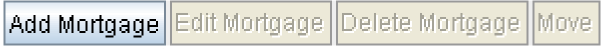
Mortgage (Borrowing)

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

Description: Bank Loan for Improvements
Commencing: Year 1 January 1
Type: Standard Mortgage
Amount: $15,000
Time Period: 5 years
Amortization: 5 years
Nominal Interest Rate: 7.00%
Compounding Frequency: Monthly

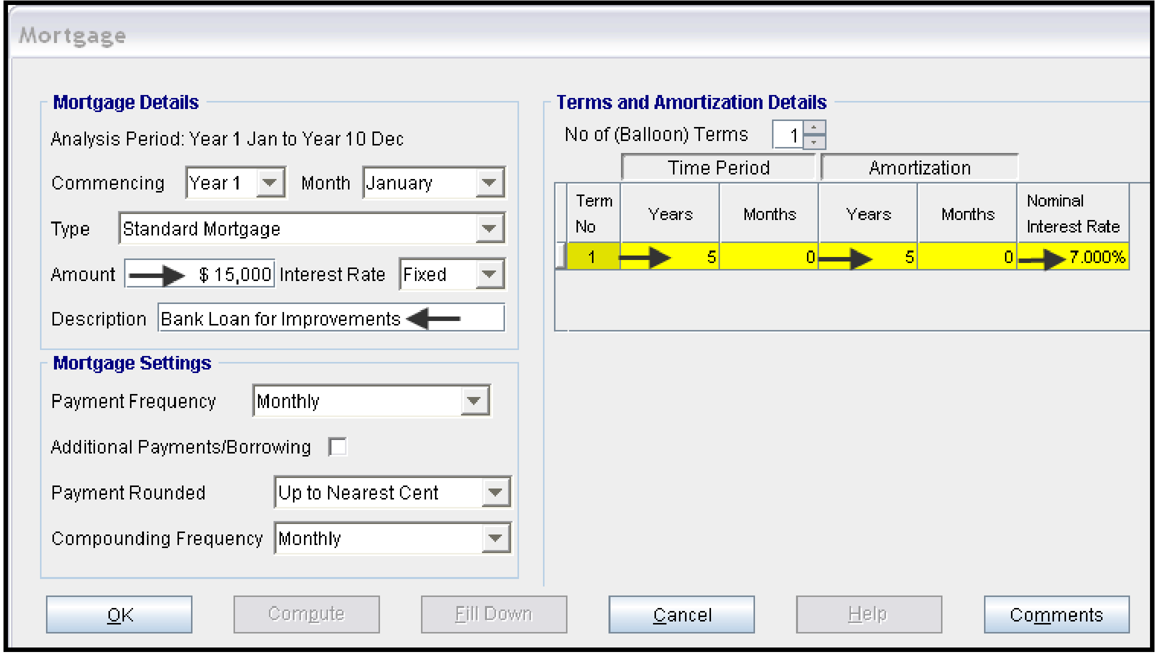
Setting up a mortgage

1. Click on the Add Mortgage button



2. Amount box: $15,000
3. Description box: "Bank Loan for Improvements"
4. Time Period box: 5 Years
5. Amortization box: 5 Years
6. Nominal Interest Rate box: 7.00%

The mortgage dialog should look like this;



Mortgage Details

Analysis Period: Year 1 Jan to Year 10 Dec

Commencing: Year 1 Month: January

Type: Standard Mortgage

Amount: $ 15,000 Interest Rate: Fixed

Description: Bank Loan for Improvements

Mortgage Settings

Payment Frequency: Monthly

Additional Payments/Borrowing ☐

Payment Rounded: Up to Nearest Cent

Compounding Frequency: Monthly

Terms and Amortization Details

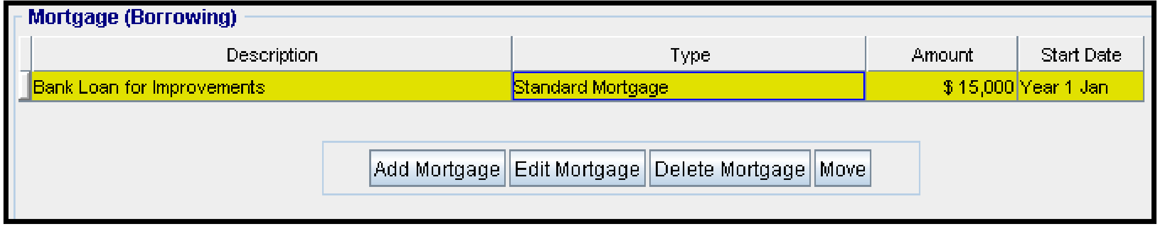
No of (Balloon) Terms: 1

	Time Period		Amortization		
Term No	Years	Months	Years	Months	Nominal Interest Rate
1	5	0	5	0	7.000%

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)

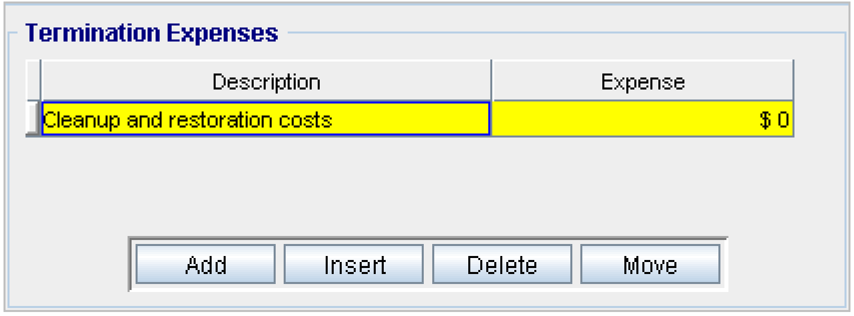
Description	Type	Amount	Start Date
Bank Loan for Improvements	Standard Mortgage	$ 15,000	Year 1 Jan

Add Mortgage
Edit Mortgage
Delete Mortgage
Move

TERMINATION Folder
Cost incurred by the tenant at the end of the lease for cleaning up the two spaces.

Cleanup and restoration costs $10,000

The Termination Expenses should appear like this;



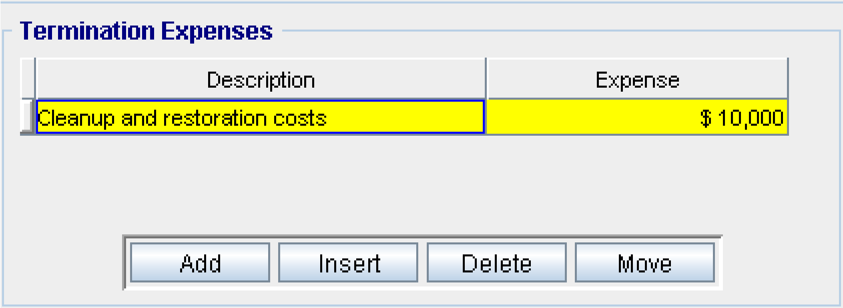
Termination Expenses

Description	Expense
Cleanup and restoration costs	$ 0

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

SAVE YOUR PROJECT

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