LEASE ANALYSIS TENANT RETAIL USA EXAMPLE

INTRODUCTION
This Lease Analysis example analyses a retail lease from a tenant's perspective.

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

Sport's Affair is considering renting two spaces in the shopping center;

Unit 1A Gross Leasable Area: 20,000 Sq. Ft
Unit 20 Gross Leasable Area: 12,000 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: Retail Lease Analysis Tenant Perspective
Starting Date: Year 1 Jan
Tenant: Sport's Affair
Analysis Period: 10 Years

TENANT Folder
Marginal Tax Rate: 35.00%
Discount Rate: Before Tax 13.00%

LEASEHOLD IMPROVEMENTS Folder

Unit No. 1A
Description: Unit 1A Leasehold Improvements
Amount: $96,000
Year 1 Jan
Depreciation Method: Commercial Prop. St Line

Unit No. 20
Description: Unit 20 Leasehold Improvements
Amount: $25,000
Year 1 Jan
Depreciation Method: Commercial Prop. St Line

GENERAL EXPENSES Folder
General Expenses are expenses paid by the tenant to the landlord that are common to the two spaces being rented by the tenant which are Unit 1A and Unit 20.

Note: If the tenant only occupies one space there wouldn't be any General Expenses to enter.

Sign Rental
 $1,200 per month for 12 months then increasing at 3.00% compounding per year.

Parking
30 parking spaces at $35 per month for 12 months then increasing at 3.00% compounding per year for 9 years.

SUBLEASE REVENUE Folder
The tenant has subleased 2,400 Sq. Ft of Unit 20 at $23 per Sq Ft per year paid monthly for two years

LEASING EXPENSES Folders
Consists of two folders
1. **Tenancy Information Folder** Used to enter information on the tenancy
2. **Rent Folder** Used to enter the rent, parking, additional rent etc paid by the tenant to the landlord

TENANCY INFORMATION Folder
Suite/Unit No: No. 1A
Tenant Name: Sport's Affair
Gross Leasable Area: 20,000 Sq. Ft

Suite/Unit No: No. 20
Tenant Name: Sport's Affair
Gross Leasable Area: 12,000 Sq. Ft

RENT Folder
Use to enter the rent, parking, additional rent etc., paid by the tenant as follows;

   Unit 1A Sports Affair. Gross Leasable Area: 20,000 Sq. Ft

   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 three 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	$600,000
Feb	$600,000
Mar	$600,000
Apr	$600,000
May	$800,000
June	$800,000
July	$800,000
Aug	$800,000
Sept	$800,000
Oct	$900,000
Nov	$1,000,000
Dec	$1,300,000

   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 3.00% compounding per year. **Subject to a Recoverable Expense Cap** of $17,000 per month. This means that the maximum Additional Rent (TIM's) the tenant will pay is $17,000 per month.

Unit 29 Second Floor Sports Affair Office space. Gross Leasable Area: 12,000 Sq. Ft

Base Rent

$17.00 per Unit of Tenant's GLA per Yr paid monthly. Two terms of 5 years. Increase for the second term based on 3.00% compounding for five years

Additional Rent (TIM's)

$8.00 per it of Tenant's GLA per Yr paid monthly for 12 months then increasing at 3.00% compounding per year. **Subject to a Recoverable Expense Stop** of $9,500 per month. This means that the Tenant doesn't pay any Additional Rent (TIM's) until the Additional Rent (TIM's) exceeds $9,500 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

1. Mortgage (Borrowing)

Money borrowed by the tenant for leasehold improvements etc.

Description: Leasehold Improvement Loan
Commencing: Year 1 January
Type: Standard Mortgage
Amount: $15,000
Time Period: 10 years
Amortization: 10 years
Nominal Interest Rate: 8.00%
Compounding Frequency: Monthly

TERMINATION Folder

Cost incurred at the end of the lease by the tenant for cleaning up the two spaces.
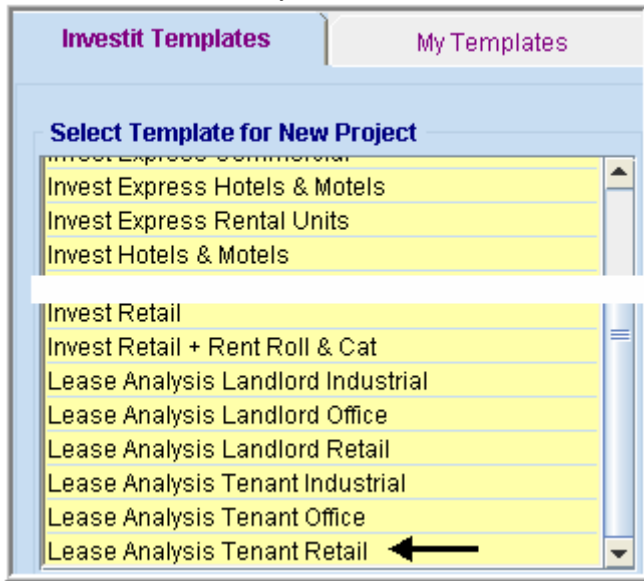
Cleanup and restoration costs: $25,000

Value of leasehold improvements on termination is zero.

INSTRUCTIONS FOR ENTERING THE PROJECT INTO INVESTOR PRO

Getting started
The first step is to open the Investor Pro Template "Lease Analysis Tenant Retail" as follows:

1. Open Investor Pro.
2. Select the New Project Folder then select the Investit Templates folder

3. Select and open the Investit template ""Lease Analysis Tenant Retail" 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: Retail Lease Analysis Tenant Perspective

TENANT Folder
1. Enter the Discount Rate Before Tax: 13.00%

   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 Description: Unit 1A Leasehold Improvements
2. Enter the Amount: $96,000

Second Row
3. Select the second row with Description 'Leasehold Improvements Office'
4. Change Description: Unit 20 Leasehold improvements
5. Enter the Amount: $25,000
6. Select the Depreciation Method: Commercial Prop. St Line

Your entries for the Leasehold improvements should look like this;

GENERAL EXPENSES Folder
Sign Rental
$1,200 per month for one year then increasing at 3.00% compounding per year is entered as follows

1. Enter Description: Sign Rental
2. Select the Entry Choice: $ per Mo
3. Click on the [Projection Wizard] button

   In the **Projection Wizard** make the following entries;

4. **Paid column:** Select "Monthly for 12 Months"
5. **Project Entry Using column:** Select "Annual Compounding"
6. **Entry column:** Enter $1,200
7. **Time Period column:** Check the "To End" box. This allows the projection to continue until the end of the 10 year Analysis Period
8. **Increase column:** Enter the Compounding Rate of 3.00%

To view your entries, click on the [Projection Description] button, which describes the entries and projections.

Press OK to return to the Projection Wizard

Your entries in the Projection Wizard should look like this;

9. Click on the "Ok" button to return to the "General Expenses" folder

Entering and Projecting Parking Expenses

30 parking spaces at $35 per month for 1 year then increasing at 3.00% compounding per year for 9 years.

1. Click on the [Add] button
2. Enter Description: Parking
3. Select the Entry Choice: $ per Space per Mo
4. Enter QTY: 30
5. Click on the [Projection Wizard] button

6. In the **Projection Wizard** make the following entries;

7. **Paid column:** Select "Monthly for 12 Months"
8. **Project Entry Using column:** Select "Annual Compounding"
9. **Entry Column:** Enter $35.00
10. **Time Period column:** Check the "To End" box. This allows the projection to continue until the end of the 10 year Analysis Period
11. **Increase column:** Enter the Compounding Rate of 3.00%

To view your entries, click on the [Projection Description] button, which describes the entries and projections.

```
Parking
Entry Choice: $ per Space per Month
Quantity: 30
Year 1 Jan        $35.00 per Space per Month paid monthly for 12 months
                  Compounding at 3.00% per year for next 9 years
```

Your entries in the Projection Wizard should look like this;

Entry Information

Description: Parking

Entry Choice: $ per Space per Mo

Projections

Paid	Project Entry Using...	Entry	Start Date		Time Period			Increase
			Year	Month	To End	Yrs	Mos	
Monthly for 12 Months	Annual Compounding	$ 35.00	Year 1	Jan	✔	10	0	3.00%

12. Press the OK button to return to the General Expenses folder

Upon completion your General Expenses folder should look like this;

General Expenses

Description	Entry Choice	Qty	Year 1 Jan...
Sign Rental	$ per Mo	—	$ 1,200
Parking	$ per Space per Mo	30	$ 35.00

13. Click on the Sublease Revenue Tab

SUBLEASE REVENUE Folder
The tenant has subleased 2,400 Sq. Ft of Unit 20 at $23 per Sq Ft per year paid monthly for two years

The Sublease Revenue Folder should look like this when opened;

Description	Entry Choice	Qty	Year 1 Jan...
Base Rent	$ per Sq. Ft per Yr	0	$ 0.00
Additional Rent	$ per Sq. Ft per Yr	0	$ 0.00
Parking	$ per Space per Mo	0	$ 0.00

1. Select row 1 'Base Rent'
2. Change Description to "Unit 20 sublease for 2 Years"
3. Select row 2 'Additional Rent (TIM's)'
4. Press the Delete button
5. Select row 3 with 'Parking'
6. Press the Delete button

The Sublease Revenue folder should look like this;

Description	Entry Choice	Qty	Year 1 Jan...
Unit 20 sublease for 2 years	$ per Sq. Ft per Yr	2,400	$ 0.00

Steps for projecting the Sublease Revenue

1. Select row 1 'Unit 20 sublease for 2 Years'
2. Enter Qty: 2,400
3. Click on the Projection Wizard button
4. Entry column**:** $23.00
5. Time Period column**:** change Yrs to 2

Your entries in the Projection Wizard should look like this;

Projection Wizard

Entry Information

Description: Unit 20 sublease for 2 years

Entry Choice: $ per Sq. Ft per Yr

Projections

| | | | Start Date | | Time Period | | | | |
Paid	Project Entry Using...	Entry	Year	Month	To End	Yrs	Mos	Increase	Cont. Proj.
Monthly	Constant (Fill Right)	$ 23.00	Year 1	Jan	☐	2	0		☐

Press Ok to return to the Sublease Revenue folder

Upon completion your Sublease Revenue folder should look like this;

Sublease Revenue

Description	Entry Choice	Qty	Year 1 Jan...
Unit 20 sublease for 2 years	$ per Sq. Ft per Yr	2,400	$ 23.00

6. Click on the Leasing Expenses Tab

LEASING EXPENSES Folder

Tenancy Information Sub-Folder
This folder is a sub-folder within the LEASING EXPENSES Folder and is used to set up the tenants and information on the tenants

Because the tenant Sport's affair has two spaces in the building we need to set up two tenants in the Tenancy Information Folder.

First row enter the following information on the retail space;

1. Suite/Unit No: 1A
2. Tenant's Name: Sport's Affair
3. Gross Leasable Area: 20,000 Sq. Ft

Click on the [Add] button to add a second row and enter the following information on the Office Space;

4. Suite/Unit No: 20
5. Tenant's Name: Sport's Affair
6. Gross Leasable Area: 12,000 Sq. Ft

Note: For each tenant you can enter information on the tenancy and lease arrangements by completing the Tenancy Information grid.

| Expiration Date	Lease Term	Renewal Options	Estimated Renewal Rate

The only information that needs to be entered is the Tenant Name and Gross Leaseable Area

7. Select row 1 '1A Sport's Affair"
8. Click on the Rent tab

Rent Sub-Folder
The Revenue folder is used to enter the Tenant's rent and other payments to the Landlord.

You can use the following buttons to enter Free Rent, % Rent, Rent Caps and Recoverable Expense Caps and Stops.

Apply Free Rent	Apply % Rent	Apply Cap or Stop
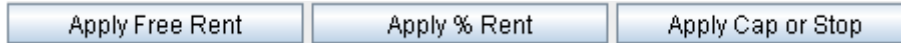
The [Projection Wizard] button provides access to the Projection Wizard, which allows you to enter and project the revenues.
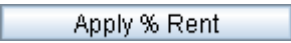
The Revenue Sub-folder should appear like this;

1A Sport's Affair ▼	Tenant's Gross Leasable Area	20,000 Sq. Ft

Revenues

Description	Entry Choice	Qty	Year 1 Jan...
Base Rent	$ per Unit of Tenant's GLA per Yr ▼	20,000	$ 0.00
Free Rent	% of Rent ▼	—	0.00%
Additional Rent (TIM's)	$ per Unit of Tenant's GLA per Yr ▼	20,000	$ 0.00
Parking	$ per Space per Mo ▼	0	$ 0.00

The above rows appear automatically for the first tenant to allow the user to enter their data more quickly

1. Select Row 1 Base Rent
2. Click on the [Apply % Rent] button to add the % Rent and Retail Sales rows. Select Natural Breakpoint from the breakpoint dialog that pops up

Breakpoint ✕

Select Breakpoint
⦿ Natural Breakpoint
◯ Artificial Breakpoint

[OK] [Cancel] [Help]
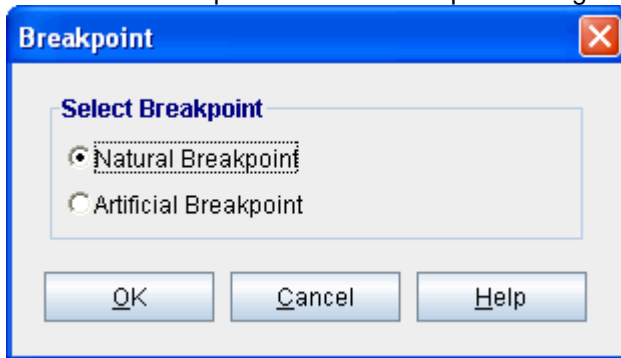
3. Click on the row with the Description "Additional Rent (TIM's)"
4. Click on the [Apply Cap or Stop] bottom to access the Rent Cap & Stop dialog and select "Recoverable Expenses Cap" and click Ok.
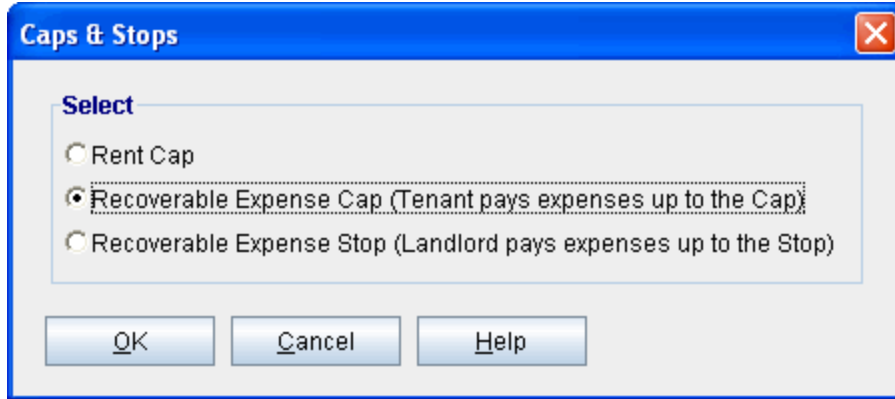
5. Select the row with the Description 'Parking'
6. Click on the [Delete] button

The Revenue sub-folder should look like this;

The next step is the enter and project the revenues, Free Rent, Caps and Stops using [Projection Wizard]

Unit 1A Sport's Affair Gross Leasable Area: 20,000 Sq. Ft
The following information is entered in the Rent sub-folder. The steps are outlined below.
Base Rent
$26.00 per Sq Ft 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 three 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	$600,000
Feb	$600,000
Mar	$600,000
Apr	$600,000
May	$800,000
June	$800,000
July	$800,000
Aug	$800,000
Sept	$800,000
Oct	$900,000
Nov	$1,000,000
Dec	$1,300,000

Following are the steps for entering the for tenant Unit 1A Sport's Affair Retail

1. Select row 1: 'Base Rent'
2. Click on [Projection Wizard] which displays the Projection Wizard

Entry Information

Unit/Suit No.: 1A Sport's Affair

Description: Base Rent

Entry Choice: $ per Unit of Tenant's GLA per Yr

Projections

Paid	Project Entry Using...	Entry	Start Date Year	Month	To End	Yrs	Mos	Increase	Cont. Proj.
Monthly	Constant (Fill Right)	$ 0.00	Year 1	Jan	☐	1	0		☐

3. **Project Entry Using.. column**: select "Stepped Proj. (Lease)
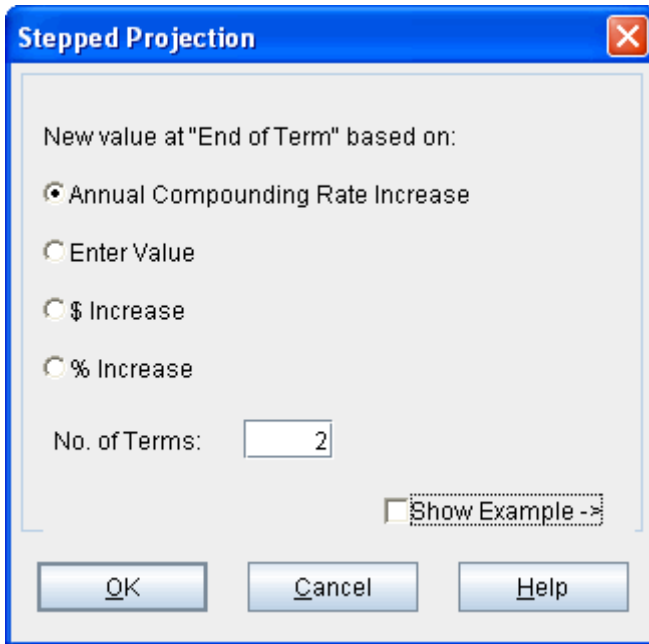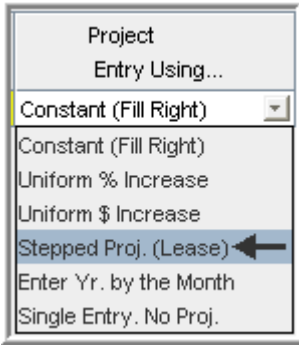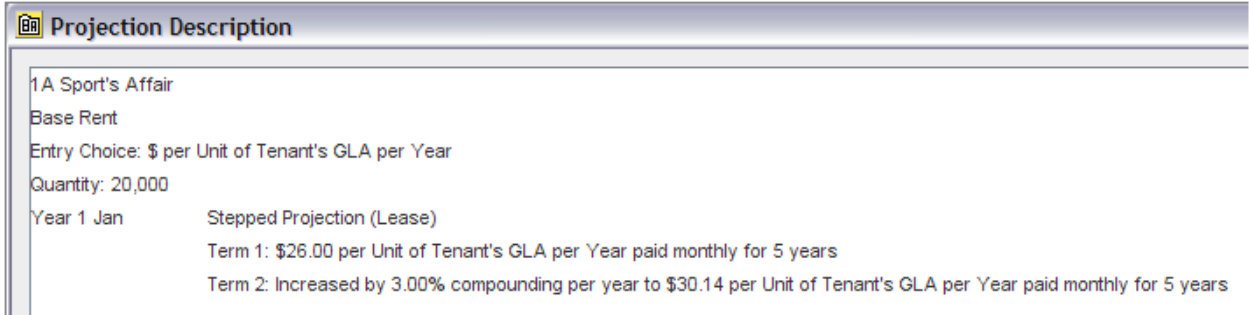

4. Set the No. of Terms to 2, which is the default value and click OK
5.
6. **Entry column:** Enter the lease rate $26.00
7. **Time Period column:** Set Term 1 (the first row) to 5 years and Term 2 (second row) to 5 years (or check the "To End" box).
8. **Increase column:** Enter the Annual Compounding Rate of 3.00%

The Projection Wizard should look like this;

Entry Information

Unit/Suit No.: 1A Sport's Affair

Description: Base Rent

Entry Choice: $ per Unit of Tenant's GLA per Yr

Projections

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

To view your entries, click on the [Projection Description] button, which describes the entries and projections.

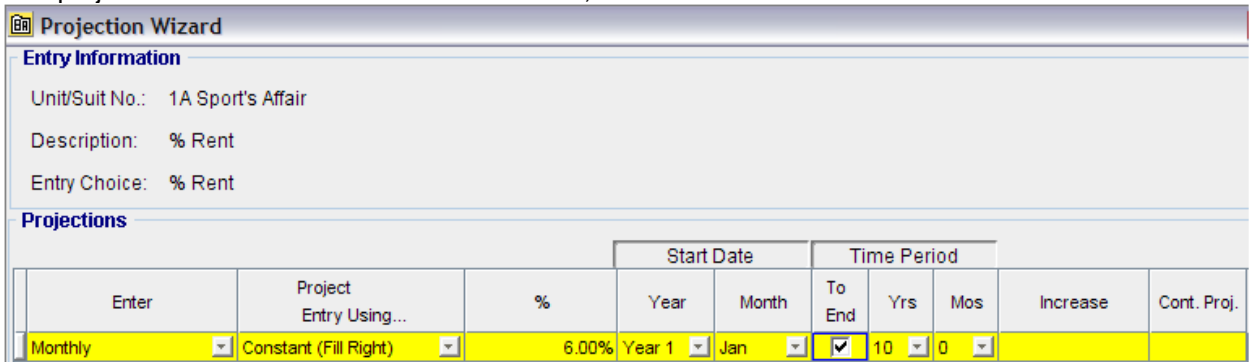| **Projection Description** |
| --- |
| 1A Sport's Affair |
| Base Rent |
| Entry Choice: $ per Unit of Tenant's GLA per Year |
| Quantity: 20,000 |
| Year 1 Jan   Stepped Projection (Lease) |
| Term 1: $26.00 per Unit of Tenant's GLA per Year paid monthly for 5 years |
| Term 2: Increased by 3.00% compounding per year to $30.14 per Unit of Tenant's GLA per Year paid monthly for 5 years |

Press "OK" to return to the Revenue sub-folder.

Entering the % Rent (second row)

1. Revenue Folder: Select row 2: '% Rent'
2. Click on [Projection Wizard] which displays the Projection Wizard
3. **% column:** Enter 6.00%
4. **Time Period column:** Click on the "To End" check box

The projection wizard entries should look like this;

Projection Wizard

Entry Information

Unit/Suit No.: 1A Sport's Affair

Description: % Rent

Entry Choice: % Rent

Projections

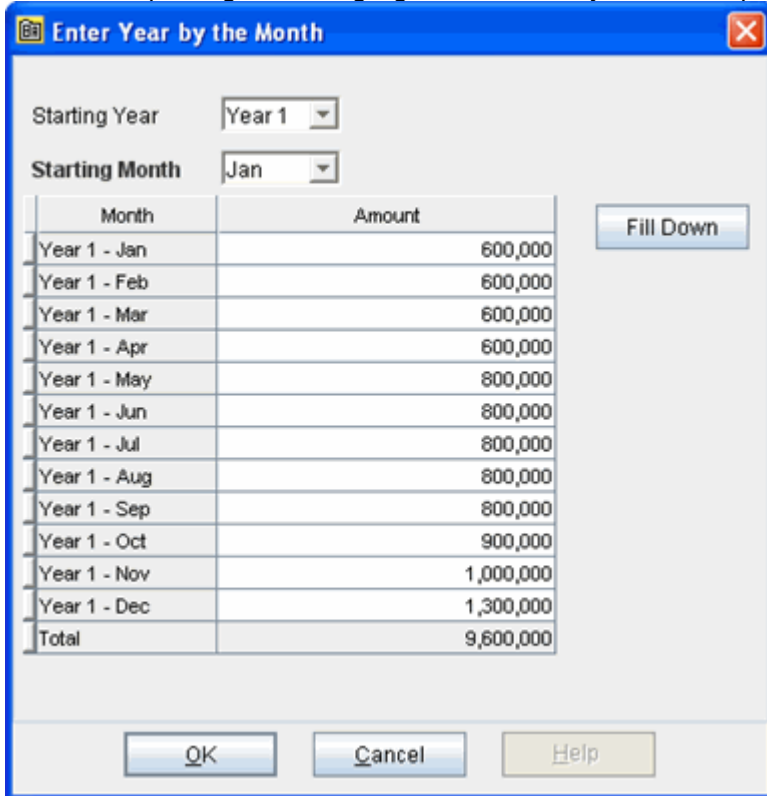| Enter	Project Entry Using...	%	Start Date		Time Period			Increase	Cont. Proj.
			Year	Month	To End	Yrs	Mos		
Monthly	Constant (Fill Right)	6.00%	Year 1	Jan	✓	10	0		

Press OK to return to the Rent sub folder

Entering Retail Sales (third row)

The Retail Sales for the first year have to be entered as follows;

Year 1	Retail Sales
Jan	$600,000
Feb	$600,000
Mar	$600,000
Apr	$600,000
May	$800,000
June	$800,000
July	$800,000
Aug	$800,000
Sept	$800,000
Oct	$900,000
Nov	$1,000,000
Dec	$1,300,000

1. Revenue Folder: Select row 3: 'Retail Sales'
2. Click on [Projection Wizard] which displays the Projection Wizard
3. **Project Entry Using… column:** Select "Enter Year by the Month" and enter the retail sales as follows;

Note: For repeating entries highlight the necessary boxes and press "Fill Down"
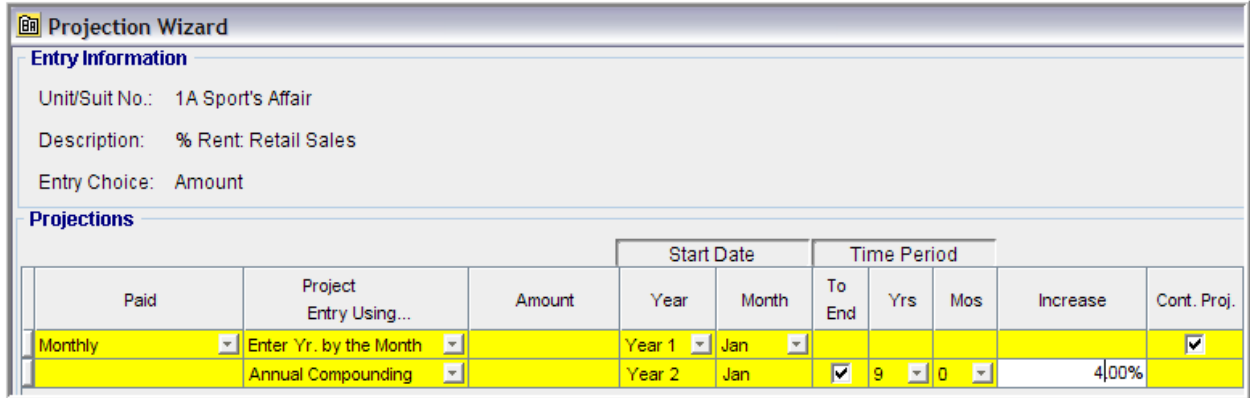
To project the Retail Sales at 4.00% Compounding per year for the remaining 9 years

4. Check the "Cont. Proj." box
5. **Project Entry Using column:** Select "Annual Compounding"
6. **Time Period column:** Check the "To End" box
7. **Increase column:** Enter 4.00%

The projection wizard entries should look like this;

Press OK to return to Rent sub folder

Entering the **Free Rent**. 100% of the Base Rent for the for the first three months
1. Enter 100% in Year 1 Jan, Feb and March on the entry grid

Revenues							
Description	Entry Choice		Qty	Year 1 Jan...	Year 1 Feb...	Year 1 Mar...	Year 1 Apr...
Base Rent	$ per Unit of Tenant's GLA per Yr	▾	20,000	$ 26.00	$ 26.00	$ 26.00	$ 26.00
% Rent			—	6.00%	6.00%	6.00%	6.00%
Retail Sales	Amount	▾	—	$ 600,000	$ 600,000	$ 600,000	$ 600,000
Free Rent	% of Rent	▾	—	100.00%	100.00%	100.00%	← 0.00%

Additional Rent (TIM's)
$9.00 per Sq Ft per Year paid monthly for 12 months then increasing at 3.00% compound per year for the remaining 9 years.

Entering the Additional Rent (TIM's)
1. Select row with Description "Additional Rent (TIM's)"
2. Entry Choice: "$ per Unit of Tenant's GLA per Yr"

3. Click on [Projection Wizard] which displays the Projection Wizard

In the **Projection Wizard**

4. **Paid column:** Select "Monthly for 12 Months"
5. **Project Entry Using column**: Select "Annual Compounding"
6. **Entry column:** Enter $9.00
7. **Time Period column:** Check the "To End" box.
8. **Increase column:** Enter the compounding rate of 3.00%

Your entries in the projection wizard should look like this:

 Press OK to return to the Rent sub-folder.

Entering the Recoverable Expense Cap
1. Select the row with the entry choice: Rec. Exp. Cap
2. Click on [Projection Wizard] which displays the Projection Wizard
3. Amount column: Enter $17,000
4. Check the "To End" box

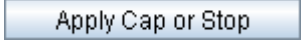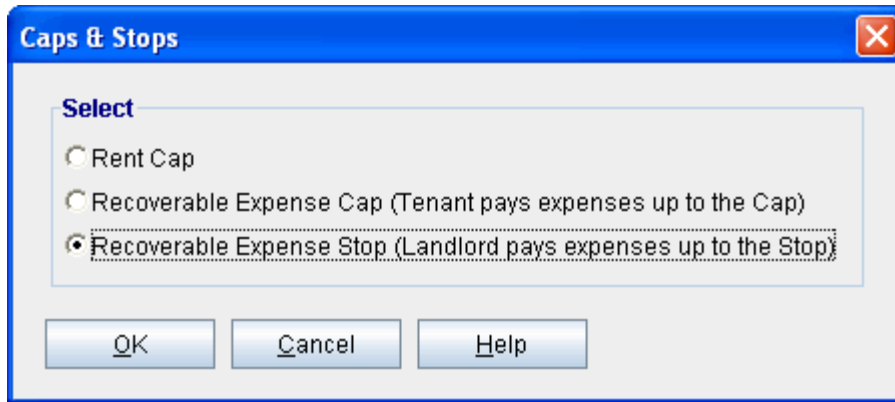Your entries in the projection wizard should look like this;

Press ok to return to the Rent sub-folder

5. Select tenant 20a from the scroll down menu

Unit 20 Sports Affair. Gross Leasable Area: 12,000 Sq. Ft
Follow these steps to enter and project the rent
1. Enter Description: 'Base Rent'
2. Entry Choice column: "$ per Unit of Tenant's GLA per Yr"
3. Press the [Add] button to add another row
4. Enter Description: 'Additional Rent (TIM's)'
5. Entry Choice column: "$ per Unit of Tenant's GLA per Yr"
6. Click on the [Apply Cap or Stop] bottom to access the Rent Cap & Stop dialog and select "Recoverable Expenses Stop" and click Ok

The Revenue screen should look like this;

Base Rent

$17.00 per Sq Ft per Yr paid monthly. Two terms of 5 years. Increase for the second term based on 3.00% compounding for five years

Following are the steps for entering the Revenue for tenant Unit 20 Sport's Affair Office

1. Select row 1: 'Base Rent'
2. Click on [Projection Wizard] which displays the Projection Wizard
3. **Project Entry Using… column:** Select "Stepped Proj. (Lease)", set No. of Terms to 2, which is the default setting and click OK
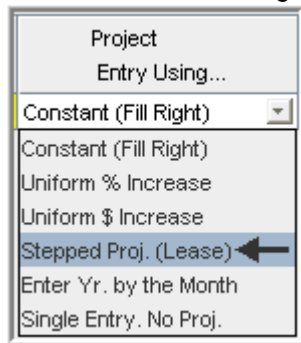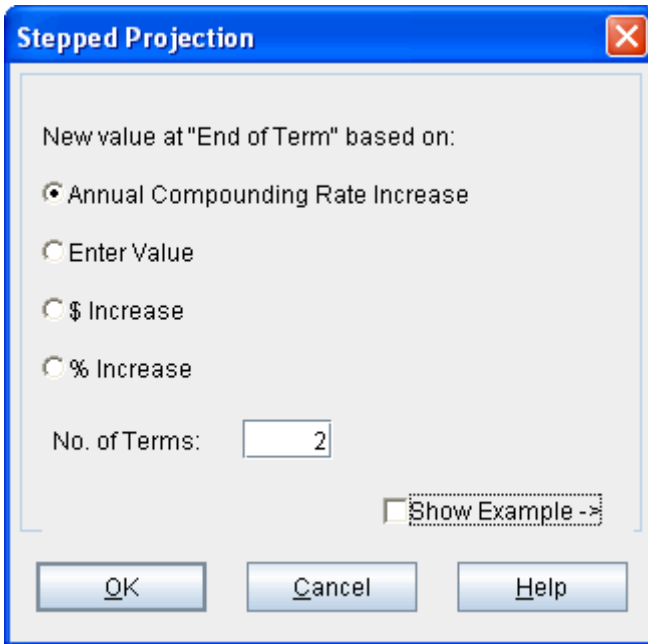
4. **Entry column:** Enter the lease rate $17.00
5. **Time Period column:** Set Term 1 (the first row) to 5 years and term 2 (the second row) to 5 years or check the "To End" box
6. **Increase column:** Enter the Annual Compounding Rate of 3.00%

The projection should look like this;

Projection Wizard

Entry Information

Unit/Suit No.: 20 Sport's Affair

Description: Base Rent

Entry Choice: $ per Unit of Tenant's GLA 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)	$ 17.00	1	Year 1	Jan		5	0	3.00%	
			2	Year 6	Jan	✔	5	0		

Press OK to return to Rent sub folder

Additional Rent (TIM's)
$8.00 per Sq. Ft per Yr paid monthly for 12 months then increasing at 3.00% compounding per year for 9 years. **Subject to a Recoverable Expense Stop** of $9,500 per month. This means that the Tenant doesn't pay any Additional Rent (TIM's) until the Additional Rent (TIM's) exceeds $9,500 per month

Entering the Additional Rent (TIM's)
1. Select row with description: 'Additional Rent (TIM's)'
2. Entry Choice: "$ per Unit of Tenant's GLA per Yr"
3. Click on [Projection Wizard] which displays the Projection Wizard
4. **Paid column:** Select "Monthly for 12 months"
5. **Project Entry Using… column:** Select "Annual Compounding"
6. **Entry column:** $8.00

7. **Time Period column:** select "To End" box
8. **Increase column:** Enter the Annual Compounding Rate of 3.00%

The projection should look like this;

Press OK to return to the Rent sub folder

Entering the Recoverable Expense Stop
1. Select the row with the Description: Recov. Exp. Stop
2. Click on [Projection Wizard] which displays the Projection Wizard
3. **Amount column:** $9,500
4. **Time Period column:** check "To End" box

The projection should look like this;

Click OK to return to the Rent sub-folder

5. Click on the Financing tab

VACANCY Folder
This analysis assume no vacancies for the subleased space

FINANCING Folder

Mortgage (Borrowing)
Money borrowed by the tenant perhaps for leasehold improvements.

Year 1 January, $15,000, 10-year Time Period, 10-year amortization, Interest Rate 8.00% Type: Standard Mortgage

Setting up a mortgage
1. Click on the Financing folder tab
2. Click on the Add Mortgage button

3. Amount box: $15,000
4. Description box: "Improvement Loan"
5. Time Period box: 10 Years
6. Amortization box: 10 Years
7. Nominal Interest Rate Box: 8.00%

The Mortgage dialog should look like this;

8. Press the **Compute** button

9. Press the OK button

The Financing folder should now look like this;

10. Click on the Termination Tab

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

Cleanup and restoration costs $25,000

The Termination Expenses should appear like this;

Entering the Termination Costs
1. Expense column: $25,000

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 Retail"