LEASE ANALYSIS TENANT OFFICE USA EXAMPLE

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

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

CTA Realty is considering renting two spaces in the building;

    Suite 105 Rentable Area: 5,900 Sq. Ft. Usable Area: 5,000 Sq. Ft.
    Suite 306 Rentable Area: 2,500 Sq. Ft. Usable Area: 2,119 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: Office Lease Analysis Tenant
Analysis Period: 10 Years
Starting Date: Year 1 Jan

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

LEASEHOLD IMPROVEMENTS Folder

Suite 105
Description: No. 105 Leasehold Improvements
Amount: $15,000
Year 1 Jan
Depreciation Method: Commercial Prop. St Line

Suite No. 306
Description: No. 306 Leasehold Improvements
Amount: $10,000
Year 1 Jan
Depreciation Method: Commercial Prop. St Line

GENERAL EXPENSES
General Expenses are expenses paid for by the tenant that are common to the two spaces being rented by the tenant which is Suite 105 and Suite 306 such as security services, parking etc.

  Sign rental $500 paid monthly for 12 months then increasing at 3.00% compounding per year.

  Parking 25 parking spaces at $25 per month for 12 months then increasing at 3.00% compounding per year.

SUBLEASE REVENUE Folder
The tenant has subleased 2,400 Sq. Ft of Suite 105 at $27 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. 105
Floor No: 1
Tenant Name: CTA Realty
Rentable Area: 5,900 Sq. Ft
Usable Area: 5,000 Sq. Ft

Suite/Unit No: No. 306
Floor No: 3
Tenant Name: CTA Realty
Rentable Area: 2,500 Sq. Ft
Usable Area: 2,119 Sq. Ft

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

  Suite 105 Rentable Area: 5,900 Sq Ft. Usable Area: 5,000 Sq Ft

  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 three 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.

  Suite 306 Rentable Area: 2,500 Sq Ft. Usable Area: 2,119 Sq. Ft.

  Base Rent
  $17.00 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

  Additional Rent (TIM's)
  $8.00 per Unit of Tenant's Rentable Area 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 $1,800 per month. This means that the Tenant doesn't pay any Additional Rent (TIM's) until the Additional Rent (TIM's) exceeds $1,800 per month and then the Tenant pays the difference between the Additional Rent (TIM's) and the Expense Stop of $1,800 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: Leasehold Improvement Loan
Commencing: Year 1 January 1
Type: Standard Mortgage
Amount: $35,000
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: $10,000

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 Office" as follows:

1. Open Investor Pro.
2. Select the New Project Folder then select the Investit Template folder
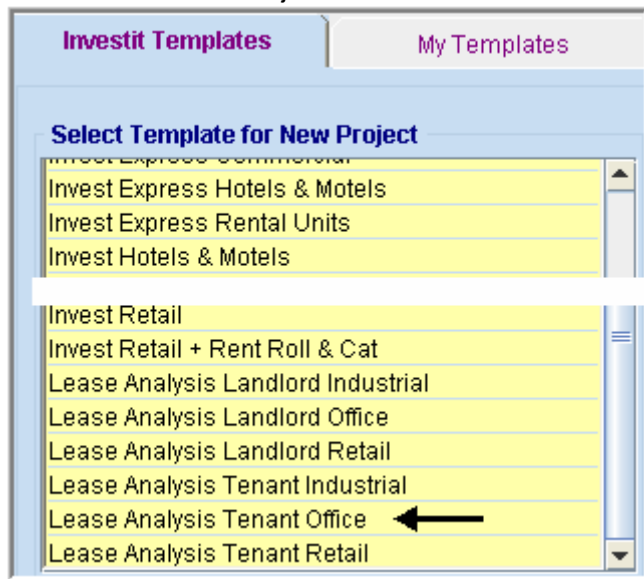
3. Select and open the Investit template "Lease Analysis Tenant Office" The analysis period dialog will open at this point.
4. Enter 10 years and click OK

Entering the project data and information

PROJECT INFO Folder
1. Enter the Property Name: Capital Plaza
2. Enter Description: Office Lease Analysis Tenant

TENANT Folder

1. Enter the Marginal Tax Rate: 35.00%
2. 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: "No. 105 Leasehold Improvements"
2. Enter the Amount: $15,000

Second Row

1. Add the second row by clicking on the [Add] button
2. Enter the Description: "No. 306 Leasehold improvements"
3. Enter the Amount: $10,000
4. Select Depreciation Method: Commercial Prop. St Line

Your entries for the Leasehold improvements should look like this;

GENERAL EXPENSES Folder

Sign rental
$500 paid monthly for 12 months then increasing at 3.00% compounding per year.

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 $500
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;

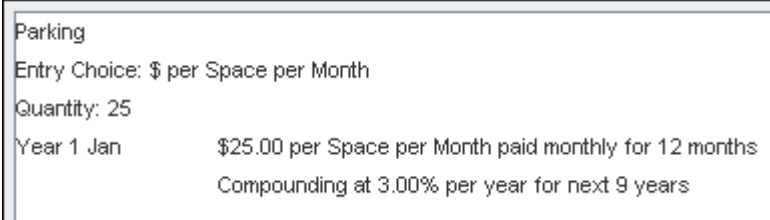9. Click on the "Ok" button to return to the "General Expenses" folder

Entering and Projecting Parking Expenses
25 parking spaces at $25 per month for 1 year then increasing at 3.00% compounding per year.

1. Click on the [Add] button
2. Enter Description: Parking
3. Select the Entry Choice: $ per Space per Mo
4. Enter QTY: 25
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 $25.00
10. **Time Period column:** Check the "To End" box. This allows the projection to continue until the end of the 10 year Analysis Period
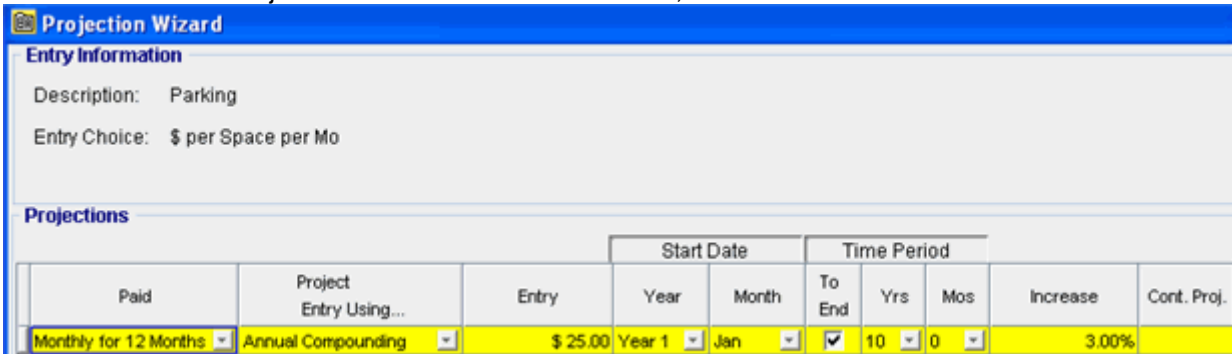11. **Increase column:** Enter the Compounding Rate of 3.00%

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

Parking

Entry Choice: $ per Space per Month

Quantity: 25

Year 1 Jan $25.00 per Space per Month paid monthly for 12 months

                 Compounding at 3.00% per year for next 9 years

Press OK to return to the Projection Wizard

Your entries in the Projection Wizard should look like this;

Projection Wizard

Entry Information

Description: Parking

Entry Choice: $ per Space per Mo

Projections

			Start Date		Time Period				
Paid	Project Entry Using...	Entry	Year	Month	To End	Yrs	Mos	Increase	Cont. Proj.
Monthly for 12 Months ▾	Annual Compounding ▾	$ 25.00	Year 1 ▾	Jan ▾	☑	10 ▾	0 ▾	3.00%	

Press OK to return to the General Expenses folder

Select the Sublease Revenue folder

SUBLEASE REVENUE Folder
The tenant has subleased 2,400 Sq. Ft of Suite 105 at $27 per Sq Ft per year paid monthly for two years

The Sublease Revenue Folder should look like this when opened;

Sublease Revenue			
Description	Entry Choice	Qty	Year 1 Jan...
Base Rent	$ per Sq. Ft per Yr	0	$ 0.00
Free Rent	% of Rent	—	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 "Suite 105 sublease for 2 yrs"
3. Select row 2 'Free Rent'
4. Press the [Delete] button
5. Select row with Description 'Additional Rent (TIM's)'
6. Press the [Delete] button
7. Select row with Description 'Parking'
8. Press the [Delete] button

The Sublease Revenue folder should look like this;

Sublease Revenue			
Description	Entry Choice	Qty	Year 1 Jan...
Suite 105 sublease for 2 yrs	$ per Sq. Ft per Yr	0	$ 0.00

Steps for projecting the Sublease Revenue

1. Select row 1 Suite '105 sublease for 2 yrs'
2. Enter Qty: 2,400
3. Click on the [Projection Wizard] button
4. **Entry column**: $27.00
5. **Time Period column**: change Yrs to 2

Your entries in the Projection Wizard should look like this;

Projection Wizard									
Entry Information									
Description: Suite 105 sublease for 2 yrs									
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 for 12 Months	Constant (Fill Right)	$ 27.00	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...
Suite 105 sublease for 2 yrs	$ per Sq. Ft per Yr	2,400	$ 27.00

6. Click on the Leasing Expenses Tab

LEASING EXPENSES Folder

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

Because the tenant CTA Realty 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: 105
2. Tenant's Name: CTA Realty
3. Rentable Area: 5,900 Sq. Ft
4. Usable Area: 5,000 Sq. Ft

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

1. Suite/Unit No: 306
2. Tenant's Name: CTA Realty
3. Rentable Area: 2,500 Sq. Ft
4. Usable Area: 2,119

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 Rentable Area

Click on the Rent sub-folder

RENT

The Rent sub-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 Caps and Recoverable Expense Caps and Stops.

[Apply Free Rent]   [Apply Cap or Stop]

8

Follow these steps to enter and project the revenues;
  Select Tenant 105 from the scroll down menu

306 CTA Realty	▼
105 CTA Realty ◄—	
306 CTA Realty	

The Rent Sub-folder should appear like this;

105 CTA Realty	▼	Rentable Area	5,900 Sq. Ft
		Usable Area	5,000 Sq. Ft

Revenues

Description	Entry Choice	Qty	Year 1 Jan...
Base Rent	$ per Unit of Tenant's Rentable Area per Yr ▼	5,900	$ 0.00
Free Rent	% of Rent ▼	—	0.00%
Additional Rent (TIM's)	$ per Unit of Tenant's Rentable Area per Yr ▼	5,900	$ 0.00
Parking	$ per Space per Mo ▼	0	$ 0.00

1. Click on the row with the Description "Additional Rent (TIM's)"
2. Click on the [Apply Cap or Stop] button to access the Rent Cap & Stop dialog and select "Recoverable Expenses 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)

[OK]   [Cancel]   [Help]

3. Select the row with the Description Parking
4. Click on the [Delete] button

The Rent sub-folder should look like this;

105 CTA Realty	▼	Rentable Area	5,900 Sq. Ft
		Usable Area	5,000 Sq. Ft

Revenues

Description	Entry Choice	Qty	Year 1 Jan...
Base Rent	$ per Unit of Tenant's Rentable Area per Yr ▼	5,900	$ 0.00
Free Rent	% of Rent ▼	—	0.00%
Additional Rent (TIM's)	$ per Unit of Tenant's Rentable Area per Yr ▼	5,900	$ 0.00
Recov. Exp. Cap	Amount ▼	—	$ 0

9

The next step is the enter and project the revenues, Free Rent, Caps and Stops using

[Projection Wizard]

Suite 105 Rentable Area: 5,900 Sq Ft Usable Area 5,000 Sq Ft

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
100% of Base rent. First three months

Following are the steps for entering and projecting the revenue for tenant Unit 105 CTA Realty

1. Select row 1: 'Base Rent'

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

Entry Information

Unit/Suit No.: 105 CTA Realty

Description: Base Rent

Entry Choice: $ per Unit of Tenant's Rentable Area per Yr

Projections

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

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

Project Entry Using...
Constant (Fill Right)
Constant (Fill Right)
Uniform % Increase
Uniform $ Increase
Stepped Proj. (Lease) ◄—
Enter Yr. by the Month
Single Entry. No Proj.

10
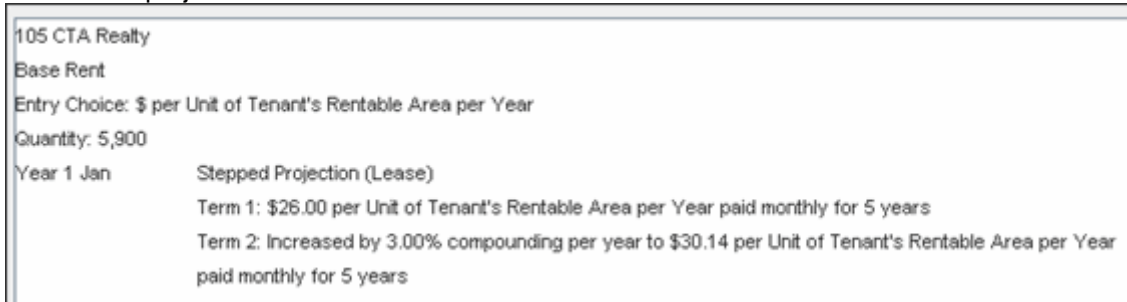
4. Set the No. of Terms to 2, which is the default entry and click OK
5. **Entry column:** Enter the lease rate $26.00
6. **Time Period column:** Set Term 1 (the first row) to 5 years and Term 2 (second row) to 5 years (or check the "To End" box).
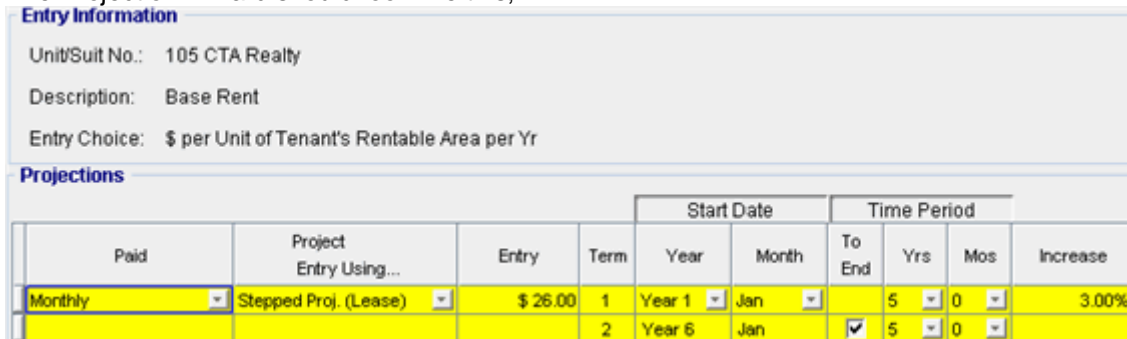7. **Increase column:** Enter the Annual Compounding Rate of 3.00%

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

Press OK to return to the Projection Wizard

The Projection Wizard should look like this;

Press OK to return to the 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 Rentable Area per Yr	5,900	$ 26.00	$ 26.00	$ 26.00	$ 26.00
Free Rent	% of Rent	—	100.00%	100.00%	100.00%	← 0.00%

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.

Entering the Additional Rent (TIM's)

1. Select row with Description "Additional Rent (TIM's)"
2. Click on [Projection Wizard] which displays the Projection Wizard

   In the **Projection Wizard**

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

Your entries in the projection wizard should look like this:

Projection Wizard

Entry Information

Unit/Suit No.: 105 CTA Realty

Description: Additional Rent (TIM's)

Entry Choice: $ per Unit of Tenant's Rentable Area 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%	

Press OK to return to the Rent sub-folder.

Entering the Recoverable Expense Cap
1. Select the row with the entry choice: Recov. Exp. Cap
2. Click on [Projection Wizard] which displays the Projection Wizard
3. Amount column: Enter $4,500
4. Check the "To End" box

Your entries in the projection wizard should look like this;

Entry Information

Unit/Suit No.: 105 CTA Realty

Description: Recoverable Expense Cap

Entry Choice: Amount

Projections

Paid	Project Entry Using...	Amount	Start Date		Time Period		
			Year	Month	To End	Yrs	Mos
Monthly	Constant (Fill Right)	$ 4,500	Year 1	Jan	✔	10	0

Press ok to return to the Rent sub-folder

5. Select tenant 306 from the scroll down menu

105 CTA Realty
105 CTA Realty
306 CTA Realty ◀──

Suite 306 Rentable Area: 2,500 Sq. Ft. Usable Area: 2,119 Sq. Ft. Follow these steps to enter and project the revenues

1. Enter Description: 'Base Rent'
2. Press the [Add] button to add another row
3. Enter Description: 'Additional Rent (TIM's)'
4. Entry Choice column: Select "$ per Unit of Tenant's Rentable Area per Yr"
5. Click on the [Apply Cap or Stop] button to access the Rent Cap & Stop dialog and select "Recoverable Expense Stop" 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)

[OK] [Cancel] [Help]

The Rent folder should look like this;

306 CTA Realty		Rentable Area	2,500	Sq. Ft
		Usable Area	2,119	Sq. Ft

Revenues

Description	Entry Choice	Qty	Year 1 Jan...
Base Rent	$ per Unit of Tenant's Rentable Area per Yr	2,500	$ 0.00
Recoverable Expenses	$ per Unit of Tenant's Rentable Area per Yr	2,500	$ 0.00
Recov. Exp. Stop	Amount	—	$ 0

13

Base Rent
$17.00 per Unit of Tenant's Rentable Area paid Monthly. Two terms of 5 years. Increase for the second term base on 3.00% compounding for five years

Following are the steps for entering the Rent for tenant Suite 306 CTA Realty

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)"
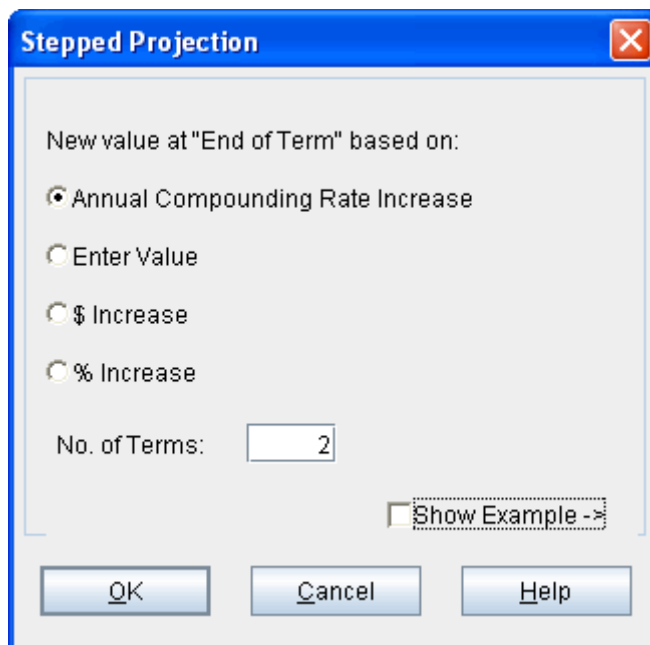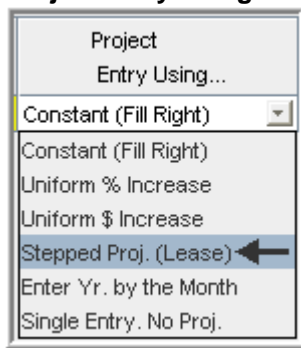
Project Entry Using...
Constant (Fill Right) ▾
Constant (Fill Right)
Uniform % Increase
Uniform $ Increase
Stepped Proj. (Lease) ◀
Enter Yr. by the Month
Single Entry. No Proj.

Stepped Projection

New value at "End of Term" based on:

⦿ Annual Compounding Rate Increase

○ Enter Value

○ $ Increase

○ % Increase

No. of Terms: 2

☐ Show Example ->

[OK] [Cancel] [Help]

4. Set the No. of Terms to 2, which is the default entry and click OK
5. **Entry column:** Enter the lease rate $17.00
6. **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
7. **Increase column:** Enter the Annual Compounding Rate of 3.00%

The projection should look like this;

Press OK to return to the Rent folder

Additional Rent (TIM's)

$8.00 per Unit of Tenant's Rentable Area 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 $1,800 per month. This means that the Tenant doesn't pay any Additional Rent (TIM's) until the Additional Rent (TIM's) exceeds $1,800 per month and then pays the difference between the Additional Rent (TIM's) and the Expense Stop.

Entering the Additional Rent (TIM's)
1. Select row with description: Additional Rent (TIM's)
2. Entry Choice: "$ per Unit of Tenant's Rentable Area 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:** $1,800
4. **Time Period column:** check "To End" box

The projection should look like this;

Entry Information

Unit/Suit No.: 306 CTA Realty

Description: Recoverable Expense Stop

Entry Choice: Amount

Projections

Paid	Project Entry Using...	Amount	Start Date		Time Period		
			Year	Month	To End	Yrs	Mos
Monthly	Constant (Fill Right)	$ 1,800	Year 1	Jan	☑	10	0

Click OK to return to the Rent sub-folder

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: Improvement Loan
  Year 1 January, $35,000 Time Period 10 years, Amortization 10 years, Interest Rate 8.00%
  Type: Standard Mortgage

Setting up a mortgage
  1. Click on the Add Mortgage button

  Add Mortgage | Edit Mortgage | Delete Mortgage | Move
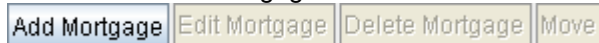
  2. Amount box: $35,000
  3. Description box: "Improvement Loan"
  4. Time Period box: 10 Years
  5. Amortization box: 10 Years
  6. Nominal Interest Rate box: 8.00%

The mortgage dialog should look like this;

7. Press the **Compute** button
8. Press the OK button

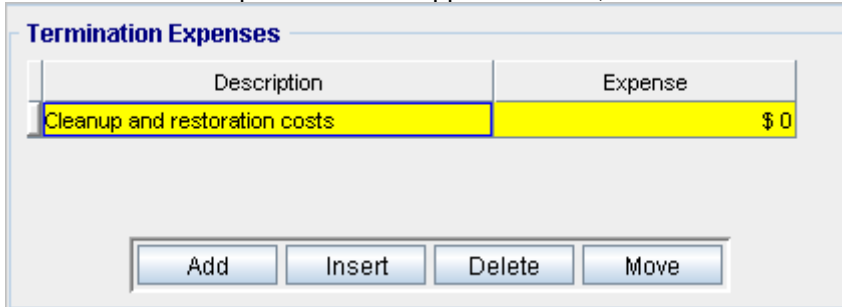The Financing Folder should now look like this;

1. 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 $10,000
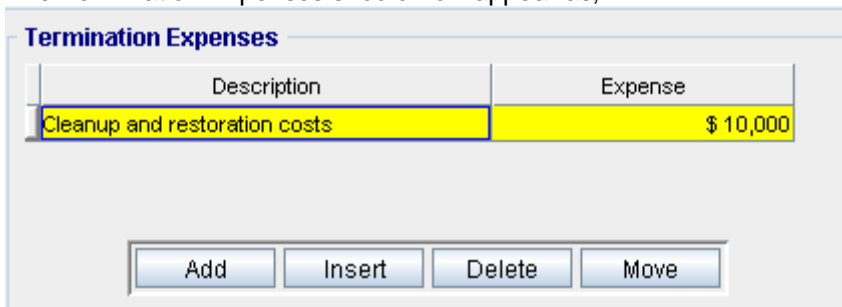
The Termination Expenses should appear like this;

Entering the Termination Costs
1. Expense column: $10,000

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 Office"