LEASE ANALYSIS TENANT RETAIL CND EXAMPLE
TENANT RENTING SINGLE SPACE

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

If the tenant rents several spaces in the building the Investor Pro "Lease Analysis Tenant 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: 2011 Jan
Analysis Period: 10 Years
Gross Leasable Area (GLA): 7,000 Sq. ft

TENANT Folder
Marginal Tax Rate: 42.00%
Discount Rate: Before Tax 10.00%

LEASEHOLD IMPROVEMENTS Folder
Description: Leasehold Improvements
Amount: $25,000
Year 1 Jan
CCA Class: Building

LEASING EXPENSES Folder

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.

SUBLEASE REVENUE Folder
2,400 Sq. Ft has been subleased for two years as follows;

Base Rent: $27 per Sq Ft per Year for two Years
Additional Rent: $9.00 Sq. Ft per Yr for two years

VACANCY Folder
The analysis assumes no vacancy for the subleased space

FINANCING Folder

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

Description: Bank Loan for Improvements
Commencing: Year 1 January
Type: Standard Mortgage
Amount: $25,000
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 $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

Park Royal Village
Macleod Trail & 75th Ave SW
Calgary
Alberta

Unit 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

Park Royal Village

Located on busy Macleod trail

Building Attributes

Sub Market Area	Kingsland
Type of Property	Strip Retail
Building Class & Age	Built 1896
Site Location	On busy main road
Anchor Tenants	Vons Supermarket
Traffic Count	32,400 vehicles per day
Column Spacing	18 Ft × 16 Ft
Air Conditioning	Yes
Sprinklers	Yes
Signage	Pole & Store signs
Kitchen/Lunchroom	Yes
Bathrooms	One
Storage Area	15 feet × 15 feet
Security	Evenings
Property Manager	PAC Management

Lease Summary Report

Page 2. Financial Summary

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                                    Lease Summary                        May 31, 2011
                                  Park Royal Village                       Investor Pro
                                Unit 105 Sport's Affair    Lease Analysis Tenant Retail Single Space

Financial Summary
Analysis Period: 10 years

                                Before Tax              After Tax
Total Net Cash Flow             $ 3,277,497             $ 1,907,248
Average Annual Net Cash Flow    $ 327,750              $ 190,725
Average Monthly Net Cash Flow   $ 27,312               $ 15,894

Average Rent Rates
Based on Rentable Area
   Average Effective Annual Rate   $ 46.82 Sq. Ft per Yr    $ 27.25 Sq. Ft per Yr
   Average Effective Monthly Rate  $ 3.90 Sq. Ft per Yr     $ 2.27 Sq. Ft per Yr

Net Present Value and Net Effective Rent
Net Present Value (NPV)          $ 1,906,512            $ 1,132,990
NPV Discount Rate                10.00%                 9.60%
Based on Rentable Area
   Net Effective Rent Yearly        $ 27.24 Sq. Ft per Yr    $ 16.19 Sq. Ft per Yr
   Net Effective Rent Monthly       $ 2.27 Sq. Ft per Yr     $ 1.35 Sq. Ft per Yr
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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 Retail Single Space" as follows:

1. Open Investor Pro.
2. Select the New Project Folder then select the Investit Templates folder
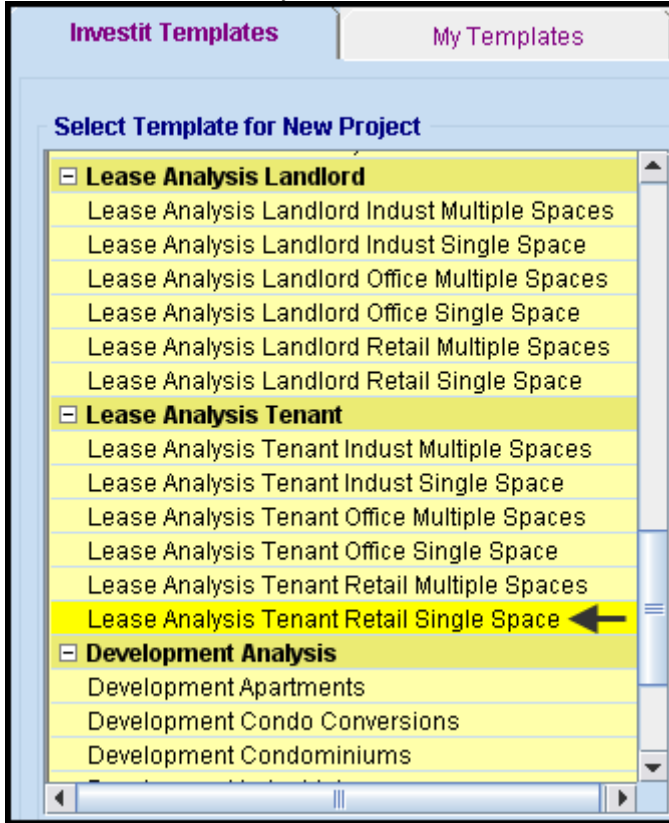
3. Select and open the Investit template ""Lease Analysis Tenant Retail Single Space" The analysis period dialog will open at this point.
4. Enter 10 years and click OK
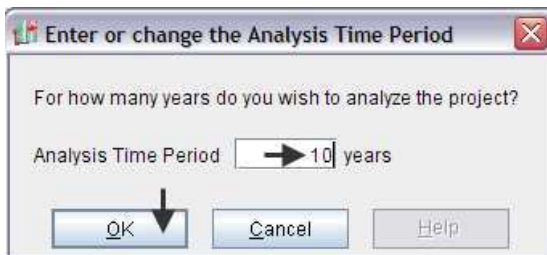
Entering the project data and information

PROJECT INFO Folder
1. Enter the Property Name: Park Royal Village
2. Enter Description: Retail Lease Analysis Tenant Perspective

TENANT Folder
1. Enter the Investor's Marginal Tax Rate: 42.00%
2. 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;

Leasing EXPENSES Folder

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
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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 [Apply % Rent]
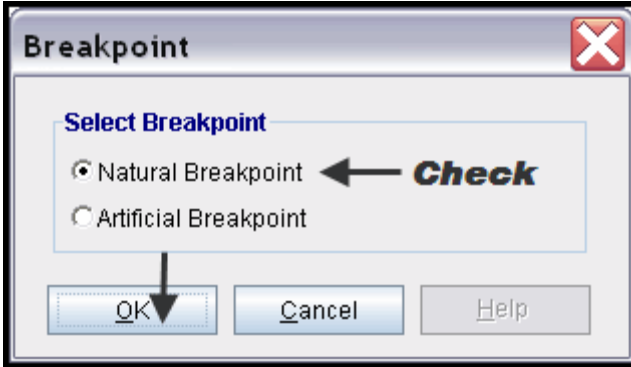
2. Select row with Description 'Recoverable Expenses (TIM's)'

3. Click on the [Apply Cap or Stop] button to access the Rent Cap & Stop dialog and select "Recov. Exp. Cap" and click Ok.
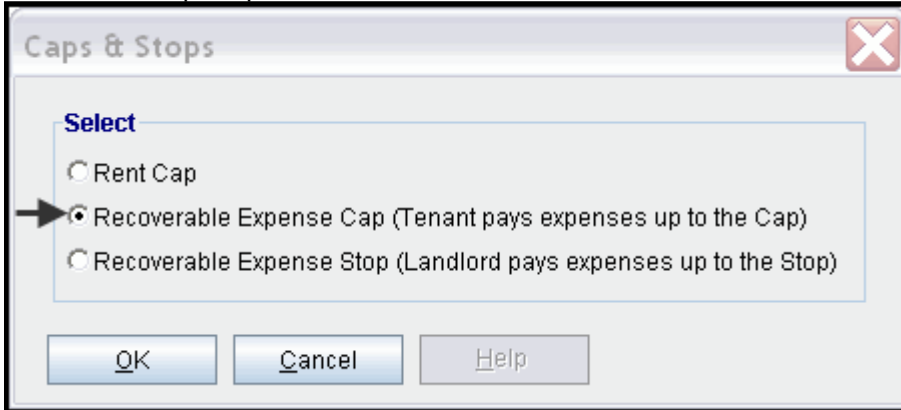
4. Select row with Description 'Parking' and click on the delete button

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	$ 0.00	$ 0.00	$ 0.00	
% Rent		—	0.00%	0.00%	0.00%	
Retail Sales	Amount	—	$ 0	$ 0	$ 0	
Free Rent	% of Rent	—	0.00%	0.00%	0.00%	
Addtional Rent (TIM's)	$ per Unit of Total Gross Leasable Area per Yr	7,000	$ 0.00	$ 0.00	$ 0.00	
Recov. Exp. Cap	Amount	—	$ 0	$ 0	$ 0	

Using Projection Wizard enter and project the Base Rent

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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

SUBLEASE REVENUE Folder

2,400 Sq. Ft has been subleased for two years as follows;

    Base Rent: $27 per Sq Ft per Year for two Years
    Additional Rent: $9.00 Sq. Ft per Yr for two years

1. Select row with Description 'Parking' and click on the delete button
2. 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	

3. Using Projection Wizard enter and project the Base Rent

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

VACANCY Folder
This analysis assume no vacancies for the subleased space

FINANCING Folder

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

Description: Bank Loan for Improvements
Commencing: Year 1 January
Type: Standard Mortgage
Amount: $25,000
Time Period: 5 years
Amortization: 5 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: $25,000
4. Description box: "Bank Loan for Improvements"
5. Time Period box: 5 Years
6. Amortization box: 5 Years
7. Nominal Interest Rate Box: 7.00%

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 EXPENSES
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"