

What's a Good Comparable

(lease transaction)

Facility Characteristics

- **Market Location** (proximity to business center, access to transportation)
- **Site Location** (visibility, surroundings, local amenities)
- **Building Type/Quality** (Class A/B/C--whatever that means, Garden, R&D, Tilt-up)
- **Efficiency** (amount of space required for function or RSF/workstation, or other appropriate standard for comparison, etc.)
- **Building Amenities** (parking, security, communications, child care, recreational facilities, cafeteria, services)

Premises Characteristics

- **Scale** (relative size of leased premises in proportion to comparables)
- **In-Building Location** (view, access, contiguity of space)
- **Special Considerations** (uniqueness of space)

Transaction Characteristics

- **Recent** (particularly in rapidly changing market)
- **Executed Transaction** (listings are the upper end of the bid v. ask range and don't take into account specifics such as creditworthiness of the tenant)
- **Third Party, Arms-Length** (University leases should be at market and we know the terms, but we risk making a market if we rely on these transactions as "market")
- **Direct** (rather than sublease "second tier")

In other words, leased premises, facilities and terms as much like the subject as possible.

Lease Market Comparison Adjustments & Estimate

| <u>FACTOR</u> | <u>Comparable # 1</u> | | <u>Comparable # 2</u> | | <u>Comparable # 3</u> | |
|------------------------------|-------------------------------|-----------------|---------------------------------|-----------------|---------------------------|-----------------|
| | <u>Adjustment</u> | <u>\$ Chg.</u> | <u>Adjustment</u> | <u>\$ Chg.</u> | <u>Adjustment</u> | <u>\$ Chg.</u> |
| Effective Rent = | -- | \$ 24.00 | -- | \$ 21.25 | -- | \$ 25.25 |
| Facility Factors | | | | | | |
| Location | Excellent (@Fway Ent.) | (1.00) | -- | - | Excellent (@Fway Ent.) | (1.00) |
| Building Quality | -- | - | Older Tilt-up (lmt. windows) | 2.00 | -- | - |
| Bldg. Amenities | -- | - | -- | - | -- | - |
| Space Efficiency | -- | - | -- | - | -- | - |
| Other __Fiber ?__ | No Fiber this side of Fway | 1.00 | -- | - | -- | - |
| Other _____ | -- | - | -- | - | -- | - |
| Premises Factors | | | | | | |
| Scale (Area-rsf) | -- | - | 14,000 rsf | 0.75 | -- | - |
| In-Bldg. Location | -- | - | -- | - | Ocean View | (1.50) |
| Other _____ | -- | - | -- | - | -- | - |
| Other _____ | -- | - | -- | - | -- | - |
| Transaction Factors | | | | | | |
| Time Adjustment | -- | - | 6 mos. ago | 0.60 | 12 mos. ago | 1.20 |
| Parking Cost/Bene | -- | - | -- | - | -- | - |
| Other _____ | -- | - | -- | - | -- | - |
| Other _____ | -- | - | -- | - | -- | - |
| ESTIMATED LEASE RENT: | | <u>\$ 24.00</u> | | <u>\$ 24.60</u> | | <u>\$ 23.95</u> |

Note: Relative: (i) tenant improvement cost to tenant, (ii) tenant-paid expenses, and (iii) concessions are reflected in the Effective Rent calculation (or should be included as "other").

Tenant Improvement Adjustments

Existing Tenant Improvements

What is the contributory value of existing improvements? (shell completeness standard; removal of asbestos; replacement of mechanical, electrical and plumbing systems)

Demolition Cost>>>>0>>>>Some Reuse>>>>Paint & Carpet>>>>Fully Reusable

The reuse/replace decision

Tenant Improvement Allowance

How much is the allowance per RSF? How far will the allowance go in a given space?

Calculating UC Tenant Improvement Cost

Estimated cost to complete UC improvements (unique to space, reflects reuse) less Landlord TI allowance equals UC cost for tenant improvements, but how to pay for it? Up-front UC cash v. landlord amortization (at landlord's cost of funds) in the base rent.

Tenant Improvement Amortization Issues

Amortization term is the primary term of the lease from either the landlord or tenant perspective. Thus, tenant up-front payments for TI's should be divided by the primary term of the lease and added to the annual lease cost in determining Effective Rent.

The landlord's cost of funds are likely higher than the University's and thus, where possible, up-front payment by the University from available funds may reduce the Effective Rent (next time you know of any available funds).

Shorter primary term leases and higher cost TI's (particularly those which are unique to the University's use) can really push rents up. In effect you are buying the tenant improvements over the lease term.

EFFECTIVE RENT

Base Rent: The contract rent for the first full year of the lease term, exclusive of any concessions.

Total Average Rent: Total rent is the sum of the annual rent over the lease term after applying escalations such as annual CPI adjustments or fixed increases divided by the lease term.

Actual Tenant Improve Cost: The actual cost for build-out of tenant improvements to be paid by tenant.

Tenant Improvement Allowance: Total dollar amount provided by the landlord to be applied to construction of tenant improvements.

Amortized Tenant Improvement Costs: Total tenant improvement dollars divided by the primary lease term.

Average
Annual
Estimated
Expenses:

Average annual estimated expenses is the sum of expenses, paid by the tenant, for each year of the term after applying any expense escalations, divided by the lease term.

Amortized
Conces-
sions:

Concessions such as: free rent, moving or furniture allowances, "key money", etc. will reduce the up front lease costs and/or the actual rent paid by tenant over the lease term. The total dollar value of concessions is divided by the lease term to determine the amortized amount.

Analysis to Derive Estimate of Effective Rent

| | Subject |
|--|---------------------------|
| Rentable S F | 3,000 RSF |
| Lease Term | 10 yrs. |
| Initial Ann. Base Rent \ RSF | \$18.00/RSF |
| Base Rent Escalation % | 3 % |
| Est. Ann. Operating Expense | \$2.75/RSF |
| Ann. Operating Expense Escalation % | 2 % |
| TI Allowance / RSF | \$12.00/RSF |
| Free Rent \$ | \$13,000 3 mos |

EXAMPLE: Effective Rent Calculation

| | |
|--|-----------------------------|
| Total Average Rent | \$20.63 |
| Avg. Ann. Oper. Expenses | \$3.01 |
| <Amort. Tenant Improvement Cost - Amort. Tenant Improvement Allowance> | \$\$.20 [\$1.40 - \$1.20] * |
| Amort. Concessions [<small>Free Rent</small>] | <\$.45> |
| Effective Avg. Ann. Rent | \$23.39 |

* As the tenant improvement allowance did not cover the tenants actual costs for improvement of the space, the residual cost must be *added* to the cost of the lease.

Operating Expenses

Gross Lease: A lease that provides that the landlord shall pay the expenses of the leased property, including building operating expenses such as HVAC, electrical, janitorial, taxes, insurance, maintenance, utilities, etc. ["Fully Serviced"]

Expense

Stop: Provision in a lease establishing the maximum level of operation expense(s) to be paid by the landlord. Expenses beyond this level are to be reimbursed by the tenant. May be applied to specific expense only (e.g., property taxes or insurance).

Net Lease: A lease in which, in addition to rent, the tenant pays operating expenses directly or to the landlord as its pro-rata share, certain costs associated with a leased property, including property taxes, insurance premiums, repairs, utilities, and maintenance.

The degree to which the tenant is responsible for operation costs will determine the terminology for describing the lease inclusive of "Net-Net-Net" (triple net), "Net-Net" (double net) and "semi-gross".

I. Operating Expenses

A. Utilities

1. Electricity
2. Water
3. Sewer
4. Gas

B. Janitorial Costs

1. Janitorial Salaries of Employees or Janitorial Contracts
 - a. Fringe Benefits
 - b. Uniforms
2. Janitorial Supplies

C. Maintenance Costs

1. Salaries for Employees
 - a. Fringe Benefits
 - b. Uniforms
2. Maintenance Contracts
 - a. Elevator
 - b. Filter Service
 - c. Controls Service

D. Repairs and Replacements

1. Normal Repairs
 - a. Electrical
 - b. Mechanical
 - c. Painting
 - d. Carpet/Drapes [Public Area]
2. Landscaping Costs

- a. Regular Maintenance
- b. Replacement/Plants/Containers
- c. Leasing Costs

E. Management Expense

1. Salaries
2. Stationary and Postage
3. Telephone
4. Rent
5. Fees
6. Accounting
7. Security

II. Miscellaneous Expenses - Sometimes Questionable

- A. Entertainment
- B. Appeals/Taxes/Assessments/Codes
- C. Bad Debts
- D. Dues to Related Organizations
- E. Meetings/Conventions
- F. Travel

III. Capital Costs

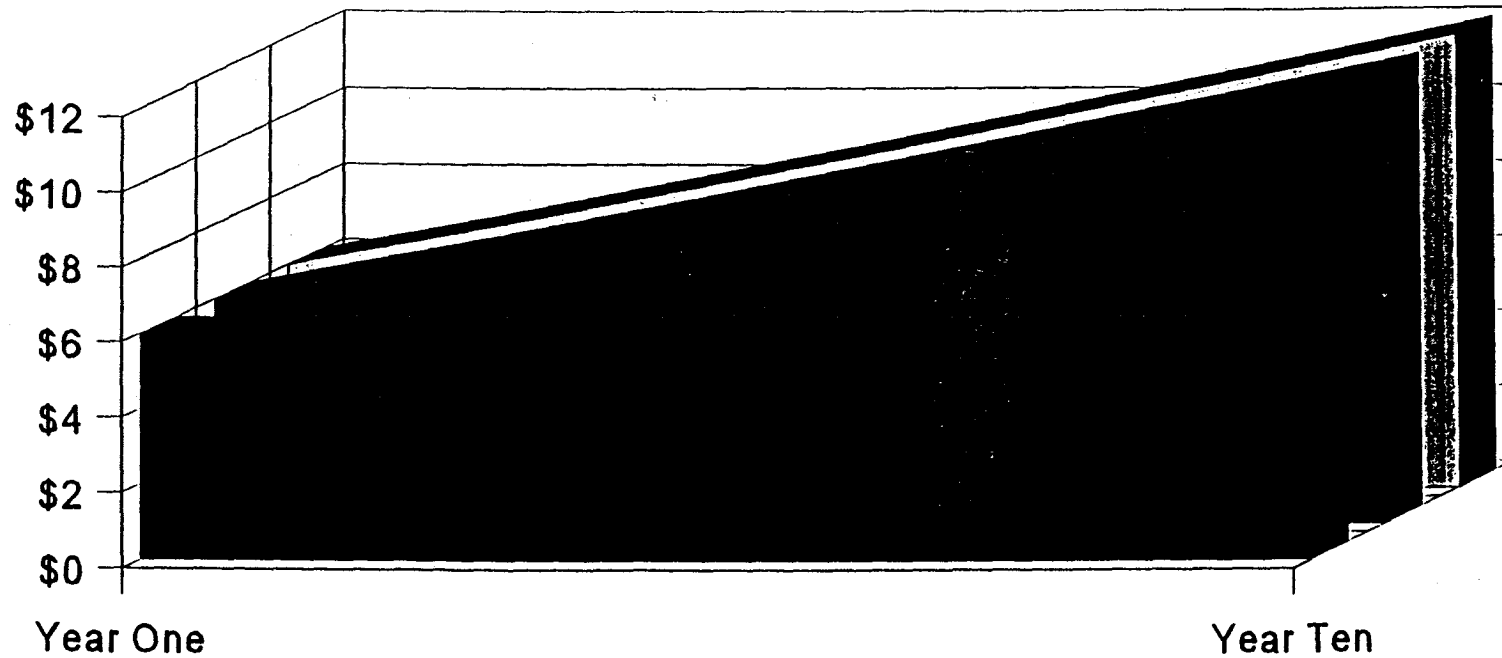
- A. Amortized Capital Expenditures
 1. Government Requirements
 2. Cost Savings Results

B. Term of Amortization

C. Interest

D. Financing Costs

Operating Expenses



Total Operating Expenses



Pass-Through Expenses



Expense Stop