CRE Proforma – Lease Detail and Proforma Tabs

Lease Detail

Change the Lease detail figures to resemble a development project by using the following data. The vacancy and collections losses, by suite by year shown in the table below, assume that Suite B and Suite D are preleased. Check Figure – NOI in Year 3 should be $1,190,892.

Year/ Suite	1	2	3	4	5	6	7	8	9	10	11
A	40	20	10	10	10	10	10	10	10	10	10
B	6	6	6	6	6	6	30	8	8	8	8
C	50	25	10	10	10	10	10	10	10	10	10
D	6	6	6	6	6	6	6	6	6	6	6

For all Suites use a 2.5% Cost Growth Rate. Change the size of Suite A and Suite B to 25000 sq.ft.

Suite A: $18 Contract Rent, $0 Expense Stop, 3% Rental Growth Rate.

Suite B: $28 Contract Rent, $7 Expense Stop, 0% Rental Growth Rate, $33 Rental Rate starting year 7.

Suite C: $15 Contract Rent, $0 Expense Stop, 3% Rental Growth Rate, 4.5% Sales Growth Rate, 3% of Sales above $3,000,000. Initial Sales estimated at $4,500,000.

Suite D: $30 Contract Rent, $99 Expense Stop, 0% Rental Growth Rate.

1. Plot a graph of NOI and Operating Expense Ratio by year using the rents, and vacancies as noted above. The example graph below is for the base case check figures data.

Figure 1. NOI and Operating Expense Ratio by Year.
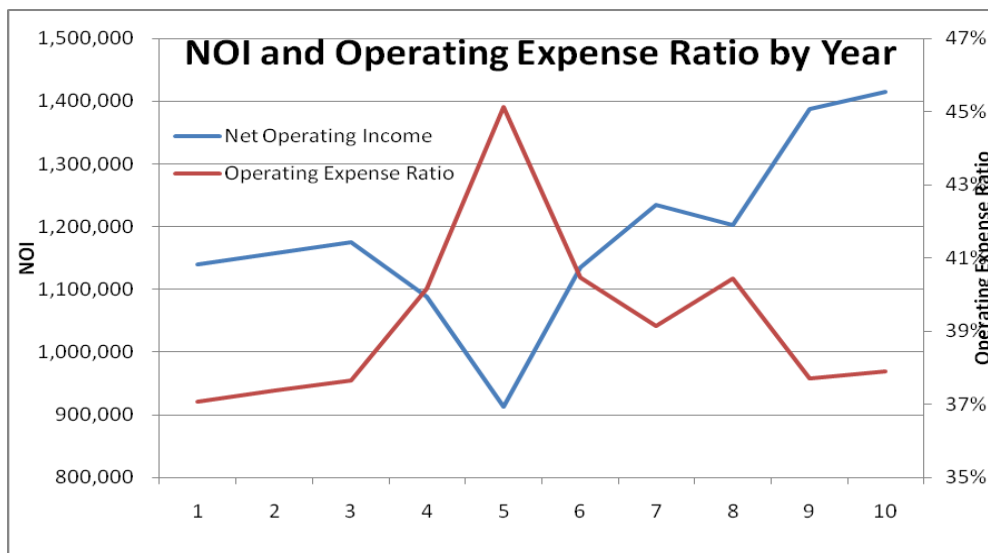
2. Turn in a printout of the Lease Detail Tab using the information noted above.

Proforma Tab

A second set of check figures are posted on the website incorporating the lease details developed above. Use the lease detail developed above for completing this portion of the HW.

Use the following base case input assumptions for the Proforma Tab. Check Figure: Before Tax NPV = 873,103

Input Data		Marginal Tax Bracket	39.6%	Mortgage LTV	75.0%
		Depn Recapture Rate	39.6%	Amort Term (Years)	30
Going Out Cap Rate	7.5%	Capital Gain Rate	20.0%	Maturity (Years)	10
Selling Expense	7.0%	Equity Hurdle Rate	15.0%	Rate	6.000%
7- yr Building Improvement %	12%	Depreciation Period	39	Points	2.25%
				Prepay Penalty (%)	0.00%

1. Plot graphs of the 6 **Ratios** by year. Let Graph 1 show Unlevered Return and Cash on Cash Return, Graph2, the DCR, and Graph 3, the Vacancy and Collection Losses, Operating Expense Ratio, and Breakeven Occupancy.
2. Plot the Before Tax Total CF by year from Year 0 through Year 10.
3. Plot the Before Tax IRR as a function of Mortgage LTV with a range of LTV=0, through LTV=90%. Hint: Change the LTV in 10% increments, and record the BTIRR, then plot the results.
4. Using the above assumptions (except for the Mortgage LTV). Iif the mortgage company will not allow a DCR below 1.3, what is the maximum Mortgage LTV you can obtain (solve through trial and error)
5. To help finance the Health Care reform, the top rate on Capital Gains is scheduled to increase to 23.8%. Assuming that Capital Gain Tax Rate, what percentage decrease in the After Tax IRR would result?

6. Turn in a printout of the Proforma Tab using the assumptions stated above.