Figure 4.1 Exercise Solution



REAL ESTATE FINANCE AND INVESTMENTS
RISKS AND OPPORTUNITIES

Assumptions:

Cost Recovery Annual Growth	**2.25%**
Maintenance and Operating Costs Annual Growth	**2.25%**
Annual Discount Rate	**10.00%**
Free Rent in Year 1	**$30.00 PSF**
TI Allowance	**$40.00 PSF**
Leasing Commissions	**$6.00 PSF**

Rent Growth Scenario 1

Annual Rent Growth	**2.00%**

Rent Growth Scenario 2 - Rent Constant Years 1-5 and Years 6-10

Year 6 Rent Bump	**$4.00 PSF**

Green-shaded cells are those cells the students are asked to fill in for the Hands On Exercise.

Landlord Lease NPV Analysis - Rent Growth Scenario 1 ($ PSF)

Year	1	2	3	4	5	6	7	8	9	10
Rent Growth Factor %		*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*
Gross Rent	$30.00	$30.60	$31.21	$31.84	$32.47	$33.12	$33.78	$34.46	$35.15	$35.85
Cost Recoveries	5.00	5.11	5.23	5.35	5.47	5.59	5.71	5.84	5.97	6.11
Maintenance and Operating Costs	(10.00)	(10.23)	(10.46)	(10.69)	(10.93)	(11.18)	(11.43)	(11.69)	(11.95)	(12.22)
Free Rent	(30.00)									
Tenant Improvements	(40.00)									
Leasing Commissions	(6.00)									
Net Cash Flow	($51.00)	$25.49	$25.98	$26.49	$27.01	$27.53	$28.07	$28.62	$29.18	$29.74
NPV at 10.00%	$96.22									

Landlord Lease NPV Analysis - Rent Growth Scenario 2 ($ PSF)

Year	1	2	3	4	5	6	7	8	9	10
Rent Growth Factor $						*$4.00 PSF*				
Gross Rent	$30.00	$30.00	$30.00	$30.00	$30.00	$34.00	$34.00	$34.00	$34.00	$34.00
Cost Recoveries	5.00	5.11	5.23	5.35	5.47	5.59	5.71	5.84	5.97	6.11
Maintenance and Operating Costs	(10.00)	(10.23)	(10.46)	(10.69)	(10.93)	(11.18)	(11.43)	(11.69)	(11.95)	(12.22)
Free Rent	(30.00)									
Tenant Improvements	(40.00)									
Leasing Commissions	(6.00)									
Net Cash Flow	($51.00)	$24.89	$24.77	$24.65	$24.53	$28.41	$28.29	$28.16	$28.03	$27.89
NPV at 10.00%	$91.22									

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