

**ANALYZING LEASES
&
WHAT IS INCOME**

Northeast Regional
Assessor's Association
Annual Seminar
2022

Presented
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OUTLINE

- **Definitions**
 - Basic
 - Bundle of Rights
- **Lease Features**
- **Lease Clauses**
- **Abstract Form**
- **Pass through Considerations**

What is a LEASE?

A legal contract between an owner (lessor) and a tenant (lessee) for

*Use and Possession
of
Real Estate*

What is a Lease – (cont'd)

- Sets parameters of a business relationship
- Establishes contractual relationship between landlord and tenant
- Denotes obligations
- Transfers property rights to the tenant for use, occupancy and quiet enjoyment, In return, landlord receives consideration in form of payment

What is a Lease (Cont'd)

- Standard form lease represents the landlord's wish list
- Focus of lease negotiations is typically limited to the issues of base rent, responsibility of expenses and concessions.

Lease Terms

- Month to Month
 - Provides no security for either party
- Short Term
 - Usually less than 5 years
- Long Term
 - Usually greater than 5 years
- Renewal
 - One or more extensions

DEFINITIONS

SEE ADDENDUM

Terms / Definitions

- Abatement
- As-Is Condition
- Assignment
- Base Rent
- Base Year
- Build Out
- CAM
- Estoppel Certificate
- Market Rent
- Net Rentable
- Pass throughs
- Tax Base
- T.I.
- Etc., etc., etc.

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Lease Clauses

• Lease Clauses

- Concessions
- Assign/Sublet
- TI Allowance
- Lease Audit Rights
- Property Tax Review

• Lease Clauses

- After Hours HVAC
- Right of 1st refusal
- Estoppel
- Renewals
- Restricted Use

Bundle of Rights

Benefits of Real Estate
Described and summarized

Set of legal privileges associated with
ownership of real property

BUNDLE OF RIGHTS

- Right to enter and use
- Right to exclude others from property
- Right to sell, donate, dispose, gift
- Right to lease and collect rent
- Right to mortgage or pledge as security
- Right to quiet enjoyment
- Right to refuse to exercise any of above rights

Limitation of the Bundle of Rights

"Four Powers of Government"

- Police Power – restrictions on private rights
- Eminent Domain – right of state to take
- Taxation
- Escheat – reversion of property to state in absence of heirs

- P E T E -

Types of Ownership Interest

- Leased Fee
- Leasehold
- Fee Simple

Primary difference between the three, is the portion of ownership of the "Bundle of Rights"

Leased Fee

The definition of leased fee estate in the third edition of the Dictionary of Real Estate Appraisal is: an ownership interest held by a landlord with the rights of use and occupancy conveyed by lease to others. The rights of the lessor (the leased fee owner) and the lessee are specified by contract terms contained within the lease.

Leasehold

The interest on which a Lessee (Tenant) of Real Estate has a Lease.

Example: Mason possesses a long-term lease on a property. She may obtain a loan with the *leasehold* pledged as Collateral. If the Contract Rent required by the lease is lower than Market Rents Mason's *leasehold* will have a positive value.

Fee Simple

Fee simple estate is defined in the third edition of the Dictionary of Real Estate Appraisal published by the Appraisal Institute as: absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power and escheat.

Allocation of the "Bundle of Rights"

- Fee Simple (Owner)
 - Complete Bundle of Rights

- Leased fee (Landlord)
 - Retains rights of sell, donate, gift, lease and collect rent, manage, pledge as security

- Leasehold (Tenant)
 - Obtains right to use, occupy and quiet enjoyment

Leased Fee +Leasehold < Value

- Limitations imposed by Powers of Gov't
 - Certain onerous lease provisions may impair value
- Limiting right to sublet
 - Leasehold has no value if can't be sublet/assigned
 - Gives value in use but not value in exchange
- Some leases specify permitted uses
 - If permitted uses don't represent the optimum utilization the value of the leased fee could be impaired

Leased Fee +Leasehold > Value

- Strong credit rated tenant pays contract rent which exceeds economic (market) rent

QUICK QUIZ

After allocating the complete "Bundle of Rights" to each interest, and valuing them accordingly,

Does the sum of the interest equal the value of the unencumbered fee.

NOT NECESSARILY

Certain lease provisions may adversely affect the value of both lease interests resulting in a combined value (leased fee + leasehold) of less than the unencumbered fee.

Example:

Actual rent is less than Market Rent

Assessor's Responsibility

- Assessor's value "**FEE SIMPLE ESTATE**"
 - We use
 - Current market rent
 - Current market expenses
 - Current market vacancy rates
 - Current market capitalization rates
- **Would be inequitable to change assessments based on property owners bad business decisions**

QUICK QUIZ

- Why do we need to analyze leases
- Which approach(s) is/are utilized to establish value with regard to the analysis of a lease

Market Approach
Income Approach Cost Approach

Appraising property subject to Lease

- Complete knowledge of
 - Which rights have been leased to tenant
 - Leasehold
 - Which rights remain with owner
 - Leased fee
- In addition consider government and private restrictions

Types of Properties Leased

- Residential
- Apartments
- Land
- Commercial
- Industrial
- Office
- Agricultural

Evaluation of Lease

- Term
- Tenant obligations
- Owner's obligations
- Rental payments
- Renewal Options
 - Term, Rent
- What reverts at expiration of lease term
- Risk to each position

Additional possible restrictions

- Easements
- Rights of way
- Party wall agreements
- Deed restrictions
- Mortgages
- Lease provisions

Provisions

Typical

- Most leases are long and complicated as they try to capture each party's rights and obligations

Prohibited

- Cannot state that persons of various color, race, sex, religion, etc
- Cannot eliminate obligations to be ADA compliant
- Landlord must comply with lease regarding access while lease in effect

Landlord-Tenant Relationship a lease must contain certain provisions

- Name of Lessor and Lessee
- Agreement to let and take
- Description of the premises
- Term of lease
- Terms of rental
- Signatures of contracting parties

Evaluating Covenants

in addition to provisions

- Use - defining (or not), permitted uses
- Expense Stops – Landlord pays to specified amount
- Escalation clause – Tenant pays above base
- Alterations and improvements
- Expenses and building services
- Repairs and Maintenance
- Access – to space and books/records

Evaluating Covenants Cont'd

in addition to provisions

- Liens
- Security
- Property Loss, Damage and Fire Loss
- Condemnation and Eminent Domain
- Direct or Assign or Sublet
- Subordination
- Default by tenant
- Renewal option

Quick Quiz

- If valuing two identical industrial bldgs, each leased for term of 5 years
 - One lease indicates an expense escalation clause in addition to \$22.50/sf rent and the other is a gross lease paying \$25/sf

which is a better deal for tenant

Methods of Rental Payments

- Flat rental lease
- Graduated or step-up lease
- Revaluation lease
- Percentage lease
- Index lease

Selection is influenced by market factors, economic trends, tradition and nature of business

Flat Rental Lease

- Fixed Rent for entire term
 - Payable in monthly, quarterly, semiannual, or annual installments
- Popular in one/two year lease terms
 - Value of dollar diminished due to inflation

Graduated or Step-up Lease

- Rent is increased at specified periods during term
- Lessee benefits:
 - allows time to build business
- Lessor benefits:
 - protected from inflation

Revaluation Lease

- Based on percentage of property value and recalculated at specified intervals during term
- Allows the lessor to participate in any future increase in property value
- Usually expensive due to retaining experts and arbitrators to value increase
- Little incentive for lessee

Percentage Lease

- Minimum rent plus additional rent based on a percentage of gross sales
 - Advantage for lessee
 - Lessor takes chance in production of business

Percentage Rent - Example

- Supermarket leases bldg for 20 years, with minimal annual rental of \$50,000.
Additionally, percentage rent is 1.5% of gross sales
 - Year 1 \$3,000,000
 - Year 2 \$4,000,000
- What is total rent paid for both years???

Index Lease

- Rent is adjusted periodically by Consumer Price Index
- What if anything is wrong with this method?

Expense Responsibilities

- Full Service
- Gross Lease
- Modified Gross
- Net
 - Net
 - Net Net
 - Triple net

OUTLINING A LEASE

Lease Outline

- Lease Date
- Lessor/Lessee = names and signatures
- Address, bldg., name, suite #
- Terms – lease
- Terms - rental
- Agreement to Let and Take
- Description of premises
- Subject of lease -Taxes, special assessments, agreements, restrictions, use,

Lease Outline – Cont'd

- Term of lease
 - Commencement date
 - Rent commencement date
 - Term
 - Abatements and concessions
 - Expiration of lease
- Term of Rental
 - Amount, when paid, additional rent, location of submission of payment

Lease Outline – Cont'd

- Taxes, Assessments, Rates, other charges
 - Paid by lessor and lessee
 - To whom –(Lessor or governmental agency)
 - Rights of lessor and lessee to protest taxes
- Use of property
- Improvements required by law
 - Paid by whom and when
 - Maintained by whom and when

Lease Outline – Cont'd

- Repairs and Maintenance
- Construction of build-out and alterations
- Insurance
 - Fire, casualty, Liability
- Landscaping and signs
- Assignment/Sublet
- Renewal options
- Signatures of Contracting parties

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LEASE AGREEMENT

This LEASE AGREEMENT (this "Lease") is dated _____ 201_ and is between _____ LIABILITY COMPANY ("Landlord") and _____ OWNER SPE LLC, a Delaware limited liability company ("Tenant")

BASIC LEASE PROVISIONS

- (1) Building: _____ New York
- (2) Premises: _____ rentable square feet on the _____ floor of the Building, as shown on Schedule A attached hereto.
- (3) Term: _____ () years and _____ () months
- (4) Estimated Commencement Date: _____ 201_

[IF LANDLORD IS CONSTRUCTING THE FINISH WORK]

OR

Commencement Date [IF TENANT IS CONSTRUCTING THE FINISH WORK]

- (5) Termination Date: 11:59 PM on the day immediately preceding the _____ () year and _____ () month anniversary of the Commencement Date (provided that, if the Term ends on a date other than the last day of a calendar month, then the Term shall extend to the last day of the month in which the _____ () year and _____ () month anniversary of the Commencement Date occurs), or such earlier date upon which the Term may expire or be terminated.

- (6) Basic Rent:

Lease Period	Rate Per Rentable Square Foot	Annual Base Rent	Monthly Base Rent

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- (7) Tenant's Proportionate Share: _____ %
- (8) Base Tax Period: Calendar year 201_ with respect to Taxes imposed on a calendar year basis, and the 201_ 201_ fiscal tax year with respect to Taxes imposed on a fiscal year basis.
- (9) Base Operating Expense Period: Calendar year 201_
- (10) Minimum Electric Energy Charge: \$3.00 per square foot per year, for a total of _____ and ___/100 (\$_____) Dollars per year due and payable in equal monthly installments of _____ and ___/100 (\$_____) Dollars, together with Basic Rent and subject to increase as provided in Section 6.1. Tenant shall pay the first monthly installment upon possession and thereafter in advance on the first day of each month.
- (11) Parking Spaces: _____ unassigned parking spaces
- (12) Security: _____ (\$_____) Dollars
- (13) Permitted Use: First-class executive, administrative and general offices and any lawfully permitted ancillary use.

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ARTICLE 2
DEMISE TERM

Page 3

2.1 Demise of Premises Landlord hereby leases and demises to Tenant, and Tenant hereby hires and takes from Landlord, upon the terms and conditions set forth herein, the Premises for the Term. Landlord and Tenant hereby agree that for all purposes of this Lease, the Premises contains _____ rentable square feet, and that neither the Premises nor the Building shall be remeasured by the parties for purposes of recalculating Basic Rent or Tenant's Proportionate Share.

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(b) Commencement Date **[IF LANDLORD IS CONSTRUCTING THE FINISH WORK:** The "Commencement Date" shall be the earlier to occur of (i) the date Tenant takes occupancy of the Premises for the purposes of conducting its business, or (ii) the date that the Finish Work is Substantially Completed. Landlord shall provide to Tenant written notice that the Finish Work is Substantially Completed five (5) days prior to such completion date.] **[IF TENANT IS CONSTRUCTING THE FINISH WORK:** The "Commencement Date" shall be as set forth in the Basic Lease Provisions, notwithstanding the date Tenant actually completes the Finish Work in accordance with Schedule D attached hereto. From and after the date hereof, Tenant shall have the right to enter upon the Premises for the purposes of constructing the Finish Work. Such occupancy by Tenant is expressly subject to all of the terms and conditions of this Lease, except Tenant's obligation to pay Basic Rent.]

(c) Substantial Completion **[IF LANDLORD IS CONSTRUCTING THE FINISH WORK:** "Substantially Completed" or "Substantial Completion" means that (i) Landlord has completed the Finish Work in accordance with the Working Plans, except for (x) minor details of construction that shall not unreasonably interfere with Tenant's use of the Premises (collectively, "Punch List Items"), and (y) any part of the Finish Work that is not completed due to any act or omission of Tenant or Tenant's Visitors, and (ii) Landlord has obtained all necessary legal approvals in order to obtain a valid temporary or permanent certificate of occupancy for the Premises or, alternatively, Landlord has completed all Finish Work necessary to entitle Landlord to the issuance of a temporary or permanent certificate of occupancy other than any Finish Work that is not completed due to any act or omission of Tenant or Tenant's Visitors. If the completion of the Finish Work is delayed due to any act or omission by Tenant or Tenant's Visitors, including, but not limited to, delays due to changes in or additions to the Finish Work requested by Tenant, delays in submission of information or estimates, delays in giving authorizations or approvals, or delays due to the postponement of any work at the request of Tenant or selection of any long lead items, then the Commencement Date shall be accelerated by the number of days of delay caused by Tenant and Tenant's Visitors (any such delay being referred to herein as a "Tenant Delay").]

ARTICLE 3
BASIC RENT, ADDITIONAL RENT

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3.1 Basic Rent Tenant shall pay the Basic Rent to Landlord in lawful money of the United States of America in equal monthly installments, in advance without notice, on the Rent Payment Date, commencing on the Commencement Date, except that Tenant shall pay the first installment of this Rent upon Tenant's execution and delivery of this Lease. If the Commencement Date is not a Rent Payment Date, the Basic Rent for the month in which the Commencement Date occurs shall be prorated and Tenant shall pay such prorated amount to Landlord on the Commencement Date.

3.2 Additional Rent In addition to the Basic Rent, Tenant shall pay and discharge when due or as directed herein ("Additional Rent"), all other amounts, liabilities and obligations which Tenant herein agrees to pay to Landlord, together with all interest, penalties and costs which may be added thereto pursuant to the terms of this Lease.

ARTICLE 4
REAL ESTATE TAXES

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4.1 Taxes Tenant shall pay to Landlord Tenant's Proportionate Share of the amount by which the Taxes for any Tax Year during the Term exceed the Basic Taxes provided, however, that if any special assessments may be paid in installments, Landlord may elect to pay same over the longest period allowed by law. "Tax Year" means each full or partial twelve (12) month period commencing on the first (1st) day of July of each year, or such other period of twelve (12) months as may be duly adopted as the fiscal year for real estate tax purposes in any tax jurisdiction in which the Building may be situated. Tenant acknowledges that there may be multiple components of Taxes (such as City, County, Town, Village and School taxes) which result in multiple Tax Years and multiple Monthly Tax Payments (as defined below) within each Lease Year. Tenant's Proportionate Share of the Taxes for any given full Tax Year shall be payable

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4.2 Refund of Taxes Landlord shall have the right, but not the obligation, to seek to obtain a refund of the assessed valuation of the Property. Landlord may employ whatever advisors and firms Landlord in its sole judgment deems necessary to undertake such endeavor. Tenant shall cooperate with Landlord and its representatives in all such endeavors. If Landlord is able to obtain a refund of Taxes as to any of a Tax Year and if Tenant paid Additional Rent based on the Taxes paid prior to the refund, Landlord shall first deduct from such tax refund any expenses including, but not limited to, attorney's fees and appraisal fees, incurred in obtaining such a refund, and out of the remaining balance of such tax refund, Landlord shall credit Tenant's Proportionate Share of such refund against the next upcoming monthly installment(s) of

ARTICLE 5
OPERATING EXPENSES

5.1 Operating Expenses. Tenant shall pay to Landlord, Tenant's Proportionate Share of the amount by which Landlord's Operating Expenses for any Lease Year during the Term exceeds the Base Operating Expenses. Tenant's Proportionate Share of Landlord's Operating Expenses for less than a full Lease Year shall be prorated.

5.2 Landlord's Expense Statement. As soon as reasonably possible after the first day of the Lease Year following the Lease Year in which the Base Operating Expense Period occurs and thereafter as soon as practical after each succeeding Lease Year during the Term, Landlord shall determine or estimate the amount by which Landlord's Operating Expenses for the Lease Year in question shall exceed the Base Operating Expenses ("Landlord's Estimated Operating Expenses") and shall submit such information to Tenant in a written statement ("Landlord's Expense Statement"). Landlord shall use reasonable efforts to issue Landlord's Expense Statement within one hundred twenty (120) days following the end of each Lease Year. Landlord's failure to render Landlord's Expense Statement for any Lease Year shall not prejudice Landlord's right to thereafter render Landlord's Expense Statement with respect to such Lease Year or with respect to any other Lease Year, nor shall the rendering of any Landlord's Expense Statement prejudice Landlord's right to thereafter render a revised Landlord's Expense Statement for the applicable Lease Year.

ARTICLE 6
ELECTRICITY

6.1 Cost of Electricity. Tenant shall pay to Landlord on each Rent Payment Date, in advance, the Minimum Electric Energy Charge. The Minimum Electric Energy Charge represents Landlord's estimate of the annual cost of providing electric current to the Premises. If Landlord's electric rates increase, the Minimum Electric Energy Charge shall be proportionately increased. In addition, the Minimum Electric Energy Charge shall be increased if, based upon a survey of the electrical current and power load requirements in the Premises, Landlord's electrical consultant determines that the actual cost of the electric current used in the Premises exceeds the Minimum Electric Energy Charge. Landlord's consultant shall determine the proper cost of electricity consumed in the Premises based upon the costs and charges then in effect for the Building. The Minimum Electric Energy Charge shall be adjusted retroactively to the date of the survey. Landlord shall deliver a copy of the survey to Tenant, together with a statement setting forth the new Minimum Electric Energy Charge and the Survey Adjustment Amount. The

7.2 Landlord's Repairs. Landlord shall make all repairs and replacements to the foundation, the bearing walls, the structural columns and beams, the exterior walls, the exterior windows and the roof of the Building, all mechanical, electrical, plumbing, HVAC systems within the Building (other than supplemental HVAC units and the duct distribution systems within the Premises) and Common Areas; provided, however, that if such repairs and replacements (including repairs and replacements with respect to the Property) are necessitated by the intentional acts or negligence of Tenant or Tenant's Visitors, then Tenant shall reimburse Landlord, upon demand, for the reasonable cost thereof. The costs and expenses incurred by Landlord in connection with such repairs and replacements shall be included in Landlord's Operating Expenses to the extent permitted by the terms of this Lease.

7.3 Requirements for Tenant's Maintenance. All maintenance and repair, and each addition, improvement or alteration, performed by or on behalf of Tenant must be (a) completed expeditiously in a good and workmanlike manner, and in compliance with all applicable Legal Requirements and Insurance Requirements; (b) completed free and clear of all Liens; and (c) performed in a manner and by contractors approved by Landlord to the extent such work involves any work to any electrical, mechanical, plumbing or other system of the Building, any work to the outside of the Building, any work to the roof of the Building or any work to any structural element of the Building.

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ARTICLE 9
LANDLORD'S SERVICES

page 16-18

ARTICLE 16
ASSIGNMENT AND SUBLETTING

16.1 Prohibition. Except as otherwise expressly provided in this Article 16, Tenant shall not sell, assign, transfer, hypothecate, mortgage, encumber, grant concessions or licenses, sublet, or otherwise dispose of any interest in this Lease or the Premises, by operation of law or otherwise, without Landlord's prior written consent, which consent Landlord shall not unreasonably withhold or delay. Any consent granted by Landlord in any instance shall not be construed to constitute a consent with respect to any other instance or request. If the Premises or any part thereof are sublet, used, or occupied by anyone other than Tenant, or if this Lease is assigned by Tenant, Landlord shall have the right to collect rent from the assignee, subtenant, user or occupant, but no such assignment, subletting, use, occupancy or collection shall be deemed (i) a waiver of any of Landlord's rights or Tenant's obligations under this Article 16, (ii) the acceptance of such assignee, subtenant, user or occupant as tenant, or (iii) a release of Tenant from the performance of any its obligations under this Lease.

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EXTENSION OPTION

31.1 Extension Option IF APPLICABLE: Subject to the terms and conditions of this Section 31.1, Landlord hereby grants to Tenant the right to extend the original Term for () period(s) of () years (the "Extension Period"). If Tenant desires to exercise the extension option, Tenant shall notify Landlord on or before the date which is () months prior to the expiration of the original Term. If Tenant fails to timely notify Landlord of its election to extend this Lease, Tenant shall be deemed to have waived its right to extend the Term, TIME BEING OF THE ESSENCE with respect to the exercise of such extension option. If Tenant exercises the extension option, all of the terms and conditions of this Lease shall apply to the Extension Period, except that the Basic Rent for the Extension Period shall equal an amount determined pursuant to Section 31.2. In connection with any extension of the Term Landlord shall not be obligated to do any work to the Premises and shall not be obligated to contribute to the cost of any work done to the Premises by Tenant. Tenant's right to exercise the extension option is expressly subject to the satisfaction of all of the following conditions on both the date Tenant exercises the extension option and the commencement date of the Extension Period: (i) Tenant must not be in default of any monetary obligation or any material non-monetary obligation under this Lease, (ii) Tenant must be in occupancy of the entire Premises, and (iii) Tenant must not have sublet any part of the Premises. If all of the foregoing conditions are not satisfied on both the date Tenant exercises the Extension Option and the commencement date of the Extension Period, then any notice exercising the extension option shall be automatically null and void.

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31.2 (4) Extension Period Rent. Tenant shall pay to Landlord, as Basic Rent during the Extension Period, the Fair Market Rental Value of the Premises. "Fair Market Rental Value" means the annual basic rent for each year of the relevant period for which, on the terms and conditions of this Lease, a willing landlord would rent the Premises or comparable premises in a comparable building to a willing renewal tenant with neither party being compelled to rent and after appropriate exposure of the Premises to the market for a reasonable period of time. Notwithstanding the foregoing, in no event shall the Fair Market Rental Value be less than the Basic Rent plus the Additional Rent payable for the year immediately preceding the commencement of the Extension Period. Fair Market Rental Value shall not include the cost of improvements or alterations to the Premises which were paid for by Tenant and not reimbursed by Landlord.

LEASE ABSTRACT

Property Location _____

Suite/Store _____

Contact Information

Name _____
 Mailing Address _____
 Telephone Number _____
 Email Address _____
 Federal Tax I.D. # _____

_____/B/A_____

Square Footage _____ Percentage of Building _____

Security Deposit _____

Commencement Date ____/____/____ Expiration Date ____/____/____

Base Rent \$ _____

____/____/____	_____	\$ _____
____/____/____	_____	\$ _____
____/____/____	_____	\$ _____
____/____/____	_____	\$ _____
____/____/____	_____	\$ _____

Concession Date ____/____/____ # Months _____ \$ _____

Escalations
 R.E. Tax, CAM, operating, Fuel, Electric, % rent, Gas, Water, Parking, Parking Tax

Category	Annual	Semi	Monthly	Quarterly
Billing Cycle				
Lease Year				
Rent				
Base Rent				
Add'l Rent				
% Rent				
TOTAL RENT				

Parking Spaces	Lot	Spaces	Mo/Rent	Annual Rent
	Lot: _____	# _____	\$ _____	\$ _____
	Lot: _____	# _____	\$ _____	\$ _____
	Lot: _____	# _____	\$ _____	\$ _____
	Lot: _____	# _____	\$ _____	\$ _____

Lifters _____

Comments _____

Renewal / Expansion Options

1 Type

Notice Deadline

Commencement

Option Rentals

Comments

2 Type

Notice Deadline

Commencement

Option Rentals

Comments

3 Type

Notice Deadline

Commencement

Option Rentals

Comments

LEASE AGREEMENT

This LEASE AGREEMENT (the "Lease") is dated 201, and is between [redacted] (the "Tenant") and [redacted] (the "Landlord").

BASIC LEASE PROVISIONS

(1) **Location:** [redacted] New York

(2) **Term:** [redacted] years and [redacted] months

(3) **Commencement Date (IF TENANT IS CONSTRUCTING THE TENANT WORK):** [redacted]

OR

(3) **Commencement Date:** 11:59 PM on the day immediately preceding the [redacted] month anniversary of the year and [redacted] month anniversary of the year shall expire on the last day of a calendar month, then the term shall extend to the last day of the month in which the [redacted] year and [redacted] month anniversary of the Commencement Date occurs, or such later date upon which the Tenant's right of use terminates.

(4) **Basic Rent:**

Lease Period	Rent Per Rentable Square Foot	Annual Base Rent	Monthly Base Rent

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SEE FULL PRINT OUT

(7) **Tenant's Proportional Share:** [redacted] %

(8) **Base Tax Period:** Calendar year 201, with respect to Taxes imposed on a calendar year basis, and the 201, 201, fiscal tax year with respect to Taxes imposed on a fiscal year basis.

(9) **Base Operating Expense Period:** Calendar year 201.

(10) **Minimum Electric Energy Charge:** \$100 per square foot per year for a total of [redacted] and [redacted] Dollars per year due and payable in equal monthly installments of [redacted] and [redacted] Dollars, together with Basic Rent and subject to increase as provided in Section 6.1. Tenant shall pay the first monthly installment upon possession and thereafter in advance on the first day of each month.

(11) **Parking Spaces:** [redacted] unassigned parking spaces.

(12) **Security:** [redacted] Dollars.

(13) **Permitted Use:** First-class executive, administrative and general office and any lawfully permitted ancillary use.

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ARTICLE 3

DEFAULT, REMEDY

3.1. [redacted]

(4) **Commencement Date (IF LANDLORD IS CONSTRUCTING THE TENANT WORK):** [redacted]

(5) **IF TENANT IS CONSTRUCTING THE TENANT WORK:** [redacted]

(6) **Included Conditions (IF LANDLORD IS CONSTRUCTING THE TENANT WORK):** [redacted]

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SEE FULL PRINT OUT

ARTICLE 3
 3.1. Rent, Taxes, Insurance shall be the Tenant's obligation in each year of the term of this lease to pay to Landlord the amount of the Rent, Taxes, Insurance, and other charges, as defined below, for the Premises, together with the Cost of the same, and the Tenant shall pay the amount of the same to Landlord in advance of the date of payment. This is a full and complete release of the Tenant from any and all obligations, duties, and expenses, including the cost of the same, that may be incurred by the Tenant in connection with the Premises.

3.2. Payment of Rent, Taxes, Insurance shall be the Tenant's obligation in each year of the term of this lease to pay to Landlord the amount of the Rent, Taxes, Insurance, and other charges, as defined below, for the Premises, together with the Cost of the same, and the Tenant shall pay the amount of the same to Landlord in advance of the date of payment. This is a full and complete release of the Tenant from any and all obligations, duties, and expenses, including the cost of the same, that may be incurred by the Tenant in connection with the Premises.

ARTICLE 4
 MAINTENANCE OBLIGATIONS

4.1. The Tenant shall pay to Landlord the amount of the Rent, Taxes, Insurance, and other charges, as defined below, for the Premises, together with the Cost of the same, and the Tenant shall pay the amount of the same to Landlord in advance of the date of payment. This is a full and complete release of the Tenant from any and all obligations, duties, and expenses, including the cost of the same, that may be incurred by the Tenant in connection with the Premises.

4.2. The Tenant shall pay to Landlord the amount of the Rent, Taxes, Insurance, and other charges, as defined below, for the Premises, together with the Cost of the same, and the Tenant shall pay the amount of the same to Landlord in advance of the date of payment. This is a full and complete release of the Tenant from any and all obligations, duties, and expenses, including the cost of the same, that may be incurred by the Tenant in connection with the Premises.

4.3. The Tenant shall pay to Landlord the amount of the Rent, Taxes, Insurance, and other charges, as defined below, for the Premises, together with the Cost of the same, and the Tenant shall pay the amount of the same to Landlord in advance of the date of payment. This is a full and complete release of the Tenant from any and all obligations, duties, and expenses, including the cost of the same, that may be incurred by the Tenant in connection with the Premises.

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ARTICLE 5
 OPERATING EXPENSES

5.1. Operating Expenses. Tenant shall pay to Landlord the amount of the Rent, Taxes, Insurance, and other charges, as defined below, for the Premises, together with the Cost of the same, and the Tenant shall pay the amount of the same to Landlord in advance of the date of payment. This is a full and complete release of the Tenant from any and all obligations, duties, and expenses, including the cost of the same, that may be incurred by the Tenant in connection with the Premises.

5.2. Landlord's Expense Statement. As soon as reasonably practicable after the end of the Lease Year following the Lease Year in which the Base Operating Expense Period occurs and thereafter as soon as practicable after each succeeding Lease Year during the Term, Landlord shall determine or estimate the amount by which Landlord's Operating Expenses for the Lease Year in question shall exceed the Base Operating Expense ("Landlord's Estimated Operating Expenses") and shall submit such determination to Tenant as a written statement ("Landlord's Expense Statement"). Landlord shall use reasonable efforts to incur Landlord's Expense Statement within one hundred (100) days following the end of each Lease Year. Landlord's failure to create Landlord's Expense Statement for any Lease Year shall not prejudice Landlord's right to thereafter create Landlord's Expense Statement with respect to such Lease Year or with respect to any other Lease Year, nor shall the creation of any Landlord's Expense Statement prejudice Landlord's right to thereafter create a revised Landlord's Expense Statement for the applicable Lease Year.

ARTICLE 6
 ELECTRICITY

6.1. Cost of Electric. Tenant shall pay to Landlord in each Year the amount of the Rent, Taxes, Insurance, and other charges, as defined below, for the Premises, together with the Cost of the same, and the Tenant shall pay the amount of the same to Landlord in advance of the date of payment. This is a full and complete release of the Tenant from any and all obligations, duties, and expenses, including the cost of the same, that may be incurred by the Tenant in connection with the Premises.

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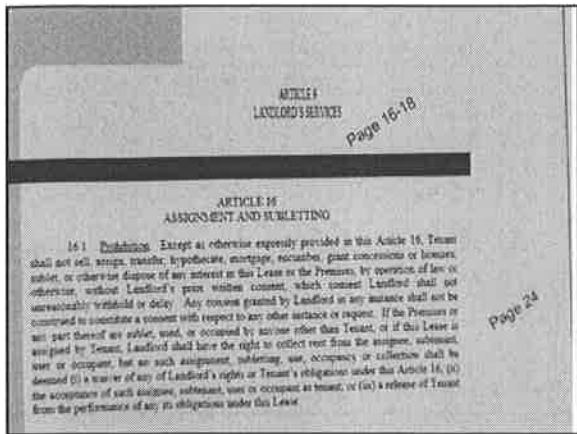
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7.2. Landlord's Repairs. Landlord shall make all repairs and replacements to the foundation, the bearing walls, the structural columns and beams, the exterior walls, the exterior windows and the roof of the Building, all mechanical, electrical, plumbing, HVAC systems within the Building (other than supplemental HVAC units and the duct distribution systems within the Premises) and Common Areas; provided, however, that if such repairs and replacements (including repairs and replacements with respect to the Property) are necessitated by the intentional acts or negligence of Tenant or Tenant's Visitors, then Tenant shall reimburse Landlord, upon demand, for the reasonable cost thereof. The costs and expenses incurred by Landlord in connection with such repairs and replacements shall be included in Landlord's Operating Expenses to the extent permitted by the terms of this Lease.

7.3. Requirements for Tenant's Maintenance. All maintenance and repair, and each addition, improvement or alteration, performed by or on behalf of Tenant must be (a) completed expeditiously in a good and workmanlike manner, and in compliance with all applicable Legal Requirements and Insurance Requirements; (b) completed free and clear of all Liens; and (c) performed in a manner and by contractors approved by Landlord to the extent such work involves any work to any electrical, mechanical, plumbing or other system of the Building, any work to the outside of the Building, any work to the roof of the Building or any work to any structural element of the Building.

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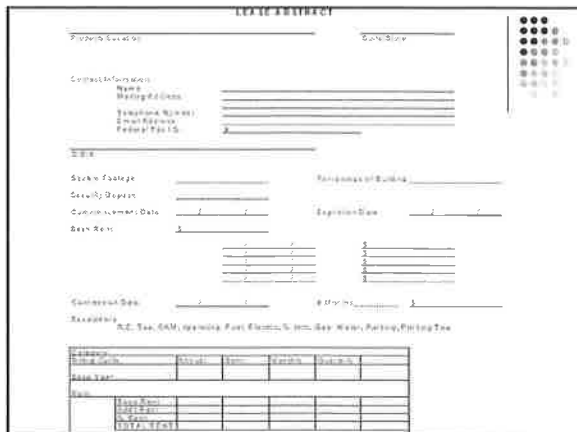


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Parking Spaces	Status			
	Open	Reserved	Occupied	Blocked
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				

Comments

SEE FULL PRINT OUT

Vehicle Information	Plate	
	State	Number
1 Type		
2 Make/Model		
3 Color		
4 Year		
5 License		
6 Type		
7 Make/Model		
8 Color		
9 Year		
10 License		

Comments

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CALCULATING INCOME

AND EXPENSES

Valuation Process

- **Income** derived through Lease Analysis
 - Must determine if market rent
- **Vacancy Rate**
 - Derive from market place
- **Expenses** derived through Lease Analysis
 - Must determine if market expenses
- **Capitalization Rate**
 - Derive from market place, publications, appraisers, brokers, etc.

Valuation Process

- **Discounted Cash Flow**
 - Converts expected future benefits into a price a purchaser might pay today
- **Direct Capitalization**
 - Deals with stable income stream, capitalizes one years income into value
- A capitalization rate is defined as any rate used to convert income into value.

KEY IS SELECTION OF CAPITALIZATION RATE

Valuation Process cont'd

- To develop a fee-simple market value, market rent, market occupancy and a fee-simple cap rate must be considered.
- The leased-fee market value is derived from contract rent, actual occupancy and a leased-fee cap rate
- The leasehold economic rent minus contract rent gives the advantage then multiply by the discount factor

Determining Market Information

- Income / Vacancy / Expenses / Cap Rates
 - Utilizing Comparable properties,
 - Discussions with Brokers,
 - Appraisers,
 - Publications,
 - Etc....

All summarized in a spreadsheet to determine market information

Spreadsheet

- Access
- Excel
- Quattro Pro
- SQL Database

Conclusion

- Review & Understand Lease Document
 - Confirm whether market income and expense
 - Or not...
- Create Database of information
- Input into Valuation Factor File
 - Simplify Mass Valuation

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