

The lease abstract (1 of 2): identity, dates, rent, recoveries

Chapter 2 and Appendix A. Not a summary: a structured extraction of every fact that affects money or risk, each with its citation. "3% annual" is a claim; "3% annual, s.4.2 as amended by Amendment 2 s.3" is evidence.

Tenancy		Abstracted by	
Checked by		Date	

Field	Value	Clause and amendment
Identity		
Landlord entity: the actual contracting party		
Tenant entity: exact legal name (a subsidiary is not its parent)		
Guarantor, scope of the guaranty and any cap		
Premises: building, floor, suite; storage, parking, roof rights		
Rentable area / usable area / load factor / measurement standard		
Is the area stated as conclusive?		
Dates		
Execution / commencement / rent commencement / expiration		
Early access or fixturing period: rent or recoveries payable?		
Every notice deadline, as a diary date (options, estoppel, audit, reconciliation, restoration)		
Lease year definition (escalations, caps and reconciliations run on it)		
Rent		
Base rent by period, per sf and in total; escalation mechanism		
Indexed rent: index and series, reference months, compounding basis, floor, cap		
Free rent: months, gross or net of recoveries, where in the term it sits		
Percentage rent: rate, breakpoint (natural or artificial), gross sales definition, frequency		
Rent credit, offset right, amortized improvements inside the stated rent (principal, rate, balance)		
Recoveries		
Structure: net / base year / expense stop, and the base amount		
Pool definition and every exclusion, checked against the actual expense schedule		
Management fee: rate and base; administrative charge; do they duplicate?		
Tenant's share: numerator, denominator, stated or computed		
Gross-up: level, applies to the base year?, which costs are variable		
Cap: rate, cumulative?, compounded?, on what, total or by category		
Base year restated if the pool composition changes?		
Reconciliation deadline and any bar on late billing; audit right and cost-shifting threshold		
Real estate taxes: in or out of the pool, in or out of the cap, reassessment protection		

The lease abstract (2 of 2): options, obligations, security, restrictions

Appendix A, continued. One row per option. The three things an abstract cannot tell you go at the bottom as open questions, never silently omitted.

Tenancy		Abstracted by	
Checked by		Date	

Field	Value	Clause and amendment
Options (strike, window, notice, conditions, personal?)		
Renewal or extension, with the rent formula in full		
Termination or break, with the fee formula		
Contraction / expansion / right of first offer / right of first refusal / purchase		
Landlord options: recapture, relocation, termination on casualty		
Landlord obligations		
Improvement allowance: amount, permitted uses, disbursement, deadline, amount drawn, conversion to rent credit		
Base building and delivery obligations; remedy for late delivery		
Service standard, hours, after-hours rate		
Repair and replacement allocation, systems boundary resolved		
Capital replacement or performance-standard obligation		
Restoration at expiry; removal reserved on each consented alteration?		
Security		
Cash deposit / letter of credit (amount, issuer, expiry, auto-renewal, transferable, downgrade replacement) / guaranty		
Burn-down schedule and its conditions		
Months of rent covered, beside the unamortized transaction cost exposure		
Restrictions and risk		
Use clause; exclusive granted to this tenant; exclusives granted to others that bind this space		
Co-tenancy: named tenants, occupancy threshold, persistence period, each remedy		
Assignment and subletting: consent standard, carve-out, recapture, profit share, continuing liability, change of control		
Abatement on service failure; any termination right		
Casualty: rebuild conditions, abatement, termination rights and the outside date		
Condemnation: termination triggers, allocation of the award		
Insurance: who insures improvements, deductible, rental interruption period, waiver of subrogation		
Subordination: conditional on non-disturbance? What does the lender exclude?		
Estoppel: notice period; is silence deemed confirmation?		
Open questions: what the abstract cannot tell you		
Have the landlord's obligations been performed? (allowance drawn, per the accounting records)		
Is the tenant in occupation and paying? (rent roll and aged receivables)		
Has anything been agreed outside the documents? (course of dealing: ask the property manager)		

The file, and the three tests

Chapters 1 and 2. The file is the lease: a first-generation document read alone is wrong wherever it has been amended. An abstract is not finished when the fields are populated; three tests, each taking minutes.

Tenancy		Abstracted by	
Checked by		Date	

Document	Held? Date	Note
The file: received and read (amendments newest first)		
The lease as originally signed		
Amendments, each numbered and dated (check the numbering)		
Work letter and exhibits		
Side letters and letter agreements		
Guaranties		
Estoppel certificates, the most recent first		
Consents (assignment, sublet, alterations) and their conditions		
Subordination, non-disturbance and attornment agreements		

Test 1. Arithmetic. Compute the current monthly rent from the abstract's schedule and compare it with what the property is billing.

Month	Rent per abstract	Rent billed	Difference	Explanation

Test 2. Reconciliation. Reproduce the last completed operating expense reconciliation from the abstract's recovery fields. If you cannot, the structure is misunderstood.

Line	From the abstract	On the statement	Difference

Test 3. Estoppel. Compare the abstract to the tenant's latest estoppel. Where they disagree, one of them is wrong: find out which before closing.

Item	Abstract	Estoppel	Agree?

Net effective rent: the worksheet

Chapter 4 and Appendix C, case 1. Face rent adjusted for everything given and everything spent. Straight line is the leasing convention; present value is required whenever the shapes differ, and always for a decision about capital.

Space		Prepared by	
Discount rate		Date	

Line	Book: Deal A	Book: Deal B	Your deal 1	Your deal 2
Area, rentable sf	25,000	25,000		
Term, years	10	10		
Face rent, year 1, per sf	32.00	28.50		
Escalation	3% a year	3% a year		
Free rent	8 months	none		
Improvement allowance, per sf	75.00	25.00		
Commissions	4% yrs 1-5, 2% yrs 6-10	same		
Total contractual rent	9,171,103	8,168,014		
Average face rent, per sf	36.68	32.67		
less free rent	(533,333)	-		
less improvement allowance	(1,875,000)	(625,000)		
less leasing commissions	(268,368)	(239,015)		
less moving allowance, takeover, other inducements (side letters)	-	-		
less landlord base-building work for this deal	-	-		
Net cash to landlord	6,494,402	7,303,999		
Straight-line NER, per sf a year	25.98	29.22		
Present value NER at 7%, per sf a year	21.38	27.37		

The convention behind 21.38 and 27.37. The book gives the result, not the method. Both figures reproduce, to the cent, with: 7 per cent a year converted to its monthly equivalent; rent received monthly in arrears, the free months first; the allowance and all commissions paid on day one; and the result expressed as a level monthly annuity in arrears, times twelve. With rent in advance instead, the same deals give 21.45 and 27.40. State the convention whenever you quote the number.

Tenant side (not symmetric). Rent net of concessions + recoveries + own fit-out above the allowance + restoration at expiry + amortization of installed equipment. Restoration is the item most often left out.

The three questions of any rent provision. Total contractual rent and its average, not the headline. What has been given away, when, and what it is worth. What could change it: escalation mechanics, offset rights, abatement triggers.

Reading the structure: who pays each cost

Chapter 6. The label at the top is unreliable. List the cost categories, find the clause that allocates each, mark L (landlord) or T (tenant). One column tells you what the lease is, whatever the front page calls it.

Tenancy		Abstracted by	
Checked by		Date	

#	Cost category	L / T	Clause	Capped? Base?
1	Real estate taxes			
2	Building insurance			
3	Tenant's own insurance			
4	Common area utilities			
5	In-suite utilities			
6	Cleaning of common areas			
7	Cleaning of premises			
8	Security			
9	Elevator maintenance			
10	Heating and cooling maintenance			
11	Fire and life safety systems			
12	Landscaping and snow removal			
13	Property management fee			
14	Administrative charge on the recovery pool			
15	Repairs to building systems			
16	Replacement of building systems			
17	Roof repair			
18	Roof replacement			
19	Structural repair			
20	Structural replacement			
21	Capital expenditure required by a change in law			
22	Environmental compliance			
23	Owners' association or reciprocal easement charges			
24	Building performance standard costs (the live issue)			

Normalise before comparing. Convert a gross rent to a net basis by deducting landlord-borne costs. The book: 48.00 gross less 9.84 opex less 6.20 taxes = 31.96 net, 799,000 on 25,000 sf, against 32.00 triple net, 800,000. Identical at signing; a one-dollar rise in operating costs then costs the gross landlord 25,000 a year, 400,000 of value at 6.25 per cent. Even under triple net, check who holds roof, structure and major systems: that is the capital reserve.

Recoveries: the six lines, the gross-up and the four structures

Chapters 7 and 8. Populate these six for every tenancy and the recovery line of the model is right. Skip one and it is not.

Tenancy		Abstracted by	
Checked by		Date	

Line	This tenancy	Clause
The recovery checklist		
Structure: net, base year or expense stop, and the base amount		
Pool: gross figure and every exclusion, compared to the actual expense schedule		
Share: numerator, denominator, stated or computed (sum of stated shares = 100%?)		
Gross-up: level, applies to the base year?, which costs are treated as variable		
Cap: rate, cumulative?, compounded?, on what, total or by category		
Timing: reconciliation deadline, audit right, the threshold that shifts audit costs		

Gross-up worksheet (chapter 7)	Book example	Your building
Building area / occupancy in the base year	100,000 sf / 70%	
Actual pool: fixed / variable	480,000 / 371,000	
Variable, grossed up: variable / occupancy x gross-up level	503,500	
Grossed-up pool (per sf)	983,500 (9.835)	
Tenant share	25%	
Tenant pays on the grossed-up pool / on the actual pool	245,875 / 212,750	
The gross-up sentence, a year / at 6.25%	33,125 / 530,000	

Structure, year 3 pool 9.835	Base	Tenant pays (book)	Your lease
Base year, not grossed up	8.51	33,125	
Base year, grossed up	9.84	0	
Expense stop at 9.00	9.00	20,875 (the book prints 21,000 from the rounded 9.84)	
Net, no base	-	245,875	

Caps. Build as a running schedule, never as a growth rate: annual non-cumulative, cumulative, and compounded ceilings side by side, controllable costs split from taxes, insurance, utilities and snow. Case one on this page builds it.

The options schedule and the notice diary

Chapters 2 and 10. The single most useful document an asset manager can hold on a multi-tenant building, and in most portfolios it does not exist. Model to the earliest date each tenant can leave.

Building		Prepared by	
As at		Date	

Tenant, option, area	Strike or formula	Window: earliest / latest	Notice period and diary date	Conditions, and satisfied now?	Value effect, + / -

Question	Answer	Clause
Fair market rent options: the six questions		
Comparison: the same building, or the market generally?		
Concessions: is FMR on a face basis while the market transacts with free rent and allowances?		
Capped or collared? (a floor at the final-year rent helps the landlord; a ceiling is the worst outcome)		
Who determines it, and on disagreement: three appraisers or baseball arbitration?		
Tenant-funded improvements: included or excluded from the rent?		
Deadline: can the rent be known before the tenant must commit?		
Termination rights		
Notice period (nine months gives a chance at re-letting; three does not)		
Fee: unamortized allowance, commissions and free rent, plus months of rent?		
Is the fee a true measure of downtime plus the next deal? (below)		
Personal to the original tenant?		

The book's anchor, a break at year 5. A fee of the unamortized allowance, commissions and free rent is 1,338,351; downtime plus the next deal (chapter 18) is 2,992,002, 2.24 times the fee. **The renewal option:** value the gap over the term it runs. Five years of 55,000 at 6.25 per cent is 230,113 at the start of the renewal, not the 880,000 of a perpetuity.

The security schedule, and the credit behind it

Chapter 13. Size security against the exposure, not the rent. The last two columns side by side are the point: in most portfolios the ratio lies between one in three and one in six.

Building		Prepared by	
As at		Date	

Tenant	Instrument	Amount	Expiry	Burn-down conditions	Guarantor and scope	Months of rent covered	Unamortized exposure	Cover

The book's anchor at the end of year 2	Amount	Your tenancy
Allowance plus commissions	1,875,000 + 268,368	
Unamortized at the end of year 2 (80%)	1,714,695	
Nine months of lost rent at 44.00	825,000	
Exposure	2,539,695	
Letter of credit (the book's six months)	550,000	
Cover	21.7%	
Six months of the rent the lease actually bills in year 2	412,000	

Question	Answer	Source
Letter of credit: six things		
Issuing bank's rating		
Expiry, and automatic renewal		
Transferable to a purchaser of the building		
Payable on sight against a simple statement		
Governing law		
Replacement obligation if the bank is downgraded		
Reading the credit rather than the clause		
Who is the contracting entity, and what is behind it?		
What has the tenant invested beyond the allowance?		
Is the space operationally critical?		
What would it cost the tenant to move?		

Retail: percentage rent, exclusives and co-tenancy

Chapters 3, 12 and 14. A retail rent roll without three extra columns is a list of contractual rents that says little about whether they will be there in three years.

Centre		Prepared by	
As at		Date	

Unit, tenant	Sales / sf	Occupancy cost ratio	Co-tenancy: depends on	Depended on by	Trading or dark?

Exclusives matrix. Every exclusive in the centre against every vacant unit: what can each vacancy be let to?

Exclusive (holder, protected use)	Vacant unit 1	Vacant unit 2	Vacant unit 3	Vacant unit 4

Percentage rent worksheet	Book: the ground-floor unit	Your unit
Base rent: area x rent	4,200 x 45.00 = 189,000	
Natural breakpoint: base rent / rate	189,000 / 6% = 3,150,000 (750 / sf)	
Percentage rent at 4,500,000 of sales	81,000; total 270,000; 64.29 / sf	
Artificial breakpoint at 2,500,000, same 3,150,000 of sales	39,000 of rent the natural breakpoint does not produce	

Item	Answer	Clause
For each retail lease		
Gross sales definition, exclusions, online sales attributable to the store		
Calculation frequency (monthly produces more than annual)		
Co-tenancy: named tenants, occupancy threshold, persistence period before each remedy		
Continuous operation covenant; recapture if the tenant goes dark		
Radius restriction; marketing fund; relocation right		

The risk provisions: services, casualty, the lender

Chapters 15 to 17. They cost nothing in a normal year. The practical test: if the building suffered a major casualty tomorrow, which leases would abate, by how much, for how long, and which could be terminated, by whom, after what period?

Building		Prepared by	
As at		Date	

Tenant	Abates? Scope	For how long	Termination right: whose, trigger	Outside date	Rental interruption cover

Item	Answer	Clause
Services, repair, alterations, compliance (ch.15)		
Service standard and hours; after-hours rate against today's energy cost		
Abatement: trigger, waiting period (3 to 5 business days), scope; termination right (often 180 days)		
Repair allocation: systems serving the building / serving only the premises / repair or replace		
Alterations: threshold, consent standard, removal reserved at consent		
Compliance: accessibility trigger; building performance standards recoverable? amortized over?		
Casualty, condemnation, insurance (ch.16)		
Rebuild obligation and its conditions (proceeds, lender release, repair period, late in term)		
Does the loan let the lender apply proceeds to the debt?		
Condemnation: termination triggers, allocation of the award, leasehold claim		
Who insures the improvements; deductible recoverable; waiver of subrogation present		
What the lender reads (ch.17)		
SNDA per major tenant, and its date; subordination conditional on non-disturbance?		
Lender exclusions: prepaid rent, prior defaults, undrawn allowance		
Estoppel: notice period; silence deemed confirmation?		
Lender leasing parameters; ground lease term, rent, escalation, mortgagee protections		

Renew or re-let: the worksheet

Chapter 18 and Appendix C, case 3. The calculation almost nobody performs, and the boundary of the negotiating range. Downtime drives everything: take it from the building's own history.

Space		Prepared by	
Cap rate		Date	

Line	Book: the anchor	Your space
Area, sf	25,000	
Market rent, year 1; escalation; term	44.00; 3%; 5 years	
Gross rent over the term	5,840,049	
Renewal: allowance / commission	625,000 / 3%	
New tenant: downtime / allowance / commission	9 months / 1,875,000 / 5%	
Net cash, renewal	5,039,848	
Net cash, new tenant	2,848,047	
Advantage of renewing	2,191,801 (87.67 / sf)	
Concession capacity, straight: advantage / area / term	17.53 / sf a year	
Boundary rent, solved (commission scales with rent)	26.98	
Boundary at 6 / 3 months of downtime	29.11 / 31.25	

Boundary rent = (net cash of the new-tenant case + renewal allowance) / (area x sum of the escalation factors x (1 - renewal commission rate)).

Item	This tenancy	Note
Renewal probability: five observable factors		
Tenant's own investment in the space beyond the allowance (strongest)		
In-place rent against market		
Operational criticality		
Space fit: outgrown or shrunk?		
History: renewed before?		
The model's own checks		
Year one reconciles to the rent roll and to billing		
Recovery line reproduces the last reconciliation, restated for occupancy		
Expiry profile, with capital committed to each expiry, matches the abstracts		
Value with every renewal probability at zero (contractual only)		

The one page a valuation should produce

Chapter 19 and Appendix F. Seven items beyond the value itself. Together they say what the building is worth, what of that is contractual, what is assumption, and what was decided in documents nobody has read since they were signed.

Building		Prepared by	
Valuation date		Cap rate	

Item	Book's building	Your building
1. In-place rent / market rent / time-weighted mark-to-market net of realisation cost	3,510,250 / 3,872,000 / 807,365 at 60% renewal	
2. WALT by area / by rent / to break	4.36 / 4.17 / see the leases	
3. Expiry profile, with capital committed to each expiry	see the workbook, sheet 7	
4. Over-market income, with its expiry date and present value	54,000 a year to year 4: 186,049, not 864,000	
5. The value of every option held by a tenant	renewal at 95%: 230,113 at the start of the renewal	
6. The clause-driven value bridge, itemised	-1,102,513 restated (printed -1,752,400)	
7. Contractual-only value: every renewal probability at zero	mark-to-market of -2,164,683	

Clause (value bridge)	Chapter	Annual effect	Term it can bite, years	Value, over that term	Value in perpetuity

The mark-to-market, in order. Printed (capitalise the aggregate) → over-market stream at present value, not in perpetuity → each below-market gap as a perpetuity from its expiry, discounted → less the leasing cost at each expiry at a stated renewal probability → the break-even renewal probability (43.7 per cent on the book's building). Anything quantifiable goes in the cash flow; the capitalisation rate carries only what cannot be quantified.

Forty red flags

Appendix B. Run the list against every major lease and record, for each hit, the annual dollar effect and the value effect over the term it can bite. The output is the value bridge: a price adjustment in a transaction, a work plan in asset management.

Tenancy		Abstracted by	
Checked by		Date	

#	Red flag	Hit?	Annual effect	Value
Rent and concessions				
1	Free rent at the back of the term			
2	Rent inclusive of amortized improvements, components undisclosed			
3	Escalation applied to the original base rent			
4	Indexed rent with no floor, on a long term			
5	Indexed rent with a ceiling below plausible inflation			
6	Artificial breakpoint, unnoticed			
7	Gross sales excluding online sales attributable to the store			
8	A rent offset right, of any kind			
Recoveries				
9	No gross-up			
10	Gross-up on comparison years, not the base year			
11	Base year set in a low-occupancy period			
12	No restatement when the pool composition changes			
13	Annual non-cumulative cap modeled as compounded			
14	Cap applied category by category			
15	Exclusions that appear in the actual expense schedule			
16	Management fee on gross revenue including recoveries			
17	Management fee and administrative charge on the same pool			
18	Late-billing bar with delayed reconciliations			
19	Real estate taxes inside a cap			
20	Reassessment protection in a reassessing jurisdiction			
Options				
21	Termination fee that does not cover downtime and re-letting			
22	Renewal at a fixed rent, or at a discount to market			
23	FMR on a face basis in a market with concessions			
24	FMR option with a ceiling			
25	Option window not in a diary			
26	Right of first refusal over adjacent space			
27	Expansion option at a predetermined rent			
Covenant and security				
28	Subsidiary tenant, no guaranty			
29	No change of control on a parent-priced lease			
30	Letter of credit not transferable			
31	No LC replacement on bank downgrade			
32	Burn-down automatic on the calendar			
33	Permitted-transfer carve-out reaching an entity with no assets			
Retail, risk and structure				
34	Ongoing co-tenancy with termination, unmodeled			
35	Dark tenant paying rent, no recapture			
36	Exclusive blocking the letting of a vacancy			
37	Occupancy cost ratio above what the format sustains			
38	Tenant termination on casualty, short outside date			
39	No waiver of subrogation			
40	Ground lease under thirty years, or no mortgagee protections			