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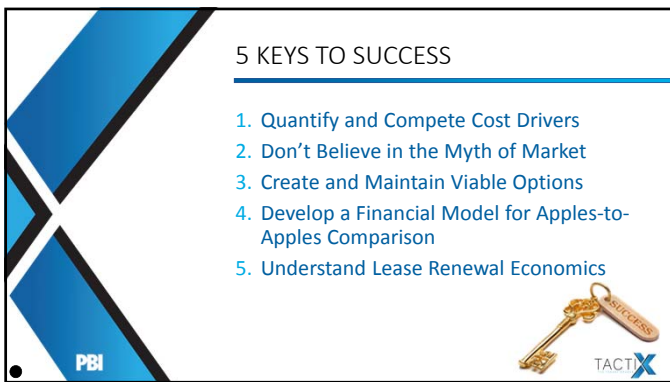
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### QUANTIFY AND COMPETE COST DRIVERS

- Rentable Area
  - How much space is needed?
- Rent and its Components
  - How much is the rent?
  - Escalations
- Net Cash Out of Pocket
  - How much capital is required?



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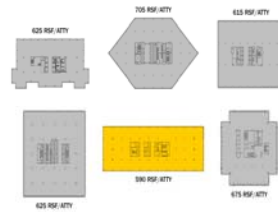
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### CHOOSING AN EFFICIENT BUILDING: THE GIFT THAT KEEPS ON GIVING

**COST DRIVER #1:**  
BUILDING EFFICIENCY AFFECTS HOW MUCH SPACE IS LEASED



Building Footprint	RSF
Top Left	425 RSF
Top Middle	700 RSF
Top Right	655 RSF
Bottom Left	425 RSF
Bottom Middle (Yellow)	590 RSF
Bottom Right	475 RSF

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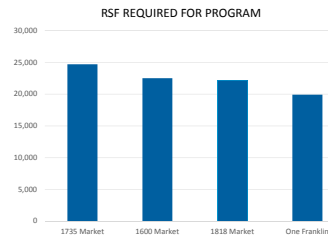
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### CHOOSING AN EFFICIENT BUILDING: THE GIFT THAT KEEPS ON GIVING

**SAME PROGRAM**  
FOUR DIFFERENT SCENARIOS

RSF REQUIRED FOR PROGRAM



Scenario	RSF Required
1735 Market	~24,000
1600 Market	~22,000
1818 Market	~22,000
One Franklin	~20,000

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### 1735 MARKET STREET

- × Square Floor Plate
- × Center Core
- × 616 RSF/ATTY



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### 1600 MARKET STREET

- × Square Floor Plate
- × Center Core
- × 598 RSF/ATTY



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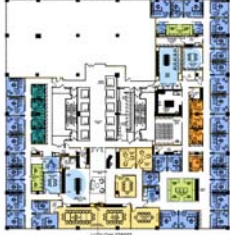

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### 1818 MARKET STREET

- × Square Floor Plate
- × Center Core
- × 592 RSF/ATTY



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### ONE FRANKLIN TOWER

- ✕ Rectangular Floor Plate
- ✕ Center Core
- ✕ 523 RSF/ATTY




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### ONE LOGAN SQUARE

- ✕ Trapezoidal Floor Plate
- ✕ Side Core
- ✕ 506 RSF/ATTY

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### RENT AND ITS COMPONENTS

**COST DRIVER #2**

RENT AND ITS COMPONENTS

Landlord's Gross Rent	\$30.00
Less: Amortized Tenant Improvement*	(\$6.50)
Less: Amortized Rent Concession**	(\$3.60)
Less: Base Year Operating Costs	(\$8.00)
Less: Base Year Real Estate Taxes	(\$2.00)
Landlord Profit Before Debt Service (A.K.A "Quad Net Rent")	\$9.90

\*\$45.00 TI Allowance @ 8% for 10 years  
\*\*\$25.00 Rent Concession @ 8% over 10 years

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## "YOU'RE PAYING WHAT?!"

### MAKING SENSE OF QUOTED RENT

**COCKTAIL TALK**

DIFFERENT WAYS TO QUOTE RENT

	Gross	Plus Electric	NNN
Quoted Rate	\$30.00	\$28.50	\$20.50
<b>Plus Tenant Pays...</b>			
Operating Expenses	No	No	\$6.00
Real Estate Taxes	No	No	\$2.00
Tenant Electric	No	\$1.50	\$1.50
<b>True Cost</b>	<b>\$30.00</b>	<b>\$30.00</b>	<b>\$30.00</b>

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## THE IMPACT OF RENT ESCALATIONS

Philadelphia leases have traditionally escalated at 5.50 per year. Recently, Landlords have been testing the market for 2-3% compounded annual escalations.

**RENTAL ESCALATIONS:**

ANNUAL ESCALATIONS HAVE A SIGNIFICANT IMPACT ON THE OVERALL LEASE VALUE

For a theoretical 20,000 SF tenant, the total rent difference over a 10-year term is \$428,328!

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## CAPITAL IMPROVEMENTS

**COST DRIVER #3:**

CAPITAL IMPROVEMENTS (NET OUT-OF-POCKET COST)

- Tenant Improvement Allowance
  - ✗ Deduction for Management Fees
  - ✗ Allowable Uses
- Free or Reduced Rent
- Existing Condition
  - ✗ Definition of Base Building or Delivery Condition
  - ✗ Re-use of Existing Improvements

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SECOND KEY TO SUCCESS

**DON'T BELIEVE THE MYTH OF MARKET**

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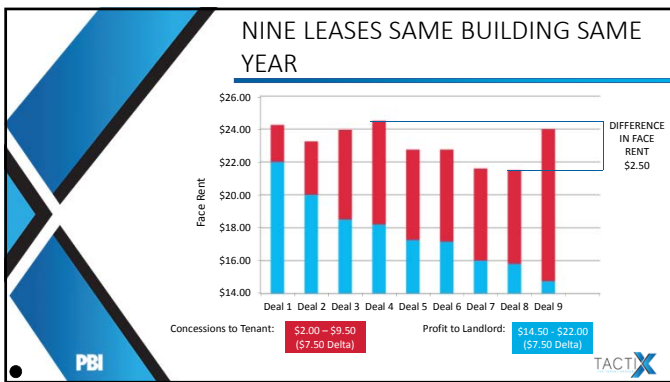
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THIRD KEY TO SUCCESS

**CREATE & MAINTAIN VIABLE OPTIONS**

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WHEN DO YOU HAVE THE MOST LEVERAGE?

**LEASING LEVERAGE:**  
HOW YOUR LEVERAGE CHANGES OVER TIME

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IT'S IMPORTANT TO HAVE A VIABLE BACK UP

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FOURTH KEY TO SUCCESS

**DEVELOP A FINANCIAL MODEL FOR APPLES-TO-APPLES COMPARISON**

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## FINANCIAL ANALYSIS

- ✗ Goal is an apples-to-apples comparison.
- ✗ Clients need to understand Cash Flow and GAAP analysis to evaluate opportunities and forecast their potential P&L impact.
- ✗ Analyze aggregate and annual total occupancy cost (and not present value cost) based upon summary measures determined by senior leadership.



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## THE PROPOSAL PROCESS

**PROPOSALS COME IN, BUT THEY DON'T LOOK ALIKE:**

WHICH IS THE BETTER DEAL?

**BUILDING 1**

Test Fit -55,000 SF  
\$29 Initial Base Rent  
\$ 75 Annual Escalation  
No Free Rent  
\$50 TI Allowance  
\$85 Construction Costs

**BUILDING 2**



Test Fit -53,000 SF  
\$29 Initial Base Rent  
3% Annual Escalation  
4 Mos. Free Rent  
\$45 TI Allowance  
\$80 Construction Cost

**BUILDING 3**

Test Fit -50,000 SF  
\$32 Initial Base Rent  
\$ 50 Annual Escalation  
8 Mos. Free Rent  
\$50 TI Allowance  
\$85 Construction Costs

**BUILDING 4**

Test Fit -57,000 SF  
\$30 Initial Base Rent  
\$ 50 Annual Escalation  
12 Mos. Free Rent  
\$20 TI Allowance  
\$30 Construction Costs

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## THE PROPOSAL PROCESS

Overview of Key Financial Metrics

	Building 1	Building 2	Building 3	Building 4
1 Program Terms				
2 Square Footage	55,000	53,000	50,000	57,000
3 Allowance Offset	75	75	75	75
4 TI Allowance	50	50	45	50
5 Free Rent	0	4 mos.	8 mos.	12 mos.
6 Annual Base Rent	\$29.00	\$29.00	\$32.00	\$30.00
7 Annual Escalation	7.5%	3%	5%	5%
8 Rent Abatement (Monthly)	0.0	4.2	8.1	0.0
9 Operating Cost & W/ Taxes	\$1.00	\$1.00	\$1.00	\$1.00
10 Tenant Allowance	\$1.00	\$1.00	\$1.00	\$1.00
11 Rent Free Allowance	\$1.00	\$1.00	\$1.00	\$1.00
12 Tenant Improvements	\$85.00	\$80.00	\$85.00	\$30.00
13 Construction and Misc Costs	\$85.00	\$80.00	\$85.00	\$30.00
14 PMF and Soft Costs	\$75.00	\$75.00	\$75.00	\$75.00
15 Landlord's Contribution	\$10.00	\$10.00	\$10.00	\$10.00
16 Net Out of Pocket Costs - PMF	\$85.00	\$80.00	\$85.00	\$30.00
17 Net Out of Pocket Costs - Tenant P	\$1,495,000	\$1,495,000	\$1,495,000	\$1,495,000

Summary Measures Including Year 1 Capital

	Building 1	Building 2	Building 3	Building 4
18 10 Yr. Present Value Occupancy Cost	\$15,551,464	\$11,895,834	\$19,919,628	\$26,245,242
19 Net Present Value (NPV)	\$18,718,817	\$14,945,895	\$23,649,768	\$18,418,129
20 Average Annual Occupancy Cost PMF	\$42.97	\$42.87	\$33.35	\$38.04
21 Average Annual Occupancy Cost	\$1,293,975	\$1,293,976	\$1,371,242	\$694,349
22 Average Annual Rent/Allowance	\$181,451	\$178,921	\$244,444	\$104,881

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FIFTH KEY TO SUCCESS

## UNDERSTAND LEASE RENEWAL ECONOMICS





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## UNDERSTAND LEASE RENEWAL ECONOMICS

**THE LANDLORD'S OBJECTIVE:**

KEEP THE FOCUS ON THE TENANT'S ALTERNATIVES

	TENANT RENEWS	TENANT MOVES
Gross Rent	\$23.00	\$23.00
Move/Fit-Out Costs	\$20.00	\$80.00
Landlord TI Allowance	(\$20.00)	(\$45.00)
Out of Pocket Costs	\$0.00	\$35.00
Out of Pocket Costs Amortized at 10% over Term	\$0.00	\$5.50
<b>Effective Rent to Tenant:</b>	<b>\$23.00</b>	<b>\$28.50</b>


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## UNDERSTAND LEASE RENEWAL ECONOMICS

**THE TENANT'S OBJECTIVE:**

FOCUS ON THE LANDLORD'S NUMBERS

	TENANT RENEWS	TENANT MOVES
Gross Rent	\$23.00	\$23.00
TI Allowance	\$20.00	\$45.00
Cost of Vacancy	\$0.00	\$23.00
Total Cost to Landlord	\$20.00	\$68.00
Landlord's Cost Amortized at 10%	(\$3.15)	(\$10.69)
<b>Net Profit to Landlord</b>	<b>\$19.85</b>	<b>\$12.31</b>
Add back LL's Amortized Concessions		\$3.15
<b>Landlord's Break Even Renewal Rental</b>		<b>\$15.46</b>


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### UNDERSTAND LEASE RENEWAL ECONOMICS

**THE SPREAD:**  
WHERE DOES THE DEAL GET MADE?

What's At Stake?  
\$13.04

\$15.46 Landlord's Worst Case Scenario	\$23.00 "Market"	\$28.50 Tenant's Worst Case Scenario
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"Market" is actually a spread of \$13.04, depending on who has the better alternatives!

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### 5 KEYS TO SUCCESS

1. Quantify and Compete Cost Drivers
2. Don't Be Seduced By the Myth of Market
3. Create and Maintain Viable Options
4. Develop a Financial Model for Apples-to-Apples Comparison
5. Understand Lease Renewal Economics

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### ADDITIONAL RESOURCES

TEACH YOUR PEERS ABOUT LEASE RENEWAL ECONOMICS

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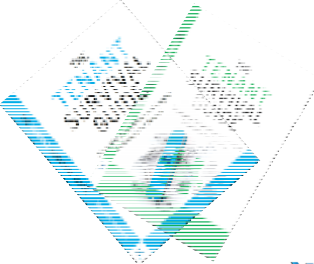
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**PBI** **TACTIX**

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