Lease Financial Analysis

Class-A Office Tower | 725 Market Street, San Francisco, CA

Prepared for: Northbridge Capital Advisors

Prepared by: Lease Deck Analytics

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At-a-glance

- Proposed premises: Floors 18-22 (108,450 RSF)
- Initial term: 10 years with one 5-year renewal option
- Starting base rent: $72.00/RSF (3.25% annual escalations)
- TI allowance: $120/RSF; free rent: 8 months gross
- Estimated present value rent obligation: $62.8M
- Expected occupancy date: November 1, 2026

1. Executive Summary

The proposed lease is economically competitive for upper-floor Class-A product and aligns with the tenant’s growth strategy. Landlord concessions offset above-market face rent in years 1-3.

Recommendation

Proceed with negotiation subject to final language on operating expense caps, assignment rights, and HVAC after-hours charges. Economics are acceptable at target hurdle rates.

Key Metrics

- Nominal rent over term: $91.6M
- Net effective rent: $64.84/RSF
- Tenant-improvement net benefit: $13.0M
- Present value (8.5% discount): $62.8M
- Annual occupancy cost growth: 4.1% CAGR

Comparable Benchmark Position

- Face rent percentile vs comps: 62nd
- Effective rent percentile vs comps: 49th
- Free-rent package percentile vs comps: 71st
- Landlord credit rating: investment-grade equivalent

2. 10-Year Cash Flow Profile

Year	Base Rent ($M)	OpEx + Tax ($M)	Abatements/Credits ($M)	Total Cash Out ($M)
2027	5.95	1.62	-2.84	4.73
2028	6.15	1.69	-1.05	6.79
2029	6.35	1.76	0.00	8.11
2030	6.56	1.83	0.00	8.39
2031	6.77	1.91	0.00	8.68
2032	6.99	1.99	0.00	8.98
2033	7.22	2.07	0.00	9.29
2034	7.45	2.15	0.00	9.60
2035	7.69	2.24	0.00	9.93
2036	7.94	2.33	0.00	10.27

Assumptions

- Discount rate: 8.50%; inflation: 2.60%; market rent growth: 3.00%
- Expense stop: base-year 2026; controllable OpEx cap: 5.00% cumulative
- Parking: 120 stalls at $390/stall/month with 2.00% annual escalation

Scenario Output

- Base case occupancy cost / employee: $27,460 in year 1
- Stress case (+150 bps inflation): PV increases by $3.2M (+5.1%)
- Efficiency case (8% footprint reduction): PV decreases by $5.4M (-8.6%)

3. Risk Register and Mitigations

Risk Item	Severity	Probability	Suggested Mitigation
Expense passthrough drafting ambiguity	High	Medium	Tighten gross-up language
HVAC after-hours pricing uncapped	Medium	Medium	Add annual cap and audit rights
Assignment/sublet consent threshold	High	Low	Objective consent standard + cure
Delay damages for late delivery absent	Medium	Medium	Add rent credit schedule
Security deposit release triggers weak	Low	Medium	Add release test by DSCR metrics

Clause Highlights

- Expansion right: ROFO on floor 23 through year 4 (positive strategic optionality)
- Contraction right: one-time surrender up to 12,000 RSF in year 6 with fee
- Renewal option: fair-market with 95%-of-market ceiling (favorable)
- Audit rights: annual; tenant recovers costs when variance exceeds 4%

Overall Legal/Commercial Risk Rating: MODERATE

Residual exposure is manageable if redline package includes capped controllables and explicit service-level remedies for mechanical system outages.

4. Recommended Negotiation Plan

Priority 1 (must-have)

- Add 5.0% annual cap on controllable operating expenses, non-cumulative
- Expand assignment rights for affiliate and M&A transfers
- Include liquidated damages for delivery delay beyond 30 days

Priority 2 (value engineering)

- Increase TI allowance from $120 to $135/RSF
- Extend free rent from 8 to 10 months gross
- Lock parking rate for first 24 months

Implementation Timeline

- Week 1: redline package and landlord response matrix
- Week 2: economics reopen based on TI and abatement targets
- Week 3: legal closure and signature package
- Week 4: construction mobilization and move-management kickoff

Appendix Note

This sample report is intentionally data-rich to demonstrate the production output format used by Lease Deck for institutional client deliverables.