

## **RE 618 / Fin 618 – Real Estate Investment Analysis**

### Homework – Valuing Leasehold Interests

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- 1) Six years ago you entered into a 10-year lease for 8,000 sf at \$15.00 psf gross. Now market rent for this space is \$13.00 psf. You would like to move to a new location. If your landlord's cost of capital is 11 percent, what is the minimum amount he will require in order for you to buy out your existing lease?
- 2) Five years ago you entered into a 15-year lease on 28,000 square feet of space at \$5.50 psf. You have found alternative space that will cost you only \$4.00 psf for the next ten years. You have found a tenant that will sublease your current space for \$5.00 psf for the next four years and \$5.25 psf in the following six years. You estimate your total cost of moving to the new location to be \$110,000. Your cost of capital is 12 percent. What is the incremental return from moving and subleasing your space? Should you make this move?