



## FASB / IASB Capitalization of Leases

### Training Session Sample Deal

Alan Bushell  
ProCalc, Inc.  
20 Woodgreen Lane  
Roslyn Heights, NY 11050  
alan@procalc.com  
516-767-0120



## Capitalization Sample Deal – Type “B” Lease

### Sample Lease Transaction – Initial Deal

Lease Term	7/1/2015 – 9/30/2020 (63 Months / 5 Years 3 Months)	
Rentable Area	10,000 SF	
Base Rent	7/1/2015 – 9/30/2015	3 Months Free Rent
	10/1/2015 – 9/30/2016	\$30 PSF
	10/1/2016 – 9/30/2017	\$31 PSF
	10/1/2017 – 9/30/2018	\$32 PSF
	10/1/2018 – 9/30/2019	\$33 PSF
	10/1/2019 – 9/30/2020	\$34 PSF
Landlord TI	Upon paid receipts and waivers of lien, the landlord agrees to reimburse the tenant up to \$300,000 for their construction cost. Notwithstanding, the landlord agrees to give the tenant \$50,000 on signing.	

### Segment #1 - 7 items you need to know to create a capitalization schedule

1) Capitalization Term	7/1/2015 – 9/30/2020
2) Expense(s) to be Capitalized	Base Rent
3) Discount Rate	5.00%
4) Service Rent Deduction	Operating Expense Base Amount = -\$6,000 per month
5) LL Allowance	-\$50,000 on 7/1/2015
6) IDC	Legal Fees \$10,000 on 7/1/2015
7) Impairment	None



**Segment #2 Reason - New Landlord Allowance Received on 2/1/2016**

Tenant received a new \$100,000 allowance from the landlord on 2/1/2016. We need to re-state this lease obligation as of 2/1/2016.

**Segment #2 - 7 items you need to know to re-state this capitalization schedule**

- |                               |   |
|-------------------------------|---|
| 1) Segment Term               | 2/1/2016 – 9/30/2020 (56 Months / 4 Years 8 Months) |
| 2) Expenses to be Capitalized | Base Rent   |
| 3) Discount Rate              | 5.00%   |
| 4) Service Rent Deduction     | Operating Expense Base Amount = -\$6,000 per month  |
| 5) Landlord Allowance         | -100,000 on 2/1/2016                                |
| 6) IDC                        | None  |
| 7) Impairment                 | None  |



**Segment #3 Reason – Expanded (Took additional space) on 11/1/2017**

We expanded and took an additional 5,000 SF commencing on 11/1/2017 to expire co-terminous with existing space on 9/30/2020. Signed / Realized expansion obligation in 6/2017.

Before we can create the new segment for the expansion space we must first create the expansion space in ProLease.

**Create New Expansion Subspace in ProLease**

RSF	5,000 SF	
Expansion Space Term	11/1/2017 - 9/30/2020 (35 Months // 2 Yrs 11 Mos)	
Rent	11/1/2017 – 12/31/2017	2 Months Free
	1/1/2018 – 12/31/2018	\$35.00 PSF
	1/1/2019 - 12/31/2019	\$35.50 PSF
	1/1/2020 – 9/30/2020	\$36.00 PSF
Landlord TI	\$60,000 on signing – 6/1/2017	

**Segment #3 - 7 items you need to know to re-state this capitalization schedule**

- 1) Capitalization Term                      6/1/2017 – 9/30/2020  
 Although the commence date of the expansion space is 11/1/2017, we signed the agreement to expand in 6/2017 so that is when we have to re-state the obligation as of (The date you realized the change in obligation).
- 2) Expenses to be Capitalized            Base Rent
- 3) Discount Rate                              5.00%

4) Service Rent Deduction We have the original -\$6,000 per month operating base amount deduction on the initial 10,000 SF from 6/1/2017 – 10/31/2017 (5 months). Then we get a new base year for the 5,000 SF of expansion space so there is a base amount of -\$3,200 per month on the expansion space. The deductions due to operating base amounts will be as follows:

6/1/2017 – 10/31/2017 (5 months – 10,000 SF)	-\$6,000
11/1/2017 – 9/30/2020 (35 months – 15,000 SF)	-\$9,200

5) Landlord Allowance -\$60,000 on 6/1/2017

6) IDC Costs \$8,000 Legal Fees on 6/1/2017

7) Impairment Charges None



**Segment #4 Reason – Renewed the 15,000 SF Lease for Additional 5 Years**

Renewal Term	10/1/2020 – 9/30/2025 (5 Yrs 0 Mos // 60 Months)
RSF	15,000 SF
Renewal Signed / Realized	4/2020

Before we can create a new segment for the renewal term in the capitalization schedule, we must first create the renewal term in ProLease.

**Create 5 Year Renewal Term in ProLease**

Renewal Term	10/1/2020 – 9/30/2025	(5 Yrs 0 Mos // 60 Months)
Base Rent	No Free Rent	
	10/1/2020 – 9/30/2021	\$28.00 PSF
	10/1/2021 – 9/30/2022	\$29.00 PSF
	10/1/2022 – 9/30/2023	\$30.00 PSF
	10/1/2023 – 9/30/2024	\$31.00 PSF
	10/1/2024 – 9/30/2025	\$32.00 PSF

**Segment #4- 7 items you need to know to re-state this capitalization schedule**

- 1) Capitalization Term      4/1/2020 – 9/30/2025      (66 Months // 5 Yrs 6 Mos)  
Although the renewal does not start until 10/1/2020, we signed the renewal in 4/2020 so that is when we have to re-state the obligation because that is when we realized it.
- 2) Expenses to be Capitalized      Base Rent
- 3) Discount Rate      5.00%
- 4) Service Rent Deduction      4/1/2020 – 9/30/2020      -\$9,200  
10/1/2020 – 9/30/2025      -\$10,250

\*From 4/1/2020 – 9/30/2020 (Old term) we have the old -\$9,200 per month deduction. Once the new renewal term starts we got new base years and the new base amount is -\$10,250 per month.

5) Landlord Allowance	None
6) IDC Costs	\$5,000 Legal Fees on 4/1/2020
7) Impairment Charges	None