

**Appendix C:  
How to Determine Your Lease Term - Examples**

**Example 1**

Fact Pattern: A 5-year lease, and the lessee is able to cancel the lease after 4 years.

	Lessee		Lessor		Lease Term (Noncancelable Period)
	Terminate	Extend	Terminate	Extend	
Certainty Level of Being Exercised (Uncertain or Reasonably Certain)	<i>Uncertain</i>	<i>na</i>	<i>na</i>	<i>na</i>	<b>5 years</b>
	<i>Reasonably Certain</i>	<i>na</i>	<i>na</i>	<i>na</i>	<b>4 years</b>

**Example 2**

Fact Pattern: A 5-year lease, and the lessee is able to extend the lease 3 more years after Year 4.

	Lessee		Lessor		Lease Term (Noncancelable Period)
	Terminate	Extend	Terminate	Extend	
Certainty Level of Being Exercised (Uncertain or Reasonably Certain)	<i>na</i>	<i>Uncertain</i>	<i>na</i>	<i>na</i>	<b>5 years</b>
	<i>na</i>	<i>Reasonably Certain</i>	<i>na</i>	<i>na</i>	<b>7 years</b>

**Example 3**

Fact Pattern: A 5-year lease. Lessee is able to extend the lease to 6 years, Lessor is able to cancel after 4 years.

	Lessee		Lessor		Lease Term (Noncancelable Period)
	Terminate	Extend	Terminate	Extend	
Certainty Level of Being Exercised (Uncertain or Reasonably Certain)	<i>na</i>	<i>Uncertain</i>	<i>Uncertain</i>	<i>na</i>	<b>5 years</b>
	<i>na</i>	<i>Reasonably Certain</i>	<i>Reasonably Certain</i>	<i>na</i>	<b>4 years</b>
	<i>na</i>	<i>Uncertain</i>	<i>Reasonably Certain</i>	<i>na</i>	<b>4 years</b>
	<i>na</i>	<i>Reasonably Certain</i>	<i>Uncertain</i>	<i>na</i>	<b>6 years</b>

**Example 4**

Fact Pattern: A 5-year lease. Both the Lessee and the Lessor can cancel after 4 years without permission from the other party.

	Lessee		Lessor		Lease Term (Noncancelable Period)
	Terminate	Extend	Terminate	Extend	
Certainty Level of Being Exercised (Uncertain or Reasonably Certain)	<i>Uncertain</i>	<i>na</i>	<i>Uncertain</i>	<i>na</i>	<b>4 years</b>
	<i>Reasonably Certain</i>	<i>na</i>	<i>Reasonably Certain</i>	<i>na</i>	<b>4 years</b>
	<i>Uncertain</i>	<i>na</i>	<i>Reasonably Certain</i>	<i>na</i>	<b>4 years</b>
	<i>Reasonably Certain</i>	<i>na</i>	<i>Uncertain</i>	<i>na</i>	<b>4 years</b>

\*Note - the entire lease is cancelable after 4 years by either party. As such, the noncancelable period is 4 years, not 5.

**Example 5**

Fact Pattern: A 6-month lease. Option to extend for an additional 6 months, and the lessee or lessor can cancel after 6 months.

	Lessee		Lessor		Lease Term (Noncancelable Period)
	Terminate	Extend	Terminate	Extend	
Certainty Level of Being Exercised (Uncertain or Reasonably Certain)	<i>Not applicable - this is a short term lease with a maximum possible term of 12 months or less, including any options to extend or terminate, regardless of whether either party is reasonably certain they will extend.</i>				

**Example 6** **\*\*NEW Example Added, July 2020\*\***

Fact Pattern: A 6-month lease. Lessee option to extend for additional 7 months.

	Lessee		Lessor		Lease Term (Noncancelable Period)
	Terminate	Extend	Terminate	Extend	
Certainty Level of Being Exercised (Uncertain or Reasonably Certain)	<i>na</i>	<i>Reasonably Certain</i>	<i>na</i>	<i>na</i>	<b>13 months*</b>
	<i>na</i>	<i>Uncertain</i>	<i>na</i>	<i>na</i>	<b>6 months*</b>

**\*Note: This example does NOT meet the short term lease exception requirement. This is because the short term exception includes any options to extend, regardless of how reasonably certain the lessee is to exercise the option.**