

## GLOSSARY OF COMMERCIAL REAL ESTATE TERMS

**Absolute Net Lease** A lease in which the tenant has agreed to pay the landlord a basic rent. This amount usually covers debt service (mortgage, principal and interest) and a profit for the landlord. Tenant also agrees to be responsible and separately pay for all maintenance, operating and other expenses of the building and/or office suite. These separate items would include utilities (electric, gas), all maintenance, operating expenses (HVAC, elevator contracts, etc.), janitorial services, real estate taxes, insurance premiums, etc.

**Agency** When a broker/agent is working for a landlord as the exclusive leasing agent for a building. Also, an agency exists when a broker/agent is working with an exclusive letter of representation from a tenant.

**Allowance** The quantities or dollar values of materials as specified in the *building standard workletter*.

**Alterations** A lease clause prohibiting any construction, structural or non-structural additions or improvements, or placement of any fixed decorations in a tenant's office space without the written consent of the landlord. A lease may require all tenant alterations must be done by the landlord's contractor.

**Amortization** The reduction of the total value of a debt by taking equal (amortized) installments over its actual life.

**Architectural Drawing(s)** The working drawings that show the placement and construction detail for building out the office space, including walls, partitions, doors, lights, switches, outlets, etc. From the architectural drawings, engineers and other professionals can create the remaining construction documents such as electrical wiring diagrams.

**Assessment** The determination of a tax or other charges based on an estimation of value of a building. A local government assesses a building and collects a tax from the landlord for the value of the property. Increases in the amount of tax paid by a landlord over some agreed on base amount or base year estimated amount is passed on to all of a building's tenants in proportion to the amount of office space occupied. In certain instances, a landlord will (per the lease) estimate the next year's increase in taxes or operating expenses that are to be passed on to the tenants. Prior to the actual increase, the landlord will make an assessment and collect the estimated amount from all tenants.

**Assignment** The ability to transfer the office space and all obligations of the lease document to another party (individual or entity).

**Binding Letter of Intent** A letter of intent that a court of law would uphold as the actual leasing of space by the tenant from the landlord and by the landlord to the tenant regardless of whether an actual lease document was agreed to or signed.

**Blueprint** A universal term for architectural or construction documents originating from a photographic type reproduction having white lines on a blue background.

**Broker** An individual who acts on behalf of another person as an agent to locate, negotiate for lease, purchase or sell office space, buildings, land or any other real estate. A broker is

licensed by each state. The broker license requires passing written proficiency tests and working a minimum number of years for another broker. The broker license requires that an additional minimum number of real estate related professional education credits be earned each year (or other specified time period). There is only one principal broker for each real estate office. All other brokers (called associate brokers) and salespersons work on behalf of the principal broker. The principal broker is the only agent empowered to receive and disburse the commissions and fees earned for a real estate transaction.

**Building Standard Workletter** A list and/or detailed specifications of the construction items (both quantity and quality) that will be provided by the developer to be used in building out a tenant's office space. The building standard workletter might specify the number of standard office walls that will be provided and their construction type (for example, one linear foot of standard ceiling-high partition will be provided for every 10 square feet of rentable space; this partition will consist of half-inch gypsum board attached to three inch aluminum studs) or the number of electrical outlets to be provided (for example, one electrical outlet will be provided for every 125 square feet of rentable space). The building standard workletter is available to a potential tenant before a lease is executed and should be made part of the lease.

**Common Areas** Those areas or portions of a building used by more than one tenant (hallways, elevator lobby area, janitorial and maintenance closets/rooms, restrooms).

**Construction Documents** An all-encompassing term to describe all the necessary plans and blueprints to construct a tenant's space or a building properly and accurately.

**Demising Walls** The walls that designate the perimeter of an office suite and/or partition or separate one office suite from another

**Escalator(s) Term** Used to describe how a tenant's payment for rent or service shall increase (usually on an annual basis). On a lease an escalator can be anything that measures the change in the cost of money or goods and services. It is also the term used to describe a moving staircase.

**Free Rent** See *Rent Abatement*.

**Floor Area Ratio (F.A.R.)** The approved zoning ratio that permits, because of vertical ascension, the building of some multiple amount of square feet of commercial office or other space for each square foot of actual land owned or purchased, subject to other restrictions such as setback requirements or vehicle parking areas (as in the suburbs).

**Floor Efficiency** A term used to denote how efficiently an individual building floor can be used as office space. A preliminary measure of floor efficiency is the building core percentage, offering only a relative measure of the potential efficiency of a floor. To assess a floor's office space efficiency accurately, the following information must be known: shape of floor, actual location of the building core (center of building or off to the side), fire stairwell locations, column distances and distances between window mullions. The distance between window mullions helps determine the optional or maximum office width (mullions four feet apart allow office widths of 8, 12 and 16 feet, whereas mullions five feet apart would require 10, 15, or 20 foot office widths). The window mullion distance helps determine the maximum number of windowed offices a floor could have. The bay size and/or distance between columns helps determine both an office, hallway or secretarial location configuration (depending on bay depth from a window) and the largest clear span area (or width) available for a large conference room.

**Holdover Rent** An extremely high rent intended as a penalty to a tenant that continues to use or remain in possession of a leased premises beyond the lease term. A holdover rent of at least one and one-half or two times the monthly rent may be in effect beginning on the last day of the lease term.

**Landlord Representation** A real estate broker or agent who works on behalf of a landlord. Typically the landlord-to-agent relationship is established by an exclusive listing agreement and is for a particular building or property. The term “landlord representative” or “landlord broker” is used to describe the relationship between the landlord and the individual agent providing the service to the landlord. Some organizations specialize in landlord representation.

**Lease** A contract whereby an individual or entity grants occupancy or use of property to another individual or entity for a specified time period, rent payment, and other conditions.

**Lease Clause** A paragraph or provision describing mutual agreement, business principles, performance criteria, or other arrangements, the sum of which make up a lease document.

**Leasehold Improvements** The construction, fixtures, attachments, and any and all physical changes and additions made to leased premises whether made by the tenant (with or without the landlord’s permission) or on the tenant’s behalf by the landlord or a representative (e.g., subcontractor) of the tenant.

**Lease Term** The length of time a lease is in full force and effect. It is determined by a lease commencement date, lease expiration date, and/or the number of months or years the lease document shall be valid. If a lease commencement date changes from that originally specified in a lease (for example, if the landlord is unable to complete office remodeling or construction), the time period specified by the lease term will remain the same starting on the new lease commencement date.

**Leasing Agent** The term for individuals who specialize in leasing commercial real estate including office, retail and industrial space. A leasing agent must work for a principal broker and be licensed. The general license for all real estate individuals is the salesperson’s license. Because this individual acts on behalf of another to locate and negotiate for office space, the term “leasing broker” or just “broker” is synonymous with “leasing agent.” In this context the term “broker” is being used in the definitional rather than the legalistic sense.

**Letter of Intent** A signed agreement by both tenant and landlord prior to the lease, and setting forth primary terms, conditions and considerations that are to form the basis of the lease. The letter of intent, as the basis for the lease document, is a show of good faith on the part of the tenant and the landlord. Both the tenant and landlord agree, for some stated period of time, that the tenant will not continue to look for other office space and the landlord will not attempt to lease the particular office space to another and both will make a good faith effort to reach agreement for the final lease document.

**Letter of Representation** A written agreement between a tenant and a broker stating that the broker (or his or her representatives) will be the only agents working on behalf of the tenant to locate and negotiate for office space. The letter of representation provides credibility for both the tenant and the broker in the marketplace and establishes a fiduciary relationship between them. This relationship is disclosed to each landlord that might have office space to meet the tenant’s needs.

**Personal Guarantee** For startup businesses and those with limited assets, landlords may require that the tenant personally guarantee the lease. Usually the owner of the business acts as personal guarantor. By guaranteeing the lease, the owner can be sued personally by the landlord upon default by the tenant.

**Rent Abatement** A concession offered by a landlord as an inducement to tenants to lease office space. It provides for a reduction of monthly rent due by omitting a required payment for a specific number of months. This offers the tenant the benefit of occupying without paying and also serves to lower the net effective rental rate over the lease term. Rent abatement may or may not include abatement of operating expense pass-throughs and any applicable expense or base rent escalators.

**Rentable Area** A number expressed in terms of square feet, specified in the lease document as the amount of space the tenant has leased and for which the tenant shall be assessed rent

**Tenant Construction Workletter** An addendum or attachment to the lease document that details the responsibilities of both the tenant and the landlord as they relate to the construction of the tenant's office space. The workletter describes any above-building standard allowances provided to the tenant, the responsibilities and timing by the developer for providing pricing for other than building standard items, and the estimated completion date of the office space construction. In addition, it outlines the responsibilities and timing of both tenant and developer for providing appropriate space plans and working and architectural drawings necessary to meet the construction schedule. The workletter also defines the construction work that will be provided by the developer and completed by the tenant.

**Working Drawings** All of the construction documents and blueprints, such as detail drawings, schedules, blueprints of wall placement, wiring diagrams, etc. that would permit the various construction disciplines to construct the desired space (or buildings) accurately and completely. Working drawings include architectural drawings; mechanical systems drawings; electrical, telephone, and other wiring drawings, plumbing drawings and structural drawings.