

# COMMERCIAL REAL ESTATE TERMINOLOGY

The following information is provided to assist prospective tenants in understanding Commercial Real Estate lingo, since many brokers use different terminology for explaining the same issues involved in a lease. Quite often a small difference has a big impact on the out-of-pocket expense or the rent. As the Madison Marquette Healthcare Advisory Group, we help you compare “apples to apples” when considering a lease opportunity.

## LEASES

**NET LEASE:** A lease in which there is a provision for the tenant to pay, in addition to rent, certain costs associated with the operation of the property. These costs may include property taxes, insurance, repairs, utilities and maintenance. There are also double net (“NN”) and triple net (“NNN”) leases. The difference between the three is the degree to which the tenant is responsible for operating costs.

**TRIPLE NET (“NNN”) LEASE:** A lease in which the tenant pays, in addition to rent, certain costs associated with a leased property; this would include all expenses such as property taxes, insurance premiums, repairs, utilities and maintenance.

**GROSS LEASE:** A lease in which the tenant pays a flat sum for rent out of which the landlord pays all expenses such as taxes, insurance, maintenance, utilities, etc. This may or may not include electricity. Also known as “Gross Lease Net of E” if it does not include electricity.

**STRAIGHT LEASE:** A lease specifying a fixed amount of rent that is to be paid during the entire term of the lease, usually in monthly installments. Also known as “Flat Lease.”

## RENT & EXPENSES

**FULL SERVICE RENT:** All-inclusive rental rate that includes operating expenses and real estate taxes for the first year. The tenant is still responsible for any increase in operating expenses over the base year amount. Also known as “Gross Lease.”

**BASE RENT:** A set amount used as a minimum rent in a lease with provisions for increasing the rent over the term of the lease to account for the “time value of money.”

**BASE YEAR:** Actual taxes and operating expenses for a specified base year, most often the year in which the lease commences. Once the base year expenses are known, the lease becomes a “Dollar Stop” lease.

**DOLLAR STOP:** An agreed dollar amount of taxes and operating expenses (expressed for the building as a whole or on a square foot basis) over which the tenant will pay their prorated share of increases. May be applied to specific expenses. Also known as “Expense Stop.”

**OPERATING EXPENSES:** The actual costs associated with operating a property such as maintenance, repairs, management, utilities, taxes and insurance. The landlord’s definition of operating expenses is likely to be quite broad, covering most aspects of operating the building.

**VARIABLE EXPENSES:** Costs, such as janitorial, that may vary within a building’s occupancy and by decisions made in the management of the building. Also known as “Controllable Expenses.”

**FIXED EXPENSES:** Operating costs that usually do not change as a result of occupancy; such as property taxes, insurance and some forms of building maintenance.

**PASS-THROUGHS:** Refers to the tenant’s pro rata share of operating expenses (i.e. taxes, utilities, repairs) paid in addition to the base rent.

**COMMON AREA MAINTENANCE (“CAM”):** This is the amount of additional rent charged to the tenant, in addition to the base rent, to maintain the common areas of the property shared by the tenants and from which all tenants benefit (i.e. snow removal, outdoor lighting, parking lot sweeping, insurance, property taxes, etc.) This usually does not include any capital improvements made to the property.



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## PREMISES

**NET RENTABLE AREA:** The floor area of a building that remains after the square footage represented by vertical penetrations, such as elevator shafts, has been deducted. Common areas and mechanical rooms are included but no deductions are made for necessary columns and projections of the building. This is the useable area within your defined space plus your pro rata share of common area.

**USABLE SQUARE FOOTAGE:** The area contained within the demising walls of one's space that will physically be utilized by the tenant.

**RENTABLE SQUARE FOOTAGE:** Equal to the usable square footage plus the tenant's pro rata share of the building common areas, such as lobbies, public corridors and restrooms.

**COMMON AREA FACTOR:** Represents the percentage of net rentable square feet devoted to the building's common areas (lobbies, rest rooms, corridors, etc.) This factor can be computed for an entire building or a single floor of a building. It is calculated by dividing the rentable square footage by the usable square footage. Also referred to as "Load Factor" or "Add-on Factor."

**SHELL SPACE:** The interior condition of the usable square footage when it is without improvements or finishes. The term most commonly refers to the condition of the usable square footage after completion of the building's outer-shell construction but prior to the build out of the tenant's space. Shell construction typically denotes the floor, windows, walls and roof of an enclosed premises and may include some HVAC, electrical or plumbing improvements, but not demising walls or interior space partitioning. In a new multi-tenant building, the common area improvements, such as lobbies, restrooms and exit corridors may also be included in the shell construction. Also known as "Cold, Dark Shell" if there is no HVAC or electrical wiring to the space.

**SECOND GENERATION SPACE:** Interior space that has been previously built-out for another tenant.

**TENANT IMPROVEMENT ("TI") ALLOWANCE:** Defines the fixed amount of money contributed by the landlord towards the construction of the improvements associated with one's premises. The tenant pays any of the costs that exceed this amount.

**PARKING RATIO:** The intent of this ratio is to provide a uniform method of expressing the amount of parking that is available at a given building. Dividing the total rentable square footage of a building by the building's total number of parking spaces provides the amount of rentable square feet per each individual parking space (expressed as 1 per XXX). Dividing 1000 by the previous result provides the ratio of parking spaces available per each 1000 rentable square feet. Also known as X per 1000 or X:1000.

## PROPERTY VALUATION

**CAPITALIZATION RATE:** This percentage relates to the value of an income producing property to its future income, expressed as net operating income divided by a purchase price. This percentage represents the yield an investor would make based upon the property's future value. Also known as "Cap Rate."

**NET OPERATING INCOME ("NOI"):** Income from a property after operating expenses have been deducted, but before deducting income taxes and financing expenses. The formula is:  $NOI = \text{Gross Income} - \text{Operating Expenses}$ .

## FOR LEASING INFORMATION, CONTACT:

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