

Glossary of Real Estate Lease Terms

Allowance - A set dollar amount provided by the Landlord under a lease to be used by the Tenant for a specific purpose. Examples include allowances for tenant improvements; moving expenses design fees, etc. If the expense exceeds the allowance amount, such excess is the Tenant's responsibility. If the expense is less than the allowance, the savings are retained by the Landlord unless their agreement specifies otherwise.

Amortization - Payment of debt in regular, periodic installments of principal and interest, as opposed to interest only payments. May also be used in a lease where the landlord incurs costs for additional tenant improvements which are effectively treated as a debt and repaid by tenant over the term of the lease.

Assignment - A transfer to another of any property, real or personal, or any rights or estates in said property. Common assignments are of leases, mortgages, deeds of trust, but the general term encompasses all transfers of title.

Base Rent - A specific amount used either as a minimum rent in a lease (retail) which uses a percentage of sales or overage for additional rent or sets a base onto which is added expenses and taxes in a net lease or increases in those items in a fully serviced lease.

Base Year - The 12 month period upon which a direct expense escalation of rent is based. Typically the calendar year the lease commences.

Class A, B or C - Class is usually used in conjunction with an office property and refers to the quality of property. Class definitions fall with the following guidelines. **Class A+:** Landmark quality, highrise building with prime central business district location (the best of the Class A buildings). **Class A:** Generally 100,000 sf or larger (five or more floors), concrete and steel construction, built since 1980, business/support amenities, strong identifiable location/access. **Class B:** Renovated and in good locations. Newer building are smaller in size, wood frame construction, and/or in non-prime location. **Class C:** Older, unrenovated of any size in average to fair condition.

Common Area - Common area is the area used in common by the tenants of an office building. Common area includes building and elevator lobbies, restrooms and the corridor leading from an elevator lobby to a tenant space.

Fully Serviced Lease - A lease in which the stated rent includes the operating expenses and taxes for the building. Same as Gross Lease. Opposite of Net Lease.

HVAC - Heating, Ventilation, Air Conditioning. A general term encompassing any system designed to heat and cool a building in its entirety, as opposed to a space heater.

Load Factor - In a lease, the load factor is the multiplier to a tenant's useable space that accounts for the tenant's proportionate share of the common area (restrooms, elevator lobby, mechanical rooms, etc.). The load factor is usually expressed as a percentage and ranges from a low of 5% for a full tenant to as high as 15% for a multi-tenant floor.

Net Lease - (See also "Triple Net"). Today this generally indicates a lease in which the stated rent excludes the insurance, utilities, operating expenses and real estate taxes for the building. The tenant is then responsible for the payment of these costs either directly or as additional rent. Opposite of Gross or Fully Serviced Lease.

Operating Expenses - The cost of operating an office building, such as janitorial, management fees, utilities, and similar day to day expenses, as well as taxes, insurance, and a reserve for replacement of items which periodically wear out. Should not include capital expenses such as roof replacement nor expenses associated with the production of income such as leasing commissions and legal fees.

Premises - Typically the entire rentable area leased by lessee. Sometimes used to designate solely the useable area leased by lessee, i.e. that for which the lessee has exclusive occupancy as opposed to the common areas.

Space Pocket - A portion of a leased premises that is set aside to accommodate future growth on the part of the tenant. The space pocket is typically fully improved at the commencement of the lease and no rent is due on the pocketed area until the earlier of "actual use" or a specified future date.

Sublease - A lease, under which the Lessor is the lessee of a prior lease of the same property. The sublease may be different in terms from the original lease, but cannot contain a greater property interest. Example: "A" leases to "B" for five years. "B" may sublease to "C" for three years, but not for six years. (Rent can be greater or less than that in the prior lease.)

Substantial Completion - Generally used in reference to the construction of tenant improvements (TIs). The tenant's premises is typically deemed to be substantially completed when all of the TIs for the premises have been completed in accordance with plans and specifications previously approved by the tenant. Sometimes used to define the commencement date of a lease.

Triple Net - A lease requiring the tenant to pay in addition to a fixed rental, the expenses of the property leases, such as taxes, insurance, maintenance, utilities, cleaning etc. The terms "net net", "net net net", "triple net", and other such repetitions are used.

Work Letter & Working Drawings - Specifications for tenant improvements usually attached to a lease and/or letter of intent. The work letter provides the basis for working drawings and contractor pricing and may allocate costs between the parties. Also establishes critical dates for approval of drawings and processes. - Drawings prepared by a licensed architect and used by contractors in the construction of tenant improvements. Shows all architectural detail such as electric, plumbing, partitions, etc.