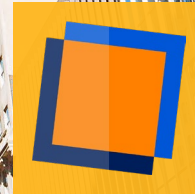


Transaction Management Terminology



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A

Absorption

The amount of inventory or units of a specific commercial property type that become occupied during a specified time period (usually a year) in a given market, typically reported as the absorption rate.

Add-on factor

The ratio of rentable to useable square feet. Also known as the load factor and the rentable-to-useable ratio. Also see *efficiency percentage*.

$$\text{Formula: Add-on factor} = \frac{\text{Rentable square feet}}{\text{Useable square feet}}$$

Average annual effective rate

The average annual effective rent divided by the square footage.

Average annual effective rent

The occupier's total effective rent divided by the lease term.

B

Base

(in lease terminology) A face, quoted, dollar amount representing the rate or rent in dollars per square foot per year and typically referred to as the base rate.

Base rent

The minimum rent due to the landlord. Typically, it is a fixed amount. This is a face, quoted, contract amount of periodic rent. The annual base rate is the amount upon which escalations are calculated.

C

Cap rate

See *capitalization rate*.

Capital expenditures

Property improvements that cannot be expensed as a current operating expense for tax purposes. Examples include a new roof, occupier improvements, or a parking lot—such items are added to the basis of the property and then can be depreciated over the holding period. Distinguished from cash outflows for expense items such as new paint or plumbing repairs (operating expenses) that can be expensed in the year they occur. Also see *operating expenses*.

Capitalization rate

A percentage that relates the value of an income-producing property to its future income, expressed as net operating income divided by purchase price. Also referred to as *cap rate*.

Commercial real estate

Any multifamily residential, office, industrial or retail property that can be bought or sold in a real estate market.



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Common area

For lease purposes, the areas of a building (and its site) that are available for the nonexclusive use of all its occupiers, such as lobbies, corridors and parking lots. (Real Estate Information Standards)

Common area maintenance (CAM)

Charges paid by the occupier for the upkeep of areas designated for use and benefit of all occupiers. CAM charges are common in shopping centers. Occupiers are charged for parking lot maintenance, snow removal and utilities.

Contract rent

The total rental obligation, expressed in dollars, as specified in a lease. Also known as *base rent*. (Real Estate Information Standards)

Cost of occupancy

Expenditures that are required to assume and maintain occupancy of a space. Such expenditures include rent and/or mortgage payments, and recurring costs, such as real estate taxes, repairs, operating expenses and other outgoings directly resulting from the use of the property. (Encyclopedia of Real Estate Terms 2nd Edition, Damien Abbott)

Cross-over (office use) demand

Industrial space that is used as office space in order to lower the rental rate of a property. Also known as *flex space*.

D

Due diligence

The process of examining a property, related documents and procedures conducted by or for the potential lender or purchaser to reduce risk.

Applying a consistent standard of inspection and investigation, one can determine if the actual conditions do or do not reflect the information as represented.

E

Effective

An amount after a base amount has been adjusted for concessions, allowances and costs.

Efficiency percentage

The relationship of useable area to rentable area on a given property. Also see *add-on factor*, *load factor* and *rentable-to-useable ratio*.

Formula: Efficiency % = $\frac{\text{Useable square feet}}{\text{Rentable square feet}}$

Equity lease

A type of joint venture arrangement in which an owner enters into a contract with a user who agrees to occupy a space and pay rent as an occupier, but at the same time, receives a share of the ownership benefits such as periodic cash flows, interest and cost recovery deductions, and perhaps a share of the sales proceeds.

Exchange

Under Section 1031 of the Internal Revenue Code, like-kind property used in a trade or business or that is held as an investment can be exchanged tax-deferred. Under a fully qualified Section 1031 exchange, real estate is traded for other like-kind property. All capital gains taxes are deferred until the newly acquired real estate is disposed of in a taxable transaction.



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The underlying philosophy behind the deferral of capital gains taxes is that taxation should not occur as long as the original investment remains intact in the form of (like-kind) real estate (*Like-kind* refers to real property as such, rather than the quality or quantity of property).

F

Fixed expenses

Costs that do not change with a building's occupancy rate. They include property taxes, insurance and some forms of building maintenance.

Fixed lease

A lease in which the lessee pays a fixed rental amount for the duration of the lease.

Flex space

Space that is flexible in terms of what it can be used for (for example, space that could be utilized for industrial or office activities). Also see *cross-over (office use) demand*.

Free rent

See *rent concessions*.

G

Gap analysis

An evaluation of the difference in the demand and supply of space (measured in terms of square footage) for a particular type of commercial property in a given market area where gaps are expressed as the amount of square footage

demanded, less the amount of square footage available in a given time period. Note that if demand exceeds supply, the gap will be positive. A positive gap indicates that potential opportunities exist for successful commercial real estate transactions. However, transactions might be avoided when supply exceeds demand (or when a negative gap occurs), as there is an oversupply of available space in the market.

Geographic submarket

The total number of households or housing units within a given area as defined by tenure, income and other socio-economic attributes that are known to exist or are estimated to be within specific geographic units or divisions (for example, in various census tracts).

Gross area

The entire floor area of a building or the total square footage of a floor.

Gross leasable area (GLA)

The total floor area designed for occupancy and exclusive use, including basements, mezzanines and upper floors. It is measured from the center line of joint partitions and from outside wall faces. GLA is that area on which occupiers pay rent; it is the area that produces income.

Gross lease

A lease in which all expenses associated with owning and operating the property are paid by the landlord. Also see *net lease*.

Ground lease

A lease of the land only. Usually the land is leased for a relatively long period of time to an occupier that constructs a building on the property. A land lease separates ownership of the land from ownership of buildings and improvements constructed on the land.



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H

Highest and best use

The reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible and that results in the highest value. (Appraisal Institute)

I

Inventory

The supply or stock of a given commodity or a listing thereof.

L

Landlord

The lessor or owner of the leased property.

Landlord-paid tenant improvements

The total cost (outlay) of necessary tenant improvements paid by the landlord netted against any contribution made by the tenant.

Lease

A contract that creates the relationship of landlord and occupier. A contractually binding agreement that grants a right to exclusive possession or use of property, usually in return for a periodic payment called rent. (Encyclopedia of Real Estate Terms 2nd Edition, Damien Abbott)

Lease buyout

The process by which a landlord, occupier or third party pays to extinguish the occupier's remaining lease obligation and rights under its existing lease agreement.

Leasehold interest

The value (to the occupier) of the lease. The value of the leasehold interest is determined by present value of the difference between market rent and the contract rent.

Lessee

The person renting or leasing the property. Also known as a *tenant*.

Lessor

The person who rents or leases a property to another. Also known as a *landlord*.

Load factor

The ratio of rentable area to useable area. The load factor is a gauge by which a user can evaluate different sites with comparable rents. It is also known as the *add-on factor*.

$$\text{Formula: Load factor} = \frac{\text{Rentable square feet}}{\text{Useable square feet}}$$

Location analysis

The process of evaluating whether a general location meets the requirements of being both possible and practical as defined on the basis of technical and functional components.



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M

Market analysis

The process of examining market supply and demand conditions, demographic characteristics and opportunities; identifying alternative locations/sites that meet specific objectives or satisfy various criteria; and assessing the financial feasibility of those locations/sites to facilitate decision making regarding the commercial potential or suitability of various locations/sites to support a given activity or use.

Market area

A geographical area in which supply and demand operate to influence the course of industrial and commercial activities, for example, a Metropolitan Statistical Area (MSA).

Market dynamics

In reference to changing market conditions and the underlying processes responsible for creating change and defining/redefining interrelationships amongst components in an economic system. Consider the change in price levels of a given commodity as an outcome of the forces and interplay of supply and demand.

Market feasibility

Pertaining to the evaluation or selection of a site or an analysis of a site's highest and best use. Also see *feasibility analysis*.

Metropolitan Statistical Area (MSA)

Generally, the area in and around a major city. The Office of Management and Budget (OMB) defines an MSA as having one of the following characteristics: a city with a population of at least 50,000, or an urbanized area with a population of at least 50,000 with a total metropolitan population of 100,000.

Moving allowance

A specified dollar amount paid by the owner to cover, in part or in whole, occupier moving expenses. Also known as *owner's moving expense*.

Multiple-use office space

Office space that can be used for a variety of purposes; sometimes referred to as *generic office space*.

N

Net lease

A lease in which the occupier pays, in addition to rent, all operating expenses such as real estate taxes, insurance premiums and maintenance costs. Also see *gross lease*.

O

Occupancy cost

The actual dollars paid out by the tenant to occupy the space. It can be expressed in either pre-tax or after-tax dollars.

Office

Low-rise - Fewer than seven stories high above ground level.

Mid-rise - Between seven and twenty-five stories above ground level

High-rise - Higher than twenty-five stories above ground level. [BOMA]

Office property

A commercial property type used to maintain or occupy professional or business offices. Such properties typically house management and staff operations.



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The term *office* can refer to whole buildings, floors, parts of floors and office parks. Office space that can be used for a variety of purposes is sometimes referred to as *generic* office space. Office properties may be classified as Class A, B or C. Class A properties are the most functionally modern. Properties Classed B and C in the same market typically command lower rents because they are older and in need of modernization. They may not be as efficient or desirable as Class A properties because their design or condition causes functional problems.

Operating expense stop

A negotiable amount at which the owner's contribution to operating expenses stops. It also can be stated as the amount above which the occupier is responsible for its pro rata share of operating expenses.

Operating expenses

Cash outlays necessary to operate and maintain a property. Examples of operating expenses include real estate taxes, property insurance, property management and maintenance expenses, utilities and legal or accounting expenses. Operating expenses do not include capital expenditures, debt service or cost recovery.

Oversupply

In reference to commercial real estate, oversupply is a stock or supply of a given commercial property type that is greater than that which can be cleared under prevailing prices levels and market conditions (for example, excess supply). Also, a phase of the real estate market cycle denoting that period of time in which commercial real estate markets become saturated with units due to overbuilding.

P

Percentage lease

A lease in which the rent amount is based on a percentage of gross sales (monthly or annually) made by the occupier.

Percentage rent

The additional rent (over a base amount) that is paid by occupiers to owners on occupier sales over a specified dollar amount. It is frequently found in retail leases. Also known as *overage rent*.

Pipeline information

Information (substantiated and rumored) regarding new inventory that is in the process of being added to the market by a specified forecast period.

Prestige and property classes

In reference to the recognition that various levels of status may be assigned to commercial properties as defined by user needs, the quality of a property and its amenities in relation to site factors, and its general location, suggesting the division of properties into distinct classes.

R

Rent concession

A period of free rent given to the occupier by the lessor.



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Rent escalators

Items specified in a lease such as base rent, operating expenses and taxes that may increase by predetermined amounts at stated intervals or by a constant annual percentage. Also see *index lease and expense stop*.

Rentable area

The computed area of a building as defined by the guidelines of Building Owners and Managers Association (BOMA) and typically measured in square feet, including both core/structure and useable area. The actual square foot area for which the occupier will pay rent. It is the gross area of an office building, less uninterrupted vertical space (such as stairways and elevators). Unlike useable area, rentable area includes common areas such as lobbies, restrooms and hallways as well as the measurement of structural columns and architectural projections.

Rentable-to-useable ratio

Defined as rentable area divided by useable area. Also known as the *add-on factor* or *load factor*. Also see *efficiency percentage*.

Replacement cost

The estimated cost to construct, at current prices, a building with utility equivalent to the building being appraised, using modern materials and current standards, design and layout. (Appraisal Institute)

S

Sale-leaseback

A leasing and financing strategy in which a property owner sells its property to an investor, then leases it back. This strategy frees capital that otherwise would be frozen in equity.

Sandwich lease

See *sublease*.

Site analysis

The identification and evaluation of a site or sites to satisfy a given use or objective.

Site factors

Site-specific factors, features, conditions, or attributes which are important in the analysis or evaluation of a location/site (including relative location, visibility, aesthetics, landscaping, condition of existing structures, regulatory mechanisms and lot size).

Site selection

The process of determining the best site for a specific use.

Space market

The supply and demand for the use of physical space.

Step-up lease

A lease in which the rental amount paid by the lessee increases by a preset rate or set dollar amount at predetermined intervals. A step lease is a means for the lessor to hedge against inflation and future maintenance or operational expenses.

Sublease

A lease in which the original occupier (lessee) sublets all or part of the leasehold interest to another occupier (known as a subtenant) while still retaining a leasehold interest in the property. Also known as a *sandwich lease* due to the sandwiching of the original lessee between the lessor and the suboccupier.

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Submarket

A segment or portion of a larger geographic market defined and identified on the basis of one or more attributes that distinguishes it from other submarkets or locations.

Supply

The amount of property that will be made available for sale or rent at a given price or rental rate.

Synthetic lease

A leasing and financing strategy whereby the terms of the lease under specific Financial Accounting Standard Board guidelines change the lease obligation from a capital lease (long-term lease on the company's balance sheet) to an operating lease (short-term lease on the company's balance sheet).

T

Tax savings (annual expense)

Entry on the occupier's Cash Flow Form. All annual expenses incurred by the occupier are tax deductible. The tax savings are calculated by multiplying the annual deduction by the occupier's tax rate.

Tax Savings (capital expenditure)

Entry on the occupier's Cash Flow Form. It refers to any tax savings associated with any capital expenditure by the occupier in terms of the site or major, unusual business expenses incurred to make the new office efficient for the business. The amount of tax savings is calculated by multiplying the annual deduction amount by the occupier's tax rate.

Tenant

A person or entity who has possession of the property through a lease. A tenant also may be referred to as a lessee.

Tenant improvements

Preparation of leased premises prior to or during a tenant's occupancy, which may be paid for by either the landlord, the tenant or both.

Tenant-paid tenant improvements (TPTI)

The total cost (outlay) of necessary tenant improvements paid by the tenant netted against any allowance provided by the landlord.

TI allowance from owner

Entry on the occupier's Cash Flow Form. A specified amount of money the owner will pay for occupier improvement.

Total effective rate

The rate per square foot paid by the occupier over the entire period analyzed.

$$\text{Formula: Total effective rate} = \frac{\text{Total effective}}{\text{Rent square footage rented}}$$

Total effective rent

The total dollar amount (cash flow) that the occupier actually will pay out over the entire period analyzed.

Total existing inventory

In reference to commercial real estate, it is existing and currently available supply or stock as represented by the total number of units or total amount of space available of a specific commercial property type in a given market at a particular point in time.



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Total forecast supply

Total existing inventory plus forecast planned additional inventory minus forecast planned removed inventory for a specific commercial property type in a given market area.

Total supply of commercial real estate

Refers to all existing space, vacant or occupied, built, forecasted, or demolished, for a particular market area for a specific period of time.

U

Useable area

Rentable area, less certain common areas that are shared by all occupiers of the office building (such as corridors, storage facilities and bathrooms). Also defined in office buildings as the area that is available for the exclusive use of the occupier. $\text{Useable area} = \text{rentable area} \times \text{building efficiency percentage}$.

V

Vacancy

The number of units or space (of a specific commercial type) that are vacant and available for occupancy at a particular point in time within a given market (usually expressed as a vacancy rate).

Vacancy Rate

The percentage of the total supply of units or space of a specific commercial type that is vacant and available for occupancy at a particular point in time within a given market.