

Real Estate Terminology

RENTABLE SQUARE FEET: The square footage for which rent is actually being paid. The Tenant's prorata portion of the entire floor area minus any vertical penetration (stairwell, elevator shafts, air shafts, etc.).

USEABLE SQUARE FEET: The actual occupiable area of a floor or an office suite.

LOAD FACTOR: The percentage difference between rentable and useable square feet. Most buildings in Orange County, California have a between 12% and 14% load factor. (Includes Common areas of the floor except vertical penetrations).

FULL SERVICE GROSS LEASE (FSG): The maintenance, utilities, real estate taxes, insurance and janitorial service and all other operating expenses are included in base rent.

TRIPLE NET LEASES (NNN): Tenant pays its prorated share of all operating expenses (costs to operating building, real estate taxes, insurance maintenance, utilities and janitorial).

MODIFIED GROSS LEASE (MG): Tenant pays for its own janitorial service and utilities (office building and medical building). In addition to the above tenant pays for trash, landscape maintenance, water (industrial buildings).

EXPENSE STOP: The amount a landlord is willing to contribute to operating expenses. Typically quoted by a price per square foot on an annual basis. In the event the annual operating expenses exceed the expense stop the tenant pays anything over that amount. Expense stops vary from building to building, typically ranging from \$5 to \$7.00 per square foot.

BASE YEAR PASS THROUGH: This would be used in place of an expense stop. In the event the operating expenses exceed what they were in the base year (lease commencement) the tenant pays its prorata share of the increase.

COST OF LIVING ADJUSTMENT: Usually negotiated increases in the base rent tied to the Consumer Price Index or fixed increases.

EFFECTIVE RENTAL RATE: The rate tenant is paying after calculating free rent and any increases in the base rent.

BASE RENT: A set amount used as a minimum rent in a lease, which also employs a percentage or other allocation for additional rent.

TENANT IMPROVEMENT ALLOWANCE: An allowance the landlord is willing to provide to the tenant to build the interior of the space from a shell condition or to customize existing space to suit tenants needs. Typically a price per square foot quoted in Orange County, CA. varies from \$20.00 to \$28.00 per usable square foot.

BUILDING STANDARD: A list of construction materials and finishes used in building out office space for a tenant that the landlord contributes as part of the tenant improvements. Examples of building standard items are: doors, partitions, lights, floor covering, telephone outlets, etc. May also specify the quality and quantity of the materials to be used and often carries a dollar value.

BUILD TO SUIT: A method of leasing property whereby the landlord builds a new building in accordance with the tenant's specifications.

CERTIFICATE OF OCCUPANCY: A certificate issued by a local government-building department or agency stating the building is in a condition suitable for occupancy. Sometimes also called a "C of O" or a Non-Residential Use and Occupancy Permit (NON RUP).

COMMON AREA CHARGES (CAM): Include income collected from Tenants for operating and maintaining items pertaining to common areas. Shopping center leases usually contain a clause requiring the Tenant to pay its share of operation and maintenance on common areas defining the basis on which charges are made and the type of cost items allocable to the maintenance of the common area. Of the ways to prorate the charges among Tenants, the most common are: a prorated charge based on a Tenant's leased area portion of the total leasable area of the center or the linear exposure in store frontage; a fixed charge for a stated period and/or a variable charge based on a percentage of sales. Some centers include cost of living increase in the common area charge.

CONSUMER PRICE INDEX (CPI): A Federal government index that measures the change in the cost of a variety of goods and services. Used in loans, purchase agreements and leases as a measure by which to adjust future payments to reflect inflation. Also called "Cost Of Living Index".

CONTRACT RENT: Rent paid under a lease. The actual rent as opposed to the market rental value of the property.

DEED IN LIEU OF FORECLOSURE: A deed given by an owner/borrower to a lender to prevent the lender from bringing foreclosure proceedings.

EFFECTIVE RENT: The rental rate actually achieved by the landlord after deducting the value of concessions from the base rental rate paid by a tenant, usually expressed as an average rate over the term of the lease.

EMINENT DOMAIN: The right of the government to acquire private property for public use condemnation, in return for just compensation.

EQUITY PARTICIPATION: The participation by a lender in the equity ownership of a project as one of the conditions for granting a loan. Used by financial institutions to partially offset the effects of inflation. Also called "Equity Kicker".

ESTOPPEL CERTIFICATE: A statement concerning the status of an agreement and the performance of obligations under the agreement relied upon by a third party, including a prospective lender or purchaser. In the context of a lease, a statement by a tenant identifying that the case is in effect and certifying that no rent has been pre paid and that there are no known outstanding defaults by the landlord (except those specified).

FAIR MARKET VALUE: A term usually found in appraisals that attempts to determine the cash price that would likely be negotiated between a willing seller and willing buyer in a reasonable amount of time. For a sale to be considered a reflection of 'Fair Market Value', it must meet all the conditions of a fair sale, whereby: 1-both buyer and seller act prudently, knowledgably and under no necessity to buy or sell, i.e., other than in a forced or liquidated sale: 2-the property must be offered on the open market for a reasonable amount of time taking into consideration the property type and local market; and 3-payment is made in cash or terms equivalent to cash. When a sale is unlikely, i.e., when it is unlikely to be completed within 12 months, the appraise must discount all cash flows generated by the property to ascertain the estimate of Fair Value.

FIRST RIGHT OF REFUSAL: A clause occasionally inserted in a lease that gives a tenant the first opportunity to buy a property if the owner decides to sell. The owner must have a legitimate offer which the tenant can match or refuse.

FORCE MAJEURE: A force that cannot be controlled or resisted. For instance something beyond the control of the parties involved. Includes acts of GOD (floods, tornados, earthquakes etc.) and acts of man (riots, strikes, arson, war etc.).

HOLD OVER TENANT: A tenant who retains possession after the expiration of a lease.

NET ABSORPTION: Absorption is a measure of the amount of office space leased over a period of time. Net absorption is a measure of the total square feet leased over a period of time taking into consideration office space vacated during the same period. (Gross vs. net).

SITE PLAN: A detailed plan, to scale, depicting development of a parcel of land and containing all information required by the zoning ordinance.