
COMMERCIAL PROPERTY LEASING GLOSSARY

Absorption: The amount of space that is leased and taken off the market during a given time frame.

Agency: A legal relationship that is created when one party retains a second party to act on his or her behalf.

Amortization: The rate and terms of paying off tenant improvements over the term of the lease. Usually an annual rate of interest is used to calculate the payment.

Assignment: An agreement conveying the leasehold interests including financial responsibilities, from one tenant to another.

Base Rent: The amount of rent to be paid during the term of the lease exclusive of any other payments to the landlord, e.g., operating expenses (in NNN leases) or percentage rents.

Base Year: In a Gross lease, a method of measuring when the owner's expense for operating the building stop and when the tenant's expenses begin. The next year is compared to the base year to determine if an increase in operating costs will be passed along to the tenant.

Bay Depth: The distance from the outer wall to the inner common area of the build. The larger the bay depth, the less natural light to the space.

BOMA: Building Owners and Managers Association. They publish a "standard" by which to measure tenant's building area.

Building Standard: What level of tenant improvement the landlord includes in a typical lease. May be expressed as a dollar allowance or a work letter indicating the per sq. ft. quantity and grade of improvement.

CAM Charges: Common Area Maintenance Charges (sometimes referred to as the "triple nets"), cover the building operating costs, property taxes,

real estate insurance, property maintenance. May include garbage, water sewer, local assessments, and property management fees.

Cost Segregation: Method of accelerating the depreciation recapture period of building components that are trade fixtures in nature.

Capitalization Rate: A percentage rate composed of return on investment, risk factors and rate of recapture. Is used to determine the economic value of an investment by dividing the rate into the net operating income.

Certificate of Insurance: A certificate of an insurance policy that describes the coverages, the entity insured and the dates of the policy. A certificate of insurance naming the landlord as additional insured is normally required under a NNN lease.

Common Area: An area of a building that is used in common by tenants and their guests.

Common Area Maintenance: The maintenance and costs of operating the common areas of a multi-tenant property. Tenants pay for these charges on pro rata basis

Demisable: The ability to subdivide the premises into smaller units.

Demolition Clause: A provision in some leases giving the landlord the right to cancel the lease if the landlord decides to raze the building.

Effective Rent: The actual rental rate per sq. ft. paid by the tenant after first subtracting any free rent from the total lease obligation.

Escalation Clause: A lease provision that specifies a rental increase during the lease term.

Expense Stop: The maximum amount that a landlord will spend in operating a building that

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ERIC POSTLE ■ JOHN WERDEL

10900 NE 4TH STREET, SUITE 1950, BELLEVUE, WA 98004 • PHONE: (425) 454-9543

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when exceeded, the tenant will pay a pro rated share of the amount exceeding the maximum.

Gross Lease: Rent includes real estate taxes, property insurance and maintenance. A “fully serviced” gross lease also includes utilities and janitorial in the rent.

Gross Square Footage: The total square footage of the building including elevator shafts and mechanical rooms. The quoted rental rate should be on the usable area which excludes these areas.

Holding Over: A lease provision that addresses the tenant’s possession of space after the lease expires.

Lease Buyout: A payoff of a lease obligation. Normally is some percentage of the remaining lease balance.

Load Factor: The percentage of space included in a “rentable square footage” calculation that includes common areas (exclusive of mechanical rooms and vertical penetrations). Load factors are used as a measurement of the building’s efficiency and can range from 8% to 13%.

Operating Expenses: Heating, ventilating, air-conditioning, taxes, insurance, maintenance, janitorial, and utilities.

Option: To extend the lease, purchase the building, or expand the premises. Normally includes a time frame and cost.

Pass-through: Annual increases in operating costs that are passed along to tenant in a gross lease.

Pocket Space: Space that is reserved for a tenant to use at a future date specified in the lease.

Punch List: Itemized list of tenant improvement items to be corrected by the landlord.

Right of First Opportunity: Tenant has the right

for a to respond to landlord’s offering before another party is solicited.

Right of First Refusal: Landlord must give the tenant the right to “match” a bona fide third party offer.

Sublease: A lease between the tenant and a subtenant where the Tenant remains liable for all obligations of the master lease.

Triple Net Lease: The rent paid to landlord that includes no operating expenses. In addition to the triple net “base rent”, the tenant is obligated to pay property taxes, property insurance, and maintenance. The landlord is generally responsible for maintenance of the building foundation, exterior walls, and roof.

Usable Square Footage: The measurement of space that includes elevator lobbies and internal hallways and stairwells.

Work Letter: A detailed agreement that sets out the specific responsibility for constructing a tenant’s premises. The letter will specify types and quantities of materials used, and sometimes the actual dollar amount to be spent.

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