

# Commercial Real Estate Glossary

## *Common Terms and Definitions*

### A

**Absorption Rate** – The rate at which available properties in a market are leased or sold during a specific time period.

**Amortization** – The gradual repayment of a loan through scheduled installments of principal and interest.

**Anchor Tenant** – A major tenant in a shopping center or office building that attracts other tenants and customers.

### B

**Base Rent** – The minimum rent due under a lease agreement, excluding additional expenses such as operating costs.

**BOMA (Building Owners and Managers Association)** – Organization that sets standards for measuring rentable square footage.

**Build-to-Suit** – A development designed and constructed to meet a tenant's specific requirements.

### C

**CAM (Common Area Maintenance)** – Tenant's share of property operating expenses for shared areas like lobbies, hallways, or parking lots.

**Cap Rate (Capitalization Rate)** – The ratio of a property's annual net operating income (NOI) to its purchase price, used to estimate return on investment.

**Core & Shell** – Base building construction including the structure, cladding, and common areas, but not tenant finishes.

### D

**Debt Service Coverage Ratio (DSCR)** – A measure of a property's ability to cover debt payments with net operating income.

**Due Diligence** – The investigation and review process conducted by buyers before closing a transaction.

### E

**Escalation Clause** – Lease provision allowing rent increases based on certain factors (e.g., inflation, operating costs, or taxes).

**Exclusive Listing** – Agreement giving one broker the sole right to market a property.

## F

**Full-Service Lease** – Lease where the landlord covers all property operating expenses, typically included in the rent.

**Floor Area Ratio (FAR)** – The ratio of a building's total floor area to the size of its lot, used to measure density.

## G

**Gross Lease** – Lease where the tenant pays a fixed rent and the landlord covers property expenses.

**Ground Lease** – Long-term lease of land, allowing the tenant to build improvements while the landlord retains land ownership.

## H

**Highest and Best Use** – The most profitable legal use of a property as determined by zoning, market demand, and feasibility.

## I

**Industrial Property** – Real estate used for manufacturing, distribution, and warehousing.

**Ingress/Egress** – The legal access points for entering and leaving a property.

## L

**Letter of Intent (LOI)** – A preliminary, non-binding agreement outlining terms of a potential transaction before a formal contract is signed.

**Load Factor** – A percentage added to usable square footage to account for shared common areas in a building.

## N

**Net Lease** – Lease where tenant pays rent plus some or all operating expenses (taxes, insurance, maintenance).

**NOI (Net Operating Income)** – Income after operating expenses are deducted, but before debt service and taxes.

## O

**Operating Expenses** – Costs of running a property, such as maintenance, taxes, insurance, and utilities.

**Option to Renew** – Lease clause giving the tenant the right to extend the lease at specified terms.

## R

**REIT (Real Estate Investment Trust)** – A company that owns, operates, or finances income-producing properties and trades like a stock.

**Rent Roll** – A report listing all tenants, lease terms, and rent amounts for a property.

**ROI (Return on Investment)** – A measure of profitability, calculated as net income divided by total investment.

## **S**

**Sublease** – Lease agreement where the original tenant rents out space to a new tenant.

**Shell Condition** – The unfinished state of leased space, requiring tenant build-out.

## **T**

**TI (Tenant Improvements)** – Alterations or build-outs made to rental space to meet tenant needs, often funded by the landlord through a TI allowance.

**Triple Net Lease (NNN)** – Tenant pays rent plus all property operating expenses.

## **Z**

**Zoning** – Local government regulations dictating how a property may be used (commercial, residential, industrial, etc.).