



Common Lease Terms and Building Measurement

Common Lease Terms

Base rent – The initial rent that must be paid under the lease contract. For commercial space this is typically specified in dollars per square foot per year. For residential property this is usually specified in dollars per unit per month.

Asking rent – The stated base rent the landlord requests when advertising the space.

Contract rent – The base rent listed in the lease agreement.

Market rent – The rent that the space would command on the open market if it were available for lease today. The market rent may differ from the contract rent because of changes in market conditions over time.

Indexed leases – Indexed leases tie changes in the base rent rate to some pre-specified index such as the consumer price index.

Step leases – Leases in which the base rent will change in the future by pre-specified amounts. Although rent payments will change over the term of the lease, unlike with an indexed lease the amounts to be paid are fully determined and known with certainty at the time the lease is signed.

Percentage leases – For retail properties, it is common for the landlord to receive a fraction of the tenant's sales above some predetermined **breakpoint**. Sometimes this is called **overage rent**.

In percentage leases, the **natural breakpoint** is the annual base rent divided by the overage rate. This is the level of sales at which overage rent will begin to be paid. Of course, it is possible for the tenant and landlord to negotiate a different contractual breakpoint.

Gross lease – Also known as a **full service lease**. A lease in which the landlord will pay all operating expenses of the building.

Net lease – A lease in which the tenant must pay some or all of the operating expenses, maintenance, insurance, or property taxes. The specific meaning of a net lease varies from market to market, so each lease agreement must be analyzed carefully to determine which expenses are paid by whom. A lease in which the tenant pays part of the operating expenses is sometimes called a **hybrid lease**.

Net net lease and **net net net lease** – Also known as **double-net** and **triple-net leases**, these terms refer to leases in which the tenant is required to pay for progressively more of the property's operating expenses. Generally, a triple-net lease is one in which the tenant pays all operating expenses, taxes, and insurance. The specific expenses paid in double- and triple-net leases vary based on local conventions. A lease in which all expenses are paid by the tenant is sometimes called an **absolutely-net lease**.

Expense stops – Some leases require the landlord to pay operating expenses up to a given level, above which they become the responsibility of the tenant.



Common area maintenance – This is a common *expense pass-through* in which the landlord pays for the expenses of operating and maintaining common areas, and these expenses are charged back to tenants on a pro rata basis.

Rent Concessions – Many lease agreements provide for initial concessions to “sweeten the deal” for the tenant (e.g., several months free rent or above-normal tenant improvements).

Tenant improvements – Improvements or changes made to the property for a new tenant to make the space suitable for their needs.

Building Measurement

The terms outlining how office space is measured are based on standardized definitions created by the Building Owners and Managers Association (BOMA). More information can be obtained from their web site at <http://www.boma.org>. Interior building areas are measured from inside wall/window to inside wall/window.

Gross measured area – Also known as *gross building area* or *gross square feet*. The entire physical area of all floor space in a building.

Total rentable area – Also known as *gross leasable area* or *rentable square feet*. This is the area for which rent can be charged, including the tenant’s usable area and any common areas for which tenants are charged on a pro rata basis.

For the entire building this is the gross measurable area minus any vertical penetrations (e.g., elevator shafts, vents, stairways, etc.).

For a given floor this is the gross measured area of the floor minus major vertical penetrations.

Common areas – *Floor common area* is the space on a given floor that is for the common use of all tenants on that floor (e.g., elevator lobby, bathrooms, mechanical rooms, etc.). *Building common area* includes space for the common use of all tenants in the building (e.g., main lobby, mail room, etc.).

Usable area – Also known as *office area* or *usable square feet*. The secured area occupied exclusively by a tenant within a tenant’s leased space. Equals rentable square feet minus common areas.

Add-on factor – Also known as the *load factor* or the *common area factor*. The add-on factor is calculated as rentable square feet divided by usable square feet. It is used to calculate the total number of square feet for which a tenant will pay rent given the usable area.

Efficiency percentage – The ratio of usable to rentable square feet (the inverse of the add-on factor). This shows what fraction of a building’s rentable space is actually available for the exclusive use of tenants.