

**Common Lease and Building  
Measurement Terms**

Real Estate 619  
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**Real Estate Jargon:  
Basic Lease Terms**

- *Base rent* is 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

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**Real Estate Jargon:  
Basic Lease Terms**

- *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.

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**Real Estate Jargon:  
Rent Adjustment Terms**

- *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

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**Real Estate Jargon:  
Rent Adjustment Terms**

- *Percentage leases* – Some leases specify that the landlord receive a percentage of the tenants sales
  - Especially true for retail leases
  - The *breakpoint* is the level of sales above which percentage rent (or *overage* payment) begins

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**Percentage Rent Example**

- Consider a retail tenant that is leasing 2,500 sf of space
- Base rent is \$12 psf
- In addition, the tenant will pay percentage rent of 6% of all gross sales in excess of \$500,000 (the breakpoint)

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**Percentage Rent Example**

- If gross sales are \$600,000 in a given year, the total annual lease payment will be
  - Base rent =  $2,500 \times \$12 = \$30,000$
  - Overage rent =  $(\$600,000 - \$500,000) \times 0.06 = \$6,000$
  - Total lease payment =  $\$30,000 + \$6,000 = \$36,000$

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**Real Estate Jargon:  
Expense Allocations**

- *Gross 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

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**Real Estate Jargon:  
Expense Allocations**

- *Expense stops* – Limits on the amount of operating expenses the landlord will pay in the future
- *Common area maintenance* – These expenses are often paid by the landlord and then charged back to the tenants on a pro rata basis

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**Real Estate Jargon:  
Basic Lease Terms**

- *Rent Concessions* – Temporary rent reductions to “sweeten the deal”
- *Tenant improvements* – Changes or improvements made to the property for a new tenant to make the space suitable for its needs

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**Real Estate Jargon:  
Building Measurement**

- *Gross building area* – The entire physical area of all floor space in a building
- *Usable area* – The secured area occupied exclusively by a tenant
- *Common areas* – Space such as lobbies and restrooms that are used jointly by several different tenants
  - *Floor common area*
  - *Building common area*

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**Real Estate Jargon:  
Building Measurement**

- *Gross leasable area* – The area in the building for which rent can be charged
  - For the entire building this is the gross building 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

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***Real Estate Jargon:  
Building Measurement***

- *Add-on factor* – Also known as the *load factor*, this is calculated by dividing rentable square feet 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

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***Real Estate Jargon:  
Building Measurement***

- *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

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