

NAIOP Terms and Definitions: North American Office and Industrial Market



Prepared for the
NAIOP Research Foundation

About NAIOP

NAIOP, the Commercial Real Estate Development Association, is the nation's leading organization for developers, owners and related professionals in office, industrial and mixed-use real estate. NAIOP comprises more than 15,500 members in North America. NAIOP advances responsible commercial real estate development and advocates for effective public policy. For more information, visit www.naiop.org.

The NAIOP Research Foundation was established in 2000 as a 501(c)(3) organization to support the work of individuals and organizations engaged in real estate development, investment and operations. The Foundation's core purpose is to provide these individuals and organizations with the highest level of research information on how real properties, especially office, industrial and mixed-use properties, impact and benefit communities throughout North America. The initial funding for the Research Foundation was underwritten by NAIOP and its Founding Governors with an endowment fund established to fund future research. For more information, visit www.naioprf.org.

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There are many ways to give to the Foundation and support projects and initiatives that advance the commercial real estate industry. If you would like to do your part in helping this unique and valuable resource, please contact Bennett Gray, senior director, at 703-904-7100 ext. 168, or gray@naiop.org.

Requests for funding should be submitted to research@naiop.org. For additional information, please contact Elizabeth Sherrod, NAIOP Research Foundation, 2201 Cooperative Way, Herndon, VA, 20171, at 703-904-7100, ext. 124 or sherrod@naiop.org.

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It should be noted that there are differences in how buildings are measured with regard to availability, vacancy, inventory, etc. which explain variations in market data reported by major brokerage firms and data providers. In some cases, local market providers should be consulted.

CAVEAT

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The NAIOP Research Foundation for funding this project. Thanks to the members of the original Task Force and the National Research Directors who so freely gave their time and talents to this project and for their willingness to consider these definitions as a standard for the real estate industry.

NAIOP Terms and Definitions: North American Office and Industrial Market

In 2004, the NAIOP Research Foundation funded a standardization project that would define selected office and industrial real estate terms commonly used by owners, brokers, developers and others in their day-to-day business operations. To accomplish this task, NAIOP assembled a Task Force consisting of representatives from a cross-section of NAIOP's membership including developers, investors, financiers, and brokerage and research organizations. A Project Team, spearheaded by Deloitte Consulting LLC, and also consisting of members of NAIOP's senior management and industry consultants, gathered and constructed definitions and solicited comments and recommendations from the Task Force.

Definitions for selected commonly used office and industrial terms were gathered from real estate associations, research organizations, developers and technology providers. For certain terms, existing definitions provided from these groups were incorporated as-is, with attribution. For other terms, new definitions were constructed. During the period 2008-2010, a group of National Research Directors reviewed the office and industrial definitions and updated them to reflect current practices and information.

The standardized terminology documents are available on the NAIOP website at:
<http://www.naiop.org/en/Research/Our-Research/Research-Reports.aspx>.

Yours truly,
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Preface

The purpose of a standard is to provide clear and understandable communication of information and facilitate consistent measurement and aggregation of results. Standards for the commercial real estate industry continue to evolve as the industry strives for transparency. The definitions contained herein were developed with the primary goals of transparency, effective communication and a narrowing of the practice in the forefront.

The definitions are grouped into various clusters to facilitate an understanding of the interrelationships among the terms. In addition, within each cluster, the definitions are listed in an order which the Task Force and National Research Directors believed was most relevant. For example, definitions within Development Status Terminology are listed in the order of the life cycle of a development project. For reference purposes we have also provided an alphabetical Index of Terms, which is located in the back of the document.

NAIOP urges all its members and others in the office building industry to adopt the definitions in this document as standard. Furthermore, in circumstances when local custom or individual transactions differ from the standard definitions, we encourage the industry to embrace the recommendations to disclose these differences in the interest of clear communication and transparency of information.

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North American Office and Industrial Market
Bold indicates term defined in this glossary.

Development Status Terminology

The following chart illustrates the key definition components within the selected Development Status terms. See the following definitions for further explanation and clarification.

Development Status Terminology Timeline				
Proposed/Planned	Construction Starts	Under Construction	Delivered	Becomes Inventory
Development announced	Construction initiated	Groundbreaking; Site excavation; Foundation work	Construction completed	(see measurement terms)
Construction not started	Groundbreaking; Site preparation	Ongoing construction	COO issued	
Subjective criteria		Major renovation No certificate of occupancy (COO)		

The following statement must be true:

- Beginning balance of Under Construction
- + Construction Starts during the period
- + Properties commencing Conversion to office during the period
- Deliveries for the period
- = Under Construction at the end of the period

Proposed/Planned

The status of a building that has been announced for future development but not yet started construction. The probability of successfully completing any individual development is difficult to determine at this stage. Criteria for inclusion in this data set are somewhat subjective.

Construction Starts¹

The total number of buildings or square feet where construction has been initiated as defined by the actual ground breaking. (See **Under Construction**.)

Site Preparation

Site work done before groundbreaking. Typically, leveling ground construction permits are issued prior to the “under construction” phase.

Year Built

The year the building delivered to the market due to completed construction.

Under Construction

Buildings where either: a.) actual ground breaking has occurred (site excavation or foundation poured) and construction is ongoing (not abandoned or discontinued) but for which a certificate of occupancy (COO or CO) has not yet been issued; or b.) properties undergoing **conversion** to office from another use; or c) properties undergoing a major **renovation** where 75% or more of the building is not available for lease and the building generally requires a certificate of occupancy (COO or CO) to be made available for lease.

Delivered

Total square footage and/or number of buildings that have completed construction (status changing from **under construction** to **inventory**) and received a certificate of occupancy (COO or CO) during a stated period. Once a certificate of occupancy has been issued, the property will be considered delivered whether or not tenants have occupied the space. (*Synonyms: Completion; New Supply*)

Conversion

A general term applied to the change in usage of space. Space being converted is removed from current **inventory** and included in the **under construction** statistics for its planned use. (Example: An office building being converted to an apartment will be removed from current office **inventory** and included in the total of apartment space **under construction**.)

Mixed-Use Development

An income-producing property that comprises multiple significant uses within a single site or building such as retail, office, residential or lodging facilities. Example: Office buildings that contain ground-level retail and housing; sites that have separate office, retail and multi-family properties.

Retrofit

Involves more functional and substantial changes to modernizing building systems such as HVAC, security, fire alarms and energy management. The tenant doesn't move out and the square feet and space use doesn't change. (*Synonym: Renovation*) *Adaptive re-use refers to a process of retrofitting old buildings for new uses which allows structures to retain the building's integrity while meeting the needs of modern occupants.*

Renovation/Redevelopment

A general term applied to the process of upgrading an existing improvement. **A qualifying question is whether the renovation changed the building class.** Renovations are included in **under construction** if the renovation is major, that is, where 75% or more of the building is not available for lease and the building generally requires a certificate of occupancy (COO or CO) to be made available for lease. Conversely, if less than 75% of the building is undergoing renovation, the building remains in **total inventory**.

Measurement Terminology

It should be noted that there are differences in how buildings are measured with regard to availability, vacancy, inventory, etc. which explain variations in market data reported by major brokerage firms and data providers. In some cases, local market provider should be consulted.

Total Inventory

Total inventory is the total square footage of **net rentable area** in a specific market. It includes the **net rentable area** in buildings that have received a certificate of occupancy (COO or CO). (See **delivered**.) Total inventory increases when a new building is delivered and decreases when an existing building is destroyed, demolished or its use changes. Total inventory includes office properties under **renovation** when the renovation is not major and excludes office properties undergoing **conversion**. *Consult your local market for more detailed information on this term.*

Market analysts often create statistical subsets of inventory. Inventory analysis in certain markets may exclude selected building types or attributes such as minimum size thresholds, government, medical, single tenant or owner occupied buildings. Disclosure of the elements of a competitive inventory subset including market boundaries is required. (Synonym: *Stock*) *Note: Inventory counts for stock; net rentable area counts for absorption*

Cap Rate

Short for capitalization rate. Unleveraged initial yield on the investment expressed as the annual Net Operating Income divided by the property price (or asking sales price).

Competitive Inventory

Single and multi-tenant buildings that are on the market available for occupancy.

Energy Star

Also referred to as an "EPA rating" or an "Energy Star rating," the rating is a standardized national benchmark that helps architects and building owners assess energy use relative to similar buildings in the program. An Energy Star qualified building means the building meets EPA criteria for energy efficiency and displays the Energy Star building label.

Green Globes

Founded in Canada in 1996, Green Globes® is a green building guidance and assessment program that offers a way to advance the overall environmental performance and sustainability of commercial buildings. After achieving a threshold of at least 35 percent of the total number of 1,000 points, new and existing commercial buildings can be certified for their environmental achievements and sustainability by pursuing Green Globes certification that assigns a rating of one to four globes. See www.thegbi.org/green-globes-tools/default.asp

Government Office Building

A building which is owned by public sector agencies.

Gross Building Area

The total floor area of a building usually measured from its outside walls. Rentable area can change but the building size is always the same square footage.

LEED (Leadership in Energy and Environmental Design)

LEED® is a third-party certification program under the U.S. Green Building Council (USGBC). It is a nationally accepted benchmark for the design, construction and operation of high performance sustainable buildings. Certification levels are Certified, Silver, Gold and Platinum and based on points obtained in seven areas: Sustainable Sites; Water Efficiency; Energy & Atmosphere; Material & Resources; Indoor Environmental Quality; Innovation in Design. See www.usgbc.org

Medical Office Building² (also referred to as MOB)

A building which consists of 90% or greater medical tenancy.

Multi-tenant Office Building

A building for which there are multiple lease obligations and less than 90% of which may be owner occupied.

Owner Occupied Office Building

Buildings that are occupied by the owner and generally not counted in total inventory.

Single-tenant Office Building

A building for which there is a single lease obligation or is 100% owner occupied.

Submarket

Specific geographic boundaries that delineate core areas within a market area. Submarkets are non-overlapping, contiguous geographic designations having a cumulative sum that matches the boundaries of the market they are located within. Submarkets are defined by distinct boundaries dependent on market factors such as a core of competitive buildings.

Rentable Building Area

The total square footage of a building that can be occupied by, or assigned to a tenant for the purpose of determining a tenant's rental obligation. Generally RBA includes a percentage of common areas including all hallways, main lobbies, bathrooms and telephone closets. (*Synonym: Gross Building Area*)

Usable Area

SEE "STANDARD METHOD FOR MEASURING FLOOR AREA IN OFFICE BUILDINGS" (An American National Standard) Approved June 7, 1996 by American National Standards Institute, Inc. Secretariat Building Owners and Managers Association International REF: ANSI/BOMA Z65.1-1996). The document is available for sale on both the ANSI (www.ansi.org) and BOMA (www.boma.org) websites.

Space Use Terminology

Biotech space

Highly specialized laboratory or research and development space in a structure that may include office space to support the operation of the technology in the building. The space is uniquely configured and developed to the needs of the biotech tenant and may require significant retrofit should the tenant vacate the space.

Office Building

A property providing environments conducive to the performance of management and administrative activities, accounting, marketing, information processing, consulting, human resources management, financial and insurance services, educational and medical services and other professional services.³ At least 75% of the interior space is designed and finished to accommodate office usage but the space may include other usage.

Office Building Types:

Low-rise: fewer than seven stories above ground level.

Mid-rise: Between seven and 25 stories above ground level.

High-rise: Higher than 25 stories above ground level.⁴

Disclosure of the number of stories in the building is recommended.

Office Condos

Individual units for lease or sale in a multi-tenant low-rise office building, typically a flex type structure of two stories.

Office Park

A group of two or more properties that are contiguous (i.e., Real Capital Analytics counts the sale of ten buildings in the same park as one sale). (*Synonym: office campus*)

Industrial Building Types

See the matrix on page 12 for typical *Industrial Building Characteristics* by building types for determining the appropriate classification of an **Industrial Building** as *Manufacturing*, **Warehouse** or *Flex*.

Industrial Building

A facility in which the space is used primarily for research, development, service, production, storage or distribution of goods and which may also include some office space. Industrial buildings are further divided into three primary classifications: **manufacturing**, **warehouse** and **flex** buildings. Typical characteristics of the different types of Industrial Buildings are shown in the matrix. Buildings must exhibit more than one of the characteristics but need not exhibit all characteristics to be considered under a specific classification.

Manufacturing Building⁵

A facility used for the conversion, fabrication and/or assembly of raw or partly wrought materials into products/goods. Typical characteristics are shown in the matrix.

Warehouse

A facility primarily used for the storage and/or distribution of materials, goods, and merchandise. Typical characteristics are shown in the matrix.

Distribution Building

A type of **warehouse** facility designed to accommodate efficient movement of goods. Typical characteristics are shown in the matrix.

Truck Terminal⁶

A specialized **distribution building** for redistributing goods from one truck to another as an intermediate transfer point. These facilities are primarily used for staging loads (rather than long-term storage) and possess very little if any storage area. Typical characteristics are shown in the matrix.

Flex Facility

As its name suggests, an **industrial building** designed to allow its occupants flexibility of alternative uses of the space, usually in an industrial park setting. Specialized flex buildings include **service center/showroom** properties. Typical characteristics are shown in the matrix.

Service Center/Showroom

A type of **flex facility** characterized by a substantial showroom area, usually fronting a freeway or major road. Typical characteristics are shown in the matrix.

Industrial Building Types *continued*

Primary Type	Building Type					
	Manufacturing	Warehouse			Flex	
	General Purpose	General Purpose Warehouse	Distribution		General Purpose Flex	Service Center/ Showroom
			General Purpose Distribution	Truck Terminal		
Primary Use	Manufacturing	Storage, Distribution	Distribution	Truck Trans-shipment	R&D, Storage, Office, Lab, Light Mfg, High Tech Uses, Data/Call Center	Retail Showroom, Storage
Sub-Sets	Heavy, Light Manufacturing	Bulk Warehouse, Cold/Refrigerator Storage, Freezer Storage, High-Cube	Overnight Delivery Services, Air Cargo	Heavy, Light Manufacturing		
Size (SF)	Any	Any	Any	Any	Any	Any
Clear Height (ft)	10+	16+	16+	12-16	10-24	Any
Loading Docks/Doors	Yes	Yes	Yes	Cross-dock	Yes	Yes
Door-to-Square-Foot Ratio	Varies	1:5k-15k	1:3k-10k	1:500-5k	1:15k+	1:10k
Office Percentage	<20%	<15%	<20%	<10%	30-100%	30+%
Vehicle Parking Ratio	Varies	Low	Low	Varies	High	High
Truck Turning Radius (ft)	130	130	120-130	130	110	110

NOTE: This matrix is intended to be an aid in classifying properties between the principal industrial building types, subject to the following considerations:

- These are intended to be TYPICAL characteristics of different properties, but actual characteristics may vary.
- In classifying properties, the user should select the classification which most closely fits a given property.
- The most important characteristics of each type are highlighted. While these characteristics are not "acid tests," they should guide the user in most instances.
- Divisibility varies depending on building size and configuration.
- Truck turning radius is an important consideration and varies by building size. Large pure distribution facilities have a turning radius of 130 feet; medium to large facilities are 120 feet and smaller facilities are typically 110 feet.

Manufacturing

A facility used for the conversion, fabrication and/or assembly of raw or partly wrought materials into products/goods.

Warehouse

A facility primarily used for the storage and/or distribution of materials, goods and merchandise.

Flex

An industrial building designed to allow its occupants flexibility of alternative uses of the space, usually in an industrial park setting.

Truck Turning Radius

The tightest turn a truck can make depending on several variables of truck configuration, trailer size and location of adjacent objects that obstruct the inner turn radius.

Space Availability Terminology

Pre-Leased Space⁷

Restricted to Under Construction The amount of space in a building that has been leased prior to its construction completion date, or certificate of occupancy (COO or CO) date. Disclosure of whether **proposed/planned** projects are tracked in any data statistic of pre-leased space is recommended. Consult your local market for more detailed information on this term.

Available Space⁸

The total amount of space that is currently being marketed as available for lease or for user/investment sale at a point in time. It includes space that is available, regardless of whether the space is **vacant**, **occupied**, available for **sublease**, or available at a future date. Available Space excludes **shadow space**. If sub-tenant space is excluded from the calculation, the term Direct Available Space is recommended.

Direct (new) space

Space that is being offered for lease directly from the landlord or owner of a building, not space being offered by another tenant in the building trying to sublet a space that has already been leased.

Direct Vacancy Rate

A measurement expressed as a percentage of the total amount of physically vacant space divided by the total amount of existing inventory. Space being built is not included in vacancy calculations.

Leased Space

Leased space includes all space under contract, regardless of whether the space is currently **occupied** by a tenant. Leased space need not be physically **occupied**; it also includes space being offered for **sublease**. If sub-tenant space is excluded from the calculation, the term Direct Leased Space is recommended.

Master lease

The controlling lease identifying the terms and length of the lease.
Note: Subleases cannot extend beyond the term of the master lease.



Occupied Space

Space that is occupied by a tenant, subtenant or owner. The total amount of occupied space is calculated by subtracting the amount of **vacant space** from the amount of **inventory**. If subtenant space is excluded from the calculation the term Direct Occupied Space is recommended. Disclosure of whether **owner occupied buildings** are included in any data statistic of occupied space is recommended. (*Synonym: Total Occupied Space*)

Relet space

Sometimes called second generation space, refers to existing space that has previously been occupied by another tenant.

Shadow Space

That portion of **leased space** which is **vacant** but not **available space**. Shadow space is difficult to measure. (*Synonym: Phantom Space*)

Sublease Space⁹

Sublet space that is available for sublease by a tenant (the "Sub-Lessor") to another lessee (the "Sub-Lessee") for a term equal to or shorter than that held by the tenant under its original lease with the landlord.

Vacant Space

Inventory that is not currently **occupied**. If sub-tenant space is excluded from the calculation, the term Direct Vacant Space is recommended. (*Synonym: Total Vacant Space*)

Vacancy Rate

A measurement expressed as a percentage of the total amount of **vacant space** divided by the total amount of **inventory**. This measurement can be applied to either an individual building or an aggregation. If sub-tenant space is excluded from the calculation, the term Direct Vacancy Rate is recommended. (*Synonym: Overall Vacancy Rate*)

Brick¹⁰

A small solid masonry unit of clay or shale formed into a rectangle and burned or fired in a kiln.

Concrete Block

A small modular structural component of a building made of pre-cast concrete. (*Synonyms: Cinder Block, Concrete Masonry Unit (CMU)*)

Split-Face Block

A **concrete block** molded with two units face-to-face and subsequently split apart. This process allows a more finished appearance on the exposed surface.

Brick & Block

A building with the exterior facade made of a combination of **brick** and **concrete block**.

Brick & Glass

A building with the exterior facade made of a combination of **brick** and glass.

Metal Building

A building with an exterior facade primarily made of metal (typically steel or aluminum).

Pre-Cast Construction

A construction technique in which concrete panels are manufactured off-site and transported to the site for assembly into a building.

Tilt-Up Construction

A construction technique in which concrete panels for structural support for the buildings are cast at the site and hoisted, or tilted, upright into vertical position. Although it is possible that a **pre-cast** panel would be similarly tilted into position, the term **tilt-up** is reserved for panels cast on site.

Masonry Construction

A construction technique in which materials, usually **brick** or **concrete block**, are stacked and grouted together to form walls that bear the weight of the structure.

Industrial Building Characteristics – Exterior Building Characteristics

Loading Dock

An elevated platform at the shipping or delivery door of a building; usually at the same height as the floor of a motor truck or railroad car to facilitate loading or unloading. These doors can be exposed on the outside wall of the building or covered with a canopy or other construction to cover or protect the loading area.

Cross Dock

A loading dock situated along two walls of the same building where goods are transferred from vehicle to vehicle for further distribution.

Side-Loading Dock

A **loading dock** configuration designed to facilitate the loading and unloading of a vehicle through its side.

Dock-High Door

An elevated **loading dock** door which usually opens at a height of four feet from the **truck court** level (the standard tractor trailer height). Some doors called **semi-dock** or **half dock** are constructed at a two-foot height to accommodate smaller-sized delivery trucks.

Drive-In Door

A door through which trucks, forklifts, and other machinery or vehicles can enter and exit without a change in elevation.

Ramp Door

A dock-high door that has been converted to a **drive-in door** by creating a ramp from ground level to dock level.

Rail Door

A door, generally side-loading, with access to railroad tracks, that facilitate the loading or unloading of railroad cars directly to or from the building.

Door-to-Square-Foot Ratio

The ratio of the total number of **loading docks** and **drive-in doors** to building square feet.

Truck Court¹¹

An area adjacent to a building's **loading docks** comprising the loading and truck maneuvering areas. The most important measure of the truck court is the depth from the building to the end of the truck court, as this will impact truck maneuverability.

Apron

The area, within the **truck court**, where trucks are parked for loading and unloading. This area will be paved with more durable material than the rest of the truck court (e.g. concrete or other structural reinforcement vs. asphalt) to withstand the heavy loads being parked there.

Automobile Parking Ratio

Ratio of available standard parking spaces to the gross leaseable area of a property. Varies by property use with labor-intensive operations needing higher parking ratios.

Industrial Building Characteristics – Interior Building Characteristics

Bay

The interior building space between columns.

Bay Depth

The distance from the front of the **bay** to the back of the **bay**.

Bay Width

The distance from one side of the **bay** to the other.

Column Spacing ¹²

The distance between posts or vertical supporting beams in the warehouse section of an **industrial building**. Column spacing defines the size of the **bay** and is usually expressed as width x depth.

Clear Height

Distance from the floor to the lowest hanging ceiling member or hanging objects, beams, joists or truss work descending down into a substantial portion of the industrial work area. This is the most important measure of the interior height of an industrial building because it defines the minimum height of usable space within the structure. (*Synonyms: Clear Headway, Clearance*)

Ceiling Height

Distance from the floor to the inside overhead upper surface of the room. This measure will be higher than any hanging objects, beams, joists or truss work, unless there is a dropped ceiling.

Truss

A framework of beams forming a rigid structure (as a roof truss).

Truss Height

Distance from the floor to the bottom edge of any **truss** used to support the ceiling or roof of a building. If there are hanging objects, beams or joists below the truss the **clear height** will be lower than the **truss** height.

Super Flat Floors

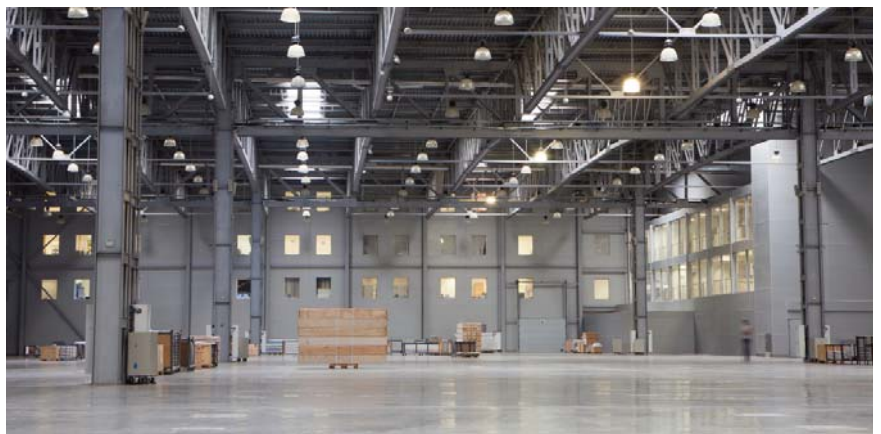
Concrete floors with minimal variations in elevation from point to point. These floors are primarily found in automated **warehouses** where picking machinery and closely spaced racks mandate the need for level flooring to insure proper operation of the warehousing machinery. Super Flat Floors are specified according to the “F-Number System” which is governed by **The American Concrete Institute** (# 117) and **Canadian Standards Association** (# A23.1) standards for the specification and measurement of concrete floor flatness and levelness.

Office Percentage

The percentage of an industrial property that is built out for office use. When **mezzanine office** is built above space that would otherwise be an industrial work area, this additional square footage is not counted in the total square footage of the building.

Mezzanine Office

An office build-out on an intermediate floor that is smaller than the main floor. When mezzanine office is built above space that would otherwise be an industrial work area this additional square footage is not counted in the total square footage of the building.



Transaction Terminology

Gross Absorption¹³

Expressed in total square footage, gross absorption is the total change in **occupied space** over a given period of time, counting space that is **occupied** but not space that is **vacated** by tenants. The inclusion (Total Gross Absorption) or exclusion (Direct Gross Absorption) of **sublease space** must be disclosed. Gross absorption differs from **leasing activity**, which is based on the lease signed date and is the sum of all **space leased** over a certain period of time.

Net Absorption

The net change in **occupied space** in a given market between the current measurement period and the last measurement period. Net absorption can be either positive or negative and must include decreases as well as increases in **inventory** levels. It is recommended to disclose the inclusion (Total Net Absorption) or exclusion (Direct Net Absorption) of **sublease space** in any calculation of net absorption.

Leasing Activity

Leasing activity is the sum total of the square footage of space that is committed to and signed under a lease obligation for a specified building or market in a given period of time, without regard to actual occupancy status. It includes direct leases, **subleases**, renewals, and expansions of existing leases. If sub-tenant space is excluded from the calculation, the term Direct Leasing Activity is recommended. Leasing activity also includes any preleasing activity in **under construction**, **planned** buildings or under **renovation** buildings.

Takeup

When the space is physically occupied. (*Synonym for leasing activity*)

Bold indicates term defined in this glossary.

Lease and Rental Rate Terminology

Asking Rent

The dollar amount asked by landlords for available space, expressed in dollars per square foot per year in most part of the country and dollars per square foot per month in areas of California and selected other markets. Buildings will have an average asking rent for available space. Usually a point of departure for negotiations between landlords and tenants. (*Synonym: Face Rate*)

Concessions

In negotiations to attract tenants, a landlord will sometimes grant concessions. These most often take the form of free rent but may also include lease buyouts, moving allowances and above-standard tenant improvement allowances. In a hot real estate market concessions are difficult to negotiate.

Contract Rent

The lease rates appearing in a signed contract of the lease. Typically the contract rate is the first year as opposed to the average rate over the term of the lease.

Gross Lease¹⁴

A lease in which the landlord receives stipulated rent and is obligated to pay all or most of the property's operating expenses and real estate taxes. Disclosure of the specified costs of operation is required. (*Synonym: Full Service Lease*)

Modified Lease¹⁵

A lease in which the landlord receives a stipulated rent and the payment of the property's operating expenses are divided between the lessor and lessee via specified terms in the lease; also called Modified Gross, Net-Net (Double Net), Net-Net-Net (Triple Net), etc., depending on the degree to which the tenant or landlord are responsible for operating costs.

Net Lease¹⁶

A lease in which the tenant pays all property operating expenses in addition to the stipulated rent. Disclosure of the specific expenses to be paid directly by the tenant is required.

Net Effective Rent

Expressed in dollars per square foot per month, it is all the concessions given by a landlord to entice tenants to lease space plus escalations and, in some cases, broker commissions. (*Synonym: Landlord Effective Rent*)

Net Effective Rent *continued*

(CoStar) Effective rent equals contract rent less free rent and any cash allowances such as a lease buyout or moving allowance. Escalations written into the lease are included in the calculation of effective rent. Tenant improvement allowances and brokerage commissions are not subtracted from the contract rate in calculating effective rent. (This definition is equivalent to the tenant effective rent. A landlord or lender would likely include all tenant improvement allowances and brokerage commissions in calculating effective rent.)

Effective Rent Calculation:

- Effective Rent = (total rent – free rent – cash allowances)/lease term/rentable sf
- Total Rent = rent paid during the term of the lease including escalations
- Cash Allowances include free rent, moving allowances and other cash considerations

Assumptions: 5,000-square-foot lease
 36 months
 \$25 Contract rate w/\$0.50 annual escalations
 1 month free rent (first month)

	Formulas	Total Rent
Year 1 (11 months)	$\$25.00 \times 5,000 \text{ sf} \times (11/12) =$	\$114,583
Year 2 (12 months)	$\$25.50 \times 5,000 \text{ sf} =$	\$127,500
Year 3 (12 months)	$\$26.00 \times 5,000 \text{ sf} =$	\$130,000
Total Rent/Consideration		\$372,083

Straight-Line Rent

The accumulation of rental income (including months that have free rent, discounted rent and fixed rent increases) divided by the term of the lease will give you a straight line rent. Straight-line rent provides a way to compare rents on various properties using a consistent methodology.

Triple Net Lease (NNN)

The tenant pays taxes, maintenance and property insurance and all costs associated with their occupancy, including personal property taxes, janitorial services and all utility costs. The landlord is responsible for the roof and the structure and sometimes the parking lot.

Office Building Classifications

A subjective classification system that divides buildings into three categories: Class A, Class B and Class C. **Building Classifications** differentiate among buildings within a relevant market area and are primarily based on quoted rents, building systems and services, tenant and building finish and location. Buildings must exhibit more than one of the characteristics but need not exhibit all of the characteristics to be considered under a specific classification.

The following matrix illustrates the primary considerations for determining classification of office buildings as either Class A, B or C.

	Class A	Class B	Class C
Rents	Asking gross rents are based on a specified range between the top 30-40% of the office rents in the marketplace.	Asking gross rents are based on a specified range between the asking gross rents for Class A and Class C space.	Asking gross rents are based on a specified range between the bottom 10-20% of the office rents in the marketplace.
Location	Excellent, well located.	Average to good location.	Less desirable location. Depend chiefly on lower price to attract tenants.
Building Systems	The mechanical, elevator, HVAC and utility systems have capacities to deliver services that meet both current tenant requirements and anticipated future tenant needs.	The mechanical, elevator, HVAC and utility systems have adequate capacities to deliver services currently required by tenants.	The mechanical, elevator, HVAC and utility systems have capacities that may not meet current tenant needs.
Building Finish	High quality design and materials. Buildings must continue to remain competitive with new construction.	Average to good quality design and materials.	Dated appearance.
Building Services	Above average maintenance, management and upkeep.	Average to good maintenance, management and upkeep.	Below average maintenance, management and upkeep.

Note: This Matrix is intended as a guide for those evaluating buildings and determining their classifications with the following caveats:

- The final designation of Class A, B or C is always relative to the local market or sub-market being analyzed. (For example, attributes of class may be different in a CBD versus Suburban market.)
- The primary considerations for determining class are listed in the matrix; however other variables worthy of consideration may include: age, amenities, parking, construction materials and architecture.
- Buildings must exhibit more than one, but not all, of these characteristics to be considered under a specific classification.

Trophy Buildings

A landmark property that is well known by the public and highly sought by investors such as pension funds, insurance companies, foreign investors and tenants. Generally one-of-a-kind architectural designs, with the highest quality of materials and finish, expensive trim. These properties are more desirable than *Class A* buildings. (Synonym: AAA)

Class A Buildings

A classification used to describe an office building with **asking gross rents** based on a specified range between the top 30-40% of the office rents in the marketplace. Class A buildings are well located relative to the needs of major tenant sectors in the marketplace. Building systems (mechanical, HVAC, elevator and utility) have capacities that meet both tenant current requirements as well as anticipated future needs. Building services are characterized by above average maintenance, management and upkeep. Buildings must exhibit more than one of the characteristics but need not exhibit all of the characteristics to be considered Class A. Because property characteristics in different markets vary dramatically, property class definitions will remain subjective.

Class B Buildings

A classification used to describe an office building with **asking gross rents** based on a specified range between the **asking gross rents** for Class A and Class C space. Class B buildings are in average to good locations relative to the needs of major tenant sectors in the marketplace. Building systems (mechanical, HVAC, elevator and utility) have adequate capacities to deliver services currently required by tenants. Building services are characterized by average to good maintenance, management and upkeep. Buildings must exhibit more than one of the characteristics but need not exhibit all of the characteristics to be considered Class B. Because property characteristics in different markets vary dramatically, property class definitions will remain somewhat subjective.

Class C Buildings

A classification used to describe an office building with **asking gross rents** based on a specified range between the bottom 10% to 20% of office rents in the marketplace. Class C buildings are in less desirable locations relative to the needs of major tenant sectors in the marketplace. Building systems (mechanical, HVAC, elevator and utility) have capacities that may not meet current tenant needs. Building services are characterized by the existence of below average maintenance, management and upkeep. These buildings generally depend chiefly on a lower price to attract tenants. Buildings must exhibit more than one of the characteristics but need not exhibit all of the characteristics to be considered Class C. Because property characteristics in different markets vary dramatically, property class definitions will remain somewhat subjective.

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