

Scott Brown Commercial Real Estate

Presents

Commercial Real Estate - Leases / Lease Terms

A general review of some common commercial real estate & leasing terms:

Tenant = Lessee Owner = Lessor

There are several major type leases in use today. These include:

- * Gross (Many variations) * Net * Percentage * Ground
- * Sub * Assignment * Turnkey * Build-to-suit
- * Sale-leaseback

The following definitions are generally accepted in the industry. There are nuances and exceptions in the interpretation and application of the terms relative to a specific lease/property.

Absolute Net: **Lease** requiring tenant to pay in addition to base rent all costs associated with the operation, repair and maintenance of the building, all real estate taxes, and utilities including repair and maintenance of the building's structure and roof. Often the tenant is directly responsible both for all such costs and for the active handling of the items themselves. Distinguished from Triple Net (see below) by tenant's responsibility for maintenance and repair of the building structure and roof.

ADA: Americans With Disabilities Act passed by Congress in 1994 with intent to provide persons with disabilities accommodations and access equal to or similar to that of the general public.

Addendum: Something Added. A list or document or other material added to a document, lease, contract, letter, etc. IE: Legal description; List of FF&E; Survey; Map; Improvements to be made; etc.

Agent: One who is authorized to act for or represent another (principal) usually in business matters. Authority may be express or implied.

Allowance: A set dollar amount provided by the Landlord under a lease to be used by the Tenant for a specific purpose. Examples include allowances for tenant improvements; moving expenses design fees, etc. If the expense exceeds the allowance amount, such excess is the Tenant's responsibility. If the expense is less than the allowance, the savings are retained by the Landlord unless their agreement specifies otherwise.

- Amendment:** A document to reflect a change either to correct an error or alter a part of an agreement without changing the principal idea or essence.
- Amortization:** Payment of debt in regular, periodic installments of principal and interest, as opposed to interest only payments. May also be used in a lease where the landlord incurs costs for additional tenant improvements which are effectively treated as a debt and repaid by tenant over the term of the lease.
- Anchor Tenant:** The most reliable, and usually the largest, tenant in a shopping center (or could be an office building or industrial building) The strength of the anchor tenant greatly affects the availability of financing for the property. May dramatically affect the attraction to the property of other tenants.
- Arbitration Clause:** A clause in a lease calling for the decision of a 3rd party (arbiter) regarding disputes over future rents based on negotiation. Also used in construction contracts, disputes between brokers, etc.
- As Is:** As Is Condition – Premise accepted by buyer or tenant in the condition existing at the time of the sale or lease, including all physical defects.
- Asking Rent:** The dollar amount asked by landlords for direct available space (not sublease), expressed in dollars per square foot per year in most parts 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.
- Assignment:** Under the terms of an assignment, a tenant transfers all interest in the leased property to another party. Generally all lease terms remain the same. To transfer interest in a property.
- Base Rent:** A specific amount used either as a minimum rent in a lease (retail) which uses a percentage of sales or overage for additional rent or sets a base onto which is added expenses and taxes in a net lease or increases in those items in a fully serviced lease.
- Base Year:** The year upon which a direct expense calculation of rent is based.
- Back Up Offer:** A secondary offer to buy property. Used in case the first offer (primary) fails. A back up offer is especially useful when the primary offer contains difficult contingencies, time frames, finance issues, etc.
- Base Year:** The 12 month period upon which a direct expense escalation of rent is based. Typically the calendar year the lease commences.
- Build-To-Suit:** Under the terms of a build-to-suit option, a landlord agrees to develop or

finish a property or space to the specifications of a tenant. Building costs are usually offset, in part, by increased rent paid by the tenant. This option is seen in the case of a general-purpose industrial building with special-use attributes.

CAM Charges: Common Area Maintenance charges. Those charges levied on or the expenses incurred in maintaining the common areas of a building.

Cap Rate: Cap Rate is a term used to calculate and thus indicate the value of a property. Probably the most common, and therefore effective, method to value an investment is through the use of a cap rate. Cap Rate is the rate of return used to determine the value of the property's income stream. Precisely defined, the cap rate is the net operating income of the property divided by its purchase price. It shows the expected percent annual return given a specific investment

The Capitalization Rate:

The Cap Rate is calculated as follows:

$$\text{Cap Rate} = (\text{Net Operating Income} / \text{Market Value}) \times 100$$

$$\text{Cap Rate} = (\text{NOI} / \text{MV}) \times 100$$

Example:

Net Operating Income (NOI): \$239,430

Market Value (MV): \$3,420,000

$$\text{Cap Rate} = (239,430 / \$3,420,000) \times 100$$

$$\text{Cap Rate} = 7\%$$

The Cap Rate of 7% represents the annual return before mortgage payments and income taxes on the total investment of \$3,420,000.

Cash on Cash Return:

Another measure of property value. Also called equity dividend return. This formula enables investors to determine the return on their equity in Leverages properties. Cash on Cash =before tax cash flow (NOI minus Debt service) divided by initial cash outlay

Example: Assume initial cash investment to purchase a property was \$100,000 and your NOI this year after mortgage payments was \$25,000. Your return would be 25%.

The same formula can be used to calculate after-tax return. Just subtract both the mortgage payment and the estimated taxes from your NOI.

Certificate of Occupancy:

Many cities / municipalities require a new tenant to obtain a Certificate of

Occupancy. The lease term should stipulate who is responsible for obtaining the C/O in order to permit legal occupancy of the property. If modifications are required to obtain a C/O - who is responsible for compliance.

Class: Class is usually used in conjunction with an office property and refers to the quality of property. Class definitions fall with the following guidelines. **Class A+:** Landmark quality, high rise building with prime central business district location (the best of the Class A buildings). **Class A:** Generally 100,000 sf or larger (five or more floors), concrete and steel construction, built since 1980, business/support amenities, strong identifiable location/access. **Class B:** Renovated and in good locations. Newer building are smaller in size, wood frame construction, and/or in non-prime location. **Class C:** Older, un-renovated of any size in average to fair condition.

Commencement Date:

The date on which a lease begins. This is typically but not always the day on which the tenant takes possession of the leased space, which usually occurs upon substantial completion of the tenant improvements. (See occupancy Date).

Common area factor:

This is a term that defines commonly shared, public space within buildings (usually office buildings). This can include hallways, Vestibules, rest rooms, lobbies and atriums. The factor is usually described as a percentage and should be accounted for in your space allocation. For example, you may be using 1,500 usable square feet, but if the common area factor is 15 percent, then your rentable square feet is 1,725 square feet. Other buildings may be different, so be careful when comparing your effective rental rate.

Common Area Maintenance:

The cost of maintaining the exterior and/or the shared interior areas of a property may be passed through from the landlord to a tenant. These costs may include snowplowing, rubbish removal, parking lot lighting, cleaning of restrooms. Property management, taxes and other costs. It is important to identify the amount of these costs, which is included in the rent (also known as “stops”) which may increase or decrease over time

Competition: Restricts landlord's right to lease nearby space to businesses similar to those of the tenant's. This clause is usually found in leases of retail space. "No Compete" or tenant receives "exclusive right" to represent / provide a particular type of service / product in the property.

Compliance With the Federal Americans with Disabilities Act (ADA):

States that the building complies with the ADA . This is important because both the tenant and the landlord are responsible for making the property accessible to disabled persons. The tenant should make sure that the landlord makes this warranty based on an ADA survey or an audit performed by an engineer or architect. In many cases - as older properties become available - they will be required to be made to be in compliance with ADA standards. Some exceptions apply.

CORE FACTOR: A term used to denote an add on to the square footage of an office space to allow for the owner to recoup the costs associated with providing space in a building for hallways, stairwells, elevators, restrooms, break rooms, etc. If an office space is 500 SF with a core factor of 15% - the tenant pays based on a rental rate factor calculated on 575 SF.

Destruction or Condemnation:

States if the landlord is required to rebuild if the property is destroyed. This clause will specify whether the rent will be abated and whether or not the tenant can terminate the lease if the building is totally or partially destroyed. It will also specify the rights of the parties if the property is taken by eminent domain.

Discounted Cash Flow:

Discounted Cash Flows - also known as Net Present Value of Discounted Cash Flows is a valuation method which discounts future cash flows back to the present to estimate the attractiveness of an investment.

DOUBLE NET LEASE:

Tenant pays property taxes and insurance.

Effective Rent: The average per square foot rent paid by the tenant over the term of a lease. Takes into account only free rent and stepped rents. Does not include allowances, space pockets, free parking and other similar landlord concessions.

Effective Useable Area:

Excludes those areas within the Useable Space (see below) that the tenant pays rent on but effectively cannot use such as columns and sharply angled spaces.

Enforcement: Specifies how the agreement is to be enforced and who pays attorney fees. Many businesses negotiate a clause into leases requiring the parties to resolve any disputes through either mediation or arbitration.

Escalation Clause: Provides for increases in rent over a specified period of time. Most commercial leases contain escalation clauses. Ascertain how the increase is determined. Is it keyed to actual increases in the landlord's operating costs or to some outside index?

Estoppel Certificate: An instrument which itself prevents individuals from later asserting facts different from those contained in the document. Often required by the buyer of an office building. The tenant and landlord both sign the Estoppel certificate, confirming the lease and pertinent facts thereto. Thereafter, neither party may make claims to the contrary.

Expansion: Gives the tenant the right to add adjacent space or to move into a larger vacant space in the building

Expenses: Leases in the DFW area generally assume that there are six (6) different types of expenses: Roof and Structure; Taxes; Insurance; Utilities; Janitorial (excluding outside trash removal); Common Areas (utilities and general maintenance) and Electricity. Variables would be for water / sewer expenses.

Expense Stop: A fixed amount (typically per square foot) in a lease where the tenant is responsible for all building operating expenses and taxes in excess of said amount.

Extension Option: An agreed continuation of occupancy under the same conditions, as opposed to a renewal, which implies new terms or conditions. In a lease, it is a right granted by the landlord to the tenant whereby the tenant has the option to extend the lease for an ad.

Fair Market Rent: The rent which would be normally agreed upon by a willing landlord and tenant in an "arm's length transaction" for a specific property at a given

time, even though the actual rent may be different. In a lease, the term "fair market rent" is defined in a number of different ways and is subject to extensive negotiation and interpretation.

FF&E: **Furniture, Fixtures & Equipment:** Term used to denote a list of any and all "FF&E" that the seller is offering to convey to a buyer or tenant as part of a transaction. If a sale – a "Bill of Sale" might be appropriate. Such a list should typically be fairly detailed and when / where appropriate should stipulate conditions and if Seller / Landlord is offering any sort of warranty or guarantee or maintenance after the closing of the sale – or the execution of the lease or else a buyer or tenant may find a problem / discrepancy with the FF&E and expect the Seller / Landlord to be responsible for same.

Flat Lease: A lease in which payments are made at set intervals in equal amounts throughout the life of the loan.

Free Rent: A concession granted by a landlord to a tenant whereby the tenant is excused from paying rent for a stated period during the lease term.

Full Serviced Lease:

A lease in which the stated rent includes the operating expenses and taxes for the building. Same as Gross Lease. Opposite of Net Lease.

FSG: Full Service Gross - Landlord covers all base year expenses. A lease under which the tenant pays a fixed amount of rent and the owner pays all the other operational expenses related to the leased space and property including utilities. Generally for office space. May or may not include janitorial services for interior office areas.

Graduated Rental Lease:

A lease in which rent graduates (usually increases) periodically during a lease term based on changes specified in the lease. Also called step-up lease.

Grace Period: Allows the parties a period of time in which to comply with the terms of the lease. This clause may specify the period of time in which the tenant must correct or "cure" a default in the rent.

Gross: Landlord covers roof and structure, taxes, insurance and common areas. Tenant covers janitorial, utilities and outside trash removal. Increases over base year are passed through to tenant.

Gross Lease: A lease of property whereby the lessor is responsible for paying all property expenses, such as taxes, insurance, utilities and repairs. There can be a “modified” gross lease where there is an exception to the lessor paying for all of the previously mentioned items. Gross leases can also include provisions for expense increase pass-through provisions. See Expense Stop / Net Lease Note: A Gross Lease is also typically referred to as a Fixed, Flat or Full-Service Lease. It is most typically used for Office, Industrial and most apartment leases.

Gross Rent Multiplier:

The GRM is an easy rule of thumb to forecast a value. Gross rent is the total rental income you could realize from a building if it were 100% leased. To calculate the GRM, divide the gross rent into the sale price. If your projected monthly rental income is \$15,000 and your sale price is \$175,000, your GRM is $\$175,000 / \$15,000 = 11.667$. You can also make this calculation using net income, which is total possible rental income less vacancies.

Gross Up: An adjustment made to operating expenses to account for the occupancy level in a building. When operating expenses are "grossed up", it means that the building's variable expenses have been adjusted upwards to the level that those expenses would be incurred if the building was fully occupied (typically 95%).

Ground Lease: A lease for the sole use / occupancy of land only. Often times - this might be for an extended period of time - up to 99 years in some cases - to allow for commercial development and amortization of the leasehold improvements. The improvements belong to the tenant. Typically used in an area that has a shortage of highly desirable land.

Hotelling: An alternative workspace concept where rather than having an assigned exclusive workspace, an employee accesses one space, perhaps being one of many such spaces in common with others on an as needed basis, and otherwise works outside of the office.

HVAC: Heating, Ventilation, Air Conditioning. A general term encompassing any system designed to heat and cool a building in its entirety, as opposed to a space heater.

Hybrid Leases: Hybrid leases mix the features of Gross, Modified Gross leases and Net

leases. In these, some expenses are passed on 100% to the tenants while others are included in the rent on a gross or modified gross basis. For example, utilities and cleaning may be charged to the tenants on a Net basis (fully charged to the tenant), while operating expenses and taxes are handled on a Modified Gross basis (base amount included in the rent, with a pass-through of increases).

Industrial. Industrial space is usually in buildings / areas zoned for industrial uses.

Industrial Gross: A lease with the understanding that the tenant must perform its own building maintenance, do its own repairs and pay the building utilities.

Internal Rate of Return:

Often used in capital budgeting, it's the [interest rate](#) that makes net present value of all [cash flow](#) equal zero.

Insurance and Liability:

Specifies who is responsible for casualty and liability insurance and the coverage required.

Landlord and Tenant (lessor and lessee):

Identifies the parties by their full legal names, states of incorporation, and principal business addresses.

Landlord Improvements:

Specifies which improvements the landlord is to make to the premises prior to the tenant's taking possession of the property.

Landlord's Solvency:

Specifies tenant's rights if the landlord is in financial trouble and there is a foreclosure on the leased property.

Lease:

A written contract between a building owner and a tenant transferring the right to occupy a specific property and setting forth the rights of both parties to a particular property or space within a property and specifying such as rental amount, terms, conditions, etc.

Lease Interest: A property interest that arises from the association of a lease with a

property e. g., a leased fee estate or leasehold estate.

Lease Term: The specific period of time in which the Landlord grants to the tenant the right to possession of real estate.

Leasehold: The interest or estate on which a lessee (tenant) of real estate has a lease. A long term lease in this case could be used as collateral.

Leasehold Estate: An ownership interest in real estate held by a tenant during the term of a lease. The tenant is given the right to use and occupy a property for a time and based on the restrictions contained in the lease.

Lease with Option to Purchase:

A lease that gives the lessee the right to purchase the property at an agreed upon price under certain conditions at a later point in time. Note: Due to many variances involving such - TREC does not recognize these and does not provide a form. The terms of such an agreement would need to be worked out by attorneys. As licensed agents - if we were to draft such an agreement - it would be practicing law - which we can't do as we'd be in violation of TREC Rules/Regs.

Lease Rollover: The re-leasing of a space with the same tenant, after the expiration of a previous lease on the same space.

Leasehold Improvements:

Improvements or additions made to a leased property by the lessee.

Lessee (Tenant): The party to whom a lease (the right to possession) is given in return for a consideration (rent).

Lessor (Landlord): The party (usually the owner) who gives the lease (right to possession) in return for a consideration (rent).

Letter of Intent: There are potentially multiple uses of this term. Generally a written statement that two parties to a prospective transaction (buyer/seller or lessor/lessee) intend to proceed to a final agreement in good faith on stated principal business terms of the deal to be entered into. This meaning applies when executed by both parties. Alternatively such a document may be signed only by one party and is then an indication of a willingness to enter into agreement on the stated terms and conditions. To avoid legal issues regarding offer and acceptance and thus formation of a binding contract,

care should be taken to include a clause stating that there is not a specific offer and no intent to be a legally binding obligation. However, an obligation to continue to negotiate in good faith to conclusion can be created.

Load Factor: In a lease, the load factor is the multiplier to a tenant's useable space that accounts for the tenant's proportionate share of the common area (restrooms, elevator lobby, mechanical rooms, etc.). The load factor is usually expressed as a percentage and ranges from a low of 5% for a full tenant to as high as 15% for a multi-tenant floor. Subtracting one (1) from the quotient of the rentable area divided by the useable area yields the Load Factor. At times confused with the "loss factor" which is the total rentable area of the full floor less the useable area divided by the rentable area. (If a full floor broken up into multiple tenancies has a useable area of 18,000 . and a rentable area of 20,000 SF., the load factor is 11.1% and the loss factor is 10%.

Maintenance and Repairs:

Specifies which party is responsible for the maintenance and repair of which portions of the property

Master Lease: The dominant lease in a building or development that contains a sublease.

Modified Gross Leases:

This is a lease in which the rent includes building expenses like a Gross lease, but the landlord recaptures expense increases after the base year via a pass-through provision such as an operating expense, tax, or utility escalation. Some landlords use substitute escalation provisions, such as Porters' Wage escalations (NYC only) and CPI escalations. Modified Gross leases are most commonly found in multi-tenant office environments. Tenant maintenance obligations may vary greatly.

Mortgage Release Price:

A specific amount of money that must be paid to a lender so that the lien specified by the mortgage on a particular property will be released.

Net: Typically / generally - landlord covers roof and structure, taxes and insurance. Tenant covers utilities, janitorial and common areas.

Net and Gross Leases:

Net and Gross refer to whether the base rent includes operating costs. When a lease is Net, it means that the base rent being paid does not include building taxes, insurance, utilities or other operating expenses. These must be paid for separately by the tenant. On the other hand, when a lease is a Gross lease, the tenant pays a lump sum each month, and all of these additional costs are included in the rent.

The terms Net and Gross are often incorrectly used to refer to who performs building services. This is because in many Net leases, the tenant performs its own building services. For example, it is common to see space referred to as “Industrial NNN” with the understanding that the tenant must perform its own building maintenance, do its own repairs and pay the building taxes and utilities. But it is also common to find a multi-tenant office building in which the landlord performs building services and then passes 100% of the costs onto the tenants. This is a Net lease too.

Net Lease: A lease whereby, in addition to the rent stipulated, the lessee pays such expenses as taxes, insurance and maintenance. Net/Net/Net = Taxes / Insurance / Utilities & Repairs/Maintenance. There can be Net or Net-Net or Net-Net-Net leases. The term Net Lease applies to any and all leases under which a tenant pays a portion of the operating expenses. The base rent is considerably less than that for a full service lease due to the expenses that the tenant will be responsible for on an on-going basis. Commonly used for office and industrial properties.

Net-Net-Net Lease: A lease in which the tenant pays all the operating expenses including taxes, insurance and repairs/maintenance. NNN or Triple Net leases are sometimes also called Full Net Leases. Generally the NNN expenses will be estimated perhaps based on prior experience and the total annual amount will be divided into monthly installments based on the SF the tenant occupies and collected monthly along with the rent. After the end of the year - the owner will be responsible for providing a statement of income / expense for the NNN expenses and an adjustment may be in order based on actual experience.

Net Leases:

- * **DOUBLE NET LEASE:** Tenant pays property taxes and insurance.
- * **TRIPLE NET LEASE:** Tenant pays property taxes, insurance and common area maintenance.

* **QUADRUPLE NET LEASE:** Tenant pays property taxes, insurance, common area maintenance and all utilities.

Net Present Value: An approach used in capital budgeting where the present value of inflow is subtracted from the present value of cash outflows.

Office Space: Is loosely classified based on the quality of construction, features and the status of location:

Class A. Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high quality standard finishes, state of the art systems, exceptional accessibility and a definite market presence.

Class B. Buildings competing for a wide range of users with rents in the average range for the area. Building finishes are fair to good for the area and systems are adequate, but the building cannot compete with Class A at the same price.

Class C. Buildings competing for tenants requiring functional space at rents below the area average.

Percentage Lease: Under the terms of a percentage lease, rent is based on a percentage of gross sales generated on the leased site (retail tenants). The percentage charged takes various forms:

- * Straight percentage, with no minimum amount
- * Minimum plus percentage
- * Minimum or percentage, whichever is greater
- * Minimum plus percentage, with a ceiling on the total amount

Plus E: E = Electricity - In whatever type of lease - the tenant is responsible for their own electricity expense.

Plus U: Plus utilities - may include electric, water, gas, etc. typically individually metered to the property or particular space.

Property: Gives a full description of the property being leased. This description should include the suite number, street address, city, state, and zip code. It should also include the number of square feet in the space.

Proprietary Lease: In a multi-unit building, the lease a corporation provides to the stockholders

which allows them to use a specific unit under the conditions specified.

Purchase option: Gives the tenant an option to purchase the facility at the end of the lease term. This provision should specify not only the option price but also when and how the option must be exercised.

QUADRUPLE NET LEASE:

Tenant pays property taxes, insurance, common area maintenance and all utilities.

Rent: States the amount of rent and when and how the rent is to be paid. In this clause, the manner in which the rent is computed should be stated, e.g., flat rent, net-rent, percentage rent, etc.

Renewal option: States whether the tenant has the option to renew the lease when it expires, the term of the option, and the amount of rent to be paid during the renewal term.

Revaluation Lease: A lease in which rent is adjusted periodically according to the revaluation of the real estate.

Right of entry: Gives the landlord the right to enter the premises on an as-needed basis.

Sale-Leaseback: A financing technique by which the owner sells a property to an investor and subsequently rents it from the buyer for continued use. Serves to free up the capital that the original owner has invested in the property.

Second Generation Space: Space that has previously been finished out for a prior tenant. Depending on length of tenancy, use, etc. space may be in various conditions and configurations that could be suitable for lease to a new tenant with minor to major remodeling required to suit new tenant needs.

Security Deposit: States the amount of the security deposit. This provision should also state what the security deposit will be used for, where it will be held, and whether it will earn interest.

Shell Space: Shell space is space that has never been finished out – ie: new construction – office, retail, etc. Space would typically have slab, all 4 walls and ceiling. All improvements and finish out of the interior would have to be negotiated and installed to suit tenant.

Step Up Lease: A lease in which rent graduates (usually increases) periodically during a

lease term based on changes specified in the lease. See Graduated lease. Also known as Stair Step lease. Helps reduce the rent rate on the front end of a lease but increases it over the term to achieve an average rent yield that is acceptable to the landlord.

Sub-leasehold Estate: The property interest associated with a sublease. The value of the Sub-leasehold can be estimated as the present value of the difference between the market rent and the sublease rent.

Sub-Lease: Under the terms of a sublease, a tenant leases some portion of a premises to another tenant, while remaining liable to the landlord for the rent.

Subletting or assignment:

Gives the tenant the right to sublease or assign the property if the tenant cannot fill out the term of the lease or wants to rent part of its space to someone else. This clause will specify under what conditions the tenant can avail itself of this right. Under a sublet, the original tenant is still responsible for honoring the provisions in the lease. In an assignment, the original tenant is out of the picture and has no further liability under the lease.

Taxes: Specifies whether landlord or tenant is responsible for the property taxes.

Tenant Improvements:

Indicates whether the tenant has the right to make improvements to the property and the extent to which the landlord will allow such improvements.

Tenant Improvement Allowance:

An amount negotiated to allow for improvements to a particular space. The improvement allowance can be given lump sum or on periodic draws until completion of the improvements. Improvements can be performed by the tenant and/or the landlord. Whatever is negotiated and agreed upon by all parties.

Termination: Imposes an obligation on the tenant to return the property in a certain condition at the end of the lease.

Termination date of lease:

Specifies the lease's ending date.

Term of the lease: Identifies in months or years the duration of the lease. It should also state when the tenant is entitled to possession.

Triple Net Lease: A net-net-net lease, where in addition to the stipulated rent, the lessee assumes payment of all operating expenses of the property and the landlord receives a net rent. This includes both fixed expenses, such as taxes and insurance, and all operating expenses, including costs of maintenance and repair. In some cases, the NNN tenant even pays the interest payments on the lessor's mortgage on the property lease.

TRIPLE NET LEASE:

Tenant pays property taxes, insurance and common area maintenance for their portion of the property.

Turnkey Lease: Under the terms of a turnkey lease, a landlord agrees to turn the premises over to the tenant in a ready to use condition based on specifics negotiated as to any maintenance, repairs or improvements.

Use of Premises: Specifies any restrictions on the use of the premises.

Utilities and Services:

Specifies what utilities and services each party is responsible for and the days and hours provided. Water, trash, sewer, waste water, electricity, gas, CATV, telephone, etc.

Warranty: Statement by the landlord that the premises are in compliance with applicable laws.

Zoning: States the zoning laws or other restrictions that apply to the facility.

Conclusion: Because of the many different variations on these lease structures, it is highly recommended that practitioners refrain from using the terms "Gross" and "Net" in lease language. (For that matter, you should not use the terms "Double-Net" or "Triple-Net" either.) These terms can have different meanings to different people, and may be understood in one area differently from another area and there is no accepted standard as to which "Net" refers to which expense. As a rule, it is always better to spell out the actual obligations of the parties.

For assistance or more information - contact your real estate professional. Make sure he / she is a Commercial REALTOR.

Provided for you as a courtesy by Chris Rosprim, CPM / REALTOR / Broker with Scott Brown Commercial Real Estate Services. 1400 Dallas Dr., Denton, TX 76205, 940-243-4000; chris@sbpcommercial.com Serving your real estate needs throughout the north Texas area.