Commercial

Real Estate Glossary

Michael McCormick
September 5, 2012

Contents

About the Author

Michael McCormick founder of MPCS, Inc and Management Professional with 35 years of experience managing over $4 billion in projects for both the Commercial and Federal Government sectors and is a well-known project management (PM) author, consultant, and authority on the subjects of Construction Management (CM), Facility Management (FM), Business Process Management (BPM), Project Management Office (PMO) and Project Portfolio Management (PPM), Risk Management (RM), Software Development and Technology Integration.

MPCS Website: www.mccormickpcs.com

A

Abatement: Often referred to as free rent or early occupancy and may occur outside or in addition to the primary term of the lease.

Above Building Standard: Upgraded finishes and specialized designs necessary to accommodate a tenant's requirements.

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.

Absorption Rate: The rate at which rentable space is filled. Gross absorption is a measure of the total square feet leased over a specified period with no consideration given to space vacated in the same geographic area during the same time period. Net absorption is equal to the amount occupied at the end of a period minus the amount occupied at the beginning of a period and takes into consideration space vacated during the period.

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.

Additional Rent: Any amounts due under a lease that is in addition to base rent. Most common form is operating expense increases.

Ad Valorem: Meaning "according to value," this is a tax imposed on the value of property that is typically based on the local government's valuation of the property.

Adjusted Funds from Operations (AFFO): A measure of REIT performance or ability to pay dividends used by many analysts with concerns about quality of earnings as measured by funds from operations (FFO). The most common adjustment to FFO is an estimate of certain recurring capital expenditures needed to keep the property portfolio competitive in its marketplace.

Administrative Fee: Usually stated as a percentage of assets under management or as a fixed annual dollar amount.

Advances: Payments made by the servicer when the borrower fails to make a payment.

Adviser: A broker, consultant or investment banker who represents an owner in a transaction. Advisers may be paid a retainer and/or a performance fee upon the close of a financing or sales transaction.

Agency: Any relationship in which one party (agent) acts for or represents another (principal) under the authority of the latter. Agency involving real property should be in writing, such as listings, trusts, powers of attorney, etc.

Aggregation Risk: Risk associated with warehousing mortgages during the pooling process for future securitization.

COMMERCIAL REAL ESTATE GLOSSARY

Air Rights: Air rights are a type of development right in real property, referring to the empty space situated above a property. Railroad companies were the first to realize the potential of making money from their air rights. One of the first instances for a company to profit from their air rights was Grand Central Terminal in NYC. More recently, the MTA attempted to sell air rights to the NY Jets, so that they could build the West Side Stadium. The city of Los Angeles explored building a park in Hollywood that would be built above US highway 101.

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.

Alpha: A coefficient which measures risk-adjusted performance, factoring in the risk due to the specific security, rather than the overall market. A high value for alpha implies that the stock or mutual fund has performed better than would have been expected given its beta (volatility).

Alternative Workspace: Term embodies numerous concepts related to utilization of space including telecommuting, hotelling, office sharing and open office plans.

Alternative or Specialty Investments: Property types that are not considered conventional institutional-grade real estate investments. Examples include congregate care facilities, self-storage facilities, mobile homes, timber, agriculture and parking lots.

Amortization: The liquidation of a financial debt through regular periodic installment payments. For tax purposes, the periodic deduction of capitalized expenses such as organization costs.

Anchor: The tenant that serves as the predominant draw to a commercial property, usually the largest tenant in a shopping center.

Annual Percentage Rate (APR): The actual cost of borrowing money. It may be higher than the note rate because it represents full disclosure of the interest rate, loan origination fees, loan discount points and other credit costs paid to the lender.

Appraisal: An estimate of a property's fair market value that is typically based on replacement cost, discounted cash flow analysis and/or comparable sales price.

Appreciation: An increase in the value or price of an asset.

Appreciation Return: The portion of the total return generated by the change in the value of the real estate assets during the current quarter, as measured by both appraisals and sales of assets.

Arbitrage: Buying securities in one market and then selling them immediately in another market to make a profit on the price discrepancy.

As-is Condition: The acceptance by the tenant of the existing condition of the premises at the time a lease is consummated, including any physical defects.

Assessment: A fee imposed on property, usually to pay for public improvements such as water, sewers, streets, improvement districts, etc.

Asset Management: The various disciplines involved with managing real property assets from the time of investment through the time of disposition, including acquisition, management, leasing, operational/financial reporting, appraisals, audits, market review and asset disposition plans.

Asset Management Fee: A fee charged to investors based on the amount invested into real estate assets for the fund or account.

Asset Turnover: Calculated as total revenues for the trailing 12 months divided by the average total assets.

Assets under Management: The current market value of real estate assets for which a manager has investment and asset management responsibilities.

Assignee Name: The individual or entity to which the obligations of a lease, mortgage or other contract have been transferred.

Assignment: A transfer of the lessee's entire stake in the property. It is distinguishable from a sublease where the sublessee acquires something less than the lessee's entire interest.

Attorn: To agree to recognize a new owner of a property and to pay him/her rent.

Average Common Equity: Calculated by adding the common equity for the five most recent quarters and dividing by five.

Average Downtime: Expressed in months, the amount of time expected between the expiration of a lease and the commencement of a replacement lease under current market conditions.

Average Free Rent: Expressed in months, the rent abatement concession expected to be granted to a tenant as part of a lease incentive under current market conditions.

Average Occupancy: The average occupancy rate of each of the preceding 12 months.

Average Total Assets: Calculated by adding the total assets of a company for the five most recent quarters and dividing by five.

B

Balloon, or Bullet, Loan: A loan with a maturity that is shorter than the amortization period.

Balloon Risk: The risk that a borrower will not be able to make a balloon (lump sum) payment at maturity due to a lack of funding.

Bankrupt: The state of an entity that is unable to repay its debts as they become due.

Bankruptcy: Proceedings under federal statutes to relieve a debtor who is unable or unwilling to pay its debts. After addressing certain priorities and exemptions, the bankrupt entity's property and other assets are distributed by the court to creditors as full satisfaction for the debt.

Base Principal Balance: The original mortgage amount adjusted for subsequent funding and principal payments without regard to accrued interest or other unpaid debt.

Base Rent: A set amount used as a minimum rent with provisions for increasing the rent over the term of the lease.

Base Year: Actual taxes and operating expenses for a specified year, most often the year in which a lease commences.

Basis Point: 1/100 of 1 percent.

Below-grade: Any structure or portion of a structure located underground or below the surface grade of the surrounding land.

Beneficiary: An employee covered by an employee benefit plan.

Beta: A quantitative measure of the volatility of a given stock, mutual fund, or portfolio, relative to the overall market, usually the S&P 500. Specifically, the performance the stock, fund or portfolio has experienced in the last 5 years as the S&P moved 1% up or down. A beta above 1 is more volatile than the overall market, while a beta below 1 is less volatile.

Bid: An offer, stated as a price or spread, to buy whole loans or securities.

Blind Pool: A commingled fund accepting investor capital without prior specification of property assets.

BOMA: Building Owners and Managers Association. BOMA publishes the definition of rentable and useable area, which is used to determine the square footage leased in most commercial office buildings. For more about BOMA definitions, click here.

Book Value: Also referred to as common shareholder's equity, this is the total shareholder's equity as of the most recent quarterly balance sheet minus preferred stock and redeemable preferred stock.

Broker: A person who acts as an intermediary between two or more parties in connection with a transaction.

Buildable Acres: The area of land that is available to be built on after subtracting for roads, setbacks, anticipated open spaces and areas unsuitable for construction.

Building Code: The various laws set forth by the ruling municipality as to the end use of a certain piece of property. They dictate the criteria for design, materials and types of improvements allowed.

Building Standard Plus Allowance: The landlord lists, in detail, the building standard materials and costs necessary to make the premises suitable for occupancy. A negotiated allowance is then provided for the tenant to customize or upgrade materials.

Build-out: Space improvements put in place per the tenant's specifications. Takes into consideration the amount of tenant finish allowance provided for in the lease agreement.

Build-to-Suit: A method of leasing property whereby the developer/landlord builds to a tenant's specifications.

C

Call Date: Periodic or continuous rights given to the lender to cause payment of the total principal balance prior to the maturity date.

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

CAM (Buyers): CAM provisions in a lease are so complicated that even most attorneys lack the day-to-day property management expertise to draft the provisions effectively or understand them completely. That's why, when a potential purchaser is acquiring a commercial asset, it's imperative to conduct CAM reconciliations on each and every tenant as part of the financial due diligence process. That's because that is where errors are most often found between what the seller represents CAM *to be* (or what they are billing) and what CAM *ought* to be (or what they should be billing). If CAM charges *should be lower* than what the seller represents, then the buyer can go back to the seller and negotiate a reduction of the purchase price. Alternately, if CAM charges *should be higher* than is currently being billed, the buyer can increase profits upon acquisition.

CAM Obligations: Rarely, however, is calculating CAM so simple. That's because CAM provisions are replete with complicated factors such as inclusions, exclusions, floors, caps and bases – to name just a few. These provisions can and typically do vary from tenant to tenant even within a specific property. Because calculating CAM is so difficult, it is often done incorrectly. That is the reason a whole cottage industry has developed in which companies specialize in auditing a landlord's CAM calculations on behalf of a tenant, and as payment, take a percentage of the money recovered via the audit. In order for such an industry to thrive solely on a commission basis, there has to be a fair share of CAM mistakes that translate into serious

CAM Reconciliation: CAM is one of the least understood provisions within a commercial real estate lease. CAM is the aggregate of (nearly) all the expenses incurred by the Landlord in managing and operating a commercial real estate asset. That total is typically divided by the number of tenants at the property according to its pro rata share of space. To give a simple example, if a shopping center had $1 million dollars of CAM expenses in a given year and ten tenants occupied an equal share of space, each tenant would pay $100,000 in CAM charges that year.

Capital Appreciation: The change in market value of a property or portfolio adjusted for capital improvements and partial sales.

Capital Expenditures: Investment of cash or the creation of a liability to acquire or improve an asset, as distinguished from cash outflows for expense items that are considered part of normal operations.

Capital Gain: The amount by which the net proceeds from the sale of a capital item exceeds the book value of the asset.

Capital Improvements: Expenditures that arrest deterioration of property or add new improvements and appreciably prolong its life.

Capital Markets: Public and private markets where businesses or individuals can raise or borrow capital.

Capitalization: The total dollar value of various securities issued by a company.

Capitalization Rate: The rate at which net operating income is discounted to determine the value of a property. It is the net operating income divided by the sales price or value of a property expressed as a percentage.

Carrying Charges: Costs incidental to property ownership that must be absorbed by the landlord during the initial lease-up of a building and thereafter during periods of vacancy

Cash Flow: The remaining revenue after all cash expenses are paid.

Cash-on-cash Yield: The relationship, expressed as a percentage, between the net cash flow of a property and the average amount of invested capital during an operating year.

Certificate of Occupancy: A document presented by a local government agency or building department certifying that a building and/or the leased area has been satisfactorily inspected and is in a condition suitable for occupancy.

Churn: Moving people from one workspace to another within the leased premises. Usually involves relocation of furniture, phones, and the like and can be very expensive and time consuming. A high churn rate is to be avoided.

Circulation: Those areas (hallways, corridors, etc.) in an office space that are used to travel between offices, cubicles and the like.

Circulation Factor: Interior space required for internal office circulation not accounted for in the net square footage.

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 is 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.

Clear-span facility: A building, most often a warehouse or parking garage, with vertical columns on the outside edges of the structure and a clear span between columns.

Closed-end fund: A commingled fund that has a targeted range of investor capital and a finite life.

Closing: A period of time, usually less than seven days, after a registration statement is effective and the offering commences, giving the underwriters time to receive payment for the securities.

CMBS (commercial mortgage-backed securities): Securities backed by loans on commercial real estate.

CMO (collateralized mortgage obligation): Debt obligations that are collateralized by and have payments linked to a pool of mortgages.

Co-investment: Co-investment occurs when two or more pension funds or groups of funds share ownership of a real estate investment. In co-investment vehicles, relative ownership is always based on the amount of capital contributed. It also refers to an arrangement in which an investment manager or adviser co-invests its own capital alongside the investor.

Co-investment Program: An investment partnership or insurance company separate account that enables two or more pension funds to co-invest their capital in a single property or portfolio of properties. The primary appeal for investors is to achieve greater diversification or invest in larger properties typically outside the reach of small- to mid-sized tax-exempt funds, with a greater measure of control than is afforded in typical commingled fund offerings.

Collateral: Asset(s) pledged to a lender to secure repayment of a loan in case of default.

Commingled Fund: A pooled fund vehicle that enables qualified employee benefit plans to commingle their capital for the purpose of achieving professional management, greater diversification or investment positions in larger properties.

Commodity Pool Operator (CPO)
A CPO is an individual or organization which operates a commodity pool and solicits funds for that commodity pool. A commodity pool is an enterprise in which funds contributed by a number of persons are combined for the purpose of trading futures contracts, options on futures, or retail off-exchange or to invest in another commodity pool.

Common Area - Common area is the area used in common by the tenants of an office building. Common area includes building and elevator lobbies, restrooms and the corridor leading from an elevator lobby to a tenant space.

Common Area Maintenance (CAM): Rent charged to the tenant in addition to the base rent to maintain the common areas. Examples include snow removal, outdoor lighting, parking lot sweeping, insurance, property taxes, etc.

Comparables: Used to determine the fair market lease rate or asking price, based on other properties with similar characteristics.

Concessions: Cash or cash equivalents expended by the landlord in the form of rental abatement, additional tenant finish allowance, moving expenses or other monies expended to influence or persuade a tenant to sign a lease.

Condemnation: The process of taking private property, without the consent of the owner, by a governmental agency for public use through the power of eminent domain.

Conduit: An alliance between mortgage originators and an unaffiliated organization that acts as a funding source by regularly purchasing loans, usually with a goal of pooling and securitizing them.

Construction Loan: Interim financing during the developmental phase of a property.

Construction Management: The act of ensuring the various stages of the construction process are completed in a timely and seamless fashion.

Consultant: Any company or individual that provides the following services to institutional investors: definition of real estate investment policy; adviser/manager recommendations; analysis of existing real estate portfolios; monitoring of and reporting on property asset, commingled fund and portfolio performance; and review of specified property and portfolio investment opportunities. Consultants are distinguished from investment advisers or investment managers in that a consultant does not source or execute transactions and does not directly manage assets.

Consumer Price Index (CPI): Measures inflation in relation to the change in the price of goods and services purchased by a specified population during a base period of time. The CPI is commonly used to increase the base rent periodically as a means of protecting the landlord's rental stream against inflation or to provide a cushion for operating expense increases for a landlord unwilling to undertake the record-keeping necessary for operating expense escalations.

Contiguous Space: Multiple suites/spaces within the same building and on the same floor that can be combined and rented to a single tenant, or a block of space located on multiple adjoining floors in a building.

Contingent Fees: Fees to be paid only in the event of a future occurrence. Examples include: Attorneys (especially in negligence cases) paid based on winning the suit and collecting damages; and a broker's commission paid only upon closing the sale of a piece of property.

Contract Documents: The complete set of design plans and specifications for the construction of a building.

Contract Rent: The rental obligation, expressed in dollars, as specified in a lease. Also known as face rent.

Convertible Debt: A mortgage position that gives the lender the option to convert to a partial or full ownership position in a property within a specified time period.

Convertible Preferred Stock: Preferred stock that is convertible to common stock under certain formulas and conditions specified by the issuer of the stock.

Conveyance: Most commonly refers to the transfer of title to property between parties by deed. The term may also include most of the instruments with which an interest in real estate is created, mortgaged or assigned.

Core properties: The major property types - specifically office, retail, industrial and multifamily. Core assets tend to be built within the past five years or recently renovated. They are substantially leased (90 percent or better) with higher-credit tenants and well-structured long-term leases with the majority fairly early in the term of the lease. Core assets generate good, stable income that, together with potential appreciation, is expected to generate total returns in the 10 percent to 12 percent range.

Cost-approach Improvement Value: The current cost to construct a reproduction of, or replacement for, the existing structure less an estimate for accrued depreciation.

Cost-approach Land Value: The estimated value of the fee simple interest in the land as if vacant and available for development to its highest and best use.

Cost-of-sale Percentage: An estimate of the costs to sell an investment representing brokerage commissions, closing costs, fees and other necessary disposition expenses.

Coupon: The nominal interest rate charged to the borrower on a promissory note or mortgage.

Covenant: A written agreement inserted into deeds or other legal instruments stipulating performance or non-performance of certain acts, or use or non-use of a property and/or land.

Credit Enhancement: The credit support needed in addition to the mortgage collateral to achieve a desired credit rating on mortgage-backed securities. The forms of credit enhancement most often employed are subordination, over-collateralization, reserve funds, corporate guarantees and letters of credit.

Cross-collateralization: A grouping of mortgages or properties that serves to jointly secure one debt obligation.

Cross-defaulting: Allows the trustee to call all loans in a group into default when any single loan is in default.

Cumulative Discount Rate: Expressed as a percentage of base rent, it is the interest rate used in finding present values that takes into account all of the landlord lease concessions.

Current Occupancy: The current leased portion of a building or property expressed as a percentage of its total area or units.

Current Yield: For CMBS, the coupon divided by the price.

D

Deal Structure: With regard to the financing of an acquisition, deals can be unleveraged, leveraged, traditional debt, participating debt, participating/convertible debt or joint ventures.

Debt Service: The outlay necessary to meet all interest and principal payments during a given period.

Debt Service Coverage Ratio (DSCR): The annual net operating income from a property divided by annual cost of debt service. A DSCR below 1 means the property is generating insufficient cash flow to cover debt payments.

Dedicate: To appropriate private property to public ownership for a public use.

Deed: A legal instrument transferring title to real property from the seller to the buyer upon the sale of such property.

Deed in lieu of Foreclosure: A deed given by an owner/borrower to a lender to satisfy a mortgage debt and avoid foreclosure.

Deed of Trust: An instrument used in place of a mortgage by which real property is transferred to a trustee to secure repayment of a debt.

Default: The general failure to perform a legal or contractual duty or to discharge an obligation when due.

Deferred Maintenance Account: An account a borrower is required to fund that provides for maintenance of a property.

Deficiency Judgment: Imposition of personal liability on a borrower for the unpaid balance of mortgage debt after a foreclosure has failed to yield the full amount of the debt.

Defined-benefit Plan: An employee's benefits are defined, either as a fixed amount or a percentage of the beneficiary's salary at the time of retirement. Pension plans, Health and Welfare plans, and some Keogh plans are established as defined benefit plans.

Defined-contribution Plan: An employee's benefits at retirement are determined by the amount contributed by the employer and/or the employee during his or her employment tenure, and by the actual investment earnings on those contributions over the life of the fund. Examples include 401(k), thrift plans and profit sharing plans.

Demised Area: The walled off and secured area of a leased space, separated from spaces leased to others (by a "demising" wall). Also measured as useable area. **Discount Rate** - The rate of interest used in a present value analysis representing the "time value of money".

Demising Wall: The partition wall that separates one tenant's space from another or from the building's common areas.

Depreciation: A decrease or loss in property value due to wear, age or other cause. In accounting, depreciation is a periodic allowance made for this real or implied loss.

Derivative Securities: Securities that are created artificially, i.e., derived from other financial instruments. In the context of CMBS, the most common derivative security is the interest-only strip.

Design/build: A system in which a single entity is responsible for both the design and construction.

Discount rate: A yield rate used to convert future payments or receipts into present value.

Discretion: The level of authority granted to an adviser or manager over the investment and management of a client's capital. A fully discretionary account typically is defined as one in which the adviser or manager has total ability to invest and manage a client's capital without prior approval of the client.

Distraint: The act of seizing personal property of a tenant in default based on the right and interest a landlord has in the property.

Diversification: The process of consummating individual investments in a manner that insulates a portfolio against the risk of reduced yield or capital loss, accomplished by allocating individual investments among a variety of asset types, each with different characteristics.

Dividend: Cash or stock distribution paid to holders of common stock. REITs must pay at least 90 percent of their taxable income in the form of dividends.

Dividend Yield: The annual dividend rate for a security expressed as a percent of its market price (annual dividend/price = yield).

Ex-Dividend Date: The first date on which a person purchasing the stock is no longer eligible to receive the most recently announced dividend.

Dollar Stop: An agreed dollar amount of taxes and operating expense each tenant will pay on a prorated basis.

DOWNREIT: An organizational structure that makes it possible for REITs to buy properties using partnership units. The effect is the same as an UPREIT, however, the DOWNREIT is subordinate to the REIT itself, hence the name.

Due Diligence: Activities carried out by a prospective purchaser or mortgager of real property to confirm that the property is as represented by the seller and is not subject to environmental or other problems. In the case of an IPO registration statement, due diligence is a reasonable investigation by the parties involved to confirm that all the statements within the document are true and that no material facts are omitted.

Due on sale: A covenant that makes a mortgage due if the property is sold before the maturity date.

E

Earnest Money: The monetary advance of part of the purchase price to indicate the intention and ability of the buyer to carry out the contract.

Easement: A right created by grant, reservation, agreement, prescription or necessary implication to use someone else's property.

Economic Feasibility: The feasibility of a building or project in terms of costs and revenue, with excess revenue establishing the degree of viability.

Economic Rent: The market rental value of a property at a given point in time.

Effective Date: The date on which a registration statement becomes effective and the sale of securities can commence.

Effective Gross Income (EGI): The total income from a property generated by rents and other sources, less a vacancy factor estimated to be appropriate for the property. EGI is expressed as collected income before expenses and debt service.

Effective Gross Rent (EGR): The net rent generated, after adjusting for tenant improvements and other capital costs, lease commissions and other sales expenses.

Effective Rent: The actual rental rate to be achieved by the landlord after deducting the value of concessions from the base rental rate paid by a tenant, usually expressed as an average rate over the term of the lease.

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.

Electronic Authentication: Any of several methods used to provide proof that a particular document received electronically is genuine, has arrived unaltered and came from the source indicated.

Eminent Domain: A power to acquire by condemnation private property for public use in return for just compensation.

Encroachment: The intrusion of a structure that extends, without permission, over a property line, easement boundary or building setback line.

Encumbrance: A right to, or interest in, real property held by someone other than the owner that does not prevent the transfer of fee title.

Environmental Impact Statement: Documents required by federal and state laws to accompany proposals for major projects and programs that will likely have an impact on the surrounding environment.

Equivalent Level Rate (ELR): The ELR is the flat rate per square foot that, if paid each year in nominal dollars, will equal the same total present value as a proposed lease's variable cash flows. The ELR is calculated by discounting all cash flows to a net present value per square foot and then amortizing this lump sum amount evenly over the term of the lease on a cost per square foot basis.

Equity: The residual value of a property beyond mortgage or liability.

ERISA (Employee Retirement Income Security Act): Legislation passed in 1974 and administered by the Department of Labor that controls the investment activities primarily of corporate and union pension plans. More public pension funds are adopting ERISA-like standards.

Equivalent Level Rate (ELR): The ELR is the flat rate per square foot that, if paid each year in nominal dollars, will equal the same total present value as a proposed lease's variable cash flows. The ELR is calculated by discounting all cash flows to a net present value per square foot and then amortizing this lump sum amount evenly over the term of the lease on a cost per square foot basis.

Escalation Clause: A clause in a lease providing for an increased rental at a future time. May be accomplished by several types of clauses, such as: (1) fixed increases -- a clause which calls for a definite, periodic rental increase; (2) cost of living -- a clause which ties the rent to a government cost of living index, with periodic adjustments as the index changes; (3) direct expense -- the rent adjusted according to changes in the expenses of the property paid by the lessor, such as tax increases, increased maintenance costs, etc.

Escrow Agreement: A written agreement made between an escrow agent and the parties to a contract setting forth the basic obligations of the parties, describing the money (or other things of value) to be deposited in escrow, and instructing the escrow agent concerning the disposition of the monies deposited.

Estoppel Certificate: A signed statement certifying that certain statements of fact are correct as of the date of the statement and can be relied upon by a third party, including a prospective lender or purchaser.

Expansion Option: A right granted by the landlord to the tenant whereby the tenant has the option(s) to add more space to its premises pursuant to the terms of the option(s).

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 add.

Exclusive Agency Listing: A written agreement between a real estate broker and a property owner in which the owner promises to pay a fee or commission to the broker if specified real property is leased during the listing period.

Exit Strategy: Strategy available to investors when they desire to liquidate all or part of their investment.

F

Face Rental Rate: The asking rental rate published by the landlord.

Facility Space: The floor area in hospitality properties dedicated to operating departments such as restaurants, health clubs and gift shops that service multiple guests or the general public on an interactive basis not directly related to room occupancy.

FAD (funds available for distribution): Funds from operations less deductions for cash expenditures for leasing commissions and tenant improvement costs.

FAD Multiple: Share price of a REIT divided by its funds available for distribution.

Fair Market Value: The sale price at which a property would change hands between a willing buyer and willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of the relevant facts.

Fannie Mae (FNMA): The Federal National Mortgage Association - A quasi-governmental corporation authorized to sell debentures in order to supplement private mortgage funds by buying and selling FHA (Federal Housing Administration) and VA (Veterans Affairs) loans at market prices.

Fee Simple Interest: When an owners owns all the rights in a real estate parcel.

FFO (funds from operations): A ratio intended to highlight the amount of cash generated by a company's real estate portfolio relative to its total operating cash flow. FFO is equal to net income, excluding gains (or losses) from debt restructuring and sales of property, plus depreciation and amortization.

FFO Multiple: Share price of a REIT divided by its funds from operations.

Fiduciary: The Employee Retirement Income Security Act (ERISA) defines a fiduciary as any person who exercises any discretionary authority or control over a plan's asset management, administration or disposition, or renders investment advice for a fee or other compensation with respect to a plan's assets. Fiduciaries may include staff, trustees, investment board members, administrators, consultants, actuaries and investment managers. ERISA permits civil action to be brought by a beneficiary against any fiduciary that has breached its fiduciary duty. Fiduciaries can be held personally liable for any losses to a plan resulting from such breach.

Finance Charge: The amount paid for the privilege of deferring payment of goods or services purchased, including any charges payable by the purchaser as a condition of the loan.

First Mortgage: The senior mortgage that, by reason of its position, has priority over all junior encumbrances. The holder has a priority right to payment in the event of default.

First Right of Refusal: A lease clause giving a tenant the first opportunity to buy a property or lease additional space in a property at the same price and on the same terms and conditions as those contained in a third-party offer that the owner has expressed a willingness to accept.

First-generation Space: Generally refers to new space that is currently available for lease and has never before been occupied by a tenant.

First-loss Position: The position in a security that will suffer the first economic loss if the underlying assets lose value or are foreclosed on. The first-loss position carries a higher risk and a higher yield.

Fixed Costs: Costs that do not fluctuate in proportion to the level of sales or production.

Fixed Rate: An interest rate that remains constant over the term of the loan.

Flat Fee: A fee paid to an adviser or manager for managing a portfolio of real estate assets, typically stated as a flat percentage of gross asset value, net asset value or invested capital.

Flex Space: A building that provides a configuration allowing occupants a flexible amount of office or showroom space in combination with manufacturing, laboratory, warehouse, distribution, etc.

Float: The number of freely traded shares in the hands of the public.

Floor Area Ratio (FAR): The ratio of the gross square footage of a building to the square footage of the land on which it is situated.

Force Majeure: A force that cannot be controlled by the parties to a contract and prevents them from complying with the provisions of the contract. This includes acts of God such as a flood or a hurricane, or acts of man such as a strike, fire or war.

Foreclosure: The process by which the trustee or servicer takes over a property from a borrower on behalf of the lender.

Forward Commitments: Contractual obligations to perform certain financing activities upon the satisfaction of any stated conditions. Usually used to describe a lender's obligation to fund a mortgage.

Four Quadrants of the Real Estate Capital Markets:

- Private equity - Direct real estate investments acquired privately.
- Public equity - REITs and other publicly traded real estate operating companies.
- Private debt - Whole loan mortgages.
- Public debt - Commercial mortgage-backed securities and other securitized forms of whole loan mortgage interests.

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.

Freddie Mac (FHLMC): Federal Home Loan Mortgage Corp. - a corporation established by the Federal Home Loan Bank to issue mortgage-backed securities.

Full Recourse: A loan on which an endorser or guarantor is liable in the event of default by the borrower.

Full-service Rent: An all-inclusive rental rate that includes operating expenses and real estate taxes for the first year. The tenant is generally still responsible for any increase in operating expenses over the base year amount.

Fully 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.

Future Proposed Space: Space in a proposed commercial development that is not yet under construction or where no construction start date has been set. It also may refer to the future phases of a multi-phase project not yet built.

G

General Contractor: The prime contractor who contracts for the construction of an entire building or project, rather than just a portion of the work. The general contractor hires subcontractors, coordinates all work and is responsible for payment to subcontractors.

General Partner: A member of a partnership who has authority to bind the partnership and shares in the profits and losses of the partnership.

Going-in Capitalization Rate: The capitalization rate computed by dividing the projected first year's net operating income by the value of the property.

Graduated Lease: A lease, generally long-term in nature, in which rent varies depending upon future contingencies.

Grant: To bestow or transfer an interest in real property by deed or other instrument.

Grantee: One to whom a grant is made.

Grantor: The person making the grant.

Gross Building Area: The sum of areas at each floor level, including basements, mezzanines and penthouses included within the principal outside faces of the exterior walls and neglecting architectural setbacks or projections.

Gross Investment in Real Estate (historic cost): The total amount of equity and debt invested in real estate investments, including the gross purchase price, all acquisition fees and costs, plus subsequent capital improvements, less proceeds from sales and partial sales.

Gross Leasable Area: The portion of total floor area designed for tenants' occupancy and exclusive use, including storage areas. It is the total area that produces rental income.

Gross Lease: A lease in which the tenant pays a flat sum for rent out of which the landlord must pay all expenses such as taxes, insurance, maintenance, utilities, etc.

Gross Real Estate Asset Value: The market value of the total real estate investments under management in a fund or individual accounts. It typically includes the total value of all equity positions, debt positions and joint venture ownership positions, including the amount of any mortgages or notes payable related to those assets.

Gross Real Estate Investment Value: The market value of real estate investments held in a portfolio without regard to debt, equal to the total of real estate investments as shown on a statement of assets and liabilities on a market-value basis.

Gross Returns: Returns generated from the operation of real estate without dilution for adviser or manager fees.

Ground Rent: Rent paid to the owner for use of land, normally on which to build a building. Generally, the arrangement is that of a long-term lease (e.g. 99 years) with the lessor retaining title to the land.

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 of land only, (either vacant or exclusive of any buildings on it). Usually a net lease on a long term basis (30 years+). Ground rent should not be charged back to the tenant as an operating expense.

Guarantor: One who makes a guaranty.

Guaranty: Agreement whereby the guarantor assures satisfaction of the debt of another or performs the obligation of another if and when the debtor fails to do so.

H

Hard Cost: The cost of actually constructing property improvements.

High-rise: In the central business district, this could mean a building higher than 25 stories above ground level, but in suburban markets, it generally refers to buildings higher than seven or eight stories.

Highest and Best Use: The reasonably probable and legal use of vacant land or an improved property that is physically possible, appropriately supported, financially feasible and that results in the highest value.

Holdbacks: A portion of a loan commitment that is not funded until an additional requirement is met, such as completion of construction.

Holding Period: The length of time an investor expects to own a property from purchase to sale.

Hold-over Tenant: A tenant retaining possession of the leased premises after the expiration of a lease.

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 Debt: A mortgage position with equity-like participation features in both cash flow and the appreciation of the property at the time of sale or refinance.

I

Implied Cap Rate: Net operating income divided by the sum of a REIT's equity market capitalization and its total outstanding debt.

Improvements: In the context of leasing, the term typically refers to the improvements made to or inside a building but may include any permanent structure or other development, such as a street, sidewalk, utilities, etc.

Incentive Fee: Applies to fee structures where the amount of the fee that is charged is determined by the performance of the real estate assets under management.

Income Capitalization Value: The indication of value derived for an income-producing property by converting its anticipated benefits into property value through direct capitalization of expected income or by discounting the annual cash flows for the holding period at a specified yield rate.

Income Property: Real estate that is owned or operated to produce revenue.

Income Return: The percentage of the total return that is generated by the income from operations of a property, fund or account.

Indirect Costs: Development costs other than direct material and labor costs that are directly related to the construction of improvements, including administrative and office expenses, commissions, architectural, engineering and financing costs.

Individual Account Management: Accounts established for individual plan sponsors or other investors for investment in real estate, where a firm acts as an adviser in acquiring and/or managing a direct real estate portfolio.

Inflation: The annual rate at which consumer prices increase.

Inflation Hedge: An investment that tends to increase in value at a rate greater than inflation and helps contribute to the preservation of the purchasing power of a portfolio.

Initial Public Offering (IPO): The first time a private company offers securities for sale to the public.

Institutional-grade Property: Various types of real estate properties generally owned or financed by tax-exempt institutional investors. Core investments typically include office, retail, industrial and apartments. Specialty investments include hotels, congregate care facilities, land beneath existing improvements, vacant land, mixed-use properties (i.e., a property containing at least two property types) and mobile home parks.

Insurance Company Separate Account: A real estate investment vehicle that may only be offered by life insurance companies. This ownership arrangement enables an ERISA-governed fund to avoid the creation of unrelated taxable income for certain types of property investments and investment structures.

Interest: The price paid for the use of capital.

Interest-only Strip: A derivative security consisting of all or part of the interest portion of the underlying loan or security.

Internal Rate of Return (IRR): A discounted cash-flow analysis calculation used to determine the potential total return of a real estate asset during an anticipated holding period.

Inventory: All space within a certain proscribed market without regard to its availability or condition.

Investment Committee: The governing body overseeing corporate pension investments. Also, the subcommittee of a board of trustees charged with developing investment policy for board approval.

Investment Manager: Any company or individual that assumes discretion over a specified amount of real estate capital, invests that capital in assets via a separate account, co-investment program or commingled fund, and provides asset management.

Investment Policy: A document that formalizes an institution's guidelines for investment and asset management. An investment policy typically will contain goals and objectives; core and specialty investment criteria and methodology; and guidelines for asset management, investment advisory contracting, fees and utilization of consultants and other outside professionals.

Investment Strategy: The investment parameters used by the manager in structuring the portfolio and selecting the real estate assets for a fund or account. This includes a description of the types, locations and sizes of properties to be considered, the ownership positions that will be used, and the stages of the investment lifecycle.

Investment Structures: Unleveraged acquisitions, leveraged acquisitions, traditional debt, participating debt, convertible debt, triple-net leases and joint ventures.

Investment-grade CMBS: Commercial mortgage-backed securities with ratings of "AAA," "AA," "A" or "BBB".

Investor Status: In reporting to clients and consultants, all investors are divided into two categories: taxable and tax-exempt. The tax-exempt category includes all qualified pension and retirement accounts. The taxable category includes all other accounts under management, including off-shore capital.

J

Joint Venture: An investment entity formed by one or more entities to acquire or develop and manage real property and/or other assets.

Judgment: The final decision of a court resolving a dispute and determining the rights and obligations of the parties. Money judgments, when recorded, become a lien on real property of the defendant.

Judgment Lien: An encumbrance that arises by law when a judgment for the recovery of money attaches to the debtor’s real estate. See also "Lien".

Just Compensation: Compensation which is fair to both the owner and the public when property is taken for public use through condemnation (eminent domain). The theory is that in order to be “just”, the property owner should be no richer or poorer than before the taking.

L

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

Landlord's Market: Describes a situation in which there is a minimum or limited amount of vacant office space available and many users are looking for office space. When this situation occurs, Landlords can raise rental rates and offer few, if any, concessions or allowances and still have little problem in leasing office space. See also Tenant's Market.

Landlord Representation: A real estate broker or agent who works on behalf of a Landlord. Typically the Landlord-to-agent relationship is established by an exclusive listing agreement and is for a particular building or property. The term "Landlord representative" or "Landlord broker" is used to describe the relationship between the Landlord and the individual agent providing the service to the Landlord. Some organizations specialize in Landlord representation.

Landlord's Warrant: A warrant from a landlord to levy upon a tenant's personal property (e.g., furniture, etc.) and to sell this property at a public sale to compel payment of the rent or the observance of some other stipulation in the lease.

Layout: Also known as a space plan or schematic created by a space planner/architect to show locations of the improvements and utilization of a space by a Tenant.

Layout Efficiency: The ability of the usable area to meet a Tenant's workflow requirements. Efficiency is usually dictated by the building shape, core location, floor size, corridors, etc.

Lead Manager: The investment banking firm that handles the principal responsibilities for coordinating the new issuance of securities.

Lease: An agreement whereby the owner of real property gives the right of possession to another for a specified period of time and for a specified consideration.

Lease Abstract: A lease abstract is a summary of the key financial, business and legal information that exists in a commercial real estate lease. It should bring to the reader's attention any unusual lease provisions, financial obligations or other issues of import. The key to a valuable lease abstract is to keep things short and simple.

Lease Abstract Audit: Generally, leases should be abstracted at certain times before and during ownership of the property, including:

- Whenever a new lease is executed
- Whenever a lease is modified in some respect
- Prior to the acquisition of commercial real estate
- Prior to the merger or acquisition of a company that has a portfolio of lease assets
- Whenever a company acquires or contemplates acquiring a portfolio of leases
- Whenever a property changes current management
- Whenever ownership converts to a new property management software system
- Whenever lease files are not adequately organized
- Whenever a real estate company does not have complete confidence in the accuracy and validity of its lease data
- Immediately, if lease abstracts had not previously been created or recently updated.

Lease Abstract List (Standard): Standard Scope: A Standard Scope Abstract is designed to provide a snapshot of the most commonly referenced lease provisions. This Standard Scope Abstract compiles the following lease provisions but does not include the provisions that are grayed out.

Basic Information
- Landlord
- Tenant
- Sublease
- Property Address
- Floor#
- Suite#
- Rentable Square Feet
- Pro Rata Share
- Business Hours*

Term
- Lease Commencement Date
- Rent Commencement Date
- Lease Expiration Date
- Term
- Holdover

Rent
- Base Rent
- Renewal Rent
- Other Rent (storage/parking)
- Rent Abatement
- Security Deposit
- Late Fee
- Interest

Percentage Rent
- Gross Sales - Inclusions*
- Gross Sales - Exclusions*
- Breakpoints*
- Sales Reporting*
- Landlord Audit Rights

Additional Rent
- CAM/Operating Expenses
- Real Estate Taxes
- Base Year/Expense Stop
- Gross Up
- Landlord’s Insurance
- Utilities-Premises
- Marketing Fund*
- Tenant Audit Rights
- After Hours HVAC
- Landlord Services

- Repairs/Maintenance

Tenant Options

- Renewal
- Expansion
- Contraction
- Right of First Refusal
- Right of Offer
- Termination
- Relocation
- Purchase

Landlord Options

- Termination
- Relocation

Use/Restrictions

- Permitted Use*
- Prohibited Use
- Exclusive Use
- Tenant Radius Restrictions
- Continuous Operation/Go Dark*
- Co-Tenancy*
- Landlord Restrictions*

Legal/Financial

- Assignment and Subletting
- Subordination/SNDA
- Default
- Estoppel Certificate
- Landlord Notices
- Tenant Notices

Miscellaneous

- Tenant's Insurance
- Tenant Improvements
- Alterations
- Casualty
- Condemnation
- Signage
- Parking
- Merchants Association*
- Environmental Provisions

Additional Information

- Guarantor
- Brokers
- Additional Documents
- Abstractor Notes
- Missing/Conflicting Info

Recovery Detail

- Pro Rata Share
- CAM/Operating

- Expenses Preamble
- Gross Up
- Caps
- Base Year/Expense Stop
- Reconciliation Statement
- Tenant Audit Rights

Common Areas

- CAM Repairs
- Landscape Maintenance
- Snow Removal
- Structural Repairs
- Roof Repairs
- Roof Replacements
- Parking Lot Maintenance
- Parking Lot Replacements
- Janitorial
- Security
- ADA Upgrades
- Real Estate Taxes

Insurance

- Liability
- Umbrella
- Property
- Earthquake
- Flood
- Workers Comp.
- Employer’s Liability
- Business Insurance
- Other

Utilities

- Electric
- Gas
- Water
- Major Replacements/Capital Improvements
- Management Fee
- Admin Fee
- Employee Wages
- Marketing Fund
- Reserves
- Amortization on Expenses

Premises

- HVAC
- After Hours Utilities/HVAC
- Janitorial
- Interior Maintenance
- Exterior Maintenance

- ADA Upgrades
- Electric
- Gas
- Water
- Admin Fee
- Landlord Services

Lease Agreement: The formal legal document entered into between a landlord and a tenant to reflect the terms of the negotiations between them.

Lease Buy-out: A cash inducement offered by a Landlord or Tenant to cancel or terminate the remaining portion of a lease.

Lease Clause: A paragraph or provision describing mutual agreement, business principles, performance criteria, or other arrangements, the sum of which make up a lease document.

Lease Commencement Date: The date usually constitutes the commencement of the term of the lease, whether or not the tenant has actually taken possession, so long as beneficial occupancy is possible.

Lease Expiration Exposure Schedule: A listing of the total square footage of all current leases that expire in each of the next five years, without regard to renewal options.

Leasehold Improvements: The construction, fixtures, attachments, and any and all physical changes and additions made to leased premises whether made by the Tenant (with or without the Landlord's permission) or on the Tenant's behalf by the Landlord or a representative (e.g., subcontractor) of the Tenant.

Leasehold Interest: The right to hold or use property for a fixed period of time at a given price, without transfer of ownership.

Lease Term: The length of time a lease is in full force and effect. It is determined by a lease commencement date, lease expiration date, and/or the number of months or years the lease document shall be valid. If a lease commencement date changes from that originally specified in a lease (for example, if the Landlord is unable to complete office remodeling or construction), the time period specified by the lease term will remain the same starting on the new lease commencement date.

Lease Year: Any period of 12 consecutive months, starting from the first day of a month. The first day is either the lease commencement date or the first day of the month immediately following the lease commencement date.

Leasing Agent: The term for individuals who specialize in leasing commercial real estate including office, retail and industrial space. A leasing agent must work for a principal broker and be licenses. The general license for all real estate individuals is the salesperson's license. Because this individual acts on behalf of another to locate and negotiate for office space, the term "leasing broker" or just "broker" is synonymous with "leasing agent." In this context the term "broker" is being used in the definitional rather than the legalistic sense.

Leasing Depth: The distance from a building's exterior perimeter line to the public corridor.

Legal Description: A geographical description identifying a parcel by government survey, metes and bounds, or lot numbers of a recorded plat including a description of any portion that is subject to an easement or reservation.

Legal Owner: The legal owner has title to the property, although the title may actually carry no rights to the property other than as a lien.

Lessee (Tenant): The individual or entity paying rent for, utilizing, and/or taking possession of office space.

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

Letter of Credit: A commitment by a bank or other person that the issuer will honor drafts or other demands for payment upon full compliance with the conditions specified in the letter of credit. Letters of credit are often used in place of cash deposited with the landlord in satisfying the security deposit provisions of a lease.

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.

Letter of Representation: A written agreement between a Tenant and a broker stating that the broker (or his or her representatives) will be the only agents working on behalf of the Tenant to locate and negotiate for office space. The letter of representation provides credibility for both the Tenant and the broker in the marketplace and establishes a fiduciary relationship between the broker and the Tenant. This relationship is disclosed to each Landlord that might have office space to meet the Tenant's needs.

Leverage: The use of credit to finance a portion of the costs of purchasing or developing a real estate investment. Positive leverage occurs when the interest rate is lower than the capitalization rate or projected internal rate of return. Negative leverage occurs when the current return on equity is diminished by the employment of debt.

Liability of Landlord Provision: A lease clause severely limiting the Landlord's liability for use of the building and office space by Tenants, guests, employees, visitors, etc.

Lien: The right, by law, of an individual or entity to place a claim or hold on the property of another individual or entity in order to secure payment of a debt. Certain liens permit the taking and selling of the debtor's property to satisfy the obligation to the creditor and/or payment of the debt. In other instances, a lien is registered against the property, and such lien must be satisfied before the property can be sold or transferred.

Lien Waiver: Waiver of a mechanic's lien rights that is often required before the general contractor can receive a draw under the payment provisions of a construction contract. It may also be required before the owner can receive a draw on a construction loan.

Lifecycle: The various developmental stages of a property: pre-development, development, leasing, operating and redevelopment (or rehab).

Like-kind Property: A term used in an exchange of property held for productive use in a trade or business or for investment. Unless cash is received, the tax consequences of the exchange are postponed pursuant to Section 1031 of the Internal Revenue Code.

Limited Partnership: A type of partnership comprised of one or more general partners who manage the business and are personally liable for partnership debts, and one or more limited partners who contribute capital and share in profits but who take no part in running the business and incur no liability above the amount contributed.

Lis Pendens - The record of notice that a legal action or suit has been filed that will potentially affect the title of a particular piece of property. This document is attached to a property's title and will usually prevent the property from being sold until a court action or suit is settled.

Liquidity: The ease with which assets can be converted to cash without loss in value.

Listing Agent - The real estate agent hired by the property owner to lease a property on their behalf. The agent obtains a listing agreement, which calls for that agent to act on the owner's behalf as a fiduciary in leasing the property.

Listing Agreement: An agreement between the owner of a property and a real estate broker giving the broker authorization to attempt to sell or lease the property at a certain price and terms in return for a commission, set fee or other form of compensation.

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 are 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 SF. and a rentable area of 20,000 SF., the load factor is 11.1% and the loss factor is 10%.

Loan-to-Value Ratio (LTV): The ratio of the value of the loan principal divided by the property's appraised value.

Lock-box Structure: A structure whereby the rental or debt-service payments are sent directly from the tenant or mortgagor to the trustee.

Lockout: The period during which a loan may not be prepaid.

Long-term Lease: In most markets, this refers to a lease whose term is at least three years from initial signing to the date of expiration or renewal.

Loss Severity: The percentage of principal lost when a loan is foreclosed.

Lot: Generally one of several contiguous parcels of land making up a fractional part or subdivision of a block, the boundaries of which are shown on recorded maps and plats.

Low-rise: A building with fewer than four stories above ground level.

Lump-sum Contract: A type of construction contract requiring the general contractor to complete a building or project for a fixed cost normally established by competitive bidding. The contractor absorbs any loss or retains any profit.

M

Magic Page: Included in the offering prospectus, the magic page is a projected growth story, describing how a new REIT will accomplish its future expectations for funds from operations or funds available for distribution.

Maker: One who creates or executes a promissory note and promises to pay the note when it becomes due.

Mark to Market: The process of increasing or decreasing the original investment cost or value of a property asset or portfolio to a level estimated to be the current market value

Market Capitalization: One measure of the value of a company; it is calculated by multiplying the current share price by the current number of shares outstanding.

Market Rent - The current rental rates paid by Tenants for like use (office space) in buildings of comparable size with similar qualities of construction and building amenities, and comparable surrounding neighborhood characteristics and environment. This term is often used in renewal clauses as the rent that will be paid if lease renewal occurs. Market rent is usually determined by an appraisal method.

Market Study: A forecast of future demand for a certain type of real estate project that includes an estimate of the square footage that can be absorbed and the rents that can be charged.

Market Value: The highest price a property would command in a competitive and open market under all conditions requisite to a fair sale.

Marketable Title: A title free from encumbrances that could be readily marketed to a willing purchaser.

Master Lease: A lease controlling subsequent leases. May cover more property than subsequent leases. For example: "A" leases an office building, containing ten offices, to "B". "B" subsequently subleases the ten offices individually. The ten subleases from "B" as sublessor are controlled by the lease from "A" to "B" (master lease).

Master Servicer: An institution that acts on behalf of a trustee for the benefit of security holders in collecting funds from a borrower, advancing funds in the event of delinquencies and, in the event of default, taking a property through foreclosure.

Maturity Date: The date when the total principal balance comes due.

Mechanic's Lien: A claim created for the purpose of securing priority of payment of the price and value of work performed and materials furnished in constructing, repairing or improving a building or other structure.

Meeting Space: In hotels, space made available to the public to rent for meeting, conference or banquet uses.

Metes and Bounds: The boundary lines of land described by listing the compass directions and distances of the boundaries. Originally, metes referred to distance and bounds referred to direction.

Mezzanine Financing: Mezzanine financing is somewhere between equity and debt. It is that piece of the capital structure that has senior debt above it and equity below it. There is both equity and debt mezzanine financing, and it can be done at the asset or company level, or it could be unrated tranches of CMBS. Returns are generally in the mid- to high-teens.

Mid-rise: A building with four to eight stories above ground level. In a central business district this might extend to buildings up to 25 stories.

Mixed-use: Space within a building or project providing for more than one use.

Modern Portfolio Theory (MPT): An approach to quantifying risk and return in a portfolio of assets. Developed in 1959 by Harry Markowitz, MPT is the foundation for present-day principles of investment diversification. It emphasizes the portfolio rather than individual assets, and how assets perform in relation to each other based on the assumption that investors can benefit from diversification when asset class returns do not move in lock step with one another. Overall, investment strategy that seeks to construct an optimal portfolio by considering the relationship between risk and return, especially as measured by alpha, beta, and R-squared. This theory recommends that the risk of a particular stock should not be looked at on a standalone basis, but rather in relation to how that particular stock's price varies in relation to the variation in price of the market portfolio. The theory goes on to state that given an investor's preferred level of risk, a particular portfolio can be constructed that maximizes expected return for that level of risk also called modern investment theory.

Mortgage: A legal document by which real property is pledged as security for repayment of a loan until the debt is repaid in full.

Mortgage constant: The ratio of an amortizing mortgage payment to the outstanding mortgage balance.

Moving Allowance - An offer by a Landlord to pay all or part of a Tenant's moving costs; can be a lump cash sum or an allowance stated in dollars per square foot.

N

NAREIT (National Association of Real Estate Investment Trusts): The national, not-for-profit trade organization that represents the real estate investment trust industry.

NCREIF (National Council of Real Estate Investment Fiduciaries): An association of real estate professionals who serve on working committees, sponsor research articles, seminars and symposiums, and produce the NCREIF Property Index.

NCREIF Property Index (NPI): The index reports quarterly and annual returns consisting of income and appreciation components. The index is based on data collected from the voting members of NCREIF. Specific property-type subindices include apartment, office, retail, industrial and hotel; regional subindices include West, East, South and Midwest.

Negative Amortization: The accrual feature found in numerous participating debt structures that allows an investor to pay, for an initial period of time, an interest rate below the contract rate stated in loan documents.

Net Assets: Total assets less total liabilities on a market-value basis.

Net Asset Value (NAV): The value of an individual asset or portfolio of real estate properties net of leveraging or joint venture interests.

Net Asset Value per Share: The current value of a REIT's assets divided by shares outstanding.

Net Cash Flow: Generally determined by net income plus depreciation less principal payments on long-term mortgages.

Net Investment in Real Estate: Gross investment in real estate less the outstanding debt balance.

Net Investment Income: The income or loss of a portfolio or entity resulting after deducting all expenses, including portfolio and asset management fees, but before realized and unrealized gains and losses on investments.

Net Lease: (See also "Triple Net"). Today this generally indicates a lease in which the stated rent excludes the insurance, utilities, operating expenses and real estate taxes for the building. The tenant is then responsible for the payment of these costs either directly or as additional rent. Opposite of Gross or Fully Serviced Lease.

Net/Net/Net Lease: Same as a Triple Net or NNN lease. This is a lease in which the Tenant is totally responsible for all operating expenses associated with its proportionate share of the building. This is particularly common in retail and industrial leases and for any type of single user building.

Net Operating Income (NOI): A before-tax computation of gross revenue less operating expenses and an allowance for anticipated vacancy. It is a key indicator of financial strength.

Net Present Value (NPV): Presented as part of a financial analysis on the economic terms of a lease, it represents the taking of an imputed or estimated total dollar value and/or the actual total dollars paid out by the Tenant up to a specified time period (for example, five years) and presenting this aggregate total rent in terms of current dollars. When presented in current dollar terms, the net present value is attempting to control the effect of inflation on money using an estimated percentage value that can be considered either as the amount of value that money loses each year because of increasing prices and living costs, or as the compounded earning potential of an amount of money set aside today as a lump sum in an alternative investment at the stated estimated rate of interest so that even though required rent payments were deducted from the investment each year, the overall interest earnings would provide the exact amount of money necessary to meet each rent payment for the full time period without any required additional monetary input. Net present value is today's dollar value of a future income or payment stream discounted for an estimated earning potential in alternative investments, or discounted for the reduced value of future dollars because of inflation factors when compared to today's dollar.

Net present value is a complex concept and perhaps can best be explained by considering what one dollar today will be worth five years from now. Or, alternatively, if you invested one dollar today, what rate of interest would be required so that you had enough money to buy the same item five years from now? The net present value is provided so that a standardized basis of comparison can be made between different lease terms at different buildings and for different amounts of space. The net present value provides an unbiased equality of value for comparing legality of economic terms of different lease arrangements.

Net Purchase Price: Gross purchase price less associated debt financing.

Net Real Estate Investment Value: The market value of all real estate less property-level debt.

Net Rentable Area: (Same as Rentable Area). The area (square footage) for which rent can be charged. Generally it is the gross area of the full floor less the area of all vertical penetrations (elevator shafts, stairwells, mechanical shafts etc.) Rentable area can be measured in many ways, but the most common measurement for office buildings is according to BOMA standards. Net Rentable area includes the tenant's premises plus an allocation of the common area directly benefiting the tenant, such as restrooms, common corridors, mechanical and janitor's rooms and the elevator lobby on the tenant's floor.

Net Returns: Returns to investors net of fees to advisers or managers.

Net Sales Proceeds: Proceeds from the sale of an asset or part of an asset less brokerage commissions, closing costs and market expenses.

Net Square Footage: The space required for a function or staff position.

Nominal Yield: The yield to investors before adjustments for fees, inflation or risk.

Non-compete Clause: A clause that can be inserted into a lease specifying that the business of the tenant is exclusive in the property and that no other tenant operating the same or similar type of business can occupy space in the building. This clause benefits service-oriented businesses desiring exclusive access to the building's population.

Non-discretionary Funds: Funds allocated to an investment manager requiring the investor's approval on each transaction.

Non-investment-grade CMBS: Securities rated "BB" or "B," also referred to as high-yield CMBS.

Non-performing Loan: A loan that is unable to meet its contractual principal and interest payments.

Non-recourse Debt: A loan that, in the event of a default by the borrower, limits the lender's remedies to a foreclosure of the mortgage, realization on its assignment of leases and rents, and acquisition of the real estate.

Nondisturbance - So long as lease is not in default, its rights to occupancy under the lease will not be disturbed by the lessor or its successors or assigns.

O

Occupancy Cost: Any cost or charge incurred by a tenant pursuant to its lease, such as rent, operating expense increases, parking charges, moving expenses, remodeling costs, etc.

Occupancy Date: Unless specifically stated otherwise in the lease, it is the date on which the tenant takes possession of its leased premises. (See also "Commencement Date").

Offer: Term used to describe a stated price or spread to sell whole loans or securities.

Open Listing: Any property that is leased directly by the owner. Sometimes, the owner will employ an in-house leasing agent. Typically, these are called open listings, where the owner will pay a full commission to any broker who brings a tenant to the property.

Open-end Fund: A commingled fund that does not have a finite life continually accepts new investor capital and makes new property investments.

Open Space: An area of land or water dedicated for public or private use or enjoyment.

Operating Cost Escalation: Although there are many variations of escalation clauses, all are intended to adjust rents by reference to external standards such as published indexes, negotiated wage levels, or expenses related to the ownership and operation of a building.

Operating Expenses: The cost of operating an office building, such as janitorial, management fees, utilities, and similar day to day expenses, as well as taxes, insurance, and a reserve for replacement of items which periodically wear out. Should not include capital expenses such as roof replacement or expenses associated with the production of income such as leasing commissions and legal fees.

Operating Expense Exclusions: Typically a set of exclusions to Operating Expenses as identified in a Lease document. Typical exclusions include leasing commissions, tenant improvement costs, personal income taxes of the building owners, penalties and late fees, etc. Landlords often provide an abbreviated list of exclusions to Operating Expenses and Tenants may negotiate to expand or clarify the list of Operating Expense Exclusions.

Opportunistic: A phrase generally used by advisers and managers to describe investments in underperforming and/or undermanaged assets that hold the expectation of near-term increases in cash flow and value. Total return objectives for opportunistic strategies tend to be 20 percent or higher. Opportunistic investments typically involve a high degree of leverage - typically 60 percent to 100 percent on an asset basis and 60 percent to 80 percent on a portfolio basis.

Originator: A company that sources and underwrites commercial and/or multifamily mortgage loans.

Out-parcel: Individual retail sites in a shopping center.

Overallotment: A practice through which underwriters offer and sell more shares than they have agreed to buy from the issuer.

Owner's Representative: An agent who is an advocate for the owner and/or landlord.

P

Parking ratio: Dividing the total rentable square footage of a building by the building's total number of parking spaces provides the amount of rentable square feet per each individual parking space.

Partial sales: The sale of an interest in real estate that is less than the whole property. This may include a sale of easement rights, parcel of land or retail pad, or a single building of a multi-building investment.

Partial taking: The taking of part of an owner's property under the laws of eminent domain.

Participating debt: In addition to collecting a contract interest rate, participating debt allows the lender to have participatory equity rights through a share of increases in income and/or increases in residual value over the loan balance or original value at the time of loan funding.

Partitioning: The divisions or walls between individual offices, separate office suites, tenant areas and public corridors.

Party in interest: Under ERISA's 2002 Modernization Act: Parties in interest include employers, unions and, in certain circumstances, fiduciaries. It excludes service providers and their affiliates. Fiduciaries would only be parties in interest where they act on behalf of a plan sponsor in entering into a transaction. An affiliate of a party in interest does not include remote affiliates of employers, unions and fiduciaries (e.g., 10 percent owners), as well as employees of such remote affiliates.

Pass Through: An increase in operating expenses over the base year amount that is billed to the tenant as additional rent. See escalation.

Pass-through Certificate: Payments of principal and interest from the underlying pool of mortgages are passed through to the holders of the certificates.

Payout Ratio: The percentage of the primary earnings per share, excluding extraordinary items, paid to common stockholders in the form of cash dividends during the trailing 12 months.

Pension Liability: The total amount of capital required to fund vested pension fund benefits.

Percentage Rent: Rent payable under a lease that is equal to a percentage of gross sales or gross revenues received by the tenant. It is commonly used in retail center leases.

Performance: The quarterly changes in fund or account values attributable to investment income, realized or unrealized appreciation and the total gross return to the investors both before and after investment management fees. Formulas for calculating performance information are varied, making comparisons difficult.

Performance Bond: A surety bond posted by a contractor guaranteeing full performance of a contract with the proceeds to be used to complete the contract or compensate for the owner's loss in the event of nonperformance.

Performance Measurement: The process of measuring an investor's real estate performance in terms of individual assets, advisers/managers and portfolios. The scope of performance measurement reports varies among managers, consultants and plan sponsors.

Performance-based Fees: Fees paid to advisers or managers based on returns to investors, often packaged with a modest acquisition and asset-management fee structure.

Permanent Loan: The long-term mortgage on a property.

Phase I Environmental Survey: A Phase I environmental survey is a visual survey, owner interview, search of governmental records and databases and a review of the historical uses of both the subject property and surrounding properties, all designed to disclose to a prospective purchaser some of the potential environmental risks associated with a building or land purchase. Typically provided by specialized environmental consultants, most Phase I environmental surveys are conducted according to standards set forth by the American Society for Testing and Materials (ASTM). Because a Phase I environmental survey is a visual survey, underground problems will not necessarily be detected unless there is some surface expression of the issue or underground tanks or if leaks have been recorded in a governmental database. Phase I environmental surveys are often required by banks before they will grant a mortgage on commercial properties. Banks want reasonable evidence that there are no environmental liabilities associated with the property before they grant a mortgage. A Phase I also provides a certain peace of mind to a buyer, since the environmental consultant is providing a professional opinion regarding the environmental condition of the property. Note that Phase I survey does not automatically include testing for asbestos, radon, lead paint, wetlands, endangered species or compliance with any environmental regulations. However, these additional testing services can be requested with additional fees charged by the environmental consultant.

Phase II Environmental Survey: A Phase II environmental survey goes further than a Phase I Environmental Survey and typically includes sampling of subsurface soils and/or ground waters, requiring the use of underground drilling or subsurface probes. Typically provided by specialized environmental consultants, most Phase II environmental surveys are conducted according to standards set forth by the American Society for Testing and Materials (ASTM). Phase II surveys may be required by banks or recommended in situations where a Phase I Environmental Survey provides evidence or suspicion of potential underground contamination. An environmental consultant will design a program for sampling a site. Note that remediation of any detected contaminates is not included as part of the scope of a Phase II Environmental Survey.

Plat: Map of a specific area, such as a subdivision, that shows the boundaries of individual lots together with streets and easements.

Portfolio Management: The portfolio management process involves formulating, modifying and implementing a real estate investment strategy in light of an investor's broader overall investment objectives. It also can be defined as the management of several properties owned by a single entity.

Portfolio Turnover: The average time from the funding of an investment until it is repaid or sold.

Power of Sale: Clause inserted in a mortgage or deed of trust giving the mortgagee (or trustee) the right and power, upon default in the payment of the debt secured, to advertise and sell the property at public auction.

Preleased: Space in a proposed building that has been leased before the start of construction or in advance of the issuance of a certificate of occupancy.

Preliminary Working Drawings: The initial set of drawings and renderings that completely describe and show construction detail. Amount of rentable area a Tenant pays for depends on the method of measurement used by the Landlord in the building. The rentable area consists of the amount of square feet usable for office space plus an allocated portion of the floor's common area and, depending on the method of measurement used, an allocated portion of common areas in the building (for example, main entrance to building).

Prepayment Rights: Rights given to the borrower to make partial or full payment of the total principal balance prior to the maturity date without penalty

Price to Earnings Ratio: This ratio is calculated by dividing the current share price by the sum of the primary earnings per share from continuing operations, before extraordinary items and accounting changes, over the past four quarters.

Primary Issuance: The initial financing of an issuer.

Prime Space: Typically refers to first-generation space that is available for lease.

Prime Tenant: The major tenant in a building, or the major or anchor tenant in a shopping center.

Principal Payments: The return of invested capital to the lender.

Private REIT: An infinite- or finite-life real estate investment company structured as a real estate investment trust. Shares are placed and held privately rather than sold and traded publicly.

Pro Forma: A financial estimate of the gross and net income and expenses that are expected to be incurred in a new (or renovated) office building (or any real estate investment venture).

Pro Rata Share: The ratio between a Tenant's occupancy of rentable square footage in a building to the entire building's rentable area. For example, a Tenant that occupies 10,000 rentable square feet in a 100,000 square foot building would have a pro rata share of 10.00%.

Production acres: The area of land that can be used in agriculture or timber operations to produce income, not including areas used for crop or machinery storage, or other support areas.

Prohibited transaction: ERISA defines the following transactions as prohibited between a pension plan and a party in interest: the sale, exchange or leasing of any property; a loan or other extension of credit; and the furnishing of goods or services. Other prohibited transactions include the transfer of plan assets to a party in interest or use of plan assets by a party in interest, and the acquisition of employer real property in excess of limits set by ERISA.

Prudent man rule: The standard to which a fiduciary is held accountable under ERISA. "Act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of a like character and with like aims."

Punch list: An itemized list documenting incomplete or unsatisfactory items after the contractor has notified the owner that the tenant space is substantially complete.

Q

Qualified Plan: Any employee benefit plan that is qualified by the IRS as a tax-exempt plan. Among other requirements, the plan's assets must be placed in trust for the sole benefit of the employees covered by the plan.

Quitclaim Deed: A deed operating as a release that is intended to pass any title, interest or claim that the grantor may have in the property, but not guaranteeing such title is valid.

R

Raised Floor: Typically utilized in computer rooms or in areas requiring large amounts of under floor cabling, often consisting of a metal flooring system with 2 foot x 2 foot perforated metal panels supported by a metal framing system, raising the floor by one to two feet. In a computer room, a Raised Floor can provide for the supply of chilled air to large computer systems requiring massive cooling.

Rating: Grade, assigned by a rating agency, designating the credit quality or creditworthiness of the underlying assets.

Rating Agencies: Independent firms engaged to rate the creditworthiness of securities for the benefit of investors. The major rating agencies are Fitch Ratings, Standard & Poor's and Moody's Investors Service.

Raw Land: Unimproved land that remains in its natural state.

Raw Space: Unimproved shell space in a building.

Real Estate Fundamentals: The factors driving the value of real property (i.e., the supply, demand and pricing for land and/or developed space in a given geographic or economic region or market).

Real Property: Land, and generally whatever is erected or affixed to the land that would be personal property if not attached.

Real Rate of Return: Yield to investors net of an inflationary factor. The formula for calculating the real rate of return is [(1 + nominal yield) / (1 + inflation rate)] - 1.

Reasonable Consent: A standard applied in a lease (most often in a sublease clause) which limits the landlord's ability to withhold consent in its sole discretion. If a reasonable person would give consent to an action given the circumstances, so must the landlord.

Recapture: When the IRS recovers the tax benefit of a deduction or a credit previously taken by a taxpayer, which is often a factor in foreclosure because there is a forgiveness of debt. As used in leases, it is a clause giving the lessor a percentage of profits above a fixed amount of rent; or in a percentage lease, a clause granting the landlord the right to terminate the lease if the tenant fails to realize minimum sales.

Recapture – 1: The billing to Tenants of their pro rata share of increases in operating expenses; 2) Also refers to a provision in a lease that allows a Landlord to recover possession of a Tenant's premises, usually by termination or cancellation of a Tenant's lease under certain conditions.

Recourse: The right of a lender, in the event of default by the borrower, to recover against the personal assets of a party who is secondarily liable for the debt.

Regional Diversification: Definitions for what constitute various regions, for diversification purposes, vary among managers, consultants and plan sponsors. Some boundaries are defined based purely on geography; others have attempted to define boundaries along economic lines.

Registration Statement: Forms filed with the Securities and Exchange Commission (or the appropriate state regulatory agency) in connection with a proposed offering of new securities or the listing of outstanding securities on a national exchange.

Rehab: Extensive renovation intended to cure obsolescence of a building or project.

REIT (Real Estate Investment Trust): A business trust or corporation that combines the capital of many investors to acquire or provide financing for real estate. A corporation or trust that qualifies for REIT status generally does not pay corporate income tax to the IRS. Instead, it pays out at least 90 percent of its taxable income in the form of dividends.

REMIC (Real estate mortgage investment conduit): A product of the Tax Reform Act of 1986, REMICs are designed to hold a pool of mortgages for the exclusive purpose of issuing multiple classes of mortgage-backed securities in a way that avoids a corporate double tax.

Renewal Option: The right of a tenant to renew (extend the term of) a lease for a stated period of time at a rent to be determined (i.e. 95% of "fair market rent").

Renewal Probability: Used to estimate leasing-related costs and downtime, it is the average percentage of tenants in a building that are expected to renew at market rental rates upon the expiration of their leases.

Rent: Compensation or fee paid for the occupancy and use of any rental property, land, buildings, equipment, etc.

Rent Abatement: A concession offered by a Landlord as an inducement to Tenants to lease office space. It provides for a reduction of monthly rent due by omitting a required payment for a specific number of months. This offers the Tenant the benefit of occupying without paying and also serves to lower the net effective rental rate over the lease term. Rent abatement may or may not include abatement of operating expense pass-through and any applicable expense or base rent escalators.

Rent Commencement Date: The date on which a tenant begins paying rent.

Rentable/usable Ratio: A building's total rentable area divided by its usable area. It represents the tenant's pro-rata share of the building's common areas and can determine the square footage upon which the tenant will pay rent. The inverse describes the proportion of space that an occupant can expect to actually use. The (square footage) for which rent can be charged. Generally it is the gross area of the full floor less the area of all vertical penetrations (elevator shafts, stairwells, mechanical shafts etc.) Rentable area can be measured in many ways, but the most common measurement for office buildings is according to BOMA standards.

Rentable Square Feet: Is the amount of square footage that a Tenant in an office building pays rent upon. Often abbreviated as "RSF," the Rentable Square Footage is the Usable Square Footage multiplied by the building Common Area Factor or Load Factor (typically 12% - 18%).

Rental Components – 1: Ownership Costs - Costs to the owner to own a building, service existing debt and receive a return on equity; 2) Operating Expenses - Those expenses necessary for the day-to-day operation of a building; 3) Amortization of Tenant Improvements and Allowances - The return to the Landlord over the term of a lease of those costs included in a building's interior construction work for Tenants.

Rental Concession: What landlords offer tenants to secure their tenancy? While rental abatement is one form of a concession, there are many others such as increased tenant improvement allowance, signage, below-market rental rates and moving allowances.

Rental Growth Rate: The expected trend in market rental rates over the period of analysis, expressed as an annual percentage increase.

Rent-up Period: The period following construction of a new building when tenants are actively being sought and the project is approaching its stabilized occupancy.

REO (Real Estate Owned): Real estate owned by a savings institution as a result of default by borrowers and subsequent foreclosure by the institution.

Replacement Cost: The estimated current cost to construct a building with utility equivalent to the building being appraised, using modern materials and current standards, design and layout.

Replacement Reserves: An allowance that provides for the periodic replacement of building components that wear out more rapidly than the building itself and must be replaced during the building's economic life.

Request for Proposal (RFP): A formal request, issued by a plan sponsor or its consultant, inviting investment managers to submit information on their firms' investment strategy, historical investment performance, current investment opportunities, investment management fees, other pension fund client relationships, etc. Firms that meet the qualifications are requested to make a formal presentation to the board of trustees and senior staff members. Finalists are chosen at the completion of this process, and contract negotiation begins.

Reserve Account: An account that a borrower has to fund to protect the lender. Examples include capital expenditure accounts and deferred maintenance accounts.

Resolution Trust Corp. (RTC): The RTC was established by Congress in 1989 to contain, manage and sell failed savings institutions and recover taxpayer funds through the management and sale of the institutions' assets.

Retail Investor: When used to describe an investor, retail refers to the nature of the distribution channel and the market for the services - selling interests directly to consumers.

Retention Rate: The percent of trailing 12-month earnings that have been ploughed back into the company. It is calculated as 100 minus the trailing 12-month payout ratio.

Return on Assets: The income after taxes for the trailing 12 months divided by the average total assets, expressed as a percentage.

Return on Equity: The income available to common stockholders for the trailing 12 months divided by the average common equity, expressed as a percentage.

Return on Investments: The trailing 12-month income after taxes divided by the average total long-term debt, other long-term liabilities and shareholders' equity, expressed as a percentage.

Reversion Capitalization Rate: The capitalization rate used to determine reversion value.

Reversion Value: A lump-sum benefit that an investor receives or expects to receive at the termination of an investment.

Right of First Offer or First Opportunity: A right, usually given by an owner to a tenant, which gives the tenant a first chance to buy the property or lease a portion of the property if the owner decides to sell or lease. Unlike under a Right of First Refusal, the owner is not required to have a legitimate offer which the tenant can then match or refuse. If the tenant refuses to make an offer or if the parties cannot agree on terms, the property can then be sold or leased to a third party.

Right of First Refusal: A right, usually given by an owner to a tenant, which gives the tenant a first chance to buy the property or lease a portion of the property if the owner decides to sell or lease. The owner must have a legitimate offer which the tenant can match or refuse. If the tenant refuses, the property can then be sold or leased to the Offeror.

Right of Offset: A specific clause in a lease where the tenant has the right to deduct from the rent certain costs which are due to the tenant from the landlord. Included may be the costs incurred by tenant to cure defaults of the landlord, after notice and failure by landlord to cure the defaults. These are called "self help".

Risk Management: A systematic approach to identifying and separating insurable risks from non-insurable risks, and evaluating the availability and costs of purchasing third-party insurance

Roll-over Risk: The risk that a tenant's lease will not be renewed.

S

Sale-leaseback: An arrangement by which the owner-occupant of a property agrees to sell all or part of the property to an investor, then lease it back and continue to occupy space as a tenant.

Sales Comparison Value: A value indication derived by comparing the property being appraised to similar properties that have been sold recently.

Second-generation or Secondary Space: Previously occupied space that becomes available for lease, either directly from the landlord or as sublease space.

Secondary Financing: A loan on real property secured by a lien junior to an existing first mortgage loan.

Secondary Market: A market where existing mortgage loans are securitized and then bought and sold to other investors.

Secondary, or follow-on, Offering: A stock offering made by an existing public company.

Securities and Exchange Commission (SEC): The federal agency that supervises and oversees the issuance and exchange of public securities.

Securitization: The process of converting an illiquid asset, such as a mortgage loan, into a tradable form, such as mortgage-backed securities.

Security Deposit: A deposit of money by a tenant to a landlord to secure performance of a lease. It also can take the form of a letter of credit or other financial instrument.

Seisen (seizen): Possession of real property under claim of freehold estate.

Self-administered REIT: When members of the management are employees of the REIT or an entity having essentially the same economic ownership as the REIT.

Self-managed REIT: A REIT whose employees are responsible for performing property management functions.

Senior Classes: With regard to securities, describes the classes with the highest priority to receive the payments from the underlying mortgage loans.

Separate Account: A relationship where an investment manager or adviser is retained by a single pension plan sponsor to source real estate product under a stated investment policy exclusively for that sponsor.

Servicer: An organization that acts on behalf of a trustee for the benefit of security holders.

Setback: The distance from a curb, property line or other reference point, within which building is prohibited.

Shared Tenant Services: Services provided by a building to allow Tenants to share the costs and benefits, such as sophisticated telecommunications and other technical services.

Shares Outstanding: The number of shares of common stock currently outstanding, less the shares held in treasury

Shell Condition: Space has not yet been built out for a Tenant. There are no interior walls, the ceiling is unfinished, electrical circuits and lighting fixtures are not installed, the HVAC has not been distributed, etc.

Site Analysis: Determines the suitability of a specific parcel of land for a specific use

Site Development: The installation of all necessary improvements made to a site before a building or project can be constructed on the site

Site Plan: A detailed plan that depicts the location of improvements on a parcel

Slab: The exposed wearing surface laid over the structural support beams of a building to form the floor(s) of the building

Smart Building: A building that has extra technical capabilities to provide computer-enhanced building management and operating efficiency.

Social Investing: Investments driven in whole or in part by social or political (non-real estate) objectives. Under ERISA, social investing is economically justified only if proper real estate fundamentals are considered first.

Soft Cost: The portion of an equity investment other than the actual cost of the improvements themselves that may be tax-deductible in the first year.

Space Plan: A preliminary sketch or CAD drawing supplied by an interior architect, a Space Plan provides an office Tenant with the proposed layout and dimensions of interior walls, doors and furniture. A "pricing level" Space Plan often includes further details including details of plumbing for break areas and/or coffee bars, details of lighting and electrical outlets, locations of shelving and counter surfaces, etc. Pricing level Space Plans are often provided to general contractors who will provide preliminary budget pricing for planned Tenant Improvements.

Space Pocket: A portion of leased premises that is set aside to accommodate future growth on the part of the tenant. The space pocket is typically fully improved at the commencement of the lease and no rent is due on the pocketed area until the earlier of "actual use" or a specified future date.

Special Assessment: Special charges levied against real property for public improvements that benefit the assessed property.

Special Servicer: A firm that is employed to work out mortgages that are either delinquent or in default.

Specified investing: Investment in individually specified properties or portfolios, or investment in commingled funds whose real estate assets are fully or partially specified prior to the commitment of investor capital.

Speculative Space: Any tenant space that has not been leased before the start of construction on a new building.

Stabilized Net Operating Income: Projected income less expenses that are subject to change but have been adjusted to reflect equivalent, stable property operations.

Stabilized Occupancy: The optimum range of long-term occupancy that an income-producing real estate project is expected to achieve after exposure for leasing in the open market for a reasonable period of time at terms and conditions comparable to competitive offerings.

Stair-stepped Rent: A rental rate which increases by fixed or "stepped" amounts during the term of a lease.

Step-up Lease (graded lease): A lease specifying set increases in rent at set intervals during the term of the lease.

Straight lease (flat lease): A lease specifying a fixed amount of rent that is to be paid periodically, typically monthly, during the entire term of the lease.

Strip Center: Any shopping area comprised of a row of stores but smaller than a neighborhood center anchored by a grocery store.

Subcontractor: A contractor working under and being paid by the general contractor, often a specialist in nature, such as an electrical contractor, cement contractor, etc.

Sublease: A lease document subordinated to another lease document. It refers to the lease given by a Sublessee to a subtenant for all or part of the office space the original Tenant or Sublessee occupied. The original Tenant remains liable for all terms and conditions.

Sublessee: A person or identity to whom the rights of use and occupancy under a lease have been conveyed, while the original lessee retains primary responsibility for the obligations of the lease.

Sublessor: The Lessor of a sublease. See also Lessor.

Submarket: A region or divided area (usually divided by geographic factors or dominant landmark), which is a subset of a larger primary real estate market.

Subordinated classes: With regard to CMBS, describes those classes with the lowest priority to receive payments from the underlying mortgage loans.

Subordination: The process of sharing the risk of credit losses disproportionately among two or more classes of securities.

Substantial Completion: Generally used in reference to the construction of tenant improvements (TIs). The tenant's premises are typically deemed to be substantially completed when all of the TIs for the premises have been completed in accordance with plans and specifications previously approved by the tenant. Sometimes used to define the commencement date of a lease.

Substitution and Credits: The ability to substitute non-standard materials for Landlord-supplied materials specified in the work letter, or to receive specific dollar credits for those materials not utilized by a Tenant in the interior construction of its space.

Surety: One who voluntarily binds himself to be obligated for the debt or obligation of another.

Surface Rights: A right or easement granted with mineral rights, enabling the possessor of the mineral rights to drill or mine through the surface.

Survey: The process by which a parcel is measured and its boundaries and contents ascertained

Synthetic Lease: A transaction that appears as a lease from an accounting standpoint but as a loan from a tax standpoint

T

Taking: A common synonym for condemnation or any interference with private property rights, but it is not essential that there be physical seizure or appropriation.

Tax Base: The assessed valuation of all real property that lies within a taxing authority's jurisdiction. When multiplied by the tax rate, it determines the amount of tax due.

Tax Lien: A statutory lien for nonpayment of property taxes that attaches only to the property upon which the taxes are unpaid.

Tax Roll: A list or record containing the descriptions of all land parcels located within the county, the names of the owners or those receiving the tax bill, assessed values and tax amounts.

Tenancy: The possession or occupancy of land, a building, an office suite, a room, or other real estate by title, under a lease, or on payment of rent with or without a written lease. It also refers to the period of time a Tenant has occupancy or possession.

Tenant (lessee): One who rents real estate from another and holds an estate by virtue of a lease.

Tenant at Will: One who holds possession of premises by permission of the owner or landlord. The characteristics of the lease are an uncertain duration and the right of either party to terminate on proper notice.

Tenant Construction Work Letter: An addendum or attachment to the lease document that details the responsibilities of both the Tenant and the Landlord as they relate to the construction of the Tenant's office space. The work letter describes any above-building standard allowances provided to the Tenant, the responsibilities and timing by the developer for providing pricing for other than building standard items, and the estimated completion date of the office space construction. In addition, it outlines the responsibilities and timing of both Tenant and developer for providing appropriate space plans and working and architectural drawings necessary to meet the construction schedule. The work letter also defines the construction work that will be provided by the developer and completed by the Tenant.

Tenant Improvement (TI): Improvements made to the leased premises by or for a tenant.

Tenant Improvement (TI) Allowance: Defines the fixed amount of money contributed by the landlord toward tenant improvements. The tenant pays any of the costs that exceed this amount.

Tenant Improvements, Building Standard: Standard building materials and quantities as identified by a Landlord, which are to be provided at no additional cost to a Tenant to improve Tenant's space. Normally included are doors; walls; painting; hardware; ceiling; lighting; window and floor coverings; telephone, computer and electrical outlets; and HVAC.

Tenant's Market: Describes a situation in which there is a large amount of vacant office space available in a given market and few users (relative to the available supply) are looking for this office space. When this situation occurs, Landlords often lower rental rates and offer more and more valuable, concessions (free rent, expanded flexibility) or allowances (Tenant Improvement or Move Allowances) as inducements to Tenants planning to lease office space. See also Landlord's Market.

Tenant Mix: A phrase used to describe the quality of a property's income stream. In multi-tenanted properties, institutional investors typically prefer a mixture of national credit tenants, regional credit tenants and local non-credit tenants.

Tenant Occupancy: When a Tenant has control or possession or actually uses the demised premises as defined in a lease. Tenant occupancy is usually taken to mean the Tenant resides in and is conducting business from the premises.

Term: The lifetime of a loan.

Time-weighted Average Annual Rate of Return: The constant annual return over a series of years that would compound to the same return as compounding the actual annual returns for each year in the series.

Title: The means whereby the owner has the just and full possession of real property.

Title Insurance: A policy issued by a title company that insures against loss resulting from defects of title to a specifically described parcel of real property, or from the enforcement of liens existing against it at the time the title policy is issued.

Title Search: A review of all recorded documents affecting a specific piece of property to determine the present condition of title.

Total Acres: All land area contained within a real estate investment.

Total Assets: The sum of all gross investments, cash and equivalents, receivables, and other assets presented on the balance sheet.

Total Commitment: The full mortgage loan amount that is obligated to be funded if all stated conditions are met.

Total Inventory: The total square footage of a type of property within a geographical area, whether vacant or occupied.

Total Principal Balance: The total amount of debt, including the original mortgage amount adjusted for subsequent funding, principal payments and other unpaid items (e.g., interest) that are allowed to be added to the principal balance by the mortgage note or by law.

Total Retail Area: Total floor area of a retail center less common areas. It is the area from which sales are generated and includes any department stores or other areas (such as banks, restaurants or service stations) not owned by the center.

Total Return: The sum of quarterly income and appreciation returns.

Trade Fixtures: Personal property that is attached to a structure that is used in the business. Because this property is part of the business and not deemed to be part of the real estate, it is typically removable upon lease termination.

Tranche: A class of securities. CMBS offerings are generally divided into rated and unrated classes, or tranches, according to seniority and risk. Higher-rated tranches allow for internal credit enhancements; lower-rated classes offer higher yields.

Transferable Development Rights: Transferable development rights offer land owners financial incentives for the conservation of the heritage values of their land. Some counties allow air rights to be transferred to the surrounding buildings. That means that in a dense downtown area, while a property may have the right to construct a 50-story building, there may only be a five-story historic building on the property. Instead of the owner selling his property – causing the historic building to be demolished and forcing a new one to be built in its place – the owner can now sell the unused air rights to a neighboring property allowing them to utilize the unused air rights to add 45-stories to their existing building, thereby preventing the loss of the historically-interesting building.

Triple Net Lease: A lease that requires the tenant to pay all expenses of the property being leased in addition to rent. Typical expenses covered in such a lease include taxes, insurance, maintenance and utilities.

Trustee: The trustee oversees the flow of funds through the CMBS structure on behalf of the bondholders. The trustee is responsible for collecting principal and interest from the servicer, distributing payments to bondholders and reporting to bondholders.

Turnkey Project: The construction of a project in which a third party is responsible for the total completion of a building or for the construction of tenant improvements to the customized requirements and specifications of a future owner or tenant.

U

Under Construction: The period of time after construction has started but before the certificate of occupancy has been issued.

Under Contract: The period of time after a seller has accepted a buyer's offer to purchase a property and during which the buyer is able to perform its due diligence and finalize financing arrangements. During this time, the seller is precluded from entertaining offers from other buyers.

Under-Floor Duct System: A system of ducts permanently located under floor surfaces to assist in the installation of telephone, computer and electrical wiring.

Underwriter: A company, usually an investment banking firm, that guarantees or participates in a guarantee that an entire issue of stocks or bonds will be purchased.

Unencumbered: Property that is free of liens and other encumbrances.

Unimproved Land: Most commonly refers to land without improvements or buildings but also can mean land in its natural state.

Unrated Classes: Typically the most subordinated classes of CMBS.

UPREIT (Umbrella Partnership Real Estate Investment Trust): Organizational structure where a REIT's assets are owned by a holding company for tax purposes.

Usable Area or Square Footage: The floor space on a given building's floor that can be used by a Tenant and/or is enclosed as an office suite. On a single Tenanted floor, usable office space is the gross square feet of floor space less the core services area (for example, elevators, fire stairs) and less the common area (for example, electric, telephone and janitorial closets, bathrooms).

Use: The specific purpose for which a parcel or a building is intended to be used or for which it has been designed or arranged.

V

Vacancy Factor: The amount of gross revenue that pro forma income statements anticipate will be lost because of vacancies, often expressed as a percentage of the total rentable square footage available in a building or project.

Vacancy Rate: The total amount of available space compared to the total inventory of space and expressed as a percentage. A common statistic used by commercial real estate professionals, including Landlords, Asset Managers and brokers, it identifies the percentage of office, industrial or retail space that is unoccupied in a building, market (city) or submarket (sub area of a city). Vacancy rates vary over time as Tenants lease or vacate space. See also Absorption Rate.

Vacant Space: Existing tenant space currently being marketed for lease excluding space available for sublease.

Value-added: A phrase generally used by advisers and managers to describe investments in underperforming and/or undermanaged assets. The objective is to generate 13 percent to 18 percent returns.

Value Engineering: Process by which costs can be decreased or benefits can be added to an undertaking or project through redesign, prioritization or other similar actions.

Variable-rate: A loan interest rate that varies over the term of the loan, usually tied to a predetermined index. Also called adjustable-rate.

Variance: Permission that allows a property owner to depart from the literal requirements of a zoning ordinance that, because of special circumstances, causes a unique hardship.

Vertical Transportation - Elevators, stairs or escalators moving people or freight between floors in a building.

Virtual Office: An office that moves with the person. Typically used in a sales organization where the salespeople are given portable computers, modems, and cellular phones in return for having their offices taken away.

Virtual Storefront: An online business presence for sales.

W

Waiting Period: The time between the initial filing of a registration statement and its effective date.

Weighted-average Coupon: The weighted average of the gross interest rates of the mortgages underlying a pool as of the issue date, with the balance of each mortgage used as the weighting factor.

Weighted-average Equity: The denominator of the fraction used to calculate investment-level income, appreciation and total returns on a quarterly basis, consisting of net assets at the beginning of the period adjusted for weighted contributions and distributions.

Weighted-average Rental Rates: The average proportion of unequal rental rates in two or more buildings within a market.

Window Mullions: The divisions between windows, which can accommodate or accept Tenant walls or partitioning to create separations between private offices or rooms.

Work Letter: A document supplied by a Landlord which includes building standard Tenant improvements, plus any additional items, to be paid for by the Landlord or by the Tenant, with an indication as to which is responsible for each item. Specifications for tenant improvements usually attached to a lease and/or letter of intent. The work letter provides the basis for working drawings and contractor pricing and may allocate costs between the parties. Also establishes critical dates for approval of drawings and processes.

Working Drawings: All of the construction documents and blueprints, such as detail drawings, schedules, blueprints of wall placement, wiring diagrams, etc. that would permit the various construction disciplines to construct the desired office space (or buildings) accurately and completely. Working drawings include architectural drawings; mechanical systems drawings; electrical, telephone, and other wiring drawings, plumbing drawings and structural drawings. Preliminary working drawings will have initial electrical, mechanical and other engineering requirements, specifications and capacities.

Workout: The process by which a borrower attempts to negotiate with a lender to restructure the borrower's debt rather than go through foreclosure proceedings.

Write-down: The accounting procedure used when the book value of an asset is adjusted downward to better reflect current market value.

Write-off: The accounting procedure used when an asset has been determined to be uncollectible and is therefore charged as a loss.

Y

Yield: The effective return on an investment, as paid in dividends or interest.

Yield Maintenance Premium: A penalty, paid by the borrower, designed to make investors whole in the event of early redemption of principal.

Yield spread: The difference in yields between a commercial mortgage and a benchmark value, typically U.S. Treasuries of the same maturity.

Z

Zoning: The division of a city or town into zones and the application of regulations having to do with the architectural design and structural and intended uses of buildings within such zones.

Zoning Ordinance: The set of laws and regulations controlling the use of land and construction of improvements in a given area or zone.