Answers: Commercial Real Estate Terminology Quiz

1. **Abatement**
   Often referred to as free rent or early occupancy and may occur outside or in addition to the primary term of the lease.
2. **Absorption**
   The amount of inventory or units of a specific commercial property type that become occupied during a specified time period (usually a year) in a given market, typically reported as the absorption rate.
3. **Add-on factor**
   The ratio of rentable to useable square feet. Also known as the load factor and the rentable-to-useable ratio. Also see efficiency percentage. Formula:
   Add-on factor =Rentable square feet / Useable square feet
4. **Adjusted basis**
   The original cost basis of a property plus capital improvements, less total accumulated cost recovery deductions, and partial sales taken during the holding period.
5. **ADS**
   Annual debt service: The total amount of principal and interest to be paid each year to satisfy the obligations of a loan contract.
6. **Attorn**
   To agree to recognize a new owner of a property and to pay him/her rent.
7. **Basis**
   The total amount paid for a property, including equity capital and the amount of debt incurred.
8. **Basis point**
   1/100 of 1 percent.
9. **Breakpoint**
   The sales threshold over which percentage rent is due. It is calculated by dividing the annual base rent by the negotiated percentage applied to the tenant's gross sales.
10. **CAM cap**
    The maximum amount for which the tenant pays its share of common area maintenance costs. The owner pays for any CAM expenses exceeding that amount.
11. **CAP rate vs End Cap**
    Capitalization rate: A percentage that relates the value of an income-producing property to its future income, expressed as net operating income divided by purchase price.
    End Cap: The ends of a strip center, whether the configuration is linear, L-shaped, U-shaped, or other.
12. **CFTA vs CFBT**
    Cash flow after taxes vs cash flow before taxes
13. **Class life**
    The useful economic life of an asset set by the Internal Revenue Service.
14. **DSRC**

Debt-service-coverage ratio: Ratio of net operating income to annual debt service. Expressed as net operating income divided by annual debt service. A ratio of less than 1 means a negative cash flow.

15. **Discounted effective rent**
    The cash flows over the term of the lease, discounted to the present value.
16. **Displaced sales**
    Sales that result from purchases made by customers who are not located in the subject service area (represents a revenue gain for retail establishments as sales are generated from consumers who reside outside the local trade area).
17. **Economic base multiplier**
    A measure that provides a rough estimate of how changes in basic employment will affect total employment in a given region (all other things being equal); defined as the ratio of total employment to basic employment.
18. **Equilibrium point**
    The price at which the quantity supplied equals the quantity demanded.
19. **Equity lease**
    A type of joint venture arrangement in which an owner enters into a contract with a user who agrees to occupy a space and pay rent as a tenant, but at the same time, receives a share of the ownership benefits such as periodic cash flows, interest and cost recovery deductions, and perhaps a share of the sales proceeds.
20. **EV**
    Expected value: The sum of the weighted averages of all possible outcomes of a probability distribution. Probability distribution is the collection of all possible outcomes for an event and their corresponding probabilities of occurrence. The probabilities of occurrence for each possible outcome are used as the weights. The sum of each possible value multiplied by its probability of occurrence equals the EV of the outcome. EVs can be calculated for any type of outcome the investor chooses to analyze: net operating incomes, after-tax cash flows, and rates of return (IRRs).
21. **Expense stop**
    The level (or maximum amount) up to which the landlord will pay certain operating expenses. Amounts above the stop are the responsibility of the tenant.
22. **FAR**
    Floor Area Ratio: The ratio of the gross square footage of a building to the square footage of the land on which it is situated.
23. **Flex space**
    Space that is flexible in terms of what it can be used for (for example, space that could be utilized for industrial or office activities).
24. **FV**
    Future value - The amount to which money grows over a designated period of time at a specified rate of interest.
25. **Gap analysis**

An evaluation of the difference in the demand and supply of space (measured in terms of square footage) for a particular type of commercial property in a given market area where gaps are expressed as the amount of square footage demanded less the amount of square footage available in a given time period. Note that if demand exceeds supply, the gap will be positive. A positive gap indicates that potential opportunities exist for successful commercial real estate transactions. However, transactions might be avoided when supply exceeds demand (or when a negative gap occurs), as there is an oversupply of available space in the market.

26. **GIS**

    Geographic Information System(s) (usually computer-based) used for capturing, handling, storing, retrieving, managing, manipulating, and displaying geographic information or geo-coded data.

27. **GLA**

    Gross leasable area: The total floor area designed for tenant occupancy and exclusive use, including basements, mezzanines, and upper floors, and it is measured from the center line of joint partitions and from outside wall faces. GLA is that area on which tenants pay rent; it is the area that produces income.

28. **GRM**

    Gross rent multiplier: A method investors may use to determine market value. This method calculates the market value of a property by using the gross rents an investor anticipates the property will produce at end of year 1 multiplied by a given factor (known as the gross rent multiplier extracted from the marketplace).

29. **Hard cost vs Soft Costs**

    The cost of actually constructing property improvements vs The portion of an equity investment other than the actual cost of the improvements themselves that may be tax-deductible in the first year.

30. **IRR**

    Internal rate of return: The percentage rate earned on each dollar that remains in an investment each year. The IRR of an investment is the discount rate at which the sum of the present value of future cash flows equals the initial capital investment.

31. **LOI**

    Letter of Intent: An informal, usually non-binding, agreement among parties indicating their serious desire to move forward with negotiations.

32. **LPTI**

    Landlord-paid tenant improvements: The total cost (outlay) of necessary tenant improvements paid by the landlord netted against any contribution made by the tenant.

33. **Leakage (retail)**

    Purchases made in other service areas by consumers located within the subject area (representing a loss of revenue for retailers located within the trade area in which those consumers reside).

34. **LTV**

    Loan-to-value ratio: The amount of money borrowed in relation to the total market value of a property. Expressed as the loan amount divided by the property value.

35. **MSA**
    Metropolitan Statistical Area: Generally, the area in and around a major city. The Office of Management and Budget (OMB) defines an MSA as having one of the following characteristics: a city with a population of at least 50,000, or an urbanized area with a population of at least 50,000 with a total metropolitan population of 100,000.
36. **NNN**
    Net lease (Triple Net Lease): A lease in which the tenant pays, in addition to rent, all operating expenses such as real estate taxes, insurance premiums, and maintenance costs (aka Pass-Throughs).
37. **NPV**
    Net present value: The sum of all future cash flows discounted to present value and netted against the initial investment.
38. **Sandwich lease**
    Sublease: A lease in which the original tenant (lessee) sublets all or part of the leasehold interest to another tenant (known as a subtenant) while still retaining a leasehold interest in the property. Also known as a sandwich lease due to the sandwiching of the original lessee between the lessor and the subtenant.
39. **SIC**
    Standard Industrial Classification: A classification scheme used for general recording purposes by government and industry to categorize and account for economic and employment activity by sector using a series of standardized and universally accepted codes.
40. **Subrogate**
    Substitute one creditor for another.
41. **Substitute basis**
    The basis in a property acquired in a qualified Section 1031 Exchange is reduced by deferred gain and becomes the substitute basis. For example, if the market value of property given up is $200,000, and the basis in that property was $75,000, then realized gain equals $125,000. Assume the market value of property acquired through a tax deferred exchange is $350,000, then subtracting the unrecognized gain of $125,000 equals the substitute basis of $225,000. The effect of this adjustment to basis is to build in the deferred $125,000 gain into the property acquired. If the new property were sold the next day for $350,000, a $125,000 gain would be reported.
42. **Sunk costs**
    Investment costs that are committed and cannot be recovered.
43. **TI**
    Tenant improvements: Preparation of leased premises prior to or during a tenant's occupancy, which may be paid for by either the landlord, the tenant, or both.
44. **Total effective rent**
    The total dollar amount (cash flow) that the tenant actually will pay out over the entire period analyzed.

* Source of definitions: National Association of Realtors and CoStar.com