

# Commercial Real Estate Glossary

Key words, terms, and acronyms for residential agents moving into commercial

**Commercial real estate has its own language. The faster agents learn the language, the faster they can recognize opportunities, ask better questions, and know when to bring in the right expert.**

## A

### **Absorption Rate**

The rate at which available commercial space is leased or sold in a specific market over a certain period of time.

### **ADA, Americans with Disabilities Act**

Federal accessibility law that may affect commercial properties, including parking, entrances, restrooms, ramps, and public-access spaces.

### **Anchor Tenant**

A major tenant in a shopping center or commercial development that helps attract traffic to the property.

### **Appraisal**

A professional opinion of value. In commercial real estate, an appraisal may consider income, comparable sales, replacement cost, and market conditions.

### **Asset**

A property or investment owned by a person or company.

## B

### **Base Rent**

The starting rent amount a tenant pays before additional expenses such as NNN, CAM, utilities, or other charges.

### **Build-Out**

Improvements made to a commercial space so it can be used by the tenant or owner.

### **Buyer Representation Agreement**

An agreement between a buyer and broker that defines the broker's role, duties, compensation, and representation.

## C

### **CAM, Common Area Maintenance**

Charges tenants pay for the upkeep of shared property areas such as parking lots, landscaping, exterior lighting, sidewalks, hallways, and common restrooms.

### **Cap Rate, Capitalization Rate**

A measure of return on an income-producing property. Formula: NOI divided by Purchase Price equals Cap Rate.

### **Cash-on-Cash Return**

A measure of return based on the cash invested by the buyer compared to the annual cash flow.

### **CCIM, Certified Commercial Investment Member**

A respected commercial real estate designation focused on investment analysis, market analysis, financial analysis, and commercial decision-making.

## **Certificate of Occupancy, CO**

A document issued by a local government confirming that a building or space is approved for occupancy and use.

## **Clear Height**

The usable vertical height inside an industrial building, measured from the floor to the lowest overhead obstruction.

## **Closing**

The final step in a sale where documents are signed, funds are transferred, and ownership changes hands.

## **Commercial Lease**

A lease agreement for business-use property, such as office, retail, industrial, or special-use space.

## **Commercial Property**

Real estate used for business, investment, income, or non-residential purposes. Examples include office, retail, industrial, multifamily, land, and special-use properties.

## **Commission Agreement**

An agreement that states how a broker will be paid for a commercial transaction.

## **Comparable Sales, Comps**

Recently sold or leased properties used to help estimate value or market rent.

## **Contingency**

A condition that must be satisfied for a contract to continue.

# **D**

## **Debt Service**

The required loan payments on a property, usually including principal and interest.

## **Debt Service Coverage Ratio, DSCR**

A lender's measurement of whether the property income can cover the loan payments. Simple formula: NOI divided by Annual Debt Service equals DSCR.

## **Deed Restrictions**

Private restrictions that limit how a property may be used, even if zoning might otherwise allow the use.

## **Deferred Maintenance**

Repairs or maintenance that should have been completed but were postponed.

## **Demographics**

Market information about the population in an area, such as income, age, household size, traffic patterns, and consumer behavior.

## **Dock-High Door**

A loading door built at truck-bed height, commonly used in warehouse and distribution properties.

## **Due Diligence**

The investigation period where the buyer or tenant studies the property before fully committing to the transaction.

# **E**

## **Earnest Money**

Money deposited by a buyer to show good faith in a purchase transaction.

## **Easement**

A legal right for someone to use part of another person's property for a specific purpose, such as access, utilities, drainage, or ingress and egress.

## **Entitlements**

Government approvals needed for development, such as zoning changes, permits, platting, site plans, or use approvals.

## **Environmental Site Assessment, ESA**

A report that investigates possible environmental concerns with a property.

## **Estoppel Certificate**

A document usually signed by a tenant confirming important lease facts, such as rent amount, lease dates, deposits, and whether either party is in default.

## **F**

### **Feasibility Period**

A period of time in a commercial contract where the buyer investigates whether the property works for the intended use.

### **Flex Space**

A commercial property that combines office, showroom, warehouse, or light industrial use.

### **Floor Area Ratio, FAR**

A zoning measurement comparing building size to land size.

### **Free Rent**

A negotiated period where the tenant does not pay rent, often used as an incentive in commercial leasing.

## **G**

### **Grade-Level Door**

A loading door at ground level, commonly used for vehicles, equipment, or smaller deliveries.

### **Gross Income**

The total income a property produces before expenses are subtracted.

### **Gross Lease**

A lease where the tenant usually pays one rent amount, and the landlord typically pays many or all property expenses.

### **Gross Rent Multiplier, GRM**

A simple valuation method comparing property price to gross rental income. Formula: Purchase Price divided by Gross Annual Rent equals GRM.

## **H**

### **Highest and Best Use**

The most profitable legally permissible, physically possible, and financially feasible use of a property.

## **I**

### **Industrial Property**

Commercial property used for warehousing, distribution, manufacturing, storage, contractors, or logistics.

### **Ingress and Egress**

The legal ability to enter and exit a property.

### **Investment Property**

Real estate purchased primarily to generate income, appreciation, or return on investment.

## L

### **Landlord**

The owner of a property being leased to a tenant.

### **Lease Commencement Date**

The date a lease officially begins.

### **Lease Expiration Date**

The date a lease ends unless renewed or extended.

### **Lease Option**

A lease provision giving the tenant the right, but not the obligation, to renew, extend, or sometimes purchase.

### **Lease Rate**

The rental rate for a commercial property, often quoted per square foot per year.

### **Letter of Intent, LOI**

A preliminary document outlining the basic terms of a proposed commercial deal before the final contract or lease is prepared.

### **Listing Agreement**

An agreement between a seller or landlord and a broker authorizing the broker to market the property.

### **Load Factor**

The difference between usable square footage and rentable square footage in a multi-tenant building.

## M

### **Market Rent**

The rent a property could reasonably command in the current market.

### **Mixed-Use Property**

A property with more than one use, such as retail on the first floor and apartments above.

### **Multifamily**

Residential rental property with multiple units. Larger apartment properties are often analyzed as commercial investments.

## N

### **Net Lease**

A lease where the tenant pays base rent plus some property expenses.

### **Net Operating Income, NOI**

Income a property produces after operating expenses are subtracted, but before loan payments, income taxes, depreciation, and major capital improvements. Formula: Gross Income minus Operating Expenses equals NOI.

### **NNN Lease, Triple Net Lease**

A lease where the tenant typically pays base rent plus property taxes, insurance, and maintenance.

## O

### **Occupancy Rate**

The percentage of rentable space that is currently occupied.

### **Office Property**

Commercial property used by professional, medical, administrative, or service businesses.

## **Operating Expenses**

The regular costs of operating a property, such as taxes, insurance, maintenance, utilities, management, landscaping, and repairs.

## **Owner-User**

A buyer who purchases commercial property to operate their own business from the property.

## **P**

### **Parking Ratio**

A measurement of available parking spaces compared to building size, often expressed as spaces per 1,000 square feet.

### **Phase I Environmental Site Assessment**

An initial environmental review used to identify potential contamination risks.

### **Pro Forma**

A financial projection showing how a property is expected to perform in the future. It is a forecast, not a guarantee.

### **Property Management**

The operation and oversight of real estate, including tenant relations, rent collection, maintenance, leasing, and financial reporting.

## **R**

### **Rent Abatement**

A period where rent is reduced or waived, often negotiated as part of a lease.

### **Rent Roll**

A summary of rental income and tenant information for an income-producing property.

### **Rentable Square Feet, RSF**

The square footage used to calculate rent, often including the tenant's usable space plus a share of common areas.

### **Retail Property**

Commercial property used for businesses that sell goods or services directly to customers.

### **Return on Investment, ROI**

A measure of the profit or return from an investment compared to the amount invested.

## **S**

### **Sale-Leaseback**

A transaction where an owner sells a property and then leases it back from the buyer.

### **Second-Generation Space**

Commercial space that has already been built out for a prior tenant or use.

### **Shell Space**

Unfinished commercial space that needs build-out before it can be occupied.

### **SIOR, Society of Industrial and Office Realtors**

A professional designation and organization for high-performing industrial and office real estate professionals.

### **Special-Use Property**

A property designed for a specific purpose, such as a church, daycare, school, hotel, car wash, funeral home, gas station, or event center.

## **Survey**

A professional drawing showing property boundaries, improvements, easements, encroachments, and other site details.

## **T**

### **TACS, Texas Accredited Commercial Specialist**

A Texas-focused commercial real estate education path for agents who want structured commercial training.

### **Tenant**

The person or business leasing space from a landlord.

### **Tenant Improvements, TI**

Improvements made to a commercial space so the tenant can use it for their business.

### **Tenant Improvement Allowance, TIA**

Money the landlord agrees to contribute toward tenant improvements.

### **Tenant Representation**

Brokerage representation of a tenant looking to lease commercial space.

### **Term**

The length of a lease or contract obligation.

### **Traffic Counts**

Data showing the number of vehicles passing a location, often important for retail and restaurant properties.

### **Triple Net Lease**

Another name for an NNN lease, where the tenant usually pays base rent plus taxes, insurance, and maintenance.

## **U**

### **Usable Square Feet, USF**

The actual space a tenant can use inside their premises.

### **Use**

The specific business or purpose for which a property will be occupied.

## **V**

### **Vacancy Rate**

The percentage of available space that is not currently occupied.

### **Value-Add Property**

A property with potential for increased value through improvements, better management, higher rents, or reduced expenses.

## **Z**

### **Zoning**

Local government rules controlling how property may be used, such as residential, commercial, industrial, mixed-use, or special-use categories.

### **Zoning Verification**

The process of confirming whether a property's zoning allows the client's intended use.

## Quick Acronym List

Acronym	Meaning
ADA	Americans with Disabilities Act
ALC	Accredited Land Consultant
CAM	Common Area Maintenance
CCIM	Certified Commercial Investment Member
CO	Certificate of Occupancy
CIPS	Certified International Property Specialist
CPM	Certified Property Manager
DSCR	Debt Service Coverage Ratio
ESA	Environmental Site Assessment
FAR	Floor Area Ratio
GRM	Gross Rent Multiplier
LOI	Letter of Intent
NOI	Net Operating Income
NNN	Triple Net Lease
ROI	Return on Investment
RSF	Rentable Square Feet
SIOR	Society of Industrial and Office Realtors
TACS	Texas Accredited Commercial Specialist
TI	Tenant Improvements
TIA	Tenant Improvement Allowance
USF	Usable Square Feet

**Class reminder:** If you are new to commercial real estate, stay inside your competency, involve your broker, and get guidance from an experienced commercial professional.