

# Commercial Real Estate Terms and Definitions

By Spenser Robinson, DBA

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## About NAIOP

NAIOP, the Commercial Real Estate Development Association, is the leading organization for developers, owners and related professionals in office, industrial, retail and mixed-use real estate. NAIOP comprises some 21,000 members in North America. NAIOP advances responsible commercial real estate development and advocates for effective public policy. For more information, visit [naiop.org](http://naiop.org).

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

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## Disclaimer

This project is intended to provide information and insights to industry practitioners and does not constitute advice or recommendations. NAIOP disclaims any liability for actions taken as a result of this project and its findings.

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# Introduction

In 2004, the NAIOP Research Foundation funded a project to identify and define key words and concepts in the commercial real estate (CRE) field. The goal was to provide a document that included standardized terminology for the CRE industry.

To accomplish this, NAIOP assembled a task force made up of NAIOP members, representing major disciplines in the CRE industry, including developers, investors, financiers, brokers and researchers. A project team, spearheaded by Deloitte Consulting LLC, gathered and constructed definitions, then solicited comments and feedback from NAIOP members and industry consultants. Definitions for selected commonly used office and industrial terms were gathered from real estate associations, research organizations, developers, brokerage firms and technology providers. Between 2008 and 2010, a group of national research directors from brokerage and data firms reviewed the office and industrial definitions and updated them to reflect current practices and information. Between June and December 2016, another group of national research directors updated the document again.

For the 2024 edition of Commercial Real Estate Terms and Definitions, the author reviewed secondary sources and sought input from members of the national research directors group as well as other CRE practitioners to identify terms that needed to be added or amended to match current use. This edition includes terms that have grown in importance since 2017, such as those related to last-mile distribution and cold storage, and a new section on environmental, social and governance (ESG) building certification standards. The building type and classification matrices have also been updated to match current design standards for new construction.

# Building Status Definitions

## **Delivered**

A building that has completed construction. In most cases, this definition includes a certificate of occupancy (COO). (Synonym: Completion)

## **Horizontal Improvements**

Typically, horizontal improvements refer to enhancements to the land. Examples include, but are not limited to, excavation and fill of the land; grading in preparation for construction; installation of electric, sewer and other utilities; and development of roads and egress.

## **Letter of Intent (LOI)**

A letter of intent is a written document outlining a preliminary agreement between two or more parties before an actual agreement, such as a lease, is finalized. It is similar to a term sheet or memorandum of understanding (MOU). Typically, LOIs are intended to be non-binding, although certain provisions of them such as non-disclosure and exclusivity are typically binding. The intent is to protect both parties to the transaction until the transaction is executed.

## **Planned**

A building, community or set of physical improvements that has received required municipal approvals but has not yet started construction.

## **Proposed**

A building, community or set of physical improvements under consideration but not yet approved by the appropriate municipal bodies (e.g., planning, zoning).

## **Under Construction**

A building is under construction when construction permits have been obtained and site excavation has begun. If a site is being redeveloped, demolition of existing structures does not necessarily indicate that construction has begun. Sites are sometimes cleared years in advance of a groundbreaking. (See Horizontal Improvements and Vertical Improvements)

## **Under Renovation**

A building is typically under renovation when construction permits have been obtained and demolition has begun. If an existing building is gutted extensively (e.g., elevators and bathrooms do not function and it cannot therefore be occupied by a tenant), then the building should be removed from inventory and redelivered when the certificate of occupancy is issued.

## **Vertical Improvements**

Typically, vertical improvements refer to construction of a physical structure. Buildings of all intended uses, including but not limited to a single-story industrial tilt-up concrete structure, a high-rise office structure, a mixed-use residential or a single-family home, are the most common type of vertical improvement. However, signage, data broadcast towers and other physical improvements could also be considered vertical improvements.

# Types of Development and Redevelopment Projects

## **Build-to-suit**

A building that is designed and tailored for a specific tenant, either because the tenant is unable to find suitable space in the existing market or wishes custom design features for their business. The build-to-suit project is usually contracted by the tenant/occupant.

## **Conversion**

A building that is changed from one use to another (e.g., an office building that is converted to a multifamily building). Space being converted is removed from current inventory and included in the under-construction category for the planned future use (e.g., an office building being converted to a multifamily building will be removed from office inventory and included under multifamily space, or number of units, under construction). (Synonym: Adaptive Reuse)

## **Infill**

Infill is the development of one or more improvements on vacant or underutilized land within largely developed areas. Infill development is typically done in dense environments where land is scarce but may also occur in developed portions of rural areas. (Synonym: Land Recycling)

## **Mixed-use Development**

A project that combines multiple land uses such as retail, office, residential or hospitality facilities that are fully integrated into one project. May be on a single site or adjacent sites in the same development. Examples include an urban tower with ground-level retail, some floors of office, a hospitality floor, and multiple floors of housing (rental or ownership). Similarly, those uses could be contained in multiple buildings connected physically or by pedestrian-friendly pathways. Some newer models of mixed-use development also include warehouse or distribution space adjacent to other uses in the same development. Mixed-use development tends to increase walkability and has the potential to mitigate traffic.

## **Redevelopment**

The demolition and removal of existing structures on a physical site followed by the construction of new structures or other improvements. Redevelopment typically occurs when the highest and best use of the land changes, or when increased demand factors make previously underutilized development economically feasible.

## **Renovation**

The improvement and repair of a building. This may be to restore historical features, repair deferred maintenance to current standards, or improve systems. Typically, core structural components remain in place, although they may be replaced/restored. Renovation frequently includes a retrofit of mechanical systems.

**Retrofit**

Modernization of building systems such as heating, ventilation and air conditioning (HVAC); security; fire alarms; and energy management. The tenant remains in the building, and the building use and square footage do not change.

**Speculative**

A building developed and constructed without any preleasing in place. The development team typically expects a strong market for leasing or sale during, or at the completion of, construction. Generally considered to be higher risk than build-to-suit development.

# Measurement Terminology

This section provides information about metrics and measures used to define and quantify market, parcel and building elements.

## Location and Site Definitions

### Air Rights

Air rights are part of the bundle of rights associated with fee simple ownership of land. They include rights to control and use the space above the land and buildings. Air rights may be limited by municipal code (e.g., airport flight patterns, height limitations). Air rights may or may not include transferable development rights (TDR).

### Brownfield

A brownfield is a property where expansion, redevelopment or reuse may be complicated by the presence or potential presence of a hazardous substance, pollutant or contaminant.

### Exurban

An emerging residential area beyond built-up suburbs and typically at the edge of a metropolitan area.

### Floor Area Ratio (FAR)

FAR is the relationship between the total square footage of a building and the total square footage of the parcel on which the building is located. It is typically calculated by dividing the total square footage of the building by the land area in square feet. For example, if a 20,000-square-foot building is built on a 10,000-square-foot lot, the FAR is 2.0.

### Market and Submarket

In commercial real estate (CRE), the terms “market” and “submarket” have many characteristics.

- 1) Hierarchy: In terms of geographic hierarchy, markets may be defined as:
  - a) Core Based Statistical Areas (CBSAs), which consist of the county or counties (or equivalent entities) associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties. A CBSA consists of both metro and micro statistical areas.
  - b) Metropolitan Statistical Areas (MSA), which consist of the county or counties (or equivalent entities) associated with at least one urbanized area of at least 50,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties.
  - c) Micropolitan statistical areas, which consist of the county or counties (or equivalent entities) associated with at least one urban cluster of at least 10,000 but less than 50,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties.
  - d) Submarkets, which consist of economically similar, geographically bounded (e.g., by a river) or otherwise similar areas within a market.

- 2) **Boundaries:** Markets tend to have generally accepted geographic boundaries that do not overlap. Submarket definitions may vary depending on the source of the submarket definition (e.g., major brokerage firms or data providers). They are most often bound by streets, roads and natural features such as parks and rivers, which help indicate where one market or submarket ends and another begins.
- 3) **Purpose:** Markets and submarkets are the foundation upon which analysts track real estate fundamentals such as vacancy, absorption, rents and construction activity.
- 4) Markets and submarkets are further broken down by the total number of buildings and total square footage in those buildings.
- 5) **Product types:** Markets and submarkets for each major property type may have separate and distinct boundaries. In some instances, the geographic markets for two different property types (e.g., office and industrial) may be the same or very similar.

### **Parking Ratio**

A ratio calculated by comparing the number of automobile parking spaces at a project to the gross leasable area (GLA) of a building. This ratio is usually expressed in number of spaces per 1,000 square feet of gross leasable space. It varies by property use, with labor-intensive operations needing higher parking ratios. For example, a building with a GLA of 800,000 square feet would have 800 spaces expressed as 8 spaces/1,000 square feet.

### **Submarket**

Submarkets are geographic divisions of markets. These smaller divisions or boundaries are generally recognized and accepted by the real estate industry and the business community in a market and region. Submarkets are geographic boundaries that delineate core areas that are competitive with one another, and together they constitute a generally accepted secondary set of competitive areas. They contain properties sufficient to provide meaningful information for aggregate statistics.

### **Suburban**

Suburban generally describes being in a geographic area outside of the primary city boundaries. Suburban areas typically exhibit less population density than in the urban core.

### **Town Center**

A historical term used to refer to the commercial, civic or geographic center of a community. Today, the term is associated with retail and has come to be known as a robust retail cluster with civic or open spaces in proximity to a variety of uses such as residential, office, retail and hotel.

### **Transferable Development Rights (TDRs)**

These are voluntary programs sometimes found in areas with density restrictions or prescribed FAR limits. They permit the owner of development rights to sell (transfer) those rights to another development in the area. These transfers may occur within dense areas and be constrained to within a submarket, or they may occur with transfers from more rural areas to more dense areas, depending on the voluntary market. As an example, New York City has had TDRs since the 1960s.

## **Transit-oriented Development (TOD)**

Real estate projects that are built around public transport to maximize access to shared transportation modes. Typically, the TOD project is dense and walkable, and it includes a mix of uses such as residential, office, retail, hotel and entertainment.

### **Transit Score**

A number between 0 and 100 that measures the relative usefulness of nearby routes. “Usefulness” is typically measured by a weighted algorithm of characteristics such as distance to the nearest stop; mode of the route such as bus, ferry or rail; and frequency of service.

- 90–100 Rider’s Paradise: World-class public transportation
- 70–89 Excellent Transit: Transit convenient for most trips
- 50–69 Good Transit: Many nearby public transportation options
- 25–49 Some Transit: A few nearby public transportation options
- 0–24 Minimal Transit: Possible to get on a bus

### **Urban**

The definition of urban evolved with the 2020 U.S. census. Formerly, urban generally referred to a geographic boundary with an area or cluster of at least 50,000 people. Current census definitions of urban must meet all the following criteria:

- 1) An urban core with at least 425 housing units per square mile.
- 2) At least 200 housing units per square mile in the remaining urban area.
- 3) A minimum of one high-density area of at least 1,275 housing units per square mile.

### **Walk Score**

A number between 0 and 100 that measures the amount of amenities such as retail, businesses, parks, theaters and schools that can be accessed by foot inside a 1-mile radius from a particular address.

- 90–100 Walker’s Paradise: Daily errands do not require a car
- 70–89 Very Walkable: Most errands can be accomplished on foot
- 50–69 Somewhat Walkable: Some errands can be accomplished on foot
- 25–49 Somewhat Car-dependent: Most errands require a car
- 0–24 Very Car-dependent: Almost all errands require a car

## Base Building Definitions

### Common Area

The generally accessible areas found on each floor of an office building such as washrooms, janitorial closets, electrical rooms, telephone rooms, mechanical rooms, elevator lobbies and public corridors that are available for use by all tenants on that floor. Similar structures in an industrial building. May include parking lot and landscaped areas. It does not include major vertical penetrations such as elevator shafts, stairways, equipment runs, etc.

### Core Area

The common area plus vertical penetrations in an office building measured in square feet. Core area is typically expressed as a percentage of net rentable area. This factor, which ranges from 5 to 20 percent for typical office buildings, can be computed for an entire building or a single floor of a building.

### Floor Plate

The gross square footage of each floor in a multistory building. Individual floor plate sizes may vary according to the design of a building.

### Functional Obsolescence

Term used to characterize a building that does not meet current market standards in design or utility. Functionable obsolescence may be incurable, for example, if the current industrial market demand is for 40-foot clear height and the building has a 15-foot clear height. Functional obsolescence may be curable in some instances, as in a complete revamp of electrical and HVAC systems to meet current office market demand.

### Load Factor or Core Factor

The load factor is calculated by dividing the rentable building area (RBA) by the usable area. This factor can then be applied to the usable area to convert it to RBA for comparison. In markets where space is leased on the basis of the usable area, if the load factor is 15 percent, then the usable area can be multiplied by 1.15, resulting in the RBA. (Synonym: Add-on Factor)

### Shell Space

Space within a property without any, or a minimal level of, interior improvement and finish. Frequently refers to space in a newly constructed building awaiting a tenant to customize interior demising walls, electrical or other space design needs.

### Year Built

The year the building was delivered to the market as a result of completed construction.

### Year Renovated

The year the building last received a certificate of occupancy (COO) for a major renovation.

# Environmental, Social and Governance and Building Certification Definitions

\*Note that public ESG claims may affect reputational risk and could constitute legal statements subject to compliance for firms governed by the final version of SEC Rule S7-10-22 and California Legislation. Private firms making statements that public firms rely upon for ESG reporting may be subject to the same. It is recommended firms ensure any ESG claims are aligned with an accepted global reporting standard.

## **eGrid**

The Emissions & Generation Resource Integrated Database (eGRID) tracks the environmental characteristics of the electricity generated across most of the United States. The data include the composition of the generation from gas, coal, nuclear, hydro, wind, biomass, solar, oil, geothermal and other fossil/non-fossil fuels. Many greenhouse gas voluntary and compliance reporting standards require localized eGRID data for reporting.

## **Environmental, Social and Governance (ESG)**

ESG stands for environmental, social and governance considerations. Environmental frequently refers to an asset's or firm's carbon footprint and conservation of resources such as energy, water and waste. May also include sourcing of materials and related renewable energy considerations. Social considerations include promoting diversity and inclusion, ensuring employee welfare, respecting human rights and contributing positively to local communities. Governance pertains to transparent and ethical decision-making, board composition, executive compensation and risk management.

## **Environmental Product Declaration (EPD)**

Environmental Product Declarations (EPD) are Type III environmental declarations (following ISO 14025). The ISO-based EPDs enable firms to present environmental information in a standardized manner. EPDs communicate the full life cycle impact of a product. EPDs that meet most governmental standards have been independently verified. As of 2022, the General Services Agency (GSA) requires EPDs for concrete and asphalt for all GSA projects.

## **ENERGY STAR**

ENERGY STAR is a voluntary U.S. Environmental Protection Agency (EPA) program through which building owners may—and in some jurisdictions are required to—submit their building energy information. ENERGY STAR's benchmarking tool for commercial buildings is widely used. ENERGY STAR certified buildings must perform in the top quartile of similar buildings as measured by the benchmarking tool.

## **Fitwel Certification**

Fitwel is a wellness related building certification. It was initially established by the U.S. Centers for Disease Control (CDC) and Prevention and the U.S. General Services Administration. It measures across seven health impact categories: impacts surrounding community health, reduces morbidity and absenteeism, supports social equity for vulnerable populations, instills feelings of well-being, enhances access to healthy foods, promotes occupant safety, and increases physical activity.

## **Global Reporting Initiative (GRI)**

The Global Reporting Initiative (GRI) is a set of sustainability reporting standards. GRI claims to be the most-used ESG standard globally.

## **International Financial Reporting Standards (IFRS)**

The IFRS Foundation is a non-profit that maintains internationally and globally accepted accounting and sustainability disclosure standards. The International Accounting Standards Board (IASB) maintains accounting standards, which are accepted in most countries outside the United States that use Generally Accepted Accounting Principles (GAAP). The International Sustainability Standards Board (ISSB) released its first international greenhouse gas and general climate risk reporting standards in 2023.

## **International Organization for Standardization (ISO)**

The International Organization for Standardization (ISO) develops and publishes international standards used across a variety of industries. The ISO 14000 series encompasses environmental management. Relevant to real estate practitioners are the ISO 14064 Greenhouse Gases standard, which systematically measures carbon footprints, and the ISO 14025 Environmental Labels and Declarations standard, which measures a product's environmental footprint (including the real estate component).

## **International Sustainability Standards Board (ISSB)**

The ISSB is one of the standards-setting bodies within the IFRS. The IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information established a widely recognized guideline for sustainability reporting. IFRS S2 Climate-related Disclosures established guidelines for firms to report their climate-related risks and opportunities. Numerous government agencies and regulators have begun to refer to ISSB standards for mandatory and/or voluntary reporting.

## **LEED (Leadership in Energy and Environmental Design)**

A third-party certificate program under the U.S. Green Building Council (USGBC) for the design, construction and operation of high-performance sustainable buildings. Certificate levels are as follows: Certified, Silver, Gold and Platinum. The levels are based on points obtained in six areas: sustainable sites, water efficiency, energy and atmosphere, materials and resources, indoor environmental quality, and innovation in design.

## **Net Zero**

Net zero for a building essentially means that the building produced no net greenhouse gas emissions. This is distinguished from carbon neutrality, which may mean offsetting emissions through a registered and validated carbon offset. Among other organizations, ISO is currently creating a standardized definition of net zero.

## **Scope 1**

The EPA defines Scope 1 emissions as “direct greenhouse (GHG) emissions that occur from sources that are controlled or owned by an organization (e.g., emissions associated with fuel combustion in boilers, furnaces, vehicles).”<sup>1</sup>

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<sup>1</sup> United States Environmental Protection Agency, “Scope 1 and Scope 2 Inventory Guidance,” August 21, 2023, <https://www.epa.gov/climateleadership/scope-1-and-scope-2-inventory-guidance>.

## Scope 2

The EPA defines Scope 2 emissions as “indirect GHG emissions associated with the purchase of electricity, steam, heat, or cooling.”<sup>2</sup> Scope 2 emissions often use the eGRID factor in measurement.

## Scope 3

The EPA defines Scope 3 emissions as “the result of activities from assets not owned or controlled by the reporting organization, but that the organization indirectly affects in its value chain. Scope 3 emissions include all sources not within an organization’s scope 1 and 2 boundary.”<sup>3</sup>

For example, the grid-based energy usage by the tenant of an industrial property on a NNN lease would have Scope 2 emissions for the tenant since they own and control the electricity usage. The same emissions are Scope 3 emissions for the real estate firm that leases out the property. This definition is illustrative and may or may not apply in other contexts (for example, emissions from a parking lot, landscaping, lighting, etc., may be Scope 2 for the owner, and reporting may vary by size, total emissions and regulatory reporting requirements).

## WELL Building Standard

WELL is a building certification that signifies a superior level of health and wellness in the building. It measures a building’s performance across seven domains: air, water, nourishment, light, fitness, comfort and mind.

## United Nations Principles of Responsible Investment (UNPRI)

Institutional investors from across the world partnered to create the Principles for Responsible Investment under the aegis of the United Nations. The UNPRI serves as a framework that investors can follow to meet ESG objectives through investment and in their interactions with companies.

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<sup>2</sup> Ibid.

<sup>3</sup> United States Environmental Protection Agency, “Scope 3 Inventory Guidance,” December 15, 2023, <https://www.epa.gov/climateleadership/scope-3-inventory-guidance>.

# Space Markets and Leasing Terminology

Data provide information about the health of real estate buildings and real estate markets. Real estate metrics run the gamut from basic measures of inventory and available space to indicators of leasing activity, rents, concessions and various forms of leases.

## Asking Rent

The amount asked by landlords for available space, expressed in dollars per square foot. Office rates are frequently expressed in dollars per square foot per year, and industrial rates are frequently expressed as dollars per square foot per month. Quoting conventions may vary market to market in terms of monthly or annual.

## Available Space

The total amount of space that is currently being marketed for lease. It includes space that is vacant and also space that is currently occupied but will be vacant in the near term, and space that is currently under construction but available to be preleased. Available space can include both direct and sublet space. If sublet space is excluded from the calculation, the term “direct available space” is recommended.

## Blend and Extend

A type of renewal that allows tenants to blend their existing lease into a new and longer lease. If a tenant is paying rent that is above current market rents, this arrangement will lower the current rental rate. The tenant benefits from an immediate reduction in the rental rate, and the landlord benefits by securing a tenant for a longer term. Conversely, if rents are rising quickly and lease expiration is approaching, a tenant may renew early and extend to lock in lower rates.

## Breakpoint

The level of sales at which percentage rent begins. It is typically the base rent divided by a predefined percentage in the lease. If the base rent were \$100,000 and the percentage were five percent, the breakpoint would be \$2,000,000 ( $\$100,000/5\% = \$2,000,000$ ). (See [Percentage Rent](#).)

## Competitive Inventory

Single-tenant and multitenant buildings that are owned by one party and made available for lease to another party. Owner-occupied and government-owned buildings are typically excluded from the competitive inventory.

Note: Data providers each have their own set of buildings that make up the competitive inventory in their foundational data set. Some include buildings larger than 20,000 square feet, while others include buildings as small as 5,000 square feet. Those modest differences in the competitive set can cause variations in metrics such as vacancy and absorption reported by each provider.

## Competitive Set

A subset of total inventory that enables one to isolate and compare buildings based on similar characteristics rather than simply by location. For example, a broker preparing to show available space to a tenant may identify five properties to be toured based on location, square footage available, class, asking rent, parking ratio, etc. An investment sales or finance broker may generate a competitive set of buildings according to access to transit, year built, percentage leased, etc., to help estimate the value of an asset to be bought, sold or refinanced.

**Concessions**

To secure a tenant when vacancy is high in a market or submarket, a landlord may need to grant concessions in the lease. Those concessions most often take the form of free rent but may also include lease buyouts, moving allowances and above-market tenant improvement allowances.

**Construction Starts**

The total number of buildings that broke ground (commenced construction) over a given period. The starts are typically measured in number of buildings and square feet.

**Contiguous Block(s)**

Multiple suites or spaces typically adjacent on the same floor in a building.

**Contract Rent (Base Rate)**

The rental rates stipulated in an executed lease agreement.

**Co-tenancy**

A clause in a retail tenant's lease that provides remedies to the tenant if another tenant, typically an anchor or major tenant, ceases its operations at the property.

**Creditworthy Tenant**

A tenant with strong financial statements and operating history. For publicly traded firms, that typically means the firm's debt could be rated as investment grade by a rating agency. For private firms, that means the lessor's analysis of tenant financial statements demonstrates comparability to an investment-grade publicly traded tenant. Financial and business stability implies that the tenant is highly likely to honor its lease commitment; the tenant is, therefore, viewed as a low-risk renter. Buildings with credit tenants as anchors are considered less risky investments for lenders.

**Cubic Volume**

In many industrial facilities, the cubic volume of the building must be calculated so a user can determine the size and type of racking and sorting equipment that can be accommodated. In some markets, pricing of industrial facilities is moving toward pricing per cubic foot (meter) rather than square foot (meter).

**Direct New Space**

Space offered for lease directly by the building owner or landlord. If space is offered for lease by a building tenant, it is not direct space but rather is sublet space.

**Direct Vacancy Rate**

The total amount of physically vacant space divided by the total amount of existing inventory, expressed as a percentage. Space that is under construction is not included in vacancy calculations.

## **Effective Rent**

Definition A) Expressed in dollars per square foot either per year or per month depending on market standards, it is a measurement of the value of the lease when all the concessions plus escalations are included. Effective rent calculations may vary according to local market practices; for example, in some markets, broker commissions are included.

Definition B) Effective rent may also mean the discounted and normalized rent. The process to calculate an effective rent would 1) Calculate the net present value (NPV) of the expected rents using a discount rate appropriate to the firm (e.g., per square foot rents for the next three years of \$25, \$26 and \$27 with a 10 percent discount rate would be \$64.50); 2) Calculate a payment for the term of the lease based on the NPV and the discount rate (e.g., the payment for the example here would be \$25.94). This can be an especially useful tool when comparing rent cash flows with “free rent” periods to those without.

## **Encumbered Space**

A block of space offered for lease by a landlord to which a third party has some legal right. Examples could include another tenant’s potential right to lease or occupy the space at some future date. It could include some shared space for loading/unloading. All encumbrances should be explicit in the lease.

## **Go Dark**

A clause in a retail tenant’s lease that allows the tenant to cease operations at a property if a defined event, such as the departure of an anchor tenant, should occur.

## **Gross Absorption**

The total amount of space occupied over a given period, without subtracting the amount of space vacated.

## **Gross Building Area (GBA)**

The total interior floor area of a building, usually measured from the innermost edge of the outside walls.

## **Gross Leasable Area (GLA)**

The area equal to the summation of all rentable areas plus all common areas of a building.

## **Gross Lease**

A lease contract in which a landlord receives stipulated rent from a tenant and is obligated to pay all the property’s operating expenses and real estate taxes.

Note: Disclosure of the specified costs of operation is required in some states. (See Common Lease Types Matrix.) (Synonym: Full-service Lease)

## **Ground Lease**

A lease agreement (contract) whereby the landowner (lessor) agrees to lease a parcel of land for a set period of time to a third party (lessee). In most instances, the improvements on the property may be leased to a third party by the ground lessee.

Ground lease terms are typically 50-100 years and are rarely less than 25 years. Notably, all improvements on the land revert to the landowner at the expiration of the lease unless renewed or specifically stated otherwise.

### **Leased Space**

Space under contract between a landlord and a tenant. A contract between a tenant and a subtenant is more accurately described as subleased space.

### **Leasehold**

A leasehold is an ownership structure in which a temporary right to use land has been granted by the landowner to another party. (See Ground Lease.)

### **Leasing Activity**

Refers to the number of leases signed or square footage committed to over a specified period without regard to occupancy. Typically, leases are executed many months before a tenant occupies the space. This arrangement means that a lease can be executed in a given quarter, but the space commitment will not show up in the absorption figures until the space is occupied at some point in the future. Leasing activity includes direct leases, subleases and expansions of existing leases. Leasing activity also includes any preleasing activity in buildings that are under construction, planned or under renovation. (Synonym: Take-up)

### **Master Lease**

A controlling lease wherein a single tenant leases a multi-unit property with the right (and typically intent) to sublease the property to multiple tenants. Shopping malls and multifamily properties are examples of properties that may have a master lease to a mall operator or multifamily operator, respectively, that then manages the subtenants. All terms of the master lease must be adhered to in any sublease. (See Common Lease Types Matrix.)

### **Modified Lease**

A lease in which the landlord receives a stipulated rent, and payment of the property's operating expenses is divided between the lessor and lessee via specified terms in the lease; also called "Modified Gross." (See Common Lease Types Matrix.)

### **Net Absorption**

The net change in occupied space over a specified period. This change is measured in square feet at the building, submarket and market levels. This figure reflects the amount of space occupied minus the amount of space vacated. Net absorption can be either positive or negative.

### **Net Lease**

A lease in which the tenant pays a share of operating expenses in addition to the stipulated rent. Disclosure of the specific expenses to be paid directly by the tenant is required. (See Common Lease Types Matrix.)

### **New Space/New Supply**

Space delivered to the market that was never previously leased or occupied by a tenant. (Synonym: Completions)

**Occupancy Cost**

For a tenant, includes rent, their pro rata share of any operating costs (e.g., taxes, insurance, common area maintenance), personal property taxes and tenant insurance, and may include depreciation/amortization of tenant improvements.

**Occupied Space**

Space that is physically occupied by a tenant, subtenant or owner. Occupied space is calculated by subtracting total vacant space from total competitive inventory. If subtenant space is excluded from the calculation, then the term “direct occupied space” is recommended.

**Percentage Rent**

A lease with percentage rent includes a defined base rent accompanied by an obligation for the tenant to pay a percentage of sales or gross income over some predetermined amount. Often this amount is the breakpoint, but it may be a predetermined sales figure as well. (See Breakpoint.)

**Preleased Space**

Space that has been leased in a building that is under construction.

**Pro Rata Expense Share**

The percentage that a tenant pays of reimbursable expenses; usually, but not always, calculated by dividing the net rentable area of a tenant’s leased premises by the net rentable area of the building. Expense stops and other lease terms impact this calculation.

**Real Estate as a Service**

A business model that provides clients with scalable access to commercial space and amenities that can be used on demand and in different configurations according to client needs. Real estate as a service can serve multiple business objectives such as filling underutilized properties, providing traditional tenants with the option to flexibly expand their access to space, and providing landlords with additional revenue. (See also Coworking Space.)

**Relet Space**

Sometimes called “second-generation space,” it refers to existing space that was previously occupied by a tenant.

**Renewal Option**

The right of a tenant to extend the lease term for a specified period of time at a predefined rental rate. The rate is typically defined as a percentage of market rent, a consumer price index-based increase on previous rent, or a specified dollar amount. Often, there is a date by which this option must be executed (e.g., 30-180 days prior to termination); otherwise, the option expires.

An auto-renewal option is a type of renewal option whereby the lease term is extended automatically on a specific date (e.g., 30-180 days prior to termination) unless the tenant notifies the landlord of their intent to terminate the lease.

### **Rentable Building Area (RBA)**

The total square footage of a building that can be occupied by or assigned to a tenant for the purpose of determining a tenant's total rental obligation. Generally, RBA includes common areas in the building including hallways, lobbies, bathrooms and phone/data closets.

### **Sale Leaseback**

An owner-occupied property that is sold to a third-party investor. The previous owner becomes the tenant that pays rent to the new owner. This tactic allows property owners to convert their ownership (equity) into cash while still occupying the property.

### **Shadow Space**

A portion of leased space that is not being used by the tenant. This area can include unused space that a tenant leased and is holding for expected future growth. It can also include unused space that was previously occupied but is no longer used as a result of downsizing the company's workforce. Shadow space is difficult to measure because it is not officially marketed or tracked in industry databases. (Synonym: Phantom Space)

### **Straight-line Rent**

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

### **Sublet Space**

Space offered for lease indirectly by a tenant rather than directly by a landlord.

### **Take-up**

The amount of space that is leased by tenants in a given period of time. A measurement of gross leasing activity.

### **Total Inventory**

The total number of buildings and total square footage (net rentable area) in the competitive inventory. Buildings under construction are not part of total inventory. Total inventory increases when a new building is delivered and decreases when an existing building is demolished or changes use. Total inventory includes properties under renovation if the building remains inhabitable during the renovation but excludes properties converting to a different use.

Total inventory is typically measured at the submarket and market levels. A description of the characteristics and numeric thresholds that make up the total inventory should be provided. The total inventory figure may vary from one data provider to another as a result of tailored definitions of what constitutes the competitive inventory. (See [Competitive Inventory](#) for more information.)

### **Triple Net Lease (NNN)**

A lease agreement whereby the tenant pays taxes, maintenance and property insurance as well as all operating costs associated with the tenant's occupancy, including personal property taxes, janitorial services and utility costs. The landlord is typically responsible for the roof, HVAC, structure and sometimes the parking lot. (See [Common Lease Types Matrix](#).)

**Turnkey**

A term used to describe a landlord's agreement to provide and pay for improvements to a tenant's premises. The landlord is required to deliver the premises in a condition ready for the tenant's stipulated use.

**Usable Area**

This relative term is best compared to rentable area. Usable area is the amount of space that can actually be used by tenants within the space they lease. For example, columns inside a tenant space are counted in the measure of rentable area, but the space occupied by the column cannot be used by the tenant. A tenant's usable area does not include common areas in the building.

**Vacancy Rate**

A measurement expressed as a percentage of the total amount of vacant space divided by the total amount of inventory. This measurement is typically applied to a building, a submarket or a market.

**Vacant Space**

Inventory that is not currently occupied. If subtenant space is excluded from the calculation, the term "direct vacant space" is recommended.

**Work Letter**

A legal document that outlines the obligations of the landlord relative to the improvements necessary to prepare leased premises for a tenant's occupancy. Items typically found in a work letter include a description of the improvements, the cost thereof, the portion of the cost to be paid by the landlord, the completion date and the insurance requirements of contractors performing the improvements.

## COMMON LEASE TYPES MATRIX

Lease Type	Responsibility for Expenses	Other
<b>Gross (full service)</b>	Landlord pays all of the operating expenses and taxes.	Costs of operation must be disclosed in lease.
<b>Modified Gross</b>	Expenses are divided between tenant and landlord in a predetermined manner.	Costs may include an expense stop. Also called semi-gross, net net or double net.
<b>Net</b>	Tenant pays all operating expenses.	Landlord must disclose tenant responsibility in lease.
<b>Triple Net (Net-net-net or NNN)</b>	Tenant pays all operating expenses, taxes and insurance.	Landlord is frequently responsible for HVAC, structure, roof. Landlord is occasionally responsible for parking lot.
<b>Master</b>	Lease types vary, but master leases tend toward the NNN end of the lease spectrum.	Lessor typically has the right to sublease the space subject to any constraints in the master lease.

# Commercial Real Estate (CRE) Investment Sales Terminology

This section contains a group of frequently used terms related to the purchase and financing of real estate assets.

## **1031 Exchange or Like-kind Exchange**

U.S. Internal Revenue Code Section 1031 permits the deferral of capital gains taxes on the sale of property held for investment or productive use in a trade or a business in a like-kind exchange. With a 1031 exchange, property owners can sell their real estate and then reinvest the proceeds in ownership of a like-kind property or up to three like-kind properties, thus deferring the capital gains taxes. The owner must identify the property(ies) within 45 days and close within 180 days. 1031 exchanges are legal transactions and require a 1031 intermediary.

The like-kind exchange under Section 1031 is tax-deferred, not tax-free. When the replacement property is ultimately sold (not as part of another exchange), the original deferred gain, plus any additional gain realized since the purchase of the replacement property, is subject to tax.

## **Basis Points (bps)**

Values equal to one-hundredth of one percentage point. For example, 100 basis points = 1 percentage point.

## **Capital Expenses or Cap Ex**

Improvements (as opposed to repairs) to a fixed asset that will increase the value or useful life of that asset. A capital expenditure is typically amortized or depreciated over the useful life of the asset, as opposed to a repair, which is expensed in the year incurred.

## **Capitalization Rate or Cap Rate**

Unlevered initial expected return from the acquisition of a real estate asset calculated by dividing the first year expected net operating income (NOI) by the property sales price. For example, a property's capitalization rate (cap rate) is 10 percent if it were purchased for \$10 million and is expected to produce \$1 million in NOI during the next year. An average of capitalization rates for properties in a given market is typically referred to as the market cap rate.

Formally, a cap rate includes both a required return ( $r$ ) and growth component ( $g$ ) where cap rate =  $r-g$ . The value of a property is then  $Value_0 = NOI_1 / \text{cap rate}$ . The value in time zero equals the expected first year NOI divided by the cap rate ( $r-g$ ). Changes in capitalization rates have an inverse relationship with changes in asset values—assuming no change in NOI, an increase in a building's value will be reflected in a decrease in its capitalization rate (and vice versa).

## **Commercial Mortgage-backed Securities (CMBS)**

Securities that are collateralized by mortgages on commercial property. CMBS issuances may be backed by a pool of properties or a single asset. After issuance, these securities are spliced into "tranches" that are risk priced according to the loan to value ratio (LTV) of the tranche (and related risk measures). Individual bondholders hold an interest in a tranche. Principal and interest from the mortgages follow a prescribed cash waterfall for each tranche.

A servicer, the party responsible for the administration of mortgage loans in a CMBS transaction, acting for the benefit of the certificate holders, distributes the principal and interest payments to the bondholders.

### **Core Property/Core Fund**

A core fund, consisting of core properties, typically includes stabilized, occupied properties located in highly desirable locations. These investments typically do not include any development risk but do require typical maintenance costs. Expected returns for core properties are typically low, commensurate with the low-risk nature of these assets, and much of the return is expected to come from income. The expected returns will be lower than value add or opportunistic investments.

### **Debt Coverage Ratio (Debt-service Coverage Ratio)**

The ratio of the net operating income divided by the annual debt service requirement. Lenders use this ratio as a risk measure. Many loans include covenants (loan rules) that require borrowers to meet annual debt coverage measures.

### **Discount Rate**

A rate of return used in discounted cash flow (DCF) analysis to determine the present value of future cash flows. A discount rate reflects the risk of the investment. Higher discount rates equate to higher levels of risk and higher expected return. Lower discount rates equate to lower levels of risk and lower expected return.

### **Entry Cap Rate**

The entry cap rate represents the going-in or entry rate when acquiring a building. It is typically the projected first year's net operating income divided by the acquisition price.

### **Exit Cap Rate**

The exit cap rate, sometimes called terminal or reversion cap rate, is the expected capitalization rate at sale. For example, in a five-year discounted cash flow projection, the expected sale price would be the sixth year's project cash flow divided by the exit cap rate. Best practice for cash flow projections would have the exit cap rate at a higher yield (lower price) than the entry cap rate.

### **Internal Rate of Return (IRR)**

The annualized yield, or rate of return, on capital investment produced from an income-producing investment. Formally, IRR is the discount rate such that the discounted sum of the future cash flows (net present value) equals the initial capital investment. IRR may be measured unlevered (without debt), levered (with debt), before tax or after tax.

### **Loan-to-Value Ratio (LTV)**

The ratio between a mortgage loan and the value of the property pledged as security, usually expressed as a percentage. In a construction or renovation (bridge) loan, the loan commitment is the typical numerator.

### **Net Cash Flow**

The annual income produced by an investment property after deducting allowances for capital repairs, leasing commissions, tenant inducements (after the initial lease is up) and debt service from net operating income. (Synonym: Free Cash Flow)

### **Net Operating Income (NOI)**

The income generated after deducting operating expenses but before deducting taxes and financing expenses.

### **Net Present Value (NPV)**

The discounted sum of a projected set of future cash flows, using a selected discount rate. Each period's cash flow (typically annual) is discounted to the present time using the time value of money formula where present value equals future value divided by one plus the discount rate raised to the Nth period ( $PV = FV / (1+r)^n$ ). Spreadsheets usually calculate periods 1-N using an NPV formula. Many analysts then add back the time 0 investment (e.g., purchase price) to determine whether an investment will be profitable. Often used in concert with IRR for decision making.

### **Opportunistic Fund/Opportunistic Investment**

An opportunistic fund, consisting of opportunistic properties, includes properties either in some sort of distress or in need of (re)development. Ground-up development of a real estate project is considered an opportunistic investment. It is an investment in a parcel or site that typically involves some or all of the following: rezoning for use or density or both; net new or ground-up construction; conversion of a building from one use to another; complete gut or significant rehab of a building, requiring that it be entirely vacant to complete; or introduction of uses not previously seen on this parcel or in this area. Expected returns are high, commensurate with the high risk; they are higher than both core and value-add investments.

### **Real Estate Investment Trust (REIT)**

A legal structure that owns and operates real estate, or securities that derive their value from real estate (e.g., mortgage bonds). REITs sell shares of the equity in their holdings, either to the public through a public secondary market like the New York Stock Exchange, or privately through brokers or registered investment advisors—typically to accredited investors. REITs do not pay income taxes so long as they follow a series of rules including, but not limited to, disbursing 90 percent of net operating income to shareholders.

REITs may be diversified or specialize in an asset class such as industrial, multifamily, office, retail or various specialty real estate types (e.g., self-storage).

### **Real Estate Owned (REO)**

A property that a lender, either institutional or private, has taken back through foreclosure or a comparable legal process. REO properties are typically for sale by a financial institution.

### **Short Sale**

When the sale price of an asset is less than the amount owed to the lender and when the lender accepts this amount as full payment for the loan. Those funds not repaid to the lender will be written off. In most cases, the seller will be responsible for paying income tax on the write-off as earned income.

### **Stabilized Cap Rate**

The ratio between the net operating income produced by a property upon achieving target occupancy and its market value.

**Tenants or Tenancy in Common (TIC)**

An estate held by two or more persons, each of whom has an undivided interest, which means that each party has the right to sell or transfer the ownership of his or her ownership interest.

**Value-add Investment/Value-add Fund**

A value-add fund, consisting of value-add properties, includes investment in a real estate asset with existing cash flow (and value) that can be increased by raising occupancy, rents or both through the execution of a business plan. Owners typically carry out one or more of the following to add value to a building: improve or replace building systems, provide new finishes, introduce new amenities, improve access or circulation to the building, add square footage, etc. Expected returns are moderate, commensurate with the moderate risk; they are higher than core and lower than opportunistic investments.

# Industrial Building Terminology

The industrial real estate vocabulary section includes definitions, characteristics and features of the major industrial product types.

## **Apron**

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

## **Bay Depth**

Distance from the bay door (or dock wall) on one side of the building to the bay door (or wall) on the other side of the building.

## **Bay Width**

The distance from one end wall to the other end wall, which is typically perpendicular to the dock wall.

## **Bulk Storage**

Loading goods on pallets and setting them on the floor or stacking them on top of each other. This method requires no fixed racking system and works with a wide variety of column grid systems.

## **Cantilever Rack**

Racking system containing shelving supports that are connected to vertical supports at the rear of the rack. This type of rack is used for storing long material such as lumber and piping. It is distinguished by the supports at the rear allowing storage of objects of varying length.

## **Ceiling Height**

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

## **Clear Height**

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

## **Clear Span**

An open area with no obstructions.

## **Cold Building**

A general term for buildings incorporating refrigeration systems – includes cold storage and cold processing/manufacturing buildings.

### **Cold Storage Facility**

Typically a warehouse partially or fully designed to accommodate the temperature-control logistics needs of refrigerated and frozen goods. Cold storage may be custom built for the entire warehouse portion of the facility to be at its appropriate temperature. Alternately, many buildings are retrofitted with “box in a box” style construction that sections a portion of the facility for temperature control. Frequently, these buildings require specialized or treated foundations to prevent the slabs from cracking. (See Industrial Building Types Matrix.)

### **Column Spacing**

The distance between posts or vertical supporting beams in a building.

### **Cross Dock**

Loading docks on opposite sides of a relatively shallow distribution facility that allow for quick loading, sorting or unloading from one vehicle to another (i.e., materials from one truck at a loading dock are unloaded, sorted and reloaded onto one or more trucks).

### **Data Center**

Generally any facility that primarily contains electronic equipment to process, store and transmit digital information. Data centers may be constructed in a variety of sizes for specific functions. Industry definitions vary, but common ones include the following:

- *Enterprise data centers*—typically constructed and used by a single organization (the largest among these are typically owned by a technology-based firm; may also be called a hyperscale data center).
- *Colocation data centers*—owned and managed by service providers that rent virtual space to customers who independently manage their digital use.
- *Cloud-based and/or managed service data centers*—provide cloud-based services and/or managed services to customers on a lease basis; differentiated from colocation data centers in that they provide data storage, computing, distribution and related services as opposed to computing power managed by the lessee.
- *Edge data centers*—smaller data centers characterized by their location in a specific metropolitan area to enhance service to that geography.

(See Industrial Building Types Matrix.)

### **Distribution Building**

A type of warehouse facility designed to accommodate efficient movement of goods.  
(See Industrial Building Types Matrix.)

### **Dock-high Door**

A loading dock door that is not at ground level but is elevated to 4 feet in order to be even with the standard tractor-trailer height for loading or unloading goods without a change in elevation. Some doors, called “semi-dock” or “half dock,” are constructed at a 2-foot height to accommodate smaller or lower delivery trucks.

### **Dock Leveler**

A dock leveler mechanism aligns the dock doors to the height of the trailer/truck bed. Frequently, dock levelers have a maximum range of 5 inches above or below finish floor surface, equating to a bed height range of 43 to 53 inches. (See also Pit Leveler.)

**Door-to-square-foot Ratio**

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

**Drive-in Door**

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

**Flex Facility**

An industrial building designed to be used in a variety of ways. Space in a flex facility typically can be easily converted from office to warehouse and vice versa. Some examples of specialized flex buildings include service centers and showrooms. Flex buildings typically have at least 20 percent of the total floor area dedicated to office uses. (See [Industrial Building Types Matrix](#).)

**Fulfillment Center**

An industrial property type that enables goods to be efficiently moved or transported from a warehouse directly to a consumer.

**Gateway Distribution Facility**

Large distribution centers that serve multiple markets and are proximate to major sea or intermodal ports. They tend to be near airports, seaports or rail hubs, and peripheral to major urban areas. (See [Industrial Building Types Matrix](#).)

**High Cube**

A relative term that refers to industrial buildings with an abundance of clear height or vertical cubic space. (Synonym: High Bay)

**Industrial Building**

A structure used primarily for manufacturing, research and development, production, maintenance, and storage or distribution of goods or both. It can include some office space. Industrial buildings are divided into three primary classifications: manufacturing, warehouse or distribution, and flex. (See [Industrial Building Types Matrix](#).)

**Last-mile Distribution Facility**

Facilities designed to be within or adjacent to population centers. These smaller facilities deliver goods to end consumers. They also may deliver perishables to both consumers and local businesses. (Synonym: City Distribution, Last Touch™.<sup>4</sup> See [Industrial Building Types Matrix](#).)

**Less than Truckload or Less than Load (LTL) Shipping**

The transportation of lightweight freight or smaller groupings of freight. LTL shipments typically weigh between 151 and 20,000 pounds. LTL carriers collect freight from various shippers and consolidate that freight onto enclosed trailers for line haul (the movement of cargo between two major cities or ports) to the delivering terminal or to a hub terminal.

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<sup>4</sup> Last Touch trademarked by ProLogis.

### **Life Science Space**

Highly specialized laboratory or research and development space. The space is uniquely configured and is typically developed to the needs of the biotech tenant. It may require significant retrofit should the tenant vacate the space. The space is often characterized by robust mechanical, electrical and plumbing systems, as well as by sophisticated ventilation systems to accommodate the highly specialized and complex activities that occur inside and that involve the handling of chemicals, drugs and biological matter. This product type is sometimes considered industrial and sometimes office, depending on the firm. (Synonym: Biotech Space)

### **Loading Dock**

A platform at the shipping or delivery door of a building; it is usually situated on the same height as the floor of a shipping container on a truck or railroad car to facilitate loading and unloading (see Dock-high Door). Loading docks can be exterior ramps that protrude from a building and that are covered with a canopy or some element to protect the loading area from the elements. They can be flush with the exterior of the building and accessed through a sliding door that is adjacent to the interior of the building. Additionally, they can be accessed through a downward-sloping, occasionally covered access that allows the rear of the truck to be flush with the ground level.

### **Manufacturing Building**

A facility used for the conversion, fabrication or assembly of raw or partly wrought materials into products or goods. (See Industrial Building Types Matrix.)

### **Mezzanine Office**

Office space that is built in an industrial facility. It is usually along the perimeter of a facility and at an elevated level, creating an intermediate floor.

### **Multimarket Distribution Facility**

A large distribution facility focused on distribution to multiple urban centers. These are typically outside or between large population centers, usually at transportation hubs. (See Industrial Building Types Matrix.)

### **Office Percentage**

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

### **Palletized Racking Systems**

Rack systems designed for standard pallets with 8-foot-wide rack sections holding two pallet loads per level. Although heights and vertical spacing vary, the most common vertical spacing is 72 inches, equating to a 64-inch pallet height.

### **Pick Mezzanine**

Pick mezzanines are elevated platforms within an industrial building's interior. They may be freestanding or rack-supported and are primarily designed to allow human or automated robotic picking of individual products from racks. Some building codes may consider a mezzanine level to be an additional story of the building. Some newer facilities include multiple levels of human or robotic pick mezzanines. (Synonym: Intermediate Floor)

**Pit Leveler**

A pit leveler mechanism aligns the dock doors to the height of the vertical trailer/truck bed. Pit levelers require a recessed box at the dock door and may be mechanical, hydraulic or air-pressure powered. A typical range for bed height accommodation is 38 to 60 inches. (See also Dock Leveler.)

**Push-back Rack**

Racking system with a sliding device that pushes back pallets, thereby allowing multiple pallets to be placed in the same location.

**Radio Frequency Identification (RFID)**

Inventory-tracking technology embedded in devices that are attached to labels on packages so an item's location can be tracked.

**Rail Door**

A door that is generally side loading, has access to railroad tracks, and facilitates the loading or unloading of goods from a railroad car to an industrial building.

**Rail Service**

A railroad spur adjacent to a building structure that allows the building to be served by rail operations.

**Ramp Door**

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

**Service Center or Showroom**

A type of flex facility characterized by a substantial showroom area, usually fronting a freeway or major road. (See Industrial Building Types Matrix.)

**Side-loading Dock**

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

**Speed Bay**

The first structural bay next to the dock wall. Typically, this area is for transferring goods between trucks and racks. Speed bays are usually 60 to 70 feet deep.

**Structural Bay**

The space between structural columns in the interior of an industrial building. The width of a structural bay is measured parallel to the dock wall, and its depth is measured perpendicular to the dock wall. Structural bay dimensions affect the configuration of racking systems (if used).

### **Super Flat Floors**

Concrete floors that adhere to minimum measurements of floor flatness and levelness. The floors are found primarily in warehouses with automated systems. Precisely calibrated and leveled picking machinery and racks require level flooring to ensure proper operation. This term is becoming obsolete as most floors are now flatter than in prior decades due to improved construction technology, and modern machinery is better able to manage minor variances in the floor.

### **Third-party Logistics (3PL)**

Businesses that provide one or more logistics services such as multiclient warehousing, contract warehousing, transportation management, distribution management, inventory management and freight consolidation.

### **Truck Court**

Exterior area adjacent to an industrial building's loading docks where trucks maneuver. The most important measure of the truck court is the depth from the building to the end of the truck court. Greater depth allows for greater maneuverability and better accommodates multiple trucks.

### **Truck Terminal**

This specialized distribution building for redistributing goods from one truck to another serves as an intermediate transfer point. The facilities are primarily used for staging loads (rather than long-term storage) and possess little, if any, storage area. (See *Industrial Building Types Matrix*.)

### **Truck-turning Radius**

The amount of space a truck needs to back up to a loading dock and subsequently exit the truck court toward the road. The number of dock doors, the width between dock doors, a truck's configuration and trailer size, the size of an adjacent truck and/or trailer, and other factors contribute to this calculation. A building's truck court must be deep enough to accommodate a typical truck's turning radius under expected operating conditions. (Synonym: Swing Radius)

### **Truss**

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

### **Truss Height**

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

### **Warehouse**

A facility primarily used for the storage and/or distribution of materials, goods and merchandise. (See *Industrial Building Types Matrix* on next page.)

## INDUSTRIAL BUILDING TYPES MATRIX

		Manufacturing					Warehouse					Flex	
Primary Type	General Purpose	General Purpose Warehouse	General Purpose Distribution	Truck Terminal/Trans-load	Gateway Fulfillment Center	Multi-market Fulfillment Center	Last-mile Fulfillment Center	Cold Storage	General Purpose Flex	Service Center or Showroom	Data Center		
<b>Primary Use</b>	Manufacturing	Storage	Distribution	Truck Trans-shipment	Distribution	Distribution	Distribution	Distribution and Storage	Research and Development, Office, Lab, Light Manufacturing, High-tech, Life Science	Retail Showroom	Storage		
<b>Subsets</b>	Heavy, Light	Bulk	Overnight	Heavy, Light	Delivery directly to consumer or multi-market/last-mile center	Direct to Consumer	Direct to Consumer	Complete cold storage, Box in a Box					
<b>Clear Height (ft)</b>	18+	32+	32+	16+	40+	40+	32+	50+	28+	28+	18+		
<b>Loading (Dock) Door-to-square-foot Ratio</b>	Varies	1 per 10,000	1 per 10,000	15 per 10,000	1 per 10,000	1 per 10,000	1 per 10,000	1 per 10,000	1 per 15,000	1 per 10,000	Few		
<b>Office Percentage</b>	< 20%	< 5%	< 5%	< 5%	< 20%	< 20%	< 20%	< 5%	30+%	30+%	Low		
<b>Vehicle Parking Ratio</b>	Varies	1:1,000SF	1:1,000SF	Low	1:1,000SF	1:1,000SF	Varies	Low	High	High	Low		
<b>Trailer Parking</b>	Low	Moderate	High	Very High	High	High	High (Delivery Vehicle Space)	Moderate	Moderate	Moderate	None		
<b>Truck Court Depth</b>	130	130	130	130	130	130	130	130	130	130	n/a		

Note: This matrix is intended to be an aid in classifying the principal industrial building types. It is subject to the following considerations:

- These reflect frequently found characteristics of different properties, but actual characteristics may vary and are subject to tenant/developer needs.
- Some properties may be easily classified into a single category, and some may cross multiple functions.
- The truck court depth may depend on size; however, industry standard is 130 feet of space in a truck court for all types.

# Office Building Terminology

The office terminology section is a collection of essential and commonly used terms describing various types of office space—often identified by the type(s) of tenants occupying the space. This section captures definitions around current trends impacting the sector such as shared office space and more traditional terms such as “space classification.”

## **Accelerator**

A programming-based workplace designed to help startup companies grow more rapidly by providing them with technical and educational assistance, mentoring, networking opportunities and workspace.

## **Coworking Space**

Workspace offered for lease for short- to long-term periods in a communal setting. Space for office, artistic or manufacturing use can be leased by the day, month, year or even hour. The physical space leased can range from a traditional dedicated private office with a door to an unassigned seat on a bench along a communal table. Coworking spaces often go beyond providing a physical work environment. They are frequently operated by entities that offer business-related lectures and social events and seek to foster a sense of community for their entrepreneurial tenants, thus helping them grow their businesses. (See also *Real Estate as a Service*.)

## **Creative Office Space**

Most often connotes a space different from a “traditional” office ring on the exterior of a floor plate with cubicles in the middle. It may include exposed columns, brick and wood décor, and high ceilings (frequently from converted former industrial space). Creative space often has collaborative workspace through much of the footprint with lounge, quiet and conference areas throughout. The space often caters to technology, advertising, media and information tenants (TAMI).

## **Government Office Building**

A building that is owned (and typically occupied) by public sector entities.

## **Hybrid Work**

Work model where employees work a portion of the week in a traditional physical office space and a portion of the week remotely from their home or another location. Firms permitting and/or encouraging hybrid work typically require two to four days in the office.

## **Incubator**

An economic development tool created to support new businesses. Typically, lab and/or office space is provided to tenants at a discount, usually in exchange for equity when privately owned or commitments to stay local when municipally funded. Business assistance and financing opportunities may be provided as startups gain momentum.

## **Innovation Center or District**

Geographic areas with concentrations of innovative firms and entrepreneurial activity that focus on strengthening and growing new businesses and commercializing their products and/or services.

### **Life Science Space**

Highly specialized laboratory or research and development space. The space is uniquely configured and is typically developed to the needs of the biotech tenant. It may require significant retrofit should the tenant vacate the space. The space is often characterized by robust mechanical, electrical and plumbing systems, as well as by sophisticated ventilation systems to accommodate the highly specialized and complex activities that occur inside and that involve the handling of chemicals, drugs and biological matter. This product type is sometimes considered industrial and sometimes office, depending on the firm. (Synonym: Biotech Space)

### **Medical Office Building (MOB)**

A structure designed specifically for health care providers. Typically, the buildings have more robust mechanical, electrical and plumbing systems, as well as reinforced floors to accommodate numerous exam rooms and heavy medical equipment.

### **Multi-tenant Office Building**

A building that is not owner-occupied and contains space that is leased to two or more tenants.

### **Office Building**

A structure providing environments conducive to the performance of management and administrative activities, accounting, marketing, information processing, consulting, human resources management, financial and insurance services, educational and medical services, and other professional services.

An office building may contain ground-floor retail and tenant amenities such as a fitness center, but the preponderance of space is finished for office users.

### **Office Building Types and Sizes**

These definitions are typical for a central business district area but may be lower in suburban areas.

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

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

High-rise: More than 25 stories above ground level.

### **Office Condo**

Short for “office condominium,” this term refers to the ownership structure of an office property in which individual units housed in one structure are sold to independent owners. Typically, covenants govern the activities that can be carried out in and improvements that can be made to each unit. In many cases, a condominium authority also stipulates governance mechanisms such as the distribution of costs related to the maintenance and operations of common elements in the building such as the roof and the elevators.

### **Owner-occupied Office Building**

Buildings that are used for business purposes by the owner and that generally are not included in the competitive inventory.

### **Office Park or Office Campus**

Contiguous acres of land, master-planned with roads, sidewalks and trails, and extensive landscaping that accommodate stand-alone office buildings with adjacent surface parking lots or parking structures.

### **Secured Compartmental Information Facility or Sensitive Compartmented Information Facility (SCIF) Space**

Highly secure space that meets specialized design guidelines and restrictions for building systems relating to data, power, communications, security, ductwork, ventilation and more. The highly controlled facilities are required by firms such as defense contractors or law firms that deal in sensitive industries.

### **Single-tenant Office Building**

A building for which there is a single lease obligation.

### **Stacking Plan**

A visual representation of floor-by-floor and suite-by-suite design/occupancy within a building. The plan shows the suite number, the square footage of each suite and the tenant occupying each. On many stacking plans, lease expiration dates are also provided to give a quick view of the occupancy exposure within a building.

## **Office Building Classifications**

The real estate industry uses a subjective classification system that divides buildings into three qualitative categories: Class A, Class B and Class C. Building classifications are relative and applied to all buildings that make up the competitive inventory in a market. A building that is Class A in a second-tier market may not be Class A in a first-tier market. The designations are determined primarily on the basis of building systems and finishes, building upkeep and services, and location.

### **Trophy Building**

A landmark, often iconic, property located in a highly desirable market/submarket. It features high-end finishes and modern or efficient systems and often was designed by a recognized architect. The building commands among the highest rents in the market and is frequently occupied by the market's premier tenants. These properties usually represent low cash flow risk, and ownership may convey prestige.

### **Class A Building**

Office buildings with a Class A rating compete for the market's premier office users and command the highest relative rents in the local office market. Class A buildings are well-located in major employment centers and typically have good transit, pedestrian access and/or vehicular access. Class A buildings usually have high-quality finishes, state-of-the-art systems and high-quality management.

### **Class B Building**

Office buildings with a Class B rating compete for a wide range of users and command rents near the mean of the market. Locations range from excellent to secondary. Finishes, systems and management range from fair to good.

## Class C Building

Office buildings with a Class C rating compete based on their low price. The finishes, systems and management meet minimum standards. Class C buildings may be in less desirable locations relative to the needs of major tenant sectors in the marketplace.

### OFFICE BUILDING CLASSIFICATION MATRIX

	Class A	Class B	Class C
<b>Rents</b>	Asking gross rents lead the market.	Asking gross rents revolve around the mean for the market.	Asking gross rents are lowest in the market.
<b>Location</b>	The site is excellent and well-located.	Has an average to good location.	Often in a less desirable location.
<b>Building Systems</b>	The mechanical, elevator, HVAC and utility systems can deliver services that meet both current tenant requirements and anticipated future tenant needs.	The mechanical, elevator, HVAC and utility systems are adequate to deliver services currently required by tenants.	The mechanical, elevator, HVAC and utility systems have capacities that usually meet the basic needs of tenants but may not handle the needs of demanding tenants.
<b>Building Finishes</b>	The finishes feature high-quality design and materials. Buildings must remain competitive with new construction.	The finishes use average- to good-quality design and materials.	The finishes often project a dated appearance and may have deferred maintenance.
<b>Building Services</b>	Services include above-average maintenance, management and upkeep.	Services include average to good maintenance, management and upkeep.	Services frequently include below- average maintenance, management and upkeep.

Note: This matrix is intended to serve as a guide for those who are evaluating buildings and determining their classifications; it comes with the following caveats:

- Designations are ultimately subjective.
- The final designation of Class A, B or C is always relative to the local market or submarket being analyzed. For example, buildings considered Class B in the central business district (CBD) might be considered Class A in the suburbs. A Class B building in a gateway market (e.g., New York or San Francisco) may be considered a Class A building in a secondary or tertiary market.
- Some considerations for determining class are listed in the matrix. Other variables worthy of consideration may include age, amenities, parking, construction materials and architecture.
- Buildings must exhibit more than one of the characteristics in each category, but they need not exhibit all of them to obtain that classification.

# Retail Building Terminology

Retail-related real estate has been changing as a result of online sales and home delivery stemming from demographic shifts and technological advancements. This section defines traditional and new retail-related concepts, especially those relating to store formats and methods of delivery.

## **Anchor Tenant**

The primary and usually the largest tenant in a shopping center. Larger shopping centers may have more than one anchor tenant. Rent for anchor tenants is often significantly lower than rent for other tenants in a shopping center because they draw consumers to the center. In a strip center, a grocery store is frequently an anchor tenant.

## **Big Box**

A freestanding structure occupied by a category-dominant retailer such as Home Depot or Best Buy. (See Retail Building Types Matrix.)

## **Community Center or Community Shopping Center**

A retail property with a wide range of apparel and general merchandise stores, as well as discount retailers or department stores such as Walmart, T.J. Maxx or Target. (See Retail Building Types Matrix.)

## **Convenience Shopping Center**

Similar to a strip shopping center but typically the smallest of the retail types. Usually configured in a straight line (as opposed to an L or U shape). Often has a narrow mix of goods and typically serves a small trade area.

## **E-commerce**

Electronic commerce is the buying and selling of products or services mostly through the internet. Typically, transactions are carried out via desktop and laptop computers and mobile devices such as smartphones and tablets.

## **Experiential Retail (Retail-tainment)**

Retail that offers some kind of experience to make the physical visit more engaging. For example, a flagship retail store (e.g., Levi's, Nike, Under Armour) may include a brand museum or may offer items only available at that location. Frequently, retailers will curate an experience aligned to the brand ethos. There may be other experiential components such as activities, games or product-related education (e.g., cooking, electronics).

## **Freestanding**

A stand-alone retail structure that is not part of a complex (e.g., bank, bowling alley, Walmart). (See Retail Building Types Matrix.)

### **High Street Retail**

A concentration of shops in urban or urban-like areas that may also be referred to as “Main Street retail” in the United States and Canada. (See also Lifestyle Center.)

### **In-line Store**

A retail store in a strip or neighborhood shopping center placed adjacent to neighboring retailers so that the fronts of the stores are in a straight line.

### **Kiosk**

A small, physically independent stand or cart often placed within the common area of a retail structure (frequently a regional mall) from which specialty goods are typically sold or, in some cases, returned.

### **Lifestyle Center**

A type of retail property in an urban-like or Main Street setting with pedestrian circulation in the core and vehicular circulation along the perimeter. Tenants are typically upscale specialty stores, restaurants and theaters. (See Retail Building Types Matrix.)

### **Locker**

A storage compartment that enables a purchaser to pick up merchandise at a convenient satellite location. This arrangement allows for a type of self-service parcel delivery. Customers can select any locker location as their delivery address and retrieve orders at that location by entering a unique pickup code on the locker touchscreen.

### **M-commerce**

Mobile commerce is buying and selling via non-tethered devices such as smartphones and smart tablets.

### **Neighborhood Shopping Center**

This type of retail property is most found in the United States. Often anchored by supermarkets and drugstores, the centers are typically one-level, rectangular structures with surface parking in the front and merchandise loading areas in the back. They provide for the sale of convenience goods (food, drugs, etc.) and personal services (laundry, dry cleaning, etc.) for the day-to-day living needs of the immediate neighborhood. (See Retail Building Types Matrix.)

### **Omnichannel Retail**

The merging of online and brick-and-mortar retail operations so customers can interact with the brand on multiple channels. For example, they can buy online and return in store (BORIS), buy online and pick up in store (BOPIS), buy online and pick up at a locker, etc. This may include in-store kiosks for online shipping and delivery or other in-store mechanisms to interact with the online systems. Mobile apps identifying the location of in-store items represent another example. (Synonym: Multichannel Retail)

### **Online or Pure Play Retailer**

A retailer that sells exclusively online and does not have any brick-and-mortar retail locations.

## **Outlet**

Traditionally an open-air center built far from primary city limits. Newer ones may be closer or in urban centers. The tenants offer a discount version of mainstream retailer products and are often called “factory stores.” They frequently focus on apparel but may also include home goods and other items. The outlets are typically designed as a destination or tourist attraction. (See Retail Building Types Matrix.)

## **Pop-up Retail**

A retail store, restaurant or kiosk intentionally designed to be in a location for a finite amount of time (e.g., a restaurant that opens for six months so it can test a market, a store that operates in a location during the holiday season only).

## **Power Center**

Among the largest types of retail properties, they typically feature three or more big-box retailers such as Home Depot, Target and Walmart. Various smaller retailers are usually clustered together in a community shopping center configuration. Power centers are typically made up of multiple large buildings that are one-level, rectangular structures with surface parking in the front and merchandise loading areas in the back. Often, more money is spent on features and architecture at these locations than at big-box shopping centers. (See Retail Building Types Matrix.)

## **Regional Shopping Center**

Among the largest types of retail properties, these centers typically feature large anchor tenants that sell general merchandise and fashion. Regional shopping centers were historically configured like traditional suburban malls, but many have evolved to Lifestyle or Main Street retail formats. Parking is accommodated via surface or structure spaces or both. (See Retail Building Types Matrix.)

## **Retail Flagship**

May be a retailer’s primary location, a store in a prominent location, a chain’s largest store, the store that holds or sells the highest volume of merchandise, or a retailer’s best-known location. Flagship stores are designed to serve large numbers of customers. They are found in prominent shopping districts (e.g., Madison Avenue, Savile Row) and target high-income shoppers. They are typically larger than outlet or mall stores and hold large volumes of merchandise.

## **Strip Shopping Center**

An attached row of stores or service outlets managed as a coherent retail entity with on-site parking usually located in front of the stores. Open canopies may connect the storefronts, but a strip center does not have enclosed walkways linking the stores. A strip center may be configured in a straight line or may have an “L” or “U” shape. (See Retail Building Types Matrix.)

## **Super-regional Shopping Center**

These are typically enclosed and have large anchor tenants. Formerly, the anchors were typically department stores but now include a variety of destination retailers (those that shoppers will typically visit as their primary shopping destination). A super-regional center pulls customers from a larger trade area compared to a regional shopping center, with a mix of retail stores that typically serve a large area (e.g., IKEA, Home Depot, Lowe’s). (See Retail Building Types Matrix on next page.)

## RETAIL BUILDING TYPES MATRIX

Center Type	Concept	Square Feet (Approx.)	Typical Anchor(s)	Parking Type and Ratios	Primary Trade Area	Examples
<b>Super-regional</b>	Typically enclosed, large anchor tenants, general merchandise and fashion, more variety than a regional center. Few new ones constructed.	800K +	Formerly defined by including five or more department stores, now defined by square footage and large trade area	Surface or structured	25 miles	Tysons Corner Center, Tysons Corner, VA King of Prussia Mall, King of Prussia, PA Mall of America, Bloomington, MN
<b>Regional</b>	Typically enclosed, large anchor tenants, general merchandise and fashion. Regional centers are gradually being replaced by Lifestyle centers.	400K to 800K	Fewer than five anchor tenants, tenants that sell a large variety of goods	Surface or structured	15 miles	Santa Monica Place, Santa Monica, CA Roosevelt Field, Garden City, NY
<b>Community</b>	Open to parking lot, provides general merchandise and commodities	125K to 400K	Discount department store, supermarket, drugstore	Surface	3 to 6 miles	—
<b>Neighborhood</b>	Open to parking lot, provides commodities to nearby neighborhoods	30K to 125K	Supermarkets or drugstores	Surface	3 miles	—
<b>Strip or Convenience</b>	Open to parking lot, located along transportation arteries, and centrally located to residential populations on shallow parcels	Less than 30K		Surface		—
<b>Lifestyle</b>	Upscale national chain specialty stores, dining or entertainment, urban-like Main Street concept, pedestrian circulation in core, vehicular circulation along perimeter	150K to 500K	Bookstore or other large-format specialty, cinema, small department store	Structured or street	8 to 12 miles	The Grove, Los Angeles, CA Americana at Brand, Glendale, CA
<b>Power</b>	Multiple category- dominant anchors. Big boxes such as Home Depot, Lowe's, etc.	250K to 600K	Home improvement; warehouse club; off price	Surface	5 to 10 miles	—
<b>Freestanding – Big Box</b>	A freestanding category- dominant retailer such as Home Depot or Best Buy	Minimum of 40K		Surface		
<b>Freestanding – other</b>	Stand-alone retail structure that is not part of a complex (e.g., bank, bowling alley, Walmart)	Minimum of 40K		Surface and/or street		
<b>Outlet</b>	Manufacturers' outlet stores	50K to 400K	Manufacturers' outlet stores		25 to 75 miles	

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