

Methods Used in Calculating Commercial Real Estate

You may find this explanation of terms and methods common to real estate useful while searching for commercial space to lease. This overview should help you compare similar offers to lease space.

Rates

Most commercial lease rates are quoted in annual dollars per square foot.

Example: \$15/SF

In most cases (at least on the east coast of the US) this means you will pay \$15.00 per square foot per year.

Example: \$15 per square foot for 1200 square foot would be calculated
 $\$15.00 \times 1200 = \$18,000$ for the year or
 $(\$15.00 \times 1200)/12 = \$1,500$ per month.

On the west coast of the US the rate might be quoted in dollars per square foot per month.

Example: \$1.25/SF for 1200 square foot would be calculated
 $\$1.25 \times 1200 = \$1,500$ per month or
 $\$1.25 \times 1200 \times 12 = \$18,000$ per year.

Base Rent and Operating Expenses

Most commercial leases are quoted in two parts, Base Rent (as in the example above) and Operating Expenses.

This is two part breakdown allows Landlords to pass through variable expenses throughout the term of the lease to the Tenant. The variable expenses, Operating Expenses may, but not always, include:

- Real Estate Taxes
- Common Area Maintenance (CAM) and
- Property Insurance.

Operating Expenses vary from year to year and can not be predicted beyond one year. For example, insurance rates rose dramatically after our hurricanes in 2004 and 2005. Likewise Real Estate taxes rose dramatically from 2001 to 2008.

Thus, the landlord will quote rental rates as Base Rent plus Operating Expenses. The next terms are not well understood, defined or used:

Gross Lease- Includes the Base Rent and all initial year operating expenses associated with the building and may include some utilities, such as water. Again, a Gross Lease is quoted in annual dollars per square.

Example: \$15.00/SF Gross Lease

Net Lease- This lease includes Base Rent and one or more of the Operating Expenses included.

This is really a Gross Lease, net of one or more of the Operating Expenses. It may be expressed as follows:

Example: \$15.00/SF Gross Lease, -Net of Electricity

Example: \$15.00/SF Gross Lease-Net of Insurance.

Triple Net Lease (NNN Lease)-This generally means that you will pay a Base Rent plus Real Estate Taxes, Insurance and Common Area Maintenance (CAM). In this example the expression-

Example: \$15/SF Plus \$3.50 NNN for 1200 square feet would be calculated

Example: $(\$15.00 \times 1200) + (\$3.50 \times 1200) = \$22,200$ per year or \$1,850 per month.

You will occasionally encounter someone referring to Operating Expenses (or NNN Expenses) as CAM. This is incorrect: CAM is only one component of the NNN expenses.

Common Area Maintenance (CAM) includes the expenses involved for those areas that are common to all the tenants in the center.

In Florida we pay sales tax on commercial rental income. Thus, all of the calculations above would be subject to the local sales tax.

Example: Brevard Count Sale Tax = Six Percent (6%)

In the above triple net lease (NNN) of \$1,850 per month the rent would be $\$1,850 \text{ per month} \times .06 = \1961.00 Total Monthly Rent.

We want you to consider us as a part of your real estate team.

The following is just a few of the services we provide:

- Meet with you and your team to help you better understand the process of determining store locations.
- Survey the market for potential store locations.
- Do demographic analysis of potential locations.
- Inspect all potential store locations for your approval.
- Facilitate in the Letter of Intent negotiations.
- Review all leases prior to submission for legal review.

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