



MEDICAL OFFICE LEASING



COMMONLY USED TERMS

- Base Rent
- Operating Expenses
- Base Year / Expense Stop
- Tenant Improvement Allowance (TI)
- Escalations (CPI, Steps, etc.)
- CPI – Consumer Price Index
- CAM – Common Area Maintenance
- CAF – Common Area Factor (also called load factor)
- RSF – Rentable Square Feet
- USF – Usable Square Feet
- CPI – Consumer Price Index
- FMV – Fair Market Value

OCCUPANY COST

- This is the sum total outlay of cash that a practice spends on its real estate. This should include Base Rent and Operating Costs that are attributed to the occupancy by the practice.
- Base Rent + Operating Costs = Occupancy Cost

LEASE TYPES

GROSS LEASE

- Tenant is quoted a rental rate that is inclusive of all costs. Landlord pays for everything
- Operating Expenses are not passed through to the tenant
- Typically initial rent is very high as Landlord must insure that they are recouping every expenditure.
- Higher rent but can be budgeted for with absolute certainty.
- Extremely Rare for Class "A" & "B" office space.

Rent = Occupancy Cost

MODIFIED GROSS LEASE

- Tenant is quoted a base rental rate that includes some, but not all of the operating expenses.
- Tenant may pay directly for such expenses as security, janitorial, electric and utilities, what is typically considered uncontrollable expenses.
- Operating expenses are passed through to the tenant as either an estimate paid per month and/or at the end as a reconciliation over the Base Year or Expense Stop

Base Rent + Uncontrollable Expenses = Occupancy Cost YR 1

Base Rent + BY overage + Uncntr. Exp. = Occupancy Cost YR 2

FULL SERVICE LEASE

- Tenant is quoted a base rental rate that includes all of the operating expenses for the first year.
- Landlord pays for everything up front but operating expenses are passed through to the tenant as either an estimate paid per month and/or at the end of the year as a reconciliation over the Base Year or Expense Stop
- No expense exposure for the first year but overall rent can be slightly higher over term.
- Escalations (Rent Steps) are applied to the total base rent and base year expenses.

Base Rent = Occupancy Cost in Year 1

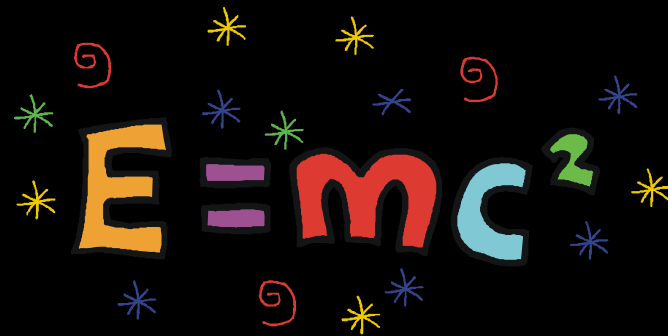
Base Rent + Operating Cost Increase over BY = Occupancy Cost in Years 2+

NNN (also called Triple Net or Net Net Net)

- Tenant is quoted a base rent exclusive of operating costs.
- Appears to be lower Rental Rate as Operating Expenses are not included in the quoted rental rate.
- No base year or expense stop, as Tenant pays all other operating expenses on a pro rata basis or directly (common area maintenance, building insurance, real estate taxes, utilities, water, electric, and janitorial).
- The operating costs "are what they are" and the same for each tenant.
- Escalations (Rent Steps) are applicable only to the base rent.

Base Rent + Operating Expenses = Occupancy Cost

THE MATH



A decorative representation of the equation $E=mc^2$. The characters are stylized and colorful: 'E' is yellow, '=' is purple, 'm' is red, 'c' is light blue, and the '2' is green. The equation is surrounded by several colorful stars (yellow, blue, green) and swirls (red, yellow) on a black background.

$$E=mc^2$$

OCCUPANY COST ANALYSIS

Typical Expense Data	
TAXES	\$3.00 /SF
INSURANCE	\$0.30 /SF
UTILITIES	\$2.50 /SF
CLEANING	\$1.00 /SF
REPAIRS & MAINTENANCE	\$0.65 /SF
ROADS & GROUNDS	\$0.30 /SF
SECURITY	\$0.50 /SF
MGMT FEES	\$1.25 /SF
TOTAL OPERATING EXPENSES	\$9.50 /SF

OCCUPANY COST ANALYSIS

Lease Analysis

Breakdown Year 1

	Quoted Base		Yr 1 Base Year Exp.	Yr 1 Expenses		Total Rent
NNN	\$15.00	+	\$0.00	\$9.50		\$24.50 / SF
Modified Gross	\$21.00	+	\$6.00	\$3.50		\$24.50 / SF
Full Service	\$24.50	+	\$9.50	\$0.00		\$24.50 / SF
Gross	\$26.00	+	\$0.00	\$0.00		\$26.00 / SF

Breakdown Year 2

(Base rent and estimated expense increase due to inflation @ 3%)

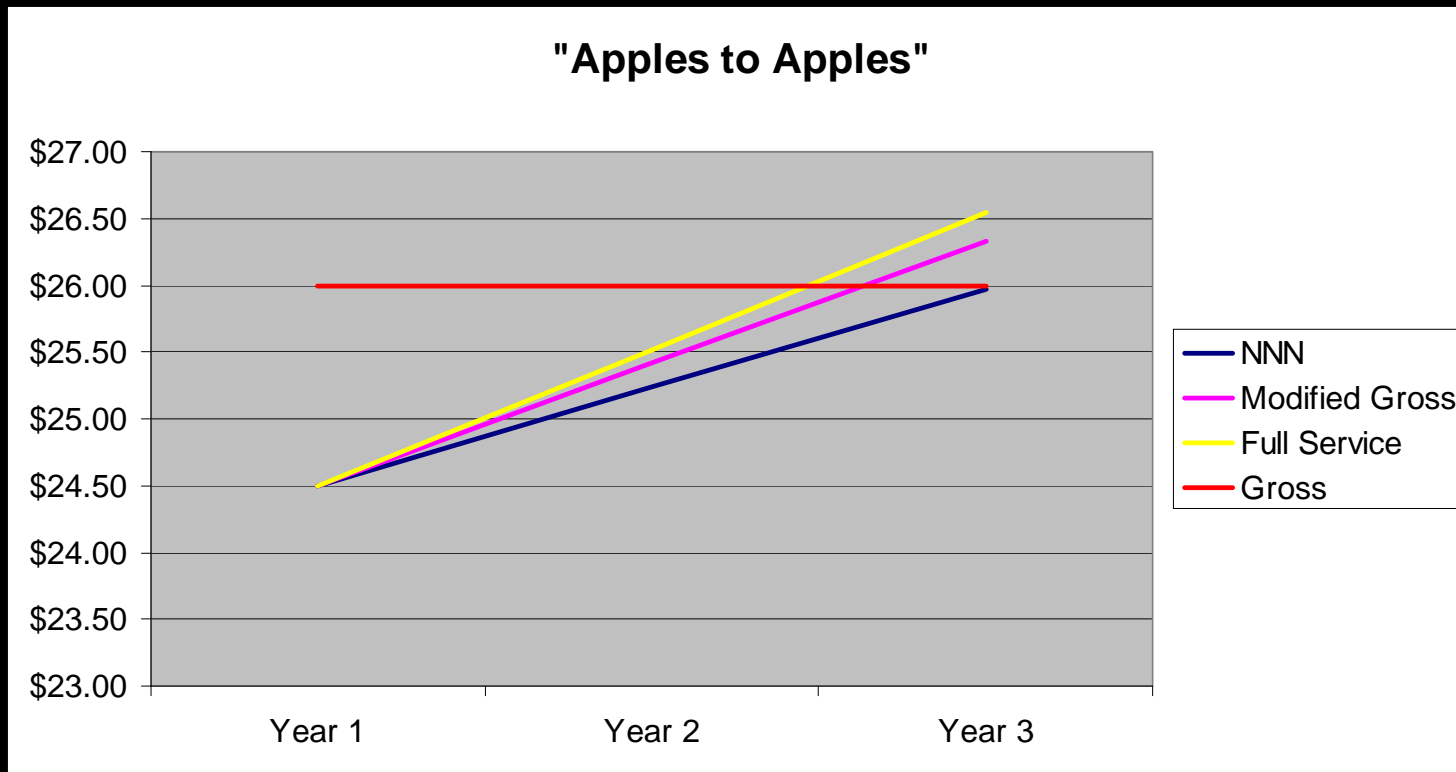
	Base Rent			Base Rent Increase		Yr 1 Expenses		Yr 2 BY Increase		Yr 2 Expenses Due		Overall Increase	Total Rent
NNN	\$15.00	x	3%	\$15.45	+	\$9.50	x	3%	\$0.00	\$9.79	\$0.29	\$25.24 / SF	
Modified Gross	\$21.00	x	3%	\$21.63	+	\$3.50	x	3%	\$0.18	\$3.61	\$0.29	\$25.42 / SF	
Full Service	\$24.50	x	3%	\$25.24	+	\$0.00	x	3%	\$0.29	\$0.00	\$0.29	\$25.52 / SF	
Gross	\$26.00	x	0%	\$26.00	+	\$0.00	x	0%	\$0.00	\$0.00	\$0.00	\$26.00 / SF	

Breakdown Year 3

(Base rent and estimated expense increase due to inflation @ 3%)

	Base Rent			Base Rent Increase		Yr 1 Expenses		Yr 3 BY Increase		Yr 3 Expenses Due		Overall Increase	Total Rent
NNN	\$15.00	x	6%	\$15.90	+	\$9.50	x	6%	\$0.00	\$10.07	\$0.57	\$25.97 / SF	
Modified Gross	\$21.00	x	6%	\$22.26	+	\$3.50	x	6%	\$0.36	\$3.71	\$0.57	\$26.33 / SF	
Full Service	\$24.50	x	6%	\$25.97	+	\$0.00	x	6%	\$0.57	\$0.00	\$0.57	\$26.54 / SF	
Gross	\$26.00	x	0%	\$26.00	+	\$0.00	x	0%	\$0.00	\$0.00	\$0.00	\$26.00 / SF	

OCCUPANCY COST ANALYSIS



OCCUPANY COST ANALYSIS

