

GLOSSARY

of commercial property terms

Prepared by
Timothy Smith BSc FRICS

This glossary is intended to assist prospective investors in commercial property in familiarising themselves with terms and expressions often used when investment properties are being offered for sale.

Alienation:	The rights granted within a lease for the tenant to assign or sublet the premises.
Arbitration:	Arbitration is a method by which disputes between the parties (usually landlord and tenant) can be resolved without recourse to formal court proceedings. It often applies where the rent review of a property cannot be agreed and where parties are given the opportunity to state their case for rental value to an arbitrator. It may also be used in respect of other disputes such as building or boundary disputes or to settle issues of service charge.
Assign:	The right granted to the tenant to transfer responsibility for the lease to another party.
Break Clause:	An opportunity granted to a party (usually the tenant) to terminate the lease at a given date.
Commercial Property Agent:	A commercial property agent is a property advisor who advises clients, being purchasers, sellers, landlords and / or tenants, in respect of property values, either freehold and leasehold, lease issues and often development prospects.
Covenant:	The relative strength of the occupational tenant / lessee who has responsibility for payment of rent and other outgoings at the property. Mention is usually provided of the financial status of that company.
Equivalent Yield:	The yield worked out on a discounted cash flow basis, taking into account initial and reversionary yields.
Full Repairing Insuring (FR&I):	In the context of a lease, this means that the tenant is responsible for maintaining the premises in good repair, condition and decoration and for reimbursing the landlord with the insurance premium paid for insurance cover on the property.
Guarantor:	A party which guarantees the performance of the tenant i.e. often the parent company or, in modern leases, often now the previous tenant of the property, where the lease has been assigned.
Initial Yield - Gross:	The immediate investment yield received by a property purchaser - i.e. rent as a percentage of purchase price, without allowing for any purchase costs incurred such as legal, agents and valuation fees, bank fees and Stamp Duty.
Initial Yield - Net:	The yield available to the purchaser after taking into account purchasers costs detailed above.
Lessee:	The occupier of the property who has responsibilities for payment of rent and other outgoings under the terms of the Lease.

Managing Agent:	The Managing Agent is the person or firm appointed by the property owners to manage the property on behalf of the owners. Management instructions vary, but usually include collection of rent and insurance premiums payable from the tenant, together with service charge where applicable and inspections on a periodic basis to ensure the property has been maintained to a satisfactory standard.
Purchaser's Costs:	Purchaser's costs include Stamp Duty, Legal and Agency Fees, and Survey. They are traditionally calculated at 5.7625% of the purchase price, on the assumption that the property has a value in excess of £500,000.
Quarter Days:	The usual Quarter Days are 25 th March, 24 th June, 29 th September and 25 th December.
Rent Review:	Nearly all commercial leases contain provision for the rent to be reviewed at periodic intervals throughout the lease term. This means that the rent initially agreed by the parties is reviewed to the basis as provided in the lease, usually open market value and usually on an upward only basis (i.e. the rent cannot be less than the rent payable immediately before the review date).
Reversionary Yield:	The yield the purchaser should be likely to receive on the purchase price following a rent increase or a rent review to an already agreed or assumed market rent.
Sale & Leaseback:	A situation where the vendor of a property agrees to take a lease of that same property on terms agreed by both sides, with the lease to commence on completion of the sale. Sale and leasebacks do not qualify to be treated as a Transfer of a Going Concern (see TOGC below).
Schedule of Condition:	Usually a written or photographic record of condition of a property, at the time the lease was granted, which has been attached to the lease.
Security of Tenure Provisions:	The Landlord and Tenant Act 1954 provides renewal rights to the tenants of business premises at the expiration of the term granted. These rights can be excluded from a lease or sublease. (These provisions are contained within Sections 24-28 of the Act).
Stamp Duty:	Now known as Stamp Duty Land Tax - this is the tax payable to the Government which is calculated on the purchase price of a property. For commercial properties up to £150,000 there is no Stamp Duty Land Tax, for properties between £150,000 and £250,000 the Stamp Duty Land Tax is charged at 1%, for properties purchased between £250,000 and £500,000 the Stamp Duty Land Tax is calculated at 3% and for properties over £500,000 Stamp Duty Land Tax is calculated at 4% of the price. Please note that in certain instances where properties have been elected for VAT and the purchaser pays VAT on top of the purchase price, Stamp Duty Land Tax is calculated on the gross amount of purchase price and VAT.

Sublet:	The right granted to a tenant to let the premises (or part thereof) to another party but where the tenant remains responsible for payment of rent and other outgoings under the original lease.
Tenant:	The occupier of the property who has responsibilities for payment of rent and other outgoings under the terms of the Lease.
TOGC:	Transfer of a Going Concern. This is an Inland Revenue accepted practice of selling a VAT registered property without VAT becoming payable on the purchase price because of a lease already being in place.
User Clause:	The clause contained within a lease permitting the occupier of a premises to use the property for specific purpose(s).
VAT:	VAT is often payable on the purchase price of an investment property, or on the rent chargeable for the property. However, not every property is subject to VAT.
Vendor:	The vendor is also known as the seller of the property and is the party who is in the process of selling the property to a purchaser (buyer).
Zone A:	Zone A will only feature in respect of retail premises, usually main shopping streets rather than retail parks and supermarkets. The Zone A area relates to the first 6.1 metres (20 feet) depth of a retail shop, moving into the shop from the shop front and entrance door. It is considered to be the most valuable area of the shop and areas behind the Zone A are usually referred to as Zones B, C and remainder and will often be expressed as a smaller area in terms of A. This is a valuation issue and is not always straightforward to explain.