

# THE LEASE

## Lessor

The party, governing the formal lease documentation at a particular property, typically the owner or owner's representative.

## Lessee

The party, whose name appears on the formal lease document, binding themselves to the terms and conditions stated therein, otherwise known as the tenant.

## Lease Option

The lessee's right to renew a lease for an agreed period of time prior to expiry of the initial lease.

## Sublease/Assignment

The mechanism under the provisions of the lease which allows the lessee to find a suitable replacement tenant. This is subject to Lessor approval and unless specifically stated, does not limit your legal responsibilities during the term of the lease. Most commercial leases allow the Lessee to sublease or assign their premises.

## Legal agreement

During a typical lease negotiation, leasing proposals are used as a medium to determine terms and conditions acceptable to both Lessor and Lessee. This will lead to a Heads of Agreement document or Memorandum of Understanding outlining the final position of both parties, and accompanied by a leasing deposit often equivalent to one month's gross rental as a security deposit. This deposit is typically held in the leasing agent's trust account to be offset against the first month's rental or leasing fees payable by the Lessor.

At this stage, both the Lessee and Lessor are not legally bound to commit to the premises (unless otherwise stipulated in the documentation to date) however, the Heads of Agreement document provides a framework by which the Lessor is to instruct solicitors to prepare formal lease documentation.

The signing of the formal lease document will legally bind the Lessee to the lease. This is accompanied by the provision of consideration (typically by way of a bank guarantee). The signing of the lease document by the Lessor will typically legally bind the Lessor to the lease unless otherwise agreed or stipulated.

## Gross Lettable Area (GLA)

GLA is the floor space contained within each tenancy at each floor level by measuring from the dominant portion of the outside faces of walls, to the centre line of internal common area/inter-tenancy walls.

## Net Lettable Area (NLA)

NLA (measured in square meters) is the floor space between the internal finished surfaces of permanent internal walls and the internal finished surfaces of dominant portions of the permanent outer building walls. It generally includes window frames and structural columns and excludes toilets, cupboards, plant/motor rooms and tea rooms where they are provided as standard facilities in the building. It also excludes areas dedicated as public spaces or thoroughfares such as foyers, atria and building service areas.

## Amenities

Amenities are not included in the Net Lettable Area (NLA), as the amenities are incorporated within the common (core) area of a building and comprise, toilets and tearooms, except amenities constructed as part of the lessee's fit out.

## Make Good

The lessee's obligation to reinstate the tenancy prior to expiry of the lease.

## Gross Effective Rents

The rent payable under the lease net of all incentives and including all building outgoings.

## Net Face Rents

The rent payable under the lease excluding any incentives and building outgoings.

### Gross Face Rents

The rent payable under the lease excluding any incentives but including all building outgoings.

### Net/Gross Rents

Essentially a net rent is your rental excluding any building outgoings whereas a gross rent is inclusive of outgoings. Most leases are based on gross rents plus your proportionate share of any increases in the building outgoings over and above a predetermined base date.

### Rent review - term as well as the option period

Most Lessors will have a standardised lease proposal for their building which will include a rent review pattern which has been pre-agreed in light of the Lessor's own objectives and current market conditions. Typically, the two most significant influencing factors on rent review patterns are lease term and the commencing rental.

### After hours security

After hours security forms part of the building's operations and will be the responsibility of the building or property manager. Key card access, concierge hours of operation, security guard contractors for after hours patrolling for example, are matters which the property manager should be consulted for clarification.

### After hours air conditioning (costs & hours)

The actual cost per hour varies as a result of the age of the building and the type of air conditioning equipment installed within a building and is chargeable outside the hours of operation as stated in the lease.

### Base Date

A reference date for determining increases in outgoings.

### Cap and Collar

A term and method used in some market review clauses. It is a mechanism that puts a nominated 'cap' or maximum amount by which the rent can be increased, or a 'collar', the maximum the rent can decrease, on the nominated market review date. As the commercial office leasing markets strengthen, these review methods are becoming increasingly uncommon.

### The additional costs the tenant is responsible for over and above the base year

The Lessee will be responsible for a proportion of any increase in the total operating expenses relative to the year or part thereof. The proportion will be calculated in accordance with the lessee's percentage contribution as specified in the lease.

### Calculation of increases in outgoings over the base year

Any increases in outgoings over the amount agreed for the base year under a lease will be calculated following an audit of the various charges at the end of the financial year, typically undertaken by the property manager. The base year outgoings figure will be subtracted from the outgoings amount for the current year, the difference being allocated to the building's tenants on an area proportionate basis.