RockStep CAPITAL

Retail 101

Essential Vocabulary Glossary

RockStep Capital Exclusive Resource

Retail 101: Vocabulary Glossary

TERM	DEFINITION

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z

Absorption	The rate at which available commercial real estate space is leased or sold over a specific period, indicating demand in the market.
Acquisition costs	The total expenses incurred to purchase a commercial property, including purchase price, due diligence fees, legal costs, financing fees, and closing costs.
Active investors	Individuals or entities that take an active role in managing and operating investments.
Aggressive underwriting	A risk-tolerant approach to evaluating a commercial real estate investment, using optimistic assumptions about income growth, expenses, and market conditions to project higher returns.
Anchor tenants	Major retail stores or chains that draw significant customer traffic and help attract tenants to a shopping center.

A **B** C D E F G H I J K L M N O P Q R S T U V W X Y Z

Base rent	Fixed minimum amount a tenant pays to lease a commercial space, excluding additional expenses like taxes, insurance, or maintenance.
Big-box retail	Large, standalone retail stores that typically occupy 20,000 square feet and offer a wide range of goods, often as part of national or regional chains.
Borrowed capital	Money obtained through loans or other forms of debt financing to fund the acquisition, development, or improvement of properties.

A B **C** D E F G H I J K L M N O P Q R S T U V W X Y Z

Capital	The financial resources, such as debt and equity, used to acquire, develop, or improve a property.
Capital expenditures	Funds used to acquire, upgrade, or extend the life of a commercial property's physical assets.

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Capital (cap) rates	The expected return on a investment, calculated by dividing net operating income by the property's purchase price or market value.
Capital stack	Hierarchy of funding sources used to finance a project, typically including senior debt, mezzanine debt, preferred equity, and common equity.
Cash reserves	Funds set aside by property owners or investors to cover unexpected expenses, capital improvements, or periods of reduced income in an investment.
Cash-on-cash return	A measure of an investor’s annual pre-tax cash flow relative to the amount of cash invested, used to evaluate the profitability of a commercial real estate investment.
Central business districts (CBDS)	The commercial and economic cores of cities, characterized by a high concentration of office buildings, retail, and business activity.

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Class A properties	High-end commercial real estate assets located in prime areas, built with superior materials and modern design.
Class B properties	Mid-tier assets that are generally well-maintained but may have dated finishes or be in less prime locations than Class A properties.
Class C properties	Lower-tier assets typically located in less desirable areas and may show signs of deferred maintenance or outdated infrastructure.
Closing costs	Expenses incurred by buyers and sellers during the finalization of a real estate transaction, including legal fees, title insurance, recording fees, and taxes.
Commercial real estate (CRE)	Properties used exclusively for business purposes, such as retail centers, office buildings, industrial facilities, and multifamily housing.

Common area maintenance (CAM)	The shared expenses tenants pay to maintain and operate common areas in a commercial property.
Common equity	Lowest-ranking investment in the capital stack, representing ownership in a property with the potential for profit participation but taking on the highest risk and receiving distributions only after all other claims are paid.
Community and regional banks	Smaller, locally focused financial institutions that provide banking services and commercial real estate loans within specific geographic areas or regions.
Conservative underwriting	A cautious approach to evaluating an investment, using modest assumptions to minimize risk and protect investor capital.
Consumer habits	The patterns and behaviors of how individuals shop, spend, and interact with retail environments.

Co-tenancy	A lease provision that allows a tenant to reduce rent or terminate the lease if key tenants or a required mix of tenants in a property fail to remain open or operational.
Core	Commercial investments in high-quality, well-located properties with stable tenants and predictable cash flows, with lower risk and lower returns.
Core-plus	Investments in stable properties with slight risk or improvement potential, offering moderate returns through minor enhancements or management efficiencies.
Customer acquisition	The process of attracting and securing new tenants to lease space within a property, contributing to increased occupancy and revenue.
Customer retention	The ability to keep tenants renewing their leases and continuing operations within a property, contributing to stable occupancy and income.

Debt	Borrowed capital used to finance a property purchase or development, which must be repaid with interest over time.
Debt service coverage ration (DSCR)	Measures a property's ability to cover its debt obligations, calculated by dividing net operating income by total debt service.
Distressed properties	Real estate assets underperforming or facing financial hardship, often due to foreclosure, vacancy, or deferred maintenance, typically sold at a discount.
Diversification	The strategy of spreading investments across different property types, geographic locations, or tenant industries to reduce risk and enhance portfolio stability.
Double-net (NN) lease	A lease where the tenant is responsible for paying property taxes and insurance, while the landlord handles structural maintenance and repairs.

Due diligence

The comprehensive review and analysis conducted before a real estate transaction to verify the property's financial, legal, physical, and operational conditions.

A B C D **E** F G H I J K L M N O P Q R S T U V W X Y Z

Enclosed mall

A large, climate-controlled shopping center featuring multiple retail stores connected by interior walkways, often anchored by major department stores.

Equity

The ownership interest in a property, representing the portion of the asset's value held by investors after subtracting any outstanding debt.

Essential goods and services

Basic products and functions necessary for daily life, such as food, medicine, and healthcare, which maintain consistent demand regardless of economic conditions.

Exclusivity agreements

Lease provisions that prevent a landlord from leasing nearby space to direct competitors of an existing tenant, protecting the tenant’s market share and customer base.

Experiential retail

A strategy emphasizing interactive, immersive, or entertainment-driven shopping experiences designed to engage customers.

Expense recovery

The process by which a landlord recoups operating costs, such as property taxes, insurance, and maintenance, from tenants, typically through lease provisions.

A B C D E **F** G H I J K L M N O P Q R S T U V W X Y Z

Financial concessions

Incentives offered by landlords, such as rent abatements, reduced rates, or improvement allowances, to attract or retain tenants.

Financing fees

The costs associated with securing a loan for a commercial real estate transaction, including origination fees, underwriting fees, and lender closing costs.

Foot traffic

The number of pedestrians visiting or passing through a specific area, which often indicates the potential customer flow for businesses.

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Grocery-anchored shopping center	A property where a supermarket serves as the primary anchor tenant, attracting consistent foot traffic and supporting a mix of smaller retail and service-oriented tenants.
Ground lease	A long-term agreement in which a tenant leases land from a property owner and typically develops or operates a building on it, while ownership of the land remains with the landlord.
Gross lease	A lease in which the landlord covers most or all property operating expenses, including taxes, insurance, and maintenance, while the tenant pays a fixed rent.

A B C D E F G **H** I J K L M N O P Q R S T U V W X Y Z

Horizontal integration	The outsourcing or collaboration with external firms that offer similar services to expand capabilities and market reach without internal expansion.

A B C D E F G H **I** J K L M N O P Q R S T U V W X Y Z

Incentives	Concessions offered by landlords—such as rent abatements, tenant improvement allowances, or moving expenses—to attract or retain tenants.
Insurance companies	Institutional lenders that provide long-term, fixed-rate financing for high-quality properties as part of their investment portfolios.
Institutional investors	Large organizations that invest substantial capital in commercial real estate to achieve long-term, stable returns.
Internal rate of return (IRR)	The annualized rate of return an investment is expected to generate over its holding period, accounting for the timing and magnitude of cash flows.

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Junior boxes	Mid-sized retail spaces occupied by national or regional chain stores that complement larger anchor tenants in shopping centers.

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Lease modifications	Changes made to the terms of an existing lease agreement, often negotiated to address evolving tenant or landlord needs.
Letter of intent (LOI)	A preliminary, non-binding document that outlines the key terms and conditions of a proposed commercial real estate transaction before a formal agreement is finalized.
Leverage	The use of borrowed capital to finance a property purchase, with the goal of increasing potential returns on invested equity.
Licensing agreements	Grants a tenant or third party the right to use space or property features without conveying leasehold interest, typically for short-term or limited-use purposes.
Loan-to-value ratio (LTV)	A financial metric that compares the amount of a loan to the appraised value of the property, used to assess lending risk.

Local tenants

Independently owned businesses or small chains that operate within a single city or limited geographic area.

A B C D E F G H I J K L **M** N O P Q R S T U V W X Y Z

Market analysis

The evaluation of local economic, demographic, and real estate trends to assess the viability and potential performance of a commercial property investment.

Market trends

The patterns and shifts in property values, demand, rental rates, and development activity that influence investment and leasing decisions.

Mezzanine debt

A subordinated loan in the capital stack, positioned between senior debt and equity, often unsecured and carrying higher interest rates due to increased risk.

Mixed-use development

A project that combines multiple property types, such as residential, commercial, office, and retail, within a single integrated site or building.

Mortgage-backed securities (CMBS)	Investment products backed by a pool of commercial real estate loans, which are bundled together and sold to investors as tradable securities.

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National tenants	Well-known retail or service brands with a presence across multiple states, often operating hundreds or thousands of locations nationwide.
Net operating income (NOI)	A property's total revenue from operations minus all operating expenses, excluding debt service, capital expenditures, and taxes.
Negative leverage	Occurs when the cost of borrowed capital exceeds the return generated by an investment, reducing overall investor returns.
Neighborhood center	A convenience-oriented shopping center serving the daily needs of the surrounding residential community.

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Occupancy rates	Represent the percentage of leased space in a property compared to its total available space, indicating the property's income stability and demand.
Open-air center	A type of shopping center where stores have exterior entrances and are connected by outdoor walkways, rather than enclosed hallways.
Operating expenses	The costs associated with running and maintaining a commercial property, including utilities, property management, insurance, taxes, and repairs.
Opportunistic	High-risk, high-reward commercial real estate investments involving significant redevelopment, repositioning, or market timing strategies, often with little to no in-place cash flow.
Out parcels	Standalone retail buildings located on the perimeter of a larger shopping center or mall property.

A B C D E F G H I J K L M N O **P** Q R S T U V W X Y Z

Passive investors	Individuals or entities that provide capital to a project without participating in day-to-day management, relying on sponsors or operators to oversee operations and generate returns.
Percentage rent	A lease structure in which the tenant pays a base rent plus a percentage of gross sales once a specified sales threshold is exceeded.
Physical due diligence	The process of inspecting and evaluating a property's structural condition, building systems, and site improvements to identify potential maintenance issues or capital expenditures before acquisition.
Pop-up shops	Temporary retail spaces used by brands to test markets, promote products, or create unique customer experiences without committing to a long-term lease.
Positive leverage	Occurs when the return on a investment exceeds the cost of borrowed capital, enhancing overall equity returns.

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Power center	A large, outdoor shopping center generally anchored by several big-box retailers and supplemented by smaller specialty stores and restaurants.
Preferred equity	A form of investment that sits above common equity in the capital stack, offering fixed returns and priority distributions but typically lacking voting rights.
Prestige tenants	High-profile, well-regarded brands or businesses whose presence enhances the image, visibility, and desirability of a property.
Primary markets	Major metropolitan areas with large populations, high economic activity, and strong demand for commercial real estate.
Preventative maintenance	The routine inspection and servicing of building systems and structures to prevent equipment failure, extend asset life, and reduce long-term repair costs.

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Pro forma	A financial projection that estimates a commercial property's future income, expenses, and cash flows, typically used to assess its investment potential.
Pro rata share	The portion of a property's expenses or common area costs that a tenant is responsible for, calculated based on the ratio of their leased space to the property's total leasable area.
Property classes	Categorize commercial real estate—typically as Class A, B, or C—based on factors such as building quality, location, age, and amenities, helping investors assess risk and value.
Purchase price	The total amount agreed upon by the buyer and seller for acquiring a commercial property, excluding additional transaction costs.

A B C D E F G H I J K L M N O P **Q** R S T U V W X Y Z

Quick screen	A preliminary evaluation of a property to assess its basic financial metrics, location, and tenant mix before committing to a more detailed analysis or underwriting process.

Real estate investment trusts (REITS)	Companies that own, operate, or finance income-producing real estate and allow investors to earn dividends from real estate investments without directly owning properties.
Reciprocal easement agreement (REA)	A legal contract between property owners that outlines shared rights and responsibilities for access, maintenance, and use of common areas within a commercial development.
Redeveloping	The process of demolishing, rebuilding, or significantly renovating an existing property to create a new or improved commercial real estate asset that better meets market demands.
Regional tenants	Businesses that operate multiple locations within a specific geographic region, such as a group of states or a defined part of the country.
Repositioning	The process of improving or altering a property to enhance its market appeal, performance, and value.

Resilience	A property's ability to maintain stable performance and recover quickly from economic downturns, market shifts, or external disruptions.
Retail hubs	Concentrated areas with a high density of shopping centers, stores, and consumer services that attract significant foot traffic and serve as major commercial destinations.
Return on investment (ROI)	A measure of the profitability of a commercial real estate investment, calculated by dividing the net profit by the total amount of capital invested.
Risk profiles	The classification of investment opportunities based on their potential returns and associated levels of risk, typically categorized as core, core-plus, value-add, or opportunistic.

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Second-gen space	Previously occupied commercial space that is available for lease again, often with existing buildouts or improvements from a prior tenant.

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Secondary markets	Mid-sized metropolitan areas with growing populations and economic activity, offering investment opportunities with potentially higher yields than primary markets.
Senior debt	The highest priority loan in the capital stack, secured by the property and repaid first in the event of default or liquidation.
Sensitivity analysis	A financial modeling technique used to assess how changes in key variables impact the projected performance of a commercial real estate investment.
Shadow anchor	A large retail store located near or adjacent to a shopping center that drives foot traffic to the area but is not formally part of the center's property or lease agreements.
Shopping center	A commercially planned and managed property comprised of multiple retail and service tenants, typically sharing parking and amenities.

Specialty tenants	Retailers or service providers that focus on a specific niche or product category. They complement anchor tenants by attracting targeted customer segments and enhancing the overall diversity of a center.
Sponsor	The individual or firm responsible for sourcing, acquiring, managing, and executing a property investment on behalf of investors.
Strip center	A linear, open-air shopping center typically composed of a row of small retail stores and service businesses with shared parking in front and no enclosed walkways.
Syndication	A structure in which multiple investors pool capital to collectively invest in a property, typically managed by a sponsor or general partner.

A B C D E F G H I J K L M N O P Q R S **T** U V W X Y Z

Tenant creditworthiness	A tenant’s financial stability and ability to meet lease obligations. In commercial real estate, strong tenant creditworthiness reduces default risk and enhances the property's investment appeal.

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Tenant health ratio	A financial metric that compares a tenant's annual rent to their annual gross sales, used to assess the tenant's ability to afford rent and maintain profitability.
Tenant improvements	Customized alterations or build-outs made to a commercial space by the landlord or tenant to meet the tenant's specific operational or aesthetic needs.
Tenant mix	A measure of the profitability of a commercial real estate investment, calculated by dividing the net profit by the total amount of capital invested.
Tenant stability	The reliability and longevity of tenants in a commercial property, often indicated by lease length, payment history, and financial strength, which contributes to consistent cash flow and reduced vacancy risk.
Termination rights	Lease provisions that give either the landlord or tenant the option to end the lease early under specific conditions.

Tertiary markets

Smaller metropolitan or regional areas with limited population and economic activity, often offering lower property prices and higher risk-adjusted returns for investors.

Triple net (NNN) lease

A lease structure in which the tenant pays for property taxes, insurance, and maintenance expenses, along with base rent. This arrangement shifts most operational costs and financial responsibility to the tenant.

A B C D E F G H I J K L M N O P Q R S T **U** V W X Y Z

Underwriting

The process of evaluating a property's financial and operational metrics, such as income, expenses, and market conditions, to assess its investment risk and determine its value.

A B C D E F G H I J K L M N O P Q R S T U **V** W X Y Z

Vacancy risks

The potential for unleased space in a commercial property, which can lead to reduced income and impact the property's financial performance.

Value-add	Commercial real estate investments in properties that require operational, physical, or leasing improvements to increase income and property value, typically offering higher returns with moderate to high risk.
Value-add opportunity	A property with potential for increased income or value through improvements, leasing strategies, or operational efficiencies.
Vertical integration	A company's control over multiple stages of the property lifecycle, such as development, construction, leasing, and management, to increase efficiency and profitability.

For our extensive guide to retail real estate and shopping center investing, check out our eBook resource on our Shopping Center 101 page.