

CRE Terms: Maintenance and Improvements Defined



In this article, we will be exploring two typical clauses or provisions for the maintenance or improvement of spaces – who pays and what falls under which category.

Common Area Maintenance

Sometimes you will see a clause in a lease agreement regarding common area maintenance (CAM) for commercial businesses. This is typically an extra percentage or fixed amount added to base rent and charged to a tenant in order to allow for the upkeep of shared spaces (beyond leased or usable area) and is most common in buildings like shopping centers and office blocks.

In a building with multiple tenants, this is a joint expense often divided pro-rata. Typical uses of this include maintaining the bathrooms, parking lots, the lighting and other fixtures in a lobby, landscaping, or covering snow removal on walkways. It can also include security and certain insurance policies or applicable permits as well as an administration fee for maintenance services.

If this clause is in effect, the landlord or their agent ought to account for such expenses when necessary, and the provision to allow for auditing of those expenses may be negotiated into the lease by occupants.

Improvement Allowances

A tenant improvement (TI) allowance is typically an incentive for new tenants occupying a space. Other terms that function as synonyms include “TA, TIA, fit-out or build-out allowance”. Landlords or their agents will offer a specific amount (in credit or funds) to cover some of the costs of making required or requested improvements that an occupier wants and needs.

Often, a TI will be worked out as a dollar amount per square foot basis and will vary based on the state of the building as well as the strength of that particular market. This and variations thereof (such as rental discounts or full build-out) are most commonly decided between parties prior to occupation.

Again, allowing for whatever your specific agreement is, a TI is normally spent on “hard fittings” like ceilings, floors, plumbing, electrical, doors and conference room build-outs, rather than ‘soft’ fittings like furniture or window coverings.