

## CRE Terms: Real Estate Repairs and Improvements



A core part of managing any commercial property is staying on top of the maintenance and improvements that keep a building in good working order. As any property manager knows, this is often the key to keeping tenants smiling – or attracting them in the first place.

So, for this edition of “Terms,” we’re touching on some of the common phrases real estate professionals use when it comes to repairing, improving, and maintaining commercial space.

### **Ready to Go**

One term that’s sure to be familiar to any commercial real estate (CRE) professional working with multifamily operations is “Make Ready Costs.”

Adventures in CRE defines “Make Ready Costs” as: “minor repairs and maintenance work to an apartment unit in order to ensure that the unit is in a suitable condition before being placed on the market and leased to a subsequent tenant.”

The nature of the work undertaken varies but can range from a deep clean to repainting walls, floor and fitting repairs, and preventative maintenance.

### **Running Hot... and Cold**

When it comes to a building that’s newly developed (or has been completely gutted), you may hear the term “Cold Shell.” This refers to a building with no existing amenities or interior finishes – in other words, basics like plumbing, lighting, and HVAC (Heating, Ventilation, and Air Conditioning) haven’t yet been installed.

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Once a “Cold Shell” has been kitted out with the necessary improvements, it becomes a “Warm Shell,” often enhanced to a tenant’s specifications.

Worth noting is that “warm shell improvements” are typically undertaken only once a lease has already been signed. This helps landlords avoid unnecessary spending from installing improvements that tenants may not require in the first place.

### Tenant Improvements

At the start of a new lease, landlords may also offer “Tenant Improvements,” for office, retail, or industrial space. This generally means making alterations to suit the tenant’s layout requirements, such as adding walls or partitions, shelving, bathrooms, doors, etc.

Who pays for these improvements is a matter of negotiation between the landlord and tenant. Options can range from a “Turnkey” arrangement (where the landlord undertakes all improvements before the tenant moves in), to a “Tenant Improvement Allowance” where the landlord agrees to cover costs up to a specific amount, but the project (and any costs in excess of the allowance), become the tenant’s responsibility.

### Managing the Day-to-Day

For properties with established tenants, handling basic day-to-day maintenance requests forms an ongoing part of a property manager’s duties. “Common Area Maintenance” or “CAM” refers to the aspects of that day-to-day maintenance that tenants are expected to contribute to.

Adventures in CRE clarifies: “Elements of CAM costs vary, but common CAM items may include janitorial services, landscaping, common area electricity, security, trash removal, and snow removal.”

In other words, all the services and operations that tenants collectively benefit from and that play a vital role in ensuring a property is in top condition for new and established tenants alike.

