LESMARK

LesMark Capital, LLC

BOND, CREDIT AND NET LEASE DEFINITIONS

Bond Lease

A Bond Lease requires the lessee to perform **all** obligations related to the leased premises. The investment community has historically defined a Bond Lease as a "hell or high water lease", generally meaning that no matter what occurs with regard to the leased property, the lessee is obligated to continue to pay its rent. The Bond Lease has the following characteristics:

- The payment of taxes, utilities, maintenance, insurance, environmental and ground lease obligations is the responsibility of the lessee.
- The lessor makes no representation or warranties regarding the condition of the property.
- The lessee has no right to offset rent or terminate the lease upon the occurrence of obsolescence, condemnation, casualty or for any other reason except for (a) lessee purchase in an amount greater than the unpaid principal balance of the loan, or (b) during the last three years of the lease if condemnation or casualty insurance proceeds or awards are sufficient to pay off the loan.
- The lessee is not required to occupy the property and may sublease the space.
- Lease cannot be terminated without lender's consent.
- Transaction documents must prohibit mergers of estates.

Credit Lease

A Credit Lease requires the lessee to perform **most** of the obligations related to the leased premises. The principal difference between a Bond Lease and a Credit Lease is the small set of landlord obligations or real estate risks that are typically addressed through insurance, adjusted debt service coverage ratios or other acceptable mitigants. The Credit Lease has the same characteristics as the Bond Lease, with the following exceptions:

- Some obligations related to the leased premises may be the responsibility of the landlord. These exceptions or obligations must be addressed through adjusted debt coverage, insurance, reserves or other acceptable mitigants.
- The lessee usually must formally accept the leased premises, as evidenced by an estoppel certificate.
- The lessee has limited rights to offset or abate rent related to casualty or condemnation, or the failure to perform roof, structural, or parking obligations.
- Typically only the credit tenant, or a subsidiary or affiliate of the credit tenant may occupy the lease premises.

NNN vs. NN Leases

Triple net (NNN) Credit Leases require that all lease premises cash expense obligations are paid by or reimbursed by the credit tenant. This includes taxes, insurance premiums, utilities, CAM and ground lease payments. The landlord may be providing a roof, structural or parking lot warranty for a limited number of years, and/or the lease may have termination or rent abatement rights in the event of condemnation or casualty. Triple net leases qualify for 1.01 debt coverage, but any landlord risks must be mitigated. Double net (NN) Credit Leases provide that the landlord is responsible for some ongoing cash expense obligation associated with the lease premises, which may include taxes, insurance, utilities, CAM and/or ground lease payments. Double net leases qualify for a maximum of 1.05 debt coverage, but the landlord risks and cash obligations must be mitigated through insurance and reserves, which may affect the debt coverage.

Gross and Modified Gross Leases

A gross lease requires that the landlord be responsible for the management of, as well as all of the ongoing cash expense obligations associated with the leased property. A modifies gross lease simply means that a few of the obligations are assumed by the tenant, or that the tenant reimburses the landlord for some of the expenses. Gross and modified gross leases are typically more difficult to underwrite as a CTL loan due to the additional escrows involved and may require a loan servicer to monitor the landlord’s duties.