

# Lease Types

Not all leases are created equal. The landlord actually gets to determine the lease structure and template, but the type will be included with the listing details for potential tenants to see before touring.

What is the main difference between leases? Simply put, it comes down to which operating expenses are included with the base rent.

Nets are another term for operating expenses, and there are three of them:

- Common Area Maintenance (CAM)
- Property Taxes
- Landlord's Insurance

## Gross Leases

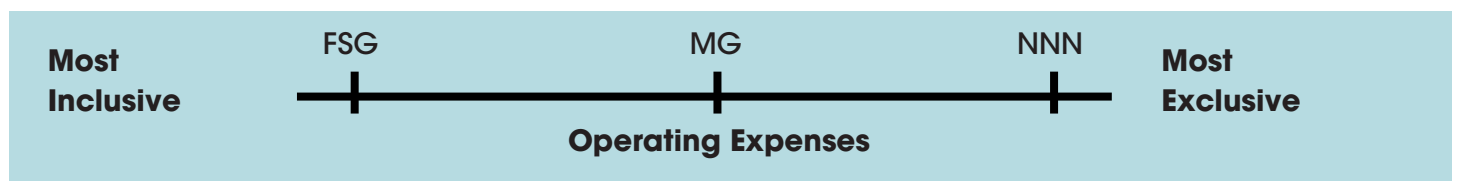
These leases include all or most of the operating expenses with the base rent price, with the most inclusive type being Full Service Gross (FSG). These are the most common with either very high-end properties to create an all-inclusive experience or with very small landlords who like to keep their leases simple.

## Net Leases

These leases exclude all or most of the operating expenses with the base rent price, with the least inclusive type being Triple Net (NNN). Triple Net leases are very common. They are more predictable for landlords, because when a property is fully leased, the tenants assume all the risk for increased operating expenses. They are common in industrial, retail, flex and medical office buildings.

## Hybrids

Some leases are in the middle of the spectrum. Modified Gross (MG) leases are commonly found in office buildings, which include all expenses for the first year of the lease - better known as the base year - and charge the tenant for the difference of the expense costs each year after.



Caution - because the lease type determines how much of the operating expenses are included with the base rent, the base rent price alone may not provide a direct comparison between properties.

Therefore, it is very important for business owners to factor in the operating expenses into the base rent price to accurately get the full picture and determine which rent price is actually the best deal.

# COMPARING PROPERTIES WITH DIFFERENT LEASE TYPES

## Property 1:

Base Rent: \$25.00/per SF

Annual Rent Increases: \$.25/per SF

**Lease Type: Full Service Gross**

Operating Expenses: \$0.00/per SF\*

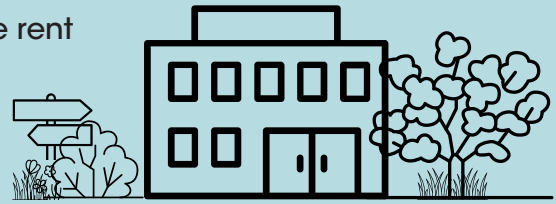
\*because operating expenses are included with base rent

Year 1:  $\$25.00 + \$0.00 = \$25.00$ /per SF Total

Year 2:  $\$25.25 + \$0.00 = \$25.25$ /per SF Total

Year 3:  $\$25.50 + \$0.00 = \$25.50$ /per SF Total

**Encompass Business Plaza**



**Essential  
Commerce Park**



## Property 2:

Base Rent: \$18.00/per SF

Annual Rent Increases: \$.25/per SF

**Lease Type: Triple Net**

Operating Expenses: \$8.00/per SF w/ \$.50/per SF increases per year

Year 1:  $\$18.00 + \$8.00 = \$26.00$ /per SF Total

Year 2:  $\$18.25 + \$8.50 = \$26.75$ /per SF Total

Year 3:  $\$18.50 + \$9.00 = \$27.50$ /per SF Total

## Property 3:

Base Rent: \$23.00/per SF

Annual Rent Increases: \$.25/per SF

**Lease Type: Modified Gross**

Operating Expenses: \$8.00/per SF w/ \$.50/per SF increases per year

Year 1:  $\$23.00 + \$0.00^* = \$23.00$ /per SF Total

\*because operating expenses are included in the base year

Year 2:  $\$23.25 + \$.50^* = \$23.75$ /per SF Total

\*because only increases in operating expenses are charged

Year 3:  $\$23.50 + \$1.00 = \$24.50$ /per SF Total

**Fusion  
Commercial  
Complex**

