COACH'S CORNER

WITH CARLOS MATOS

CPEX REAL ESTATE SERVICES

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COMMERCIAL LEASES

SINGLE NET LEASE

A commercial real estate lease agreement in which the tenant is required to pay property taxes in addition to rent. A single net lease is a form of pass through lease in which taxes associated with the property become the responsibility of the tenant instead of the landlord. The landlord is responsible for the other operating expenses incurred of the property.

Single net leases are less common than double and triple-net leases, as the latter two pass more costs onto the tenant, specifically, insurance and maintenance costs. Single net leases are typically good investments in both good and bad economic times. This is because the terms of the lease are predetermined with a steady income coming in.

DOUBLE NET LEASE

It's an agreement in which the tenant is responsible for both property taxes and premiums for insuring the building. Unlike a single net lease, which only requires the tenant to pay property taxes, a double net lease passes more expenses along in the form of insurance payments. The landlord is still held responsible for structural maintenance expenses. Each month, the landlord receives the base rent plus the additional payments. Double net leases are most commonly found in commercial real estate.

For commercial properties with multiple tenants, such as a shopping mall, taxes and insurance fees may be assigned to the individual tenants on a proportional basis. Even if property taxes and building insurance premiums are considered the responsibility of the tenant, owners of commercial property should have property taxes passed through themselves in order to ensure that they are aware of payment issues.

TRIPLE NET LEASE

A lease agreement that designates the lessee (the tenant) as being solely responsible for all of the costs relating to the asset being leased in addition to the rent fee applied under the lease. The structure of this type of lease requires the lessee to pay for net real estate taxes on the leased asset, net building insurance and net common area maintenance. The lessee has to pay the net amount of three types of costs, which is how this term got its name. This type of lease can also be referred to as a "net-net-net lease" or a "hell or high water."

For example, if a property owner leases out a building to a business using a triple net lease, the tenant will be responsible for paying the building's property taxes, building insurance and the cost of any maintenance or repairs the building may require during the term of the lease. Because the tenant is covering these costs (which would otherwise be the responsibility of the property owner), the rent charged in the triple net lease is generally lower than the rent charged in a standard lease agreement.

MODIFIED GROSS LEASE

A type of real estate rental agreement where the tenant pays base rent at the lease's inception but in subsequent years pays the base plus a proportional share of some of the other costs associated with the property, such as property taxes, utilities, insurance and maintenance. For example, under a modified gross lease, a property's tenants might be required to pay their proportional share of an office tower's total heating expense.

Under a gross lease, by contrast, the owner/landlord covers all of the property's operating expenses including real estate taxes, property insurance, structural and exterior maintenance and repairs, common area maintenance and repairs, unit maintenance and repairs, utilities and janitorial costs. Under a modified gross lease, the tenant takes over expenses that are directly related to his or her unit, including unit maintenance and repairs, utilities and janitorial costs, while the owner/landlord continues to pay for the other operating expenses. A third type of lease is a net lease. More common in single-tenant buildings, it passes even more property expenses through to the tenant. A modified gross lease falls somewhere between a gross lease and a net lease. Which expenses the tenant is responsible for can vary significantly from property to property, so a prospective tenant must ensure that a modified gross lease clearly defines which expenses are the tenant's responsibility.

Modified gross leases are common when multiple tenants occupy an office building. In a building with a single meter where the monthly electric bill is $1,000, the cost would be split evenly between the tenants; if there are currently 10 renters, they each would pay $100. Or, each tenant might pay a proportional share of the electric bill based on the percentage of the building's total square footage that the tenant's unit occupies. Alternatively, if each unit has its own meter, each tenant will pay the exact electrical expenses it incurs, whether $50 or $200.

GROSS LEASE
A type of commercial lease where the landlord pays for the building's property taxes, insurance and maintenance. A gross lease can be modified in a number of ways to best meet the needs of a particular building's tenants (for example, a gross lease may or may not require the tenant to pay utility bills).

PERCENTAGE LEASE
A type of lease where the tenant pays a base rent plus a percentage of any revenue earned while doing business on the rental premises. It is a term used in commercial real estate. Percentage lease agreements can often decrease the base rate while simultaneously providing the lessor with additional upside potential.

A percentage lease is a lease where the rental is based on a percentage of the monthly or annual gross sales made on the premises, usually coupled with a base rent. This is a common lease type for retail stores operating in leased spaces, where the tenant pays a base rent regardless of profits/losses plus a percentage of revenue earned as a result of conducting business on the premises.

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