



Commercial Lease Types

Almost every aspect of a lease is negotiable and terminology varies from market to market. Here are a few of the most widely used lease types:

Gross Lease: Also called the "Full Service Gross Lease" where the Landlord pays all of the operating expenses of the building (property taxes, insurance, common area maintenance, janitorial, etc.) for the duration of the term.

Modified Gross Lease: Also referred to as an "Industrial Gross Lease", the Modified Gross Lease requires that the Landlord pay for one or more of the operating expenses.

Example: Commercial Agent Dan markets his client's 1,500 square foot light manufacturing space at \$0.95 per square foot industrial gross where the tenant pays for his/her own trash services and electricity. The landlord will pay for all property taxes, insurance, common area maintenance and municipal water.

There is no standard for which expenses are the Landlord's responsibility. Landlord and Tenant can agree as to who pays for what.

Net Lease: In addition to rent, the Tenant pays for their pro rata share of operating expenses including property taxes, insurance and common area maintenance. In most cases, the Landlord is responsible for the roof, parking lot and possibly the foundation.

Triple Net Lease: Also known as a "NNN Absolute" lease, the Tenant is not only responsible for the operating expenses as in a Net Lease, he or she is obligated to pay for all repairs to the property. The Landlord simply collects rent which, unlike a Gross Lease, represents the Landlord's net operating income. Net leases are very popular with single tenant retail and industrial users. In the Metro Boston market, this is the most popular type of lease.

Percentage Lease: Also known as a "Shopping Center Lease", the Percentage Lease is additional rent due to the Landlord beyond just the base rent. The extra rent is based on sales over a specified amount, called the breakpoint. This type of lease used almost exclusively in a

retail setting of large shopping centers and malls. It is beneficial to both Tenant and Landlord because the Landlord has a financial stake in the success of his or her tenants which encourages owners to maintain the property and wisely choose a complementary mix of tenants.



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Indexed Lease: This lease ties the payments to a specified financial index such as the Consumer Price Index (CPI).

Sublease: Subletting occurs when the Tenant transfers all of his or her right in the property to someone else. The original Tenant retains a financial obligation to pay the rent but becomes a Sub-Landlord to the Subtenant.

Example: Craig, a doctor in XYZ LLC's professional office building is leasing 5,000 square feet. After three years into a five year lease, Craig decides to downsize his practice to prepare for retirement. He only needs 2,000 square feet. Craig is referred to a younger doctor by the name of Minh. Minh's practice has been growing by leaps and bounds and is ready to move to a better location. Craig's excess 3,000 is perfect. Craig hires Commercial Agent Dave to facilitate the agreement. A sublease agreement is written for a term not exceeding Craig's original term. In the end, XYZ LLC collects rent from Craig for 5,000 square feet. In turn, Craig collects rent from Minh for 3,000 square feet.