

A Lesson in Commercial Leases

Articles October 14, 2019

Where residential leases are often seen as quite straightforward, to many, commercial leases can be intimidating. They represent a long-term financial commitment and contain different terms and nuances not necessary in residential leases. This article will break down the types of commercial leases and the abbreviations in those leases. When it comes to commercial leases, there are several basic structures. Each structure equates to what landlord and tenant are ultimately responsible for under the terms of the lease.

- **Single Net Lease (also known as a Net Lease):** This is the simplest commercial lease but is rarely used. In this lease structure, tenant pays rent, utilities for their space, and property taxes attributable to their space. Landlord pays for maintenance, repairs and insurance on the leased space.
- **Double Net Lease (also known as Net-Net):** Here, tenant is responsible for rent, utilities, property taxes and insurance premiums for the building that makes up their leased space. Landlord is still responsible for maintenance and repairs within the leased space. Double net leases are most common in multi-tenant buildings.
- **Triple Net Lease (also known as NNN):** This is the most desirable type of lease for a commercial landlord. In this lease structure, tenant is responsible for all costs of their leased space, except the landlord generally remains responsible for structural replacements.
- **Full Service Gross Lease:** In this lease structure, tenant pays base rent along with a fixed amount per month often called additional rent. Additional rent is calculated by landlord at the beginning of the lease term. Additional rent often includes payment for insurance, utilities, operating expenses, common area maintenance (CAM), management, and taxes. Landlord then handles all operations and maintenance.
- **Modified Gross Lease (also known as Modified Net):** This type of lease is the same as the full service gross lease with one exception. In a modified gross lease the landlord may increase the amount of additional rent paid each year based on higher operational costs. Usually there are limits in the lease for how much the additional rent can increase per year and what type of documentation landlord must produce to support the increase.

It is crucial for a tenant to know and understand what type of lease they are entering into and for the landlord it is helpful to research what type of lease best suits the type of commercial building being leased and how involved the landlord wishes to be in the operations of that building. This lesson in commercial lease structures represents only a piece of the information needed to navigate commercial leases. For more about the commercial leasing process and to assess what type of lease structure would be best for you please feel free to reach out to Ashley Wagner.