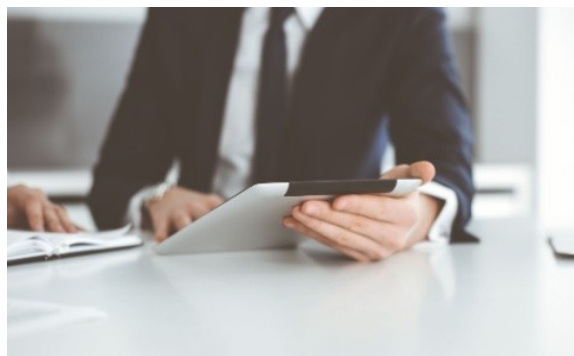


This Week in Real Estate: Commercial Leases

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This Week in Real Estate's continues its current series on Leases. This week we'll focus on commercial leasing and begin discussing the different types of commercial leases. In general, there are three types of commercial leases: Gross, Net, and Modified Gross (Base Year) Leases.

Gross Lease or Full-Service Lease

The first type of commercial lease is the gross or full-service lease. It's the easiest to understand. In a gross lease, the rent is all-inclusive. The landlord pays all or most expenses associated with the property, including taxes, insurance, and maintenance out of the rents received from tenants. Utilities (except utilities that are separately metered and the tenant agrees to pay) and janitorial services are included within one easy, tenant-friendly rent payment.

When negotiating a gross lease, the tenant should ask which janitorial and other services are provided and how often they are offered. Excess utility consumption beyond building standards is sometimes charged back to the tenant, so if the tenant is a big consumer of electricity, this point should be clarified in the lease. The tenant pays his own property insurance and taxes.

As costs increase over time, many gross and full-service leases will contain escalation clauses that increase rents overtime to offset tax increases and higher insurance and maintenance costs. It is important that a tenant shopping for space understand any escalation clauses to project rent expense into the future.

A benefit of this type of lease is that it is supremely easy for the tenant, which can forecast expenses (even with the escalations, which are outlined in the lease) without worrying about an unexpected lobby maintenance charge, for example. The landlord assumes all responsibility for the building while tenants concentrate on growing their businesses.

Next week's edition of *This Week in Real Estate* will net lease, the different types (there are three), and what they are.