

This Week in Real Estate: Commercial Leases — Net Leases

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This Week in Real Estate continues its current series on Leases. This week, we'll remain focused on commercial leasing and discuss the different types of net commercial leases.

The net lease is a highly adjustable commercial real estate lease. The base rent for a net lease is fixed (typically with an escalation which is set at the outset of the lease), but is lower than a gross lease. The tenant also pays fixed operating expenses such as property taxes, insurance, and common area maintenance (CAM) items. There are four types of net leases:

Single Net Lease:

In a single net lease, tenants pay a set rent and a piece of the property tax (which would be negotiated with the landlord). The landlord then pays building expenses, while the tenant pays utilities and other services directly.

Double Net Lease:

A double net lease is similar to the single net lease, except the tenant also pays a piece of the property insurance along with the property tax. The landlord is responsible for maintenance of the common area, but the tenant is still responsible for his or her own utilities and garbage services.

Triple Net Lease:

For the triple net lease, also known as "net net net leases" or "NNN Leases", the tenant pays the base rent and in addition three primary operating expense categories, hence the "NNN" definition. These categories include (1) CAM (Common Area Maintenance charge), to cover the landlord's property management, waste, water, landscaping and general maintenance, (2) property taxes, and (3) building insurance.

In addition to the base rent and NNN charges, the tenant also pays their own utility charges for the subject premises, contracted directly with the service provider. Landlords typically estimate expenses and charge tenants a portion of these expenses based on their proportionate, or pro-rata share.

Triple net leases are generally the most landlord-friendly commercial lease type, and tenants should always scrutinize NNN charges and negotiate limits on the amounts they can be increased annually. NNN charges can also fluctuate monthly as operating expenses increase or decrease, making it harder for a business to forecast and budget their occupancy costs.

Absolute Triple Net Lease:

This is the triple net lease on steroids. The tenant takes on all costs enabling them to have sole responsibility of the building.

The benefit to the tenant in this lease is that the tenant can virtually own a building without buying it. The benefit to the landlord is she collects rent, but has little to no responsibility to maintain the property.

Next week's edition of *This Week in Real Estate* will discuss the base year and percentage leases.