

NET LEASES VERSUS FULL SERVICE LEASES

Commercial and industrial properties can be leased in a variety of lease agreements. The tenant might be responsible for the real estate taxes, the insurance premiums, and the repairs; or the lessor (owner) may be responsible for all of them. Another possibility is for the owner to be responsible for taxes and insurance, and for the tenant to be responsible for the rest of the operating expenses. In fact there are a number of possibilities.

A full service lease is a lease in which the lessor (owner) is responsible for all of the operating expenses, including but not limited to taxes, insurance, repairs, and utilities.

A net lease is a lease in which some of the operating expenses are paid by the tenant. A net-net lease is a lease in which the lessee (tenant) pays the two major expense items: taxes and insurance.

A triple net lease is a lease in *which* the tenant is responsible for "all" of the operating expenses. This includes the three most significant expense items: taxes, insurance, and utilities. Hence the term Net-Net-Net lease or triple net. A true triple net lease is one in which the lessee (tenant) pays all of the operating expenses and lessor (owner) simply receives his one check every month. Unfortunately the term is often misapplied to leases in which the lessee (tenant) pays for most, but not all of the operating expenses. You are cautioned to read the lease carefully to determine for which expenses *each* party is responsible.

Expenses often paid by the lessor (owner) in so called "triple net" leases are management, common area maintenance and common area utilities.

Many multi-tenant buildings are leased on a "triple net" basis where the real estate taxes, the insurance, the common area utilities, and the common area maintenance expenses are prorated among the tenants on a pro rata basis. The basis most commonly used is the net rentable square footage of each tenant's space as a percentage of the total net rentable square footage. By net rentable square footage we mean the space actually available for rent as opposed to the gross square footage which includes hallways, stairwells, elevator shafts, and lobbies.