

LEASE TERMINOLOGY

MULTI-TENANT OFFICE BUILDINGS

- Full Service Gross: A full service gross lease is where the Landlord is responsible for the payment of taxes, maintenance, insurance and utilities. All of the costs are included in the base rent figure.
- The tenant is typically responsible for their own property insurance and taxes and any excess utility consumption beyond building standards. Further, Tenant is typically responsible for their proportionate share of any increase in base operating expenses over a base year or expense stop.

PROPORTIONATE SHARE

- The Tenant's proportionate share of operating expenses is calculated on a square footage basis.
- $\text{Tenant's SF} \div \text{Total Building SF} = \text{Tenant's proportionate share}$

BASE YEAR

A "Base year" is typically utilized in multi-tenant full services gross office building leases to determine "base" cost for operating expenses within the project. The base operating expense account is the floor over which any increases in operating expenses will be passed on to the tenant of the building. In general, a base year is calculated on a calendar year basis, but this is a negotiable point. It is always better to try and establish the base year as the first 12 months of Tenant's occupancy. Landlords are hesitant to agree with this because it causes an accounting problem to have different tenants with different base years in a multi-tenant building.

EXPENSE STOP

An expense stop is the preferred method for expense calculation by a Landlord. This vehicle allows a Landlord to estimate the approximate expenses the building will incur and the tenant is responsible for payment of their proportionate share of actual operating expenses over the estimated expense stop. This is rarely utilized anymore as it led to fraudulent estimates of expenses in the past and unexpectedly high operating expense pass-throughs to tenants.

MODIFIED GROSS LEASES

There are numerous types of modified gross leases that are commonly utilized in multi-tenant office buildings. A modified gross lease is similar to a full service gross lease, except that some of the base services are not included by the landlord (taxes, maintenance, insurance and utilities). The most common types of modified gross leases

exclude either maintenance (janitorial) or electrical, or both. This type of lease is commonly utilized in medical office buildings or multi-tenant single floor office buildings, where different tenants have varying needs for electrical or janitorial services. In general, this type of lease requires separately metering individual office suites to determine electrical usage. Generally in a modified gross lease the Landlord has the right to expense pass-throughs utilizing a “base year” as outlined above.

NET LEASES

As with modified gross leases there are numerous forms of net leases. The most common of these is the Triple Net lease. In a Triple Net lease, the tenant is responsible for their proportionate share of property taxes, property insurance, general property maintenance and common area utilities. Tenant is further responsible for all costs associated with their own occupancy including personal property taxes, janitorial services and all utility costs.

This type of lease is rarely utilized in a multi-tenant office building. As with a modified gross lease, a modified net lease is also available. There are no set standards as to what costs may be excluded in a modified net lease; the lease is usually customized according to need.

SINGLE TENANT OFFICE BUILDINGS

Generally, single tenant office buildings are leased on a net basis (NNN). This lease calls for the tenant to be responsible for all costs associated with occupancy. These costs are more clearly defined in the Industrial Building Section below.

INDUSTRIAL BUILDINGS

NET LEASES

Net leases are generally utilized for large industrial complexes or free standing single user facilities. As with office buildings, a triple net lease is where the tenant is responsible for all costs associated with the facility. If the facility is part of a larger project, the common area maintenance charges (CAMS) will be divided among all the buildings, generally based upon the tenant’s square footage percentage of the overall complex.

A common question asked in NNN leases concerns who is responsible for structural defects, hazardous material problems, soil problems and mechanical functions. All of these items are negotiable in a net lease. In general, the landlord will be responsible for the structural integrity of a building, including the roof. Further, they will remain liable for pre-existing hazardous material and soil issues. The mechanical systems are always open for negotiation. There are leases commonly referred to as **absolute net**

leases where the tenant is responsible for all aspects of the property, including the above-mentioned items.

MODIFIED GROSS LEASES

The industrial modified gross lease is common among multi-tenant industrial parks. As with a modified gross lease in an office building, the landlord will generally provide some services to the tenants, but which services they provide differs from park to park.

RETAIL LEASES

The most common lease utilized in the retail industry is the net lease. As with the industrial and office net lease, the retail net can be utilized for either a single tenant or a multi-tenant environment. Most retail centers utilize a net lease where the owner oversees the common area maintenance (CAM) and this expense is divided among the tenants as in any multi-tenant facility.