

Understanding Lease Types in Real Estate

When renting or investing in real estate, it's important to understand the type of lease you're signing. Lease types outline how expenses such as taxes, insurance, and maintenance are divided between the landlord and tenant.

1. Gross Lease (Full-Service Lease)

- The tenant pays a fixed rent amount.
- The landlord covers most property expenses, including taxes, insurance, and maintenance.
- Common in office buildings and multi-tenant properties.
- Advantage to Tenant: Easy to budget since costs are predictable.

2. Net Lease

With a net lease, tenants pay base rent plus some or all of the property's operating expenses:

- Single Net (N): Tenant pays rent + property taxes.
- Double Net (NN): Tenant pays rent + property taxes + insurance.
- Triple Net (NNN): Tenant pays rent + taxes + insurance + maintenance.
- Advantage to Landlord: Shifts operating costs to tenant.
- Advantage to Tenant: Often lower base rent compared to gross leases.

3. Modified Gross Lease

- A middle ground between gross and net leases.
- Tenant pays base rent plus a share of certain operating costs (negotiated).
- Common in multi-tenant office buildings.
- Flexibility: Costs are split between tenant and landlord based on agreement.

4. Percentage Lease

- Tenant pays base rent + a percentage of business revenue.
- Common in retail properties like shopping centers.
- Advantage to Landlord: Income grows with tenant's success.
- Advantage to Tenant: Lower base rent if sales are slow.

5. Ground Lease

- Tenant leases the land and may build improvements (buildings, etc.) on it.
- Typically long-term (20–99 years).
- At lease end, improvements usually revert to the landowner.
- Common in retail developments, restaurants, and banks.

Key Takeaways

- Gross Lease = Simple, landlord pays most expenses.
- Net Lease = Tenant pays expenses (N, NN, or NNN).
- Modified Gross = Shared costs.
- Percentage Lease = Rent tied to tenant sales.
- Ground Lease = Tenant rents land, often for development.