

Types of Commercial Leases

By

George Vaill

Understanding how rental charges are determined and allocated is very important if you wish to safely and effectively negotiate terms within your budget. The one thing most leases have in common is that, in most cases, in addition to specifying the amount of "rent" to be paid, they require that tenants also pay the landlord's operating costs (real estate taxes, insurance premiums, maintenance costs, etc.). While there are unlimited variations on who pays what and what is or is not included in "rent", there are four common approaches and they are often referred to in the following manner:

- **Gross Lease:** The tenant pays a set amount of base rent (sometimes called fixed rent, annual rent or minimum rent), normally with built-in future increases. The landlord pays the operating costs. In addition, the tenant typically pays for utilities, suite janitorial and maintenance.
- **Pass-Through Lease:** This is the same as a Gross Lease except that, starting with the second year, in addition to the base rent, the tenant also pays a proportionate share of any increases in the operating costs paid by the landlord in the first year. In addition, the tenant typically pays for utilities, suite janitorial and maintenance.
- **Full Service Lease:** This is essentially a Gross Lease, but one in which all utilities, suite janitorial and maintenance are included in the base rent. There normally are built in future base rent increases and sometimes, also, operating cost pass-through increases.
- **Net Lease:** The tenant pays base rent, normally with built-in future increases. The base rent includes no other charges. However, in addition, the tenant also pays a proportionate share of all operating costs. In addition, the tenant typically pays for all of its own utilities, suite janitorial and maintenance.

As you might imagine, it is easy to get confused, even tripped up by a fast-talking broker or landlord. So understanding what is at stake and how the landlord's program is set up is paramount if you wish to avoid a rude surprise when it comes time to pay the "rent".

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George D. Vaill is president of George Vaill Dental Office Lease Negotiations. He specializes in negotiating the economic elements of office leases for dentists throughout the United States. Additionally, George reviews, and in many cases renegotiates, leases as part of dental practice transitions. George can be reached at 800-340-2701 and can be found at <http://www.georgevaill.com>.

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