What the terms "Triple Net" and "Gross" mean…

"If it's not Triple Net -It's Gross"

When leasing a commercial/industrial facility, the rent you are quoted may not be your only lease-related expense. Most commercial or industrial leases are structured either as "gross" or "triple-net" types. Before you sign either type of lease, be sure to understand how their characteristics and nuances may affect your budget and the operation of your facility.

In a gross-lease arrangement, the quoted rent typically includes all other building operating expenses. These would include all utilities such as water, sewer, electricity and gas; all maintenance items such as lawn care, snow removal, exterior paint touch-up; HV AC repairs; and services such as janitorial, trash removal and the costs related to providing a building superintendent. Gross leases are found most commonly in Class-A and Class-B office space.

Class-A and Class-B office buildings usually have areas shared by all tenants such as a lobby and restrooms. These buildings rarely have separately-metered utilities, so a gross-lease arrangement is most practical. Most gross leases in the Central Pennsylvania marketplace are quoted with reference to a base year. This practice means that during the first year of occupancy, all expenses are included in the rent quoted in the lease. However, in subsequent years, each tenant company is responsible for its pro-rated share of the increase in the cost of the building expenses, based on their portion of the total leasable square footage of the building.

A triple-net lease is the most common form of lease structure for industrial, flexible and office facilities, in which there is no shared or common tenant space such as a lobby and restrooms. In a triple-net lease arrangement, like the gross lease, there is a set monthly or annual base rent. But unlike the gross lease, the lessee is responsible for 100 percent of the facility's operating expenses. Repairs and maintenance such as snow, lawn, exterior painting and trash are reimbursed to the lessor through a monthly common-area maintenance (CAM) charge. Real estate taxes and insurance are also included in CAM charges. Utilities such as gas and electricity are metered and billed separately, directly to the tenant, by each utility provider. Services such as janitorial and HVAC maintenance are contracted directly by the tenant. The CAM charge is typically billed to the tenant on a pro-rated basis, based upon the percentage of leased space occupied by the tenant, compared with the overall leasable area of the building.

While not as common, single- and double-net leases are also used in some circumstances. These lease types are similar to the triple-net lease. However, instead of all expenses being the responsibility of the tenant, some expenses are borne by the lessor. There is no uniformity to what lessors provide in single or double net leases so prospective tenants must investigate them fully. Most lessors or property management companies will bid or bundle service contracts competitively to keep operating expenses as low as possible.

When comparing leases among several facilities, you should thoroughly understand all of the costs that are associated with each. Review two or three years of expense history to verify all the expenses that may be included or excluded and to track year-to-year trends. Neither type of lease is necessarily advantageous compared with the other in all cases but by fully understanding the characteristics of each, and the complete financial obligations contained within each, you will lessen the likelihood of surprises during your occupancy, create more accurate operating budgets, and choose the facility that provides the best value for your company.