

6.7: Common Lease Types

Learning Objectives

- Outline the characteristics of the most common lease types

So you have finally, after tons of research and analysis decided on a location!! If you are not planning on buying, then you will probably be dealing with a landlord and a lease. There are several types of commercial leases that you may be offered. It is important to know how each of these leases work, and what you can expect to be paying. Location will have a strong bearing on the type of lease you might be looking at. The more attractive a location, the more costly it will likely be.

Let's first look at the base rent. How is the base rent calculated? It is typically based on the square footage of the space. According to Blasingame (2011). So once you pick out a few places:

Since every leased space is different in size and price, here is a handy rule of thumb to help you start the elimination process. Ask the agent or landlord for the unit lease price—\$8, \$14, etc.—which is the price per square foot of the space per year. Multiply those two numbers and then divide the product by 12 to get the monthly base rent. Use this only as a quick tool to compare properties of different size and unit price.

So, if it is \$8 and the space is 1500 square feet, you would take $\$8 \times 1500 = \$12,000 / 12 \text{ months} = \$1,000$ per month. Then other costs may be added on, depending on what kind of lease it is.

Lahle Wolfe (2018) created a very nice list of potential lease types you may encounter:

1. **Percentage lease.** Base rent plus a percentage of sales (Retail business-Mall)
2. **Net lease.** In addition to rent, you may be asked to pay some or all of the property taxes, insurance, or maintenance (any commercial lease)
3. **Double net lease.** You pay rent, plus taxes and insurance (any commercial lease)—two costs are added to your lease
4. **Triple net lease.** You pay rent, plus taxes, insurance and maintenance (any commercial lease)—three costs are added to your lease
5. **Fully serviced lease (Gross lease).** the landlord pays all or most of the usual costs, but they are built into rent, called a “load factor” (offices, industrial and retail leases)

At the very least, you will pay base rent, which we talked about above. The fully serviced rent will likely be much higher than that to include a myriad of other expenses. If you have shared areas, such as lobbies, meeting rooms, bathrooms or other spaces, you will most likely be covering some of the expenses for those areas as well.

So now you know all there is to know about commercial leases!

Practice Questions

<https://assessments.lumenlearning.co...essments/9200>

References

Blasingame, J. (2011). How to lease commercial real estate part 1. Retrieved from <https://www.forbes.com/sites/jimblasingame/2011/07/18/lease-commercial-real-estate-part-i/#41a06c985457>

Wolfe, L. (2018). The different types of commercial leases. Retrieved from <https://www.thebalancecareers.com/types-of-commercial-leases-3515438>

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