

CRE Terms: a Look at Leasing



One of the greatest impacts of the Covid-19 pandemic has been the emptying out of offices and professional workspace. This has been seen in major office markets worldwide, as governments issued “lockdowns” and “shelter at home” orders. As a result, there’s been an uptick in unoccupied office space – some as a result of business closures and others due to remote or hybrid work scenarios.

What the return to the office will look like and when it will arrive is a matter of regional and international variance and debate, but the upshot is that commercial real estate professionals are now grappling with lease complexities on an unforeseen scale. Consequently, let’s look at leasing terminology and common ways to amend or extend these agreements.

Common Lease Types

Below is a summary table from the NAOIP 2017 Terms and Definitions document. The table offers a quick guide to: gross, modified gross, net, triple net, and master leases.

Lease Type	Responsibility for Expenses	Other
Gross (Full Service)	Landlord pays all or most of the operating expenses and taxes	Cost of operations must be disclosed in Lease
Modified Gross	Expenses are divided between Tenant and Landlord	Costs can be double or triple net depending on terms of lease
Net	Tenant pays all operating expenses	Landlord must disclose Tenant responsibility in the Lease
Triple Net (Net-Net-Net or NNN)	Tenant pays all operating expenses, taxes and insurance	Landlord is responsible for structure, roof and maybe parking lot
Master		Controlling lease stipulates terms and length

CRE Terms: a Look at Leasing

Blend and Extend

One option in the toolbox is the “blend and extend lease” which builds on an existing agreement. For landlords, the benefit is keeping a tenant in place. For an occupier, it can be a means to renegotiate terms and rates.

As NAIOP explains: “If a tenant is paying rent that is above current market rents, this arrangement will lower the current rental rate... Conversely, if rents are rising quickly and lease expiration is approaching a tenant may renew early and extend to lock in lower rates.”

Concessions

Concessions usually appear when the vacancy rate is high in a market and the tenant is choosing between options. They are a handy way to “sweeten the deal”. These might include options like rent discounts, lease buyout clauses, improvement allowances or moving allowances. In the current situation of empty spaces and uncertain futures, concessions may be a tool to encourage renewals and extensions.

Modified Lease

Finally, a modified lease is a category that includes types like double net and triple net leases. NAIOP says these apply when a “lease in which the landlord receives a stipulated rent, and payment of the property’s operating expenses is divided between the lessor and lessee via specified terms in the lease”.

For both parties, negotiating an extension to a lease is a risk mitigation tool, and can be a tactic that aids in longer-term planning despite the ever-changing circumstances.

