



## **Hunt Corp. commercial real estate Q&A: Net lease, gross lease, and full-service lease - by David Hunt**

March 14, 2023 - Long Island



David Hunt

Q: Looking on the internet, I see that rental prices have different labels. What are the differences between a net lease, a gross lease, and a full-service lease?

A: These are all terms used to describe the manner in which services and expenses are paid in a landlord-tenant relationship. While the terms are used freely in commercial real estate transactions, there are actually no agreed-upon exact definitions of each. You should be concerned with the total cost of occupancy, so it is crucial to sort out what services are included in the rent, and incorporating the cost of those that are not. The following are the generally accepted definitions of these terms:

A net lease refers to a base rent that is being paid solely for the real estate, and does not include payments for real estate taxes, utilities, insurance, and any other operating expenses. A good way to remember the basis of a net lease is to equate it with the mortgage payment of an owned property. If you own a property, your mortgage payment is generally due once a month, just a like net rent, but you are also responsible for tax payments, insurance, all operating costs and even the landscaping! A net lease is similar. The rent paid to the landlord is simply compensation for his investment and risk in the real estate, and no more. The so-called triple net lease (usually encountered with single-occupant buildings) puts the entire burden of these expenses upon the tenant, in addition to the net rent that is paid.

A gross lease, on the other hand, usually incorporates some of the operating expenses (almost always real estate taxes) in the rent that is paid to the landlord. The gross lease may or may not include building insurance or common area maintenance (CAM). The tenant must take it upon himself to inquire as to exactly what is included in the gross rent that is being quoted. On Long Island, for example, CAM and building insurance can easily add an additional \$1.50 a s/f to the quoted price if they are not included in the gross rent.

Full-service leases are almost exclusively encountered in office buildings. They have, as the name implies, a rent that supposedly incorporates all of the tenant's cost of occupancy. A typical full-service rent will include the base rent, real estate taxes, insurance, CAM, heating, air-conditioning, cleaning, and rubbish removal. A "full-service plus electric" adds an additional charge to the tenant rent for tenant electric use (lights and outlets).

The definitions for these terms are hazy, and by no means universal. It is, therefore incumbent for you to compare alternative properties and their prices with a full understanding of the total cost of occupancy. It is important that you ask the necessary questions and dig as deep as necessary to fully itemize the expenses. This is the only way a true economic understanding of the real estate alternatives or pricing can be made.

Do you have a question regarding commercial real estate or construction? Email your question to commercial real estate Q & A, at [email@huntcorp.com](mailto:email@huntcorp.com) for possible inclusion in a future column.

David Hunt, MCR, CCIM, SIOR is the president of Hunt Corporate Services, Inc., Plainview, N.Y.

