

All about commercial real estate leases

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62
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Unlike a residential lease, a commercial real estate lease is a formal agreement to rent a building, land, or any other property solely for business purposes. To understand a commercial lease, the renter needs to pay heed to minute details. Let us review the different types of commercial leases in India.



Commercial leases usually apply to commercially zoned properties. Such type of leases contain more details on the usage of a property. Moreover, these offer less protection to the tenants, and therefore, must be negotiated carefully. Unlike in the case of residential rentals, [commercial leases](#) are likely to go through several rounds of negotiations with tenants requesting changes as per their needs.

Based on the type of the property, the business or the tenants, a commercial lease is categorised into the following types:

Triple Net (TN) Lease: A triple net or a net lease is one of the most commonly deployed lease structures that mandates the tenant to pay all expenses related to the property. These include expenses towards property tax, common area maintenance and the insurance of the building, along with the basic rent. In a triple net lease, the landlord takes care of the structural upkeep of the property, including the walls and the foundation.

Full-Service Gross (FSG) Lease: A FSG lease mandates the tenant to pay the base rent while the landlord takes the onus of all the property related expenses. While such a lease is beneficial for the tenant, the flip-side of the arrangement is that the landlord can significantly increase the base rent in order to cover for the expenses.

Modified Gross (MG) Lease: This is the mix of TNN and FSG leases. In a modified gross lease, the tenant is supposed to pay the base rent and a portion of the expenses incurred on the property. These leases are an excellent compromise, as they can be favorable for both landlords and tenants. Negotiations made in a modified gross lease are usually lengthier and more complex.

A lease agreement is an essential document between the [landlord and the tenant](#). However, all leases are not created equal. There are certain clauses a good rental contract must include. Here are four essential clauses that are negotiable and should ideally be included in your lease agreement.

Rent escalation: Every agreement is bound to have a rent escalation clause, which suggests the annual increment in the rent. The quantum of escalation is usually a percentage of the rent, which is agreed upon by both the parties.

Sublease clause: This is an important clause in every agreement. This clause talks about the landlord's willingness or unwillingness in allowing the tenant to sublease an unused portion of space in the property. In most cases, the tenants are not allowed to sublease the space without the landlord's written consent.

Exclusive right: Also known as the exclusivity clause, it is a common term in retail leases. The clause gives the tenant the right to be the only business or service provider on a given property. This is especially common in shopping plazas and commercial areas.

Delivery conditions: This is based upon the type of commercial property you are looking for. Commercial spaces can be delivered in several conditions. Sometimes you may lease a space that is basically ready-to-move, whereas you can also have a space that is nothing more than the skeleton.

While evaluating commercial lease options, it is essential to understand the overall expenses of the business aside from the base rent. Since commercial real estate leases involve hefty expenditure, business owners should consult an expert to understand the clauses of the lease.

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