



DAVID MARINO | OCTOBER 09, 2019 | OFFICE LEASING/BUYING

# Office Rent 101: The Critical Difference Between NNN and Gross Leases

Understand The Costs of Each Lease Structure



(Getty)

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Is a \$20.00 per-square-foot rent less than a \$35.00 rent? You might think the obvious answer is yes, but this is a trick question. "Rent" can be quoted in so many different ways, it bewilders the tenant. The real [question to ask a landlord or broker](#) is "what's included in the rent being quoted?"

There are three ways office rents are generally structured — triple net (or NNN), net of electric and full-service gross.

The most basic way to quote rent is on a triple net basis. This type of arrangement stems from industrial real estate properties, where tenants with different uses require distinct building services and dedicated utilities. Some tenants are heavy users of

utilities while others are not, and this distinction led landlords to take a hands-off approach. They charged just a base rent, leaving tenants to manage the cost of their space's services and utilities themselves.

However, in a triple net lease there are additional operating expenses that each tenant pays based on the portion of the building they lease (or their pro rata share).

These operating expenses include taxes, insurance and

#### common area maintenance costs

incurred by landlords for upkeep of building common areas shared by all tenants, such as restrooms, hallways, landscaping and more. In triple net leases, tenants also pay their own electricity bills and contract for janitorial services — additional costs that are important to be aware of, as they are often not disclosed beforehand.

#### Triple net rent structures

can be tricky for office space, as triple net asking rents vary widely depending on factors such as the location and quality of each building as well as the type and number of nearby and building-specific amenities. The operating expenses vary widely too, based on real estate taxes, building insurance and the degree of use of the common areas.

Remember, if you are looking at an office space with asking rents quoted on a triple net basis, you have to factor in all of these additional costs to “gross up” the rent so it can be compared to office rents quoted using different “service types” such as net of electricity or full-service gross.

Rents quoted as net of electric and full-service gross include the triple net base rent, plus operating expenses and janitorial services. The only difference in a net of electric lease is that the tenant pays separately for their share of electricity. Universally, rents quoted on a net of electric or full-service gross basis are more expensive on the surface, but since they include all additional cost elements, they may not be as expensive overall compared to a triple net lease.

For example, an office space where the landlord is quoting \$20.00 triple net per-square-foot, per month may look inexpensive on the surface. However, when you add another \$10.00 for operating expenses and another \$5.00 for janitorial and electricity, that office space you thought was a great deal now costs \$35.00 per-square-foot per month on a full-service-gross-equivalent basis.

The next time you come across a rent figure that seems too good to be true, make sure to ask what the lease includes so you can get an accurate picture of how much it will cost to lease and occupy space in that building.

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David Marino is executive vice president and co-founder of Hughes Marino, an award-winning commercial real estate firm committed to only representing tenants in their lease and purchase transactions of commercial space, thereby eliminating the conflicts of interest inherent with dual agency (the representation of landlords and tenants at the same firm). David has been exclusively representing tenants since 1991. He got his training on the landlord side of the table doing leasing for Trammell Crow Company from 1989-1991, then one of the largest commercial developers and landlords in the United States. David obtained his MBA from USC, and BS in Economics from UC Riverside.

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