

OPERATING EXPENSES: What's Included in Your Base Rent?

While each market and deal is unique, most commercial real estate leases fall into one of the formats noted below. It is critical to understand how your rent is structured to avoid hidden fees when budgeting for your total annual real estate obligation.

Typical Rent Structures

FSG

Full Service Gross

Most common structure for U.S. office leases. Base rent includes tax, insurance, utilities, in-suite janitorial, and Common Area Maintenance (CAM).

IG

Industrial Gross

Base rent excludes utilities and in-suite janitorial. While this varies by market, \$0.40/SF per month is a reasonable estimate to convert IG leases to a FSG equivalent.

MG

Modified Gross

Structure can vary but typically excludes utilities, in-suite janitorial, and CAM.

NNN

Triple Net

Base rent only; tenant responsible for tax, insurance, utilities, in-suite janitorial, and CAM.

Internet/Phone and related cabling are typically a tenant expense and excluded in rent structures, with the exception of most co-working facilities and executive suites.

Operating Expenses & Base Year Explained Full Service Lease

YEAR
1

Base Year:

- Established in first year of occupancy
- No additional Operating Expense (OpEx)/additional Rent due

YEAR
2

Year Two:

- Tenant assumes pro-rata share of total building OpEx increase over Base Year
- Owner protected from excessive annual OpEx increases
- No additional OpEx rent due in the event of second year OpEx reduction

Example:

Tenant is responsible for cost delta from current year over Base Year.

\$1M Total Building OpEx in Base Year

\$1.1M Total Building OpEx in Current Year

\$100K Delta from Current Year over Base Year

3.55% Your Pro-rata Share of Building OpEx (Premises SF/Building RSF)

\$3,550 Your Additional Rent in Current Year: \$3,550 annually or \$296/mo

Annual Base Rent Escalation

Your rent will likely escalate each year. How it escalates should be negotiated and then specified in your lease.

In many U.S. markets, office rents increase by **3%** per year or are CPI-based.

