Qualitative Factors in Lease Decision-Making

Factors Favoring Leasing:

- **Cash flow**: A business can conserve its cash flow by leasing. Under a lease, the initial cash expense for the facility will be a month's rent and a security deposit.
- **Credit rating**: The company has not established a credit rating sufficient to support a mortgage.
- **Maintenance**: The landlord is responsible for maintaining the property.
- **Property**: You have been unable to find a suitable property that is for sale.
- **Real estate values**: The facility you've found meets the needs of the business but is located in an area where property values are declining.
- **Mobility**: You're not sure that the facility will meet the future needs of the business.
- **Tax Savings**: Rent is deductible as a business expense.

Factors Favoring Purchasing:

- **Long-term savings -** In the long run, purchasing a facility is usually cheaper than leasing. In a lease, the landlord attempts to build a profit for himself into the rent. Payment of this profit premium can be avoided by buying the facility.
- **Location -** For certain types of businesses, location is the most important factor. If you've found the perfect location for your business and established the business there, purchasing the property will ensure that the business will not have to move.
- **Control -** There are substantial renovations that you want to make to the property, or you may want to control your own business hours and the way you do business. By purchasing the property, you have control over these matters (subject, of course, to local ordinances and zoning boards).
- **Property** - You've been unable to find a suitable property to lease.
- **Real estate values -** You've found a facility that meets your needs and is located in an area of appreciating land values.
- **Tax savings -** Depreciating the property over time may bring you tax savings. In addition, if the property is financed, interest based deductions are available.

LEASE AGREEMENTS

1. GROSS LEASE VS. NET LEASE

In terms of payment, there are two types of leases: **gross lease** and **net lease**. A **gross lease**, or a full-service lease, is the most common type of lease. A gross lease has a predetermined rent that covers costs associated with owning the property, including things like tax, building insurance, and maintenance. If you have a gross lease, you pay rent, and your landlord worries about maintaining the property.

A **net lease** has a set rent price that only covers your tenancy, and additional property costs are not included in that rate but billed separately. The set rent price is lower than it would be in a gross lease, but tenants have monthly fees for things like property tax, insurance, and any maintenance work.

2. FIXED-TERM LEASES

A fixed-term lease is the most traditional lease. They're called fixed term because tenants and landlords are agreeing to abide by the lease for a fixed amount of time, normally six to 14 months. These leases should have the lease start and end date clearly labeled near the top of the lease. Once you and your landlord sign the lease, it can't be changed during the dates specified, including things like rent amount and rules. You are also not usually allowed to break the lease early and your landlord cannot cancel the lease early (unless they have a just cause).

Fixed-term leases are great for people who know they will stay in the same place for a while. These leases also offer security because the rent price won't fluctuate month after month, and you don't have to worry about your landlord not renewing your lease like you would in a month-to-month.

3. JOINT LEASES

A joint lease is an important term to understand for those leasing with roommates. In a joint lease, you and your roommate(s) sign the lease together, therefore agreeing to the terms of the lease. You are each responsible for following rules and paying rent together. Typically, landlords will put all money owed in the same bill. Even if you contribute your share, you could still be evicted if your roommate doesn't give you the remaining rent. How you split costs up is between you and your roommates to decide and enforce. Your landlord will want the entire amount, and often will have clauses in the lease stating that they don't get involved in roommate disagreements and disputes.

4. SUBLEASES

A sublease is when a tenant leases their rental property to a third party, with their landlord's permission. Landlords handle subleases in different ways. Some landlords aren't really involved in the process. They might leave it up to you to find a subtenant and make a contract. Then, they add the addendum to the lease and run a background check on the person subleasing. Other landlords may be more involved and have a specific process that they follow. In either case, the name of the original leaseholder remains on the lease. If your subtenant doesn't make a payment or refuses to pay for damages, then you will be held responsible. When you get a subtenant, think of yourself as a cosigner. If they fail to pay, your landlord will look to you for the money owed.

5. **SANDWICH LEASE**

A sandwich lease is a lease agreement in which a party leases a property from an agent who is, in turn, leasing the property from the owner. A sandwich lease refers to a situation in which one party leases a property from an owner, and subsequently leases that property to another party. A sandwich lease is seen by some as an advantageous strategy for low-capital investors to gain a foothold in real estate markets, as it is possible for an investor to initiate a sandwich lease with no money down, and without the involvement of a bank.

6. **GRADUATED LEASE**

A graduated lease is an agreement under which a tenant and landlord agree to a periodic adjustment of monthly payments. For example, the agreement may reflect an increase in the tenant's payments due to market conditions or an increase in the value of the leased property. A graduated lease allows the property owner or lessor the opportunity to charge increased rent as property values increase over time.

7. **INDEX LEASE**

An index lease ties a rental rate to a commonly accepted pricing index that reflects changes in cost of living. This allows landlords to raise the rents in conjunction with changes in the economy whenever the lease is reevaluated, which is typically once a year.