Basics of office Space leasing and what's in it for the tenant (companies) and the developer/landlord who is offering the space to lease.

Office Spaces are leased to tenants for a specified period of time. The lease document assigns rights, duties, and responsibilities between the lessor (owner) and lessee (tenant) for the duration of the lease. The terms of the lease include legal considerations that are designed to protect the interests of both the lessor and lessee and specify how rents and expenses are to be paid.

1. **General contents of a lease:**

- Parties to the lease, namely, lessor and lessee
- The date of lease agreement
- Occupancy date (move-in date)
- Identification of area to be leased
- Duration of the lease term
- The base or minimum rent
- Method to calculate the future rent
- Description of any concessions and other inducements to be provided to the tenant by the landlord
- Deposits and any indemnities
- Guarantees from third parties or co-signers
- Condition of the leased premises to be provided to the occupant on the move-in date, including any tenant improvements
- Allowable uses of the property, restrictions on occupancy, and prohibitions regarding future changes in the use of the property
- Any restrictions on assignment or subletting of any of the leased space by the tenant
- Use of common areas and facilities such as lobbies, rest rooms, and parking lots
- Responsibility for maintenance and repair of the tenant's space and of general premises
- Any restrictions on alteration or improvements to the property by the tenant
- Construction of any expansion in the future by the owner and provisions for affected tenants
- The responsibility for payment of specific expenses by the lessee and/or the lessor
- The extent to which the lessor and/or the lessee must provide for fire and casualty insurance
- Any lease renewal options
- Estoppels

For large corporate users who may be leasing large amount of space and who plan to move many employees and equipment to the space being leased, many conditions are negotiated in the lease agreements.

2. Leases and Responsibility for expenses (recoveries):

Owners of office space property incur many operating expenses. Some expenses such as electricity, water usage, and gas are paid by tenants individually. However, expenses related to the areas of the property (common area) used by all tenants, the normal way is to recover those expenses by prorating them among all tenants.

Typical operating expenses for office space properties:

- Cleaning
- Housekeeping
- Repairs
- Maintenance
- Landscaping
- Electricity
- Water/Sewer
- Security
- Management
- Real estate taxes
- Insurance

3. Different combinations of rent and of operating expense recoveries are possible:

a. Gross (full service leases):

Tenant pay only rent and owner provides all services and pays for all operating expenses.

b. Modified (full service leases):

Tenant pays rent and pays for individual, specified expenses identified in the lease such as electricity, gas, water and the like. Such expenses are usually linked to tenant by sub metering. Tenant also pays pro rata share of certain operating expenses (known as CAM Charges) incurred by the property owner. This is the most preferred lease mechanism in India.

c. Leases with expense recoveries in excess of an expense stop:

Tenant pays rent plus a pro rata share of certain operating expenses incurred by the property owner. Here stop is usually calculated as the total operating expenses per square foot of rent-able area in the building that is incurred by the owner during the specified base year. The tenant agrees to pay only for expenses per square foot in excess of this stop. This way, the owner hedges its risk of increasing operating expenses and passes it on to the tenants.

d. Pass through leases:

These leases are made when a few tenants lease very large amount of space in a property. When fewer tenants lease large amounts of space, operating expenses tend to be identified and linked more directly to those tenants. In this case, base rents tend to be lower than for full service, and modified full services lease.

4. Some Important terms:

a. Rent-able area in a building:

Total area on all floors + lobby – thickness of exterior walls – any columns or protrusions through the floors – mechanical equipment closets – basements and any area needed by owner to maintain or operate the building + elevator landings + reception areas + restrooms + any other area that could be used by tenants

b. Multiple tenants – Rental area per floor:

When there are many tenants in a building, each tenant will occupy its usable area on a floor. However, there would be some common area used by all the tenants. In that case, the common area will be prorated among the multiple tenants in order to determine the actual rent-able area.

c. Load factor:

Total rent-able area/total usable area. Load factor is seen as “efficiency measures”. High load factors generally mean a large number of common areas and therefore lower building efficiency. For example, load factor for Office Space in Gurgaon varies from 1.25 to 1.67. Generally, tenants occupying larger office space has lower load factor relative to the tenants occupying smaller office space.

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