

Punch List

Triple net takes off

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Finding a top-class building in Washington offering full-service rent these days is like finding someone to admit he's friends with George W. Bush (with exceptions for Scooter Libby).

Landlords are using triple-net leases to market 100 percent of trophy buildings and about 10 percent of Class A buildings in the Central Business District and East End, according to John Sikaitis, research manager at Jones Lang LaSalle. And the percentage of both trophy and Class A triple-net deals has shot up since 2002 (see chart).

Full-service rents include set operating costs -- taxes, insurance and maintenance -- for the first year of the lease. Triple-net rents do not; those costs are figured later and charged to the tenant. After the first year, both kinds of leases include a base rent and charge extra for the operating expenses.

"One lease isn't really better than the other," says Jeremy Fox, a partner at Arent Fox who specializes in real estate. "You get to the same place."

Driving the trend: Skyrocketing expenses and a landlords' market. It's also a sign of D.C. real estate becoming more sophisticated, with more out-of-town owners coming in. Triple net is already prevalent in other major markets.

Such leases aren't new to D.C.; Trip Howell of Jones Lang LaSalle says Hines got triple-net rents for Columbia Square in 1985. What's changed is the extent to which they are sweeping downtown. It's hard to get into a high-quality building without it.

Andrew O'Neill of O'Neill Realty Advisors says the trend represents a "huge shift in the paradigm of the rental market," one he spends plenty of time explaining to clients.

Asking rents for triple-net space appear much lower, because the operating expenses are not included up front. In D.C., for instance, trophy space goes for about \$52 a square foot triple net, or \$72 full service.

New trophy buildings quote triple-net leases because full-service rents are riskier for landlords, as taxes and operating expenses for the first year are only estimates.

Howell says the triple-net leases will spread. "It can move to the suburbs as easily as it came downtown," he says. "Tysons, Reston and Alexandria will all have triple-net leases."

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