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Chapter 1 : Short-Term Versus Long-Term Leases â€" The Pros and Cons | ALL ABOUT HOME

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There are pros and cons to both kinds of leases. Consider your requirements and schemes are notable when thinking about which lease is superior for you. The first thing to contemplate is how long you plan to stay in your rental. If you are not planning on a long stay, a short lease agreement may be your perfect option. But the reality that your landlord can increase your rent faster than a long-term contract or modify other lease terms can make a shorter lease less prudent. With a short-term lease, the tenant does not have to be anxious about being locked into a long contract. Try out our Royal Living Group to suit your comfortability. However, with a short-term lease the landlord can make alterations to the lease at more repeated intervals counting increased rental rates. Theses lease provides both the tenant and landlord mobility. The tenant has the possibility to move whenever they want or require. Contrary, the landlord has the mobility to alter the leasing terms more frequently. Long-term leases are best for a safer landlord-tenant relationship. In most cases, the rent for a long-term agreement is lower than the rent of a short-term agreement, which can be a big benefit to the tenant. Additionally, landlords seldom increase the rent until a present lease agreement has expired. This more firm lease agreement let the tenant to better budget for their rent which is a big profit to the tenant. Short-term and long-term leases both have advantages and disadvantages to all count. Thinking about your requirements as the tenant or landlord is essential when determining which lease alternative is superior for you. No matter which you select, always make sure that an agreement is done in writing. To get the most profit out of the perfect space or property, you require the right lease agreement in place between you and your landlord and that means determining whether a short or long-term lease is the best alternative for your business. There is no single clue. Short and long-term leases both have definite benefits and drawbacks that you require to be conscious of before you start to lease discussions with a possible landlord. On the other hand, businesses that are ready to become set up in an area, are no longer becoming larger faster and are financially secured which can benefit hugely from a long-term lease.

Chapter 2 : The Long-Term Trend of Short-Term Leased Space | Government Solutions

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Short versus long term leases â€" Which is the best option for you? This is particularly important during the negotiation of lease terms. A long term lease is typically five years or longer. A short term lease is generally for a period of 5 years or less. But how do you decide which option is right for you? Certainty â€" A long term lease allows you to calculate your ROI over the period of the lease. This pays off in the long run as commercial properties are valued and sold based on ROI or yield. This is particularly so if your premises are located in an area where supply outstrips demand. If there is a likelihood the premises will remain vacant for any length of time while a new tenant is found, a long lease will work in your favour. Disadvantages More complex negotiations â€" Commercial leases can be lengthy and complex and negotiating a long term lease that satisfies everyone can be challenging. Rigidity â€" Terminating or exiting a long term lease is difficult. Landlords may only do so under pre-determined, specific circumstances. To avoid these problems, consider the situations under which you might want to exit the lease. You can pre-empt them to a degree by including appropriate exit provisions in your lease agreement. If your property is in a high demand area â€" i. Disadvantages Lack of security â€" Under a short term lease, you may lack security of income and continuous occupation. This in turn may affect the value of your property and ROI. Certainty - Long term leases allow for long term financial planning. Flexibility - Tenants may find landlords offering long term leases are more willing to compromise on other lease terms. This may include a rent free period, opportunities to improve or modify the space and exclusivity clauses. Sublease options may also be available, enabling you to cut your long term rental costs. Greater risk â€" A long term lease means paying rent over a longer period. Another two out of four fail in the second year, and three out of four by the fifth year. Disadvantages Moving costs â€" For tenants changing locations with each lease, relocation costs can be high. Lack of security â€" Tenants operating under a short term lease may lack security of location and tenure. If the goodwill of your business is dependent on a secure and longer term location, a short term lease may not provide the security of location you need. Other than Queensland, all Australian state and territory retail leasing legislation states that retail leases are automatically for a 5 year term â€" including any option periods. If tenants want a lease term of less than 5 years, they must seek legal advice. While negotiation should be based on your needs, flexibility is key Although you and your potential tenant may not have the same needs when it comes to lease terms, it is possible to find a middle ground. In the event that you prefer a long term lease while your tenant prefers a short term lease â€" compromise. A compromise like this should satisfy both parties. Your tenant receives a longer term option while satisfying their short term needs. You receive a guaranteed income for a set period, along with the possibility of a longer term tenancy and increased rent if and when the options are exercised. And ultimately, this may be the kind of flexibility you need to exercise to seal the deal.

Chapter 3 : Lease Calculator

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Introduction[edit] A lease is a contract calling for the lessee user to pay the lessor owner for use of an asset for a specified period of time. An operating lease records no asset or liability on the financial statements , the amount paid is expensed as incurred. To distinguish the two, the Financial Accounting Standards Board FASB provided criteria for when a lease should be capitalized, and if any one of the criteria for capitalization is met, the lease is treated as a capital lease and recorded on the financial statements. The basic criteria for capitalization of a lease by lessee are as follows: The lessor transfers ownership of the asset to the lessee at the end of the lease term. A bargain purchase option is given to the lessee. This is an option that allows the lessee, upon termination of the lease, to purchase the leased asset at a price significantly lower than the expected fair market value of the asset. To understand and apply this criterion, you need familiarize yourself with what is included in the minimum lease payments and how the present value is calculated. The minimum lease payments include the minimum rental payments minus any executory cost, the guaranteed residual value , the bargain purchase option, and any penalty for failure to renew or extend the lease. These are called the 7 a -7 d tests, named for the paragraphs of FAS 13 in which they are found. Conversely, if none of the criteria are met, the contract is an operating lease, and the lessee will have a footnote in its balance sheet to that effect. Both parties lessor and lessee must review these criteria at the outset and determine independently the classification as it is possible to classify them differently it is quite common, in fact, for a single lease to be considered a capital lease by lessors and an operating lease by lessees. If the term of the lease does not exceed 12 months, the lease may be considered neither of the above criteria. For a more in depth explanation, see the accounting textbook Intermediate Accounting, 11th ed, Kieso Weygandt Warfield. Lessee Accounting[edit] Under an operating lease, the lessee records rent expense debit over the lease term, and a credit to either cash or rent payable. If an operating lease has scheduled changes in rent, normally the rent must be expensed on a straight-line basis over its life, with a deferred liability or asset reported on the balance sheet for the difference between expense and cash outlay. Instead, the rent is reclassified as interest and obligation payments, similarly to a mortgage with the interest calculated each rental period on the outstanding obligation balance. At the same time, the asset is depreciated. Over the life of the lease, the interest and depreciation combined will be equal to the rent payments. For both capital and operating leases, a separate footnote to the financial statements discloses the future minimum rental commitments, by year for the next five years, then all remaining years as a group. Other lessee financial accounting issues: Improvements made by the lessee. These are permanently affixed to the property, and revert to the lessor at the termination of the lease. The value of the leasehold improvements should be capitalized and depreciated over the lesser of the lease life or the leasehold improvements life. If the life of the leasehold improvement extends past the life of the initial term of the lease and into an option period, normally that option period must be considered part of the life of the lease. Prepayment for future expenses. Classified as an asset; amortized using the straight-line method over the life of the lease. Rent Kicker, or Percentage Rent: Common in retail store leases. This is a premium rent payment that the lessor requires and is treated as a period expense. This is not reported as part of the future minimum rental commitments disclosure, nor in the 7 d test to determine whether the lease is capital or operating. If the rent changes over the life of the lease, normally the rental income is recognized on a straight-line basis also known as rent leveling , and the difference between income and cash received is recorded as a deferred asset or liability mirroring lessee accounting. Under a capital lease, the lessor credits owned assets and debits a lease receivable account for the present value of the rents an asset, which is broken out between current and long-term, the latter being the present value of rents due more than 12 months in the future. With each payment, cash is debited, the receivable is credited, and unearned interest income is credited. If the cost or carrying amount of the asset being leased is different from its fair value at inception, then the difference is recognized as a profit and the lease is called a sales-type lease. This most commonly applies when a

manufacturer is using leasing as a method of selling its product. Other capital lessor leases, where the cost and fair value are the same, are called direct financing leases. A third type of lessor capital lease, called a leveraged lease , is used to recognize leases where the acquisition of the leased asset is substantially financed by debt. The project commenced in Critical dates within the project include; Issuance of a Discussion Paper - Leases: Preliminary Views - on 19 March with a public comment period open until 17 July [9] Issuance of joint Exposure Drafts on 17 August with a public comment period open until 15 December [9] Issuance of a second joint Exposure Draft on 16 May , with a public comment period open until 13 September [10] Issuance of International Financial Reporting Standard 16 IFRS 16 , Leases, on 13 January [11] Issuance of ASC , as Accounting Standards Update , on 25 February [1] The Effective Date of the new standard - date at which time all companies must follow the new lease accounting standard when preparing financial statements â€”is fiscal years beginning after December 15, As originally released, ASC required companies to restate comparable years in their annual reports. In March , however, the FASB announced a transition relief giving companies the option to transition without restating prior years. Proposed changes[edit] The Preliminary Views and first Exposure Draft called for eliminating the FAS 13 test which classifies leases as operating leases or capital leases, and treating all leases similarly to current capital leases. All leases would be accounted for as assets and liabilities on the balance sheet â€” on the asset side as "right-of-use assets" and on the liability side as lease liabilities; on the income statement, depreciation and interest expense would be recognized instead of rent expense. Following substantial protests from both financial statements preparers and users, the second Exposure Draft reinstated two types of lease accounting, with "Type A" leases treated essentially the same as FAS 13 capital leases and "Type B" leases maintaining the single lease expense, straight line over the life of the lease, that characterizes FAS 13 operating leases, but with an asset and liability on the balance sheet. The liability would be the present value of the remaining rents; the asset would be the same as the liability for simple leases, but then adjusted for scheduled changes in rents which under FAS 13 result in a deferred rent liability or asset and amortization of initial direct costs and lease incentives. While the first Exposure Draft envisioned including rent judged "more likely than not" to be paid contingent rents and options to renew in addition to minimum required rent payments, subsequent decisions by the boards reversed these plans, making the proposed accounting for lessees similar to that of existing capital leases. Lessor accounting was largely reverted to the existing standard. Leases with a maximum term of 12 months or less would be treated in accordance with current operating lease rules. Lessee Accounting[edit] In the final ASC release, capital lease accounting has only minor changes, though they are now called "finance leases," consistent with IFRS terminology. The concept of "executory costs," which were excluded from capitalization under FAS 13, has been replaced by "nonlease components," which are payments due as part of a lease agreement which reflect goods or services separate from the asset. Importantly, passthrough costs paid by the lessor and rebilled to the lessee, such as taxes and insurance, no longer qualify to be excluded from capitalization either for finance or for operating leases. This can mean a substantial difference in balance sheet impact between a real estate gross lease and net lease. The tests to distinguish finance and operating leases are essentially unchanged, though written using "principles-based terminology" consistent with IFRS: One additional criterion for finance lease classification is that "The underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term. For an operating lease, a liability and a right-of-use asset are set up at lease inception, at the present value of the rents plus any guaranteed residual. To the asset is added any initial direct costs and subtracted any lease incentives such as a tenant improvement allowance. The liability is amortized using the interest method like a mortgage. If the lease has the same rent over its life, the net asset at any point is equal to the liability, plus the unamortized balance of initial direct costs and lease incentives. If the rents change during the lease term, the difference between the cash rent and average rent is added to or subtracted from the asset as well. A single lease expense is recognized for an operating lease, representing a combination of amortizing the asset and the liability. Sale-leaseback accounting is no longer permitted if the seller-lessee has a continuing right of control, such as an option to purchase back the asset at a fixed price. A failed sale-leaseback transaction is treated as a financing. The change from executory costs to nonlease components, discussed above, applies equally to

lessors. Leveraged leasing is discontinued, though leveraged leases entered into before the effective date of ASC can continue to be accounted for under ASC unless they are modified. The distinction between sales-type and direct financing leases has changed: The primary difference in accounting between a sales-type lease and a direct financing lease is that profit for a sales-type lease is recognized at inception, while profit for a direct financing lease is recognized over the life of the lease. Companies expected to be most affected include retail chains and airlines. There are two types of security deposits: Deferred by the lessor as unearned revenue; Capitalized by the lessee as a prepaid rent expense until the lessor considers the deposit earned. Treated as a receivable by the lessee; Treated as a liability by the lessor until the deposit is refunded to the lessee. How to calculate the lease rate:

Chapter 4 : Pros and Cons of Commercial Ground Leases

Similar Items. Leases; percentage, short and long term By: McMichael, Stanley L., Published: () McMichael's appraising manual: a real estate appraising handbook for use in field work and advanced study courses /.

Contact David Long-term liabilities are company obligations that extend beyond the current year, or alternately, beyond the current operating cycle. Most commonly, these include long-term debt such as company-issued bonds. The following long-term liabilities are typically found on the balance sheet: You can see that we describe long-term liabilities as either operating or financing. Operating liabilities are obligations created in the course of ordinary business operations, but they are not created by the company raising cash from investors. Financing liabilities are debt instruments that are the result of the company raising cash. In other words, the company issued debt - often in a prior period - in exchange for cash and must repay the principal plus interest. Operating and financing liabilities are similar in that they both will require future cash outlays by the company. A simple measure of capital structure is the ratio of long-term debt to total capital. Because the cost of equity is not explicitly displayed on the income statement, whereas the cost of debt interest expense is itemized, it is easy to forget that debt is a cheaper source of funding for the company than equity. Debt is cheaper for two reasons. First, because debtors have a prior claim if the company goes bankrupt , debt is safer than equity and therefore warrants investors a lower return; for the company, this translates into an interest rate that is lower than the expected total shareholder return TSR on equity. Second, interest paid is tax deductible, and a lower tax bill effectively creates cash for the company. Say on the right-hand side we perform a simple debt-for-equity swap. In other words, say we introduce modest leverage into the capital structure, increasing the debt-to-total capital ratio from 0 to 0. What changes for shareholders? Notice that after-tax earnings decrease, but so does the number of shares. Our debt-for-equity swap actually causes EPS to increase! What Is the Optimal Capital Structure? The example above shows why some debt is often better than no debt. In technical terms, it lowers the weighted average cost of capital. Of course, at some point, additional debt becomes too risky. The optimal capital structure, the ideal ratio of long-term debt to total capital, is hard to estimate. It depends on at least two factors, but keep in mind that the following are general principles: First, optimal capital structure varies by industry, mainly because some industries are more asset-intensive than others. This is because banks prefer to make loans against fixed assets rather than intangibles. Industries that require a great deal of plant investment, such as telecommunications, generally utilize more long-term debt. Rapidly growing startups and early stage companies, for instance, often favor equity over debt because their shareholders will forgo dividend payments in favor of future price returns because these companies are growth stocks. High-growth companies do not need to give these shareholders cash today, whereas lenders would expect semi-annual or quarterly interest payments. To Fund Growth - The cash raised by the debt issuance is used for specific investment s. This is normally a good sign. To Refinance "Old" Debt - Old debt is retired and new debt is issued, presumably at a lower interest rate. To Change the Capital Structure - Cash raised by the debt issuance is used to repurchase stock, issue a dividend,or buyout a big equity investor. Depending on the specifics, this may be a positive indicator. To Fund Operating Needs - Debt is issued to pay operating expenses because operating cash flow is negative. Depending on certain factors, this motive may be a red flag. Below, we look at how you can determine whether a company is issuing new debt to fund operating needs. Be Careful of Debt that Funds Operating Needs Unless the company is in the early growth stage, new debt that funds investment is preferable to debt that funds operating needs. To understand this thoroughly, recall from the cash flow installment that changes in operating accounts that is, current assets and current liabilities either provide or consume cash. Increases in current assets - except for cash - are "uses of cash". Increases in current liabilities are "sources of cash. Both occurrences are uses of cash. In other words, RealNetworks consumed working capital in Using debt to fund operating cash may be okay in the short run but because this is an action undertaken as a result of negative operating cash flow, it cannot be sustained forever. Examine Convertible Debt You should take a look at the conversion features attached to convertible bonds convertibles , which the company will detail in a footnote to its financial

statements. Companies issue convertibles in order to pay a lower interest rate; investors purchase convertibles because they receive an option to participate in upside stock gains. Usually, convertibles are perfectly sensible instruments, but the conversion feature or attached warrants introduces potential dilution for shareholders. If convertibles are a large part of the debt, be sure to estimate the number of common shares that could be issued on conversion. Be alert for convertibles that have the potential to trigger the issuance of a massive number of common shares as a percentage of the common outstanding , and thereby could excessively dilute existing shareholders. Companies in distress issue PIPES, which are usually convertible bonds with a generous number of warrants attached. For more information, see What Are Warrants? If company performance deteriorates, the warrants are exercised and the PIPE holders end up with so many new shares that they effectively own the company. Existing shareholders get hit with a double-whammy of bad performance and dilution; a PIPE has preferred claims over common shareholders. Look at the Covenants Covenants are provisions that banks attach to long-term debt that trigger technical default when violated by the borrowing company. Such a default will lower the credit rating , increase the interest cost of borrowing and often send the stock lower. Bond covenants include but are not limited to the following: Limits on further issuance of new debt. Limits, restrictions or conditions on new capital investments or acquisitions. Limits on payment of dividends. For example, it is common for a bond covenant to require that no dividends are paid. Maintenance of certain ratios. One, companies are increasingly using hedge instruments, which are difficult to analyze. Second, many companies are operationally sensitive to interest rates. In other words, their operating profits may be indirectly sensitive to interest rate changes. Obvious sectors here include housing and banks. Financially, this kind of company is exposed to higher interest rates. But at the same time, the company may tend to outperform in higher-rate environments by benefiting from the inflation and economic strength that tends to accompany higher rates. In this case, the variable-rate exposure is effectively hedged by the operational exposure. Unless interest rate exposure is deliberately sought, such natural hedges are beneficial because they reduce risk. Fixed-rate debt is typically presented separately from variable-rate debt. Operating Versus Capital Lease It is important to be aware of operating lease agreements because economically they are long-term liabilities. Whereas capital leases create liabilities on the balance sheet, operating leases are a type of off-balance sheet financing. Many companies tweak their lease terms precisely to make these terms meet the definition of an operating lease so that leases can be kept off the balance sheet, improving certain ratios like long term debt-to-total capital. Most analysts consider operating leases as debt, and manually add operating leases back onto the balance sheet. Pier 1 Imports is an operator of retail furniture stores. Here is the long-term liability section of its balance sheet: Summary It has become more difficult to analyze long-term liabilities because innovative financing instruments are blurring the line between debt and equity. Some companies employ such complicated capital structures that investors must simply add "lack of transparency" to the list of its risk factors. Here is a summary of what to keep in mind: Debt is not bad. Some companies with no debt are actually running a sub-optimal capital structure. If a company raises a significant issue of new debt, the company should specifically explain the purpose. Be skeptical of boilerplate explanations; if the bond issuance is going to cover operating cash shortfalls, you have a red flag. If debt is a large portion of the capital structure, take the time to look at conversion features and bond covenants. Consider treating operating leases as balance sheet liabilities.

Chapter 5 : Commercial Leases: Negotiate the Best Terms | calendrierdelascience.com

A short-term lease typically refers to a rental lease that is less than six months. The most common short-term leases are three months and month-to-month. The most common short-term leases are three months and month-to-month.

A lease is a contract made between a lessor the legal owner of the asset and a lessee the person who wants to use the asset for the use of an asset, bound by rules intended to protect both parties. In a typical contractual agreement, the lessee obtains the right to use an asset or multiple assets belonging to the lessor for a specific term in return for regular rental payments. Leasing is often associated with living spaces, working spaces, and cars, but mostly anything that can be owned can be leased. Other examples of leasable items include storage, conveyor belts, lighting, furnishings, software, server hardware, aircraft, cleaning equipment, and many more. Rent vs Lease Although they are often used interchangeably, "lease" and "rent" technically have different meanings. By definition, a lease refers to the contractual agreement or contract itself, while rent refers to the periodic payment for the use of an asset. In neither case is equity of the asset being rented or leased actually gained. Residual Value Residual value, sometimes called salvage value, is an estimate of how much an asset will be worth at the end of its lease. It is most commonly associated with car leasing. Residual value is not exclusive to car leases, but can be leases of any type of asset, as long as it depreciates and can be sold at value once again. For most assets, the longer the lease period, the lower the residual value. One exception to this is real estate assets, which may have higher residual values after the lease period. The term "residual value" is also often used to refer to the value of an asset after depreciation. For more information or to do calculations involving depreciation, use the Depreciation Calculator. Leasing a Car Auto leases enable people to drive new cars for a short term while under warranty, and without the financial burden associated with new car purchases. However, it generally costs more to lease a new car for a specific time period than it does to own it assuming the cost of ownership is prorated over its expected life. Leasing used cars is possible, but not as prevalent. There are many factors to consider in an auto lease, such as the initial down payment, the amount of the monthly payment, the term of the lease, and the average accumulated miles in a year. One characteristic that is unique to car leasing is something called the money factor, which is an alternative method of presenting the amount of interest charged on a lease with monthly payments. Money factor, sometimes called "lease factor" or "lease fee," can be translated into the more common annual percentage rate APR by multiplying it by 2, Monthly payments are mainly based on the difference between the cost of the new automobile transaction price or capitalized cost , and what the car is forecasted to be worth at the end of the leasing period residual value. Security deposits will most likely be required at signing. Additional charges may be imposed by dealers, so discuss all financing carefully before agreeing to a car leasing contract. Some lease contracts allow for the lessee to purchase the leased vehicle after the end of the lease. For more information or to do calculations regarding auto leases, use the Auto Lease Calculator. Leasing a vehicle tends to be a longer time commitment, such as several years, while rented vehicle terms are much shorter. For example, some people rent for several days while their own car receives servicing or rent for a week or two while on vacation. Leased vehicles are normally offered at dealerships while rented vehicles can be found at car rental agencies. Business Leasing Some of the largest multinational companies in the world hold leases totaling millions or even billions of dollars in machinery, equipment, factories, and other assets, and for good reason; there are some financial advantages to leasing not only for corporations, but all businesses in general. For one, instead of paying full price for these assets, businesses can lease with the option to part ways with leased assets after their lease ends, continue leasing the equipment, or in some cases, buy the leased assets. Therefore, businesses have the opportunity to acquire and use expensive equipment while paying only a fraction of the cost upfront. This is particularly beneficial for new businesses that do not have a lot of initial capital. Capital vs Operating Lease in the U. In the context of business leasing, there are two different types of leases: In accounting, this asset is treated as a purchase, and thus can be depreciated for accounting purposes. In order for an asset to be considered a capital lease, at least one of several conditions must be met as set by the Financial Accounting Standards Board FASB. On the other hand, operating leases sometimes called service leases are generally used

for shorter term leasing or assets that are prone to becoming technologically obsolete. The lessee of an operating lease is not considered the owner of the asset. In accounting, the rental cost of an operating lease is considered an operating expense. Oftentimes, operating leases include a bargain purchase option, which is an option to buy the asset at the end of the lease for a special price. Leasing Real Estate In the context of housing, month lease terms are the most popular. Other common housing lease terms can be 3, 6, 18, 24 months, or any other time frame agreed to by both parties. A lease-to-own house purchase is a lease combined with an option to purchase the property afterwards, within a certain period, at an agreed upon price. Leasing real estate can be different from other leases in that the residual value is often higher than when the lease starts, due to asset appreciation. Leasing commercial real estate usually involves a business seeking office space, land, or a factory. One key difference with residential real estate leasing is that the terms tend to be stricter and longer. The monthly payment will sometimes include other charges like insurance, tax, and maintenance, all of which should be transparent. Commercial leases will differ based on what is included in the lease. Some of the more common types are explained below. Gross Lease Sometimes used interchangeably with the term "full service lease," gross lease rents are all-inclusive; this means that the tenant pays a flat rental fee while the landlord pays for all or most expenses, such as property taxes, insurance, and the maintenance of the interior and exterior. However, it tends to come at a premium because there is incentive for landlords to overestimate operating costs, and the benefits can eventually even out. The gross lease method is often used in office and industrial buildings along with retail centers. However, net leases generally charge a lower base rent compared with gross leases, so the landlord can make up for their greater portion of expenses. There are three types of net leases. N Leaseâ€"In a single net lease N lease , tenants pay base rent and their share of the property tax while the landlord covers everything else. The amount of property tax is usually based on the proportion of total building space leased by the tenant. This is the least common type of net lease. NN Leaseâ€"Tenants pay for everything in a single net lease along with property taxes and insurance premiums. Typically, the landlord is still responsible for expenses related to structural repairs and common area maintenance CAMS. For larger commercial developments such as shopping malls or office complexes, landlords assign taxes and insurance costs to each tenant based on the amount of space leased. NNN leases, named after the three "nets," property tax, insurance, and CAMS, are the most popular type of net lease, and are frequently found in commercial buildings and retail spaces in the U. Along with base rent, tenants also usually pay for utilities and operating expenses. As a general rule of thumb, NNN leases tend to be more landlord-friendly; because a larger portion of the real estate expenses are shifted to tenants, landlords are exposed to less risk. In this type of lease, if tenants are suddenly faced with increasingly larger expenses such as structural damage due to weather or new property tax hikes, they cannot legally get out of their leases. There is also a form of NNN lease called an absolute lease sometimes called a bond lease , where the tenants cover all building expenses. Modified Leases While gross leases tend to be more favorable for tenants, and net leases tend to be more favorable for landlords, modified net leases or modified gross leases seek out a middle ground between the two. Oftentimes, in what is called a modified net lease, the landlord and tenant will set up a split of CAMS expenses, while the tenant agrees to pay taxes and insurance. On the other hand, modified gross leases are quite similar to full-service gross leases, except that some of the base services are not included by the landlord. These are commonly utilized in multi-tenant office buildings or medical buildings. While the terms "modified net lease" and "modified gross lease" do have some formal differences, it is not uncommon for people to use the terms interchangeably. As a result, they may have different definitions for different people. In general, they both refer to leases that are not entirely full-service. There is a lot of flexibility in the definitions, and tenants and landlords can negotiate which "nets" are included with the base rent, along with any other easily altered condition in a lease contract. The best way to determine whether the landlord or tenant is financially responsible for something specific is to reference the lease contract. These definitions of leases are general categories, and all lease agreements and contracts should be read thoroughly so as to understand all the possible terms of the contract.

Chapter 6 : Short versus long term leases â€“ Which is the best option for you?

Short-term and long-term leases both have advantages and disadvantages to all count. Thinking about your requirements as the tenant or landlord is essential when determining which lease alternative is superior for you.

This article discusses the advantages and disadvantages to landlords and tenants in commercial ground lease transactions. A commercial ground lease is usually defined as a lease of land typically the land is not improved , for a relatively long term e. Ground leases, therefore, are not only leases in the traditional sense of the word but are also financing instruments. Ground leases differ substantially from other types of commercial leases such as, leases for space in shopping centers and office buildings because of the long-term nature of ground leases and the financing provisions and requirements. A ground lease avoids recognition of gain the landlord would otherwise realize if the property was sold to the tenant. There is no income tax consequence to the landlord upon execution of a ground lease, provided there are income tax consequences upon receipt of rent. The landlord retains fee ownership to the property. This is an important consideration to many family trusts and institutional owners who desire to maintain long term-ownership in order to put the property to economically productive use. Through various provisions in the ground lease documents, a landlord may retain some element of control over the development and permitted uses of the land that is leased under the ground lease. There are, however, potential disadvantages for a landlord in a ground lease transaction. Rent paid to a landlord is income to the landlord and taxed at ordinary rates, as opposed to capital gain rates. If a landlord does not include sufficient controls in the ground lease document, a landlord may have little or no control over the development and use of the land. Many ground leases contain provisions either restricting or prohibiting the landlord from borrowing against its equity interest in the land during the term of the ground lease The Tenant Perspective There are two major advantages for a tenant entering into a ground lease, as opposed to purchasing the land. All rent payments made under a ground lease are deductible by the tenant for federal and state income tax purposes. The major disadvantages for a tenant in a ground lease transaction are: The cost of ground leasing property is usually higher in the long term than if the tenant purchases the property initially; whether or not this is a significant disadvantage is dependent upon how long the tenant intends to own the project in question. Typically, a tenant will have somewhat less flexibility over the development, use, and operation of the property because of restrictions that may be contained in the ground lease. The tenant may not be able to pull all or part of its equity from the project through refinancing because of limitations in the ground lease. Conclusion The negotiation and preparation of a commercial ground lease is often difficult and time consuming. It is imperative that clients and their attorneys have a thorough understanding of present and anticipated future issues, requirements and concerns, as well as an understanding and anticipation of the requirements of the participating lenders as the ground lease should clearly and adequately address these matters.

Chapter 7 : Accounting for leases in the United States - Wikipedia

Fixed-Term Leases. A fixed-term lease is a type of rental agreement in which the renter agrees to stay and pay rent for the period of time indicated in the written.

Automobile Leasing A lease is in essence an extended rental agreement under which the owner of the equipment allows the user to operate or otherwise make use of the equipment in exchange for periodic lease payments. In leasing terminology, the owner is the lessor, the user is the lessee. Equipment leasing is a popular option for companies of all sizes. But equipment leasing is particularly favored by many small businesses, which often have fewer options because of limited capital. Operating leases are characterized by short-term, cancelable terms; the lessor bears the risk of obsolescence and enjoys such benefits as depreciation, including, if applicable, accelerated depreciation. These leases are generally preferable when the company needs the equipment for a short period of time. Under the usual terms of operating leases, a lessee can usually cancel the lease, assuming prior notice, without a major penalty. Long-term, "capital," non-cancelable leases, also known as full payout or financial leases, are sources of financing for assets the lessee company wants to acquire and use for longer periods of time. Most financial leases are "net" leases, meaning that the lessee is responsible for maintaining and insuring the asset and paying all property taxes, if applicable. Financial leases are often used by businesses for expensive capital equipment. In addition to these two basic leasing models, a considerable variety of other lease arrangements are often used. These leases, each of which combine different financial and tax advantages, are actually hybrids of financial and operating leases that reflect the individual needs of lessor companies. For example, full-service leases are leases wherein the lessor is responsible for insurance and maintenance these are commonplace with office equipment or vehicle leases. Net leases, on the other hand, are leases wherein the lessee is responsible for maintenance and insurance. Leveraged leases, meanwhile, are arrangements wherein the cost of the leased asset is financed by issuing debt and equity claims against the asset and future lease payments. The Size of the Ticket Leases are also classified as "small ticket," "medium," and "large ticket" leases based on the value of the equipment to be leased. The medium, of course, is the area in between. The small ticket lease is of special interest to the small business because getting approval for such leases rarely involves much more effort than qualifying for a credit card. As the values of equipment rented increase, obtaining the lease comes more and more to resemble a major loan application. A Bumpy Playing Field Small business owners need to keep in mind that lease rates can vary considerably from one lease company to another. Lease companies also may charge different rates for the same piece of equipment depending on various characteristics of the business that is seeking the lease. Factors that can impact the lease rate include the credit history of the lessee, the nature of equipment wanted by the lessee, the length of the lease term, and whether the lessee or lessor is the primary beneficiary of tax credits associated with the transaction. Companies can finance their capital equipment by debt or equity. Capital leases are a form of debt-equity financing since such leases act like loans, must be recorded as liabilities on balance sheets, and are also treated as liabilities by the IRS. Operating leases, however, permit the company to obtain equipment with virtually no upfront capital outlay and with the lease payments treated as a deductible cost of business. For most small businesses, therefore, the principal motive for leasing is cash flowâ€"the ability to get equipment now without a major expenditure of cash. Some companies able to purchase still prefer to lease because their tax situation is such that they cannot benefit from the depreciation. They may also wish to maintain a debt-equity ratio that will attract new investment more easily, and leasing rather than investment will accomplish that end. For some companies, engaged in a rapidly evolving technological market, using leased equipment under short-term leases permits them to exchange new and better equipment more rapidly than would ownership of a capital lease. Each item should be viewed in light of the ultimate goal. If equipment needs are likely to change rapidly, a shorter lease period, even at a higher cost, may be desirable. When the equipment is standard, lowest price may be available for the longest duration. Payment due the lessor. This is one of several financial aspects the small business must consider in light of its projected cash flow. Financial terms date of the month that payment is due, penalties for late payment, etc. Residual values, purchase options.

If the lease is just another way of purchasing equipment, the terminal point of the lease becomes important. Market value of equipment. The business needs to assess insurance costs especially in capital leases. As outlined above, operating and capital leases have different tax implications. Updating or cancellation provisionsâ€"especially important when technological changes are swift. Penalties for early cancellation without good cause. Miscellaneous options security deposits, warranties. Small business owners should approach a number of lease companies if possible to inquire about lease terms. When dealing with computer systems or those heavily based on electronics, the owner is well advised to locate leasing companies that specifically service such needs and offer, up front, lease arrangements that facilitate rapid change. Retrieved on 23 March Money Saver or Waster? Not much new for ?

Chapter 8 : Short-term leasing could be a long-term trend in Hanoi, HCMC - VnExpress International

Long-term, "capital," non-cancelable leases, also known as full payout or financial leases, are sources of financing for assets the lessee company wants to acquire and use for longer periods of time.

Often, a portion of these long-term liabilities must be paid within the year; these are categorized as current liabilities , and are also documented on the balance sheet. Operating liabilities refer to the leases or unsettled payments incurred in order to maintain facilities and services for the company. These include everything from rented building spaces and equipment to employee pension plans. Bonds are one of the most common types of long-term debt. Companies may issue bonds to raise funds for a variety of reasons, such as to raise capital for new capital projects. Why Incur Long-Term Debt? A company takes on long-term debt in order to acquire immediate capital. All businesses need to generate income, and long-term debt is an effective way to get immediate funds to finance business operations. During the Great Recession , many companies learned the dangers of relying too heavily on long-term debt. In addition, stricter regulations have been imposed to prevent businesses from falling victim to economic volatility. This trend affected not only businesses, but also individuals, such as homeowners. Since debt sums tend to be large, these loans take many years to pay off. Companies with too much long-term debt will find it hard to pay off these debts and continue to thrive, since much of their capital is devoted to interest payments, making it difficult to allocate money to other areas. A company can determine whether it has accrued too much long-term debt by examining its debt-to-equity ratio. A high debt-to-equity ratio means the company is funding most of its ventures with debt. A high debt-to-equity ratio also tends to put a company at a disadvantage against its competitors who may have more cash. Many industries discourage companies from taking on too much long-term debt in order to reduce the risks and costs closely associated with unstable forms of income. Also, regulations are in place that restrict the amount of long-term debt a company can acquire. Consequently, many companies are adapting to this rule to avoid being penalized, such as taking steps to reduce their long-term debt and rely more heavily on stable sources of income. A low debt to equity ratio is a sign that the company is growing or thriving, as it is no longer relying on its debt and is making payments to lower it. It consequently has more leverage with other companies and a better position in the current financial environment. However, the company must also compare its ratio to those of its competitors, as this context helps determines economic leverage. For example, Adobe Systems Inc. This debt is still low compared to many of its competitors, such as Microsoft Corp. However, comparisons fluctuate with competitors such as Symantec Corp. The question of the liquidity of the bond market has become an issue since the Great Recession, as banks that used to make markets for bond traders have been constrained by greater regulatory oversight. Long-term debt is not all bad, though, and in moderation, it is necessary for any company. Think of it as a credit card for a business: Without incurring long-term debt, most companies would never get off the ground. Bank loans and financing agreements, in addition to bonds and notes that have maturities greater than one year, would be considered long-term debt. Other securities such as repos and commercial papers would not be long-term debt, because their maturities are typically shorter than one year.

Chapter 9 : Benefits and drawbacks of short Term and long Term Lease | Smart Living News

Accounting for leases in the United States is regulated by the Financial Accounting Standards Board (FASB) by the Financial Accounting Standards Number 13, now known as Accounting Standards Codification Topic (ASC). These standards were effective as of January 1,