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Lease Calculator

Fixed Rate Fixed Pay

Asset Value

Residual Value

Lease Term years
 months

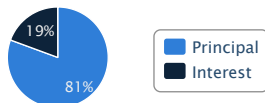
Monthly Payment

Result

Interest/Return Rate **10.994%**

Total of 48 Monthly Payments \$20,570.40

Total Interest \$3,987.42



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What is a Lease?

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. As an example, a car worth \$30,000 that is leased for 3 years can have a residual value of \$16,000 when the lease ends. 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 2,400.

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](#).

Renting vs. Leasing Cars

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Both leasing and renting vehicles involve the lessee paying for the right to use a vehicle owned by a lessor, but that's generally where the similarities end. 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 a 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. Also, lease payments that are considered operating leases are tax-deductible as a business expense, which can help reduce a business or company's tax bill.

Capital vs. Operating Lease in the U.S.

In the context of business leasing, there are two different types of leases: capital and operating. A capital lease is a lease of business equipment that represents ownership and is reflected on a company's balance sheet as an asset. In accounting, this asset is treated as a purchase, and thus can be depreciated for accounting purposes. Capital leases are generally used for long-term leases or items that aren't prone to becoming technologically obsolete. 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 residential house leasing, 12-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 afterward, 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. As a result, from the tenant's perspective, gross leases make budget planning a lot simpler. However, it tends to come at a premium because there are incentives 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.

Net Lease

In a net lease, the landlord typically isn't responsible for every expense; on top of base rent, the tenant may pay for expenses such as property taxes, property insurance premiums, and maintenance costs, depending on the type of net lease. 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 Lease**—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 Lease**—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 Lease**—Last but not least, for triple net leases (NNN lease), tenants pay for everything in NN leases along with CAMs. 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.S. 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. Some NNN leases are bondable, which means that the lease cannot be terminated before its stated expiration date and the rent amount can't be altered for any reason,

including unexpected and significant increases in ancillary costs. 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.

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