# Adjusting a Lease for Inflation

*by Mark Walter, CCIM*

It is standard practice for the commercial lease to provide for inflation. However, what is less standard is the mechanism to track inflation. One simple solution I've seen is to tie the rent increase to the past. That's fine, if history could be counted on to repeat itself. But it doesn't. We live in a world of cycles. Invariably, in a lease of even intermediate term duration - say five years - one of the parties will lose and the other will have a windfall. Another is to simply negotiate an arbitrary fixed percentage increase. Again, very likely, someone will win and someone will lose. The annual inflation rate will, more likely than not, vary from a quasi-random selection.

Most commercial leases tie the annual rent increase to the national Consumer Price Index compiled and maintained by the Bureau of Labor Statistics, a division of the Department of Labor. The advantage to using the CPI is that it will be around forever and that it is readily accessible. The potential inequity in using the national CPI is that markets are regional and even local in nature. A local market, for any number of anomalies, can vary significantly from a broad average. However, there is not a regional index that would be useful in Washington County transactions. We are in the western region which includes California, therefore we are better off using the national verses the regional CPI index.

*Editor's Note: Mark Walter, CCIM, has been active in real estate in Southern Utah for the past twenty-seven years. He is the principle broker/owner of NAI Utah Commercial Real Estate.*