

General issues to consider when contemplating a commercial real estate lease

Renting office space is expensive, and it's a huge responsibility. If you've ever rented commercial space, you know that finding a property and negotiating lease terms are serious business.

In general, when the space is being represented by an agent, the building owner pays any commissions or fees obligated to the agent.

If you haven't rented commercial space, there are a few things you need to know. First, there's no standard lease agreement; each lease is different and needs to be carefully reviewed. Commercial leases are not subject to most consumer protection laws that govern residential leases. For example, there are no caps on deposits or rules protecting a tenant's privacy. Keep in mind that besides the amount of the rent, other less conspicuous items spelled out in the lease may be just as crucial to your business's success.

Second, a lease is a legally binding contract, not something you can break at will or easily change to suit your needs. Before you lock yourself into a lease, you need to ask yourself, your broker and the landlord some crucial questions to make sure you're finding the best property for your business.

Ask yourself:

How long do I plan to stay? You need to project how long your business can operate effectively in the space you plan to lease. Although all lease terms are negotiable, most short-term leases are for three to five years, and long-term leases are for 10 years.

Can I get out of the lease? Breaking a lease can result in serious penalties: You could lose your security deposit, be denied access to the space and even be sued. Make sure you're committed to the length of the lease and the location before you sign.

Here is a list items that are often addressed in commercial leases. Pay special attention to a few of the terms, including:

- Rent, including allowable increases and method computation
- Security deposit and conditions for return
- Length of lease, also called lease term
- Whether the rent you pay covers utilities, taxes and maintenance,
- Whether there is an option to renew the lease
- Is it a gross lease or NNN
- What is NNN
- If and how the lease may be terminated
- What space is being rented, including common areas such as hallways, rest rooms and

elevators

- Specifications for signs, including where they may be placed
- Whether there will be improvement, modifications or fixtures—often called build outs—added to the space, who will pay for them and who will own them after the lease ends
- Who will maintain the premises
- Whether the lease may be assigned or sublet to another party
- Whether disputes must be mediated or arbitrated as an alternative to court
- Whether the landlord demands a personal guarantee on the tenant
- What happens if the property is sold, is your lease protected
- What level of insurance is needed for the tenant outside of personal property
- Are there any other expenses that the tenant is responsible for
- Agreement for no competing businesses in the building/development
- Are there any parking restrictions or special circumstances?