

HOW TO OPTIMALLY STRUCTURE YOUR COMMERCIAL LEASE AGREEMENT

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How can you optimally structure your lease agreement to ensure business sustainability? Navigating your lease negotiations can be challenging - Outlined below are six preliminary considerations when negotiating and structuring your lease agreement.

1. **Use of Leased Premises:** Firstly, clearly define the purpose and nature of your business and the types of products and/or services you will be providing. Depending on the circumstances, it may be advisable to include an Exclusive Use clause to prevent competing businesses from opening in the adjacent vicinity.
2. **Lease Term:** Ensure that you are 'comfortable' with the length of your lease term. Factors affecting the length of lease term may include and is not limited to your long term business strategy, personal life plans, the amount of tenant improvement work necessary, and/or your exit strategy.
3. **Lease Rate / Basic Rent:** The levers for negotiating your lease rate include supporting evidence of comparable asking lease rates, lease rates of recent lease transactions, and your projected sales. Depending on your business operations and economic factors, amongst other factors, it may be advantageous to negotiate a percentage-rent lease rate.
4. **Additional Rent / Operating Costs:** The Additional Rent / Operating Costs shall only include typical items (i.e.: property taxes, basic maintenance items, common utilities, etc.) which are charged back to the Tenant. *This section is where the Tenant has the best opportunity to control its future real estate costs so that items are not unexpectedly charged to the Tenant. Your lease negotiations shall attempt to control your future costs, and maintain predictability in your business expenses.* Additionally, it is of utmost importance that every expense charged in this section is clearly understood, reconciled annually, and not double-charged.
5. **Landlord and Tenant's Work:** The lease agreement shall clearly and accurately describe the work that is to be performed by each party. If there are Tenant Improvements that the Tenant can undertake on its own, the Tenant may be able to use this as leverage for negotiations.
6. **Termination Clauses:** In consideration of unexpected events and scenarios (i.e.: pandemic), it is wise to include a Termination Clause that is triggered as a result of certain events or in a specific scenario. Such a clause aims to reduce your business operations' risk.

Further to the above considerations, there are a myriad of other factors to consider while structuring your lease agreement in order to de-risk, and to position for long-term sustainability.

A well tailored lease agreement and a resilient real estate strategy is foundational for building your business's legacy.

Please feel free to reach out to Rockies Property Group for a comprehensive review of your lease agreement. Whether negotiating a new or existing lease, or seeking reassurance for future negotiations, we provide strategic recommendations and insights to empower you to confidently craft your lease agreement and real estate strategy.