

Negotiables

When looking at commercial office space for your business, you likely have a wish list of things that you would like to have included. Depending on the financial health of your business and that of the landlord, certain items may be negotiable. The following is a list of items that can be negotiated in your Offer to Lease (OTL) that you will submit to the landlord.

• Lease term	• Fixturing period	• Leasehold improvements
• Parking spaces	• Hours of operation	• External signage
• Sub leasing	• Security deposit	• Personal guarantee
• Pets	• Penalties	• Base or Net Rent Increases

Lease Term

The term of a lease is the amount of time in months or years that the lease will be valid. Commercial leases tend to be longer in duration than residential leases. Traditionally, commercial leases would be 36, 60 or 120 months, 3, 5 or 10 years. These are big commitments for small businesses but also help to ensure that you have the space to operate and grow over a defined time period. Look at the vacancy rate in your area prior to negotiating the lease term. If the vacancy rate is high, the landlord may be more willing to negotiate a shorter term. However, also consider that the allocation for leasehold improvements and fixturing will decrease with shorter lease terms as the period of time to pay off those investments has decreased.

Fixturing Period

A fixturing period is a grace period that can be offered to tenants to allow them access to the space to perform renovations and move things in before the tenant pays the full lease amount. During a fixturing period, a tenant may be offered free rent, no net rent or no net additional rent.

If a unit is leasing for \$5,000 a month and the tenant would like to make leasehold improvements that will likely cost \$5,000, the landlord may offer a one month fixturing period at a reduced rent or rent free for that period as an incentive. If the improvements add value to the space that can be used by future tenants, the benefit to the landlord is more significant.

Leasehold Improvements

Leasehold improvements are renovations made to the space that the tenant requires for the operation of their business. These can be as simple as a new coat of paint or it could be as complicated as completely gutting the space and building it out based on a specific design. Franchises often have design templates that they require to ensure that all locations have a similar look and feel.

Parking Spaces

Some commercial and retail locations have onsite parking. Some buildings allocate a specific number of parking spaces to units based on square footage. For example, a landlord may state that 2 spaces are allocated per 2,000 square feet. The allocation is typically higher (more spaces per square foot) in



suburban areas than in downtown locations. Allocated parking spaces may be free or may come at a cost. The allocation of spaces and the cost can be negotiated.

Hours of Operation

Some businesses operate 24/7 while others operate from 9-5. Landlords often automate and schedule lighting, heating and air conditioning to maximize cost efficiencies. If you operate a business outside of 'normal' business hours or you require additional electricity, heating or cooling, these can be negotiated with your landlord. A tenant operating a data center will require cooling 24/7 and likely lighting and environmental controls for their employees outside of normal business hours. This type of business would also require parking outside of normal business hours.

External Signage

Depending on the location of the building, having external signage can be great marketing. Signage may be limited but may also be subject to municipal by-laws and charges. Landlords often offer signage rights to key tenants who take up a significant amount of space in the building. There is often a cost associated with external building signage.

Sub-leasing

Some commercial leases allow sub-leasing while others do not. A tenant can reduce their risk by negotiating a sub-leasing clause into their lease. Should their business change significantly and they need to find a new space that is larger or smaller, they would be allowed to recover some or all of their costs by sub-leasing the space to the end of their lease term. Most leases will not allow you to profit from the sub-lease, meaning that if you are able to charge more than you are paying the landlord, the landlord will often be entitled to the difference.

Security Deposit

It is common in commercial leases to pay a security deposit to the landlord when signing the lease. The security deposit could be the first and last month's rent for an established business. For a new business that could be considered 'risky' to the landlord, it is common to require a larger security deposit.

Personal Guarantee

Personal guarantees can be required for new businesses or businesses with weak financial statements. Personal guarantees can require the business owner to pledge one or more personal assets to reduce the perceived risk to the landlord.

Pets

Pets are not typically allowed in most commercial spaces although this is changing. If you or your employees plan on bringing their pets to work, negotiating this into your lease is important to avoid a breach of lease.

Penalties

Leases can include penalties for breach of lease. These penalties can also include interest charges and administration fees. If you feel that you could be late with your rent at some point or have an employee that may breach one of the covenants in your lease, pay particular attention to these.



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Base or Net Rent Increases

The price per rentable square foot will typically increase annually to keep up with inflation. This can also be true for net additional rent when it includes utilities like gas, and hydro which can increase in prices based on many global and economic factors. The amount these increase annually should be called out in the lease.

This is not a complete list as different businesses have different requirements but it was written to help tenants understand that some terms in a lease are open to negotiation. In most negotiations, there is a give and get mentality so be aware of what you are bringing to the table when you are asking your perspective landlord for things. If you are a small business with limited finances and struggle to make the rent, you are not as well positioned as a company with a proven financial track record. That said, if you have a strong business plan, lots of energy and find a motivated and open minded landlord, you have an opportunity to sell them on your vision.