



# Common Lease Terms

When looking for commercial office space for your business and you find a space you like, your first step will likely be to complete an Offer to Lease (OTL) that you will submit to the landlord. The OTL contains the basic terms that you are looking for and is the first step in the lease negotiation process. After submitting the OTL, the landlord will review and accept your terms or more than likely counter offer. Once you have arrived at mutually acceptable terms, the landlord will likely ask the prospective tenant for the following information:

- Incorporation documents
- Personal ID (driver's license) of the business owner
- References
- Banking information
- Financial statements (for the last 3-5 years)
- Franchise agreement
- Credit check

While the landlord is doing their due diligence in vetting the tenant, they will also likely share their lease agreement with the tenant to allow them to review it with their legal counsel. Commercial lease agreements can be very different, some short and basic and others lengthy. This article is not intended to provide legal advice or guidance, it is solely designed to educate you on some of the clauses you might find in a commercial lease.

## **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.

## **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.

## **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.

Leasehold improvements may come at the expense of the tenant or be built into the base rent over the period of the lease.

## **Parking Spaces**



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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.

### **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.

### **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.

### **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.

### **Security Deposit**

It is common in commercial leases to pay a security deposit to the landlord when signing the lease.

### **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.

### **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.

### **Insurance Requirements**



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Tenants are responsible for maintaining tenant insurance to cover their property in the unit as well as general liability insurance when on the premises. Tenants may also be required to provide proof of automobile insurance if driving or parking on the property.

### **Tenant's Covenants**

These are the responsibilities of the tenant and can include items like paying rent on time, leaving the unit in good condition, repairing items in the unit if they are damaged.

Every lease is different but reading it carefully and understanding what you are allowed to do and not to do is critical to a good relationship with your landlord.