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Details Can Be Weighty When Renting Commercial Space

By Finance New Mexico

Renting a commercial space is a move many entrepreneurs postpone as long as they can, because it's one of the biggest expenses and most consequential commitments a startup or young company faces.

A commercial lease binds landlord and tenant to a variety of promises. A well-executed lease can benefit both parties, but a hasty, vague arrangement can break an embryonic enterprise.

Commercial Leases v. Residential Leases

When someone rents an apartment or home, consumer protection laws dictate many terms of the landlord-tenant contract. Not so with commercial leases, which have few of the privacy protections and other regulations afforded residential rentals.

A renter rarely performs a radical makeover on a new home, but commercial renters often need to customize a space to accommodate offices, retail operations or assembly lines.

Because they're tailored to meet the business's requirements while respecting the owner's property rights, commercial leases are negotiated from scratch. This lack of standardization means business owners and landlords need to exercise due diligence before signing a contract that can bind them for years.

Coming to Terms

The renter's monthly payment must be affordable, and the contract should state what that payment covers. Some landlords include the cost of property insurance and taxes, utilities and maintenance in a commercial lease, while others bill tenants separately for these expenses. In the latter case, the landlord should explain how these costs are calculated.

The amount and frequency of rent increases, or escalations, should be addressed: Some landlords specify dollar amounts, while others tie hikes to an objective yardstick like the Consumer Price Index.

The lease term needs to be long enough to provide stability but short enough to free the business if it outgrows the space or finds it unworkable.

The contract should list all necessary improvements to the commercial space and identify who's responsible for doing and paying for buildouts and who owns permanent fixtures when the business leaves. If renovations are required to make the space accessible to disabled customers or workers, the contract should state what they are and who pays the bill.

The contract also needs language that clarifies:

- That the incoming business is compatible with the property's zoning classification.
- Who's responsible for maintenance and repairs of the grounds, building and important systems, such as heating, air conditioning and ventilation.
- What common areas, such as lobbies, restrooms and meeting rooms, are part of the rented space.
- Specifications and allowances for exterior signs designed to attract customers.
- The security deposit amount and provisions for its return.
- The tenant's right to sublease and procedures for terminating the contract.
- The consequences of defaulting on a lease and the tenant's options to renegotiate contract provisions.

A commercial real estate broker can help business owners understand and negotiate the details of a lease. An experienced broker can also assist with property search. One of the most important functions a commercial broker can perform is helping to identify the best location for a business — especially if the business is in retail.

Defaulting on a lease can be catastrophic for a business and costly for a landlord, which is why both should review the lease carefully and consult a commercial real estate attorney before signing.

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