



# Location Location Location



Volume 1, Issue 3

## My Top 10 List of Leasing Basics

*There are many terms included in leasing that are new to a business owner and having a grasp on the basics will allow the person to move forward in establishing that first lease and getting back to running their business faster. The following is a list of commonly used terms in leases and offers to lease and will give a small business person a little more knowledge and confidence when leasing a new space.*

### 10. Common Types of Leases

*Gross Lease* - a tenant pays a flat amount on a monthly basis, similar to renting an apartment. The landlord bares the risk of any increases in operating costs or taxes.

*Net Lease* a tenant pays a basic amount to the landlord and any proportionate increase in taxes, insurance or operating expenses are passed through to the tenant. This is the most common form of commercial lease.

*Percentage Lease* a tenant pays a basic amount to the landlord plus a percentage of the tenant's sales. This form of lease is common in enclosed retail malls and links the tenant and landlord's success to each other.

### 9. Rent

*Basic Rent* this portion of the monthly payment is the landlord's income where they pay for financing and/or make their profit.

*Additional Rent* (sometimes referred to as NNN or CAM or Operating Costs) this portion of the monthly payment is used to pay for the tenant's proportionate share of the expenses which includes such items as: taxes, insurance, strata fees, maintenance, contingency fees, management fees etc.

### 8. Security Deposits

These provide security to a landlord in case a tenant defaults on their lease payment or leaves a property in a damaged condition.

### 7. Personal Guarantees / Personal Covenants

This is a request by a landlord that the tenant, and/or another person, is willing to take personal responsibility if the tenant defaults on payments owed to the landlord. It is the same as a guarantee on a mortgage or leasing a car.

*Continued on following page*

**Stephen Gammer**  
stephen@gammer.ca  
604-781-5353

  
**MACDONALD**  
Commercial  
www.gammer.ca

#200 - 7134 King George Hwy,  
Surrey, BC V3W 5A3



# Location Location Location

## 6. Tenant Improvements or “TI's”

These are the changes that need to be made prior to the subject space being ready for the tenant to conduct its business. The calculation and assignment of the costs, and apportioning of the work to be done to complete the TI's are agreed to by the landlord and the tenant in the offer to lease. Frequently the landlord will attempt to recover its costs of improvements by amortizing the costs of the TI's into the Basic Rent, or the TI's may be paid for by the landlord and used as an incentive to bring in a new tenant.

## 5. Escape and Relocation

An escape clause gives a tenant who is unsure about their business the option to escape or break the lease at a given time or with a given amount of notice. This option may also kill any incentive the tenant wants to negotiate. Relocation allows a landlord to move a business within the complex in order to accommodate another larger tenant. The issue here becomes who pays for the moving expenses.

## 4. Tenant and Landlord Subjects

These are some of the most common subjects included in offers to lease that protect the landlord and tenant and are performed as part of their due diligence before completing their transaction: personal credit check, approval of a city business license, approval of the landlord's standard blank lease, nature of the tenant's business, approval of the board of directors, and approval of the franchisor.

## 3. What is Negotiable?

The short answer to this is everything, the longer answer is you need to learn what is happening in the market and find out what is negotiable. In a hot market with a low vacancy rate there may be little or nothing a tenant can get in the way of incentives, however in a slow market with high vacancy there may be more on the table. Knowing what is being offered in the market will help the negotiations start off at a realistic point.

## 2. Write everything down

The only part of the contract that is enforceable by either the tenant or the landlord is what has been written down and agreed to by both parties. It would be very difficult for a judge to determine the accuracy of a verbal agreement between two parties, so be sure to write down everything that has been agreed to and sign or initial every page that forms part of the contract to prove both parties have agreed to the statements on that page.

## 1. Professional Advice

Be sure to have a professional leasing agent and/or lawyer look over any contract before entering into it. It may seem straight forward, but knowing what to look for in a contract and to know what is missing and should be there is key to successfully leasing a space for your business.

*Reprinted from The Business Journal*