5 Major Deal Points to Know Before Signing a Lease

Opinions expressed by *Entrepreneur* contributors are their own.

Are you thinking about leasing a space in a retail center? If so, there are many items a tenant needs to be aware of. Here's a list of five major deal points to be mindful of.

Related: Running a Business – How to Lease Space

1. Guarantees

Many landlords will not lease to a tenant without the tenant personally guaranteeing the lease. Keep in mind that there are techniques a tenant can endeavor to lessen the guarantee. These include offering a limited or rolling guarantee. The limited guarantee will not last for the entire lease term but for the number of years agreed on by the landlord and tenant. The rolling guarantee means that the total exposure the tenant is liable for is the number of months agreed to, regardless of the months remaining in the lease (unless the remaining months are less than the rolling months).

If you decide to give any personal guarantee, I highly recommend you consult your real estate attorney to understand the guarantee's implications fully.

Related: 5 Keys in Negotiating an Office Lease

2. Use

When leasing space, it's essential to be very clear on your use of the premises. Your use in your lease is the only one

you have permission to use the premises for. If you decide to expand your business beyond that use, you would need authorization from the landlord for that other use. Also, if you do not have an exclusive in your lease, nothing stops the landlord from leasing to another tenant in your same center, with the same use.

3. HVAC (heating, ventilation, and air conditioning)

Not only is it imperative to know specific to the existing HVAC regarding capacity and age, but it is also significant to understand your lease if the HVAC breaks.

Let’s start first with capacity and age. You need to know if the current HVAC needs to have the capacity you need to operate your business. Capacity is typically not an issue if the space has been leased to another tenant prior and you are opening a retail location where you are selling soft goods. Still, there are other uses where the capacity of HVAC plays a significant role. For example, if you are opening a restaurant, you must know what size HVAC you need to run your business successfully.

Once you have identified if the existing HVAC will work for your use, you need to know the age. If the unit is older, you need to be aware of the age of the unit during your negotiations. Just so you know, it is the tenant’s responsibility to do their due diligence and find out this type of information as soon as possible when considering a space to lease.

If you find out the unit is older, I recommend you negotiate with the landlord to have it be the landlord’s responsibility to replace the unit before your business opens. If the landlord is unwilling to replace the HVAC, you should negotiate a warranty lasting for a period that you are

comfortable with. You also need to determine who is responsible for fixing the HVAC if it breaks during the lease and who's responsible for replacing the unit if it is not salvageable. This information regarding who is responsible should be in your lease, and you must know and be comfortable with it before you sign your lease.

Related: **How Small Shops Economize by Sharing Space**

4. Options

A lease option gives the tenant a choice to renew their lease. A tenant needs to recognize that if they do not have any options to renew their lease, then when their original term expires, the landlord is not obligated to renew their lease. Since options benefit tenants, landlords are not eager to give them. Although it is not required of the landlord, it is retail common industry practice for landlords to provide an option to match the initial term of the lease. For example, if a lease is five years for the initial term, considering the industry practice, the landlord would give one five-year option.

In addition to knowing if you have options and what the term is, it is also important to discern your rent during your options. The rent for your options will probably be higher than the current term, and you must make sure your business plan can support the rent during your options.

5. Additional charges

Additional charges – known as NNN or triple net – are the extra charges that a tenant pays in a NNN lease on top of the base rent.

There are different types of leases. In addition to NNN leases, other types you will hear about include modified gross

leases and full-service gross leases. The majority of shopping center leases are triple net leases.

There are three items that the NNN is composed of, which include the landlord’s property taxes and insurance and the CAM (common area maintenance). CAM typically includes parking lot maintenance, outside lighting and common landscaping. If each space in the building is not separately metered for water, your water will typically be included in the CAM. As a tenant, you should note that the NNN charges are estimated and could change. If the NNN charges adjust, then your rent will also alter.

My experience reveals that with all negotiations, there is usually a compromise to be made on most deal points. It is critical that all tenants thoroughly read and understand their lease agreement and have a commercial real estate attorney advise before the tenant signs the lease. I also recommend using a commercial real estate broker specializing in retail to represent you during your offer negotiation process.

Related: Save Money by Renegotiating Your Lease

https://www.entrepreneur.com/article/438896