What to Know When Leasing a New or Existing Space

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When leasing commercial space, a tenant can either rent in a new development or lease an existing space.

Understanding the plusses and minuses of leasing new space compared to an existing space is critical. There are an incredible amount of nuances involved in both options. This article will help you examine both sides of the equation to assist you in making an informed decision.

Infrastructure improvements

Key benefits businesses can enjoy when leasing space in a new development are a few potential infrastructure improvements from landlords. These can include electrical & HVAC.

Many developers are building spaces with higher electrical requirements than what was traditionally built in the past. Since upgrading the existing electrical infrastructure can often be impossible or extremely expensive, having the amperage you need from the beginning will be highly advantageous to select a location.

After electrical requirements, HVAC is another big-ticket item. In a new development, the landlord may have installed a new HVAC. However, there is also a chance that the landlord will not install it. Whether the development is new or existing, you need to ask and get in writing if the landlord will handle the HVAC. You will need to know this before you start to negotiate your deal.

Also, you must determine the HVAC size and confirm with your general contractor that it will work for your business. Remember to mention to your general contractor any equipment you will be utilizing and ask your general contractor to confirm the HVAC tonnage will be sufficient for your needs.

If new HVAC is going to be installed by the landlord, find out if they will be distributing it or not. If they will not be distributing the HVAC, make sure to let your general contractor know and have the g include the cost to distribute in their quote. If there is existing HVAC, find out the age and have it inspected in the early stage of negotiations. If the HVAC needs to be replaced, you must find out sooner rather than later.

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Tenant improvement allowance

A tenant improvement allowance is money a landlord gives a tenant specifically for the tenant to utilize in building out their space. New developments often offer tenants a higher tenant improvement allowance than an existing space. However, it is essential to note that although the tenant improvement allowance is higher, landlords typically will not build a restroom in the new space. Instead, landlords commonly feel that the tenant can add the bathroom to their plans.

Landlords typically expect tenants to take part of the money they give as tenant improvement allowance for the restroom build-out. Therefore, it is a good idea to talk to a general contractor and get a bid on what it will cost to build your restroom. Then you can provide the landlord with that number and try to negotiate restroom credit. Also, remember that it is essential to check with the city to determine the number of restrooms you will need for your use.

Higher leasing costs

One of the main disadvantages of leasing retail or commercial space in a new development is that it can be more expensive. New developments often have higher leasing costs due to the current construction costs. In the Southern California commercial real estate market where I specialize, I have seen examples of rents being double for a new development versus an existing center. In addition to higher leasing costs, tenants often must pay utility connection fees when leasing a new development.

If the space already exists, it is likely connected to utilities, and thus the tenant would avoid those fees. However, it is essential to note that every use differs, and every municipality charges different connection fees. Therefore, do your homework in advance, talk to your potential landlord, and then speak to the municipality where you plan to open your business. It will help if you find out what your fees will be in advance. This way, you will have no surprises.

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Signage

Signage is vital to most businesses – it will get customers to your door. Since signage is highly sought after by all tenants, it can be highly competitive to get. Landlords will traditionally not offer it to tenants. Tenants need to work hard to get signage rights with their space. Typically you can easily get the right to put your name above your space. You must negotiate to get your business name on other building locations, such as the back and the side. Additionally, you must negotiate your rights to be on any pylon and monument signs in the shopping center or business complex.

Remember that there are almost always limited spaces on monuments and pylon signs. All tenants in the center are probably not going to get panels. When negotiating your deal, you will need to ask for space. Remember to get the exact location of the panel location in your lease. It will need to be added as an exhibit.

Even if a landlord says you can have signage rights, you have no rights if it is not in your lease. At any time, the landlord can force you to remove your sign.

Additionally, it is good to note that in an existing center, a tenant will typically have to pay for the cost and installation of their panel. However, in a new center, in addition to the cost and installation of their panels, landlords often try to pass on the cost of the construction of the monument sign to tenants. If you have seen a monument sign in a center with many blank panels, the landlord could have tried to get the tenants to pay for spaces, but the cost was probably prohibitive.

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