

Commercial Leasing Made Easy



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What is a Lease?



What Does a Lease Do?

The lease is a contract in which:

- ▶ Tenant agrees to pay rent for a period of time
- ▶ Tenant agrees to abide by conditions of the lease
- ▶ Landlord agrees to allow the tenant's business
- ▶ Landlord may agree to tenant improvements or amenities

LEASING

PROPERTY
MANAGEMENT



VS

What Types of Properties are Leased?



COMMERCIAL LEASING TERMS

Jeopardy

Types of Units	Types of Leases	Rents & Fees	Lease Options	Representation Agreements
<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>
<u>20</u>	<u>20</u>	<u>20</u>	<u>20</u>	<u>20</u>
<u>30</u>	<u>30</u>	<u>30</u>	<u>30</u>	<u>30</u>
<u>40</u>	<u>40</u>	<u>40</u>	<u>40</u>	<u>40</u>



Commercial space or building that is completely built out including being configured with interior walls and with flooring and paint.

A building or space in a commercial building with an unfinished interior and lacking heating, ventilation, and air conditioning

A commercial building with a minimally finished interior, usually with ceilings, lighting, plumbing, and some type of heating/cooling.

Areas that are available for use by one or more persons or tenants either inside or outside the building.

Tenant pays a fixed (base) rent and the Landlord pays all other expenses associated with the property

Tenant pays a minimum base rental amount, plus a percentage of their gross sales over a predetermined threshold

This type of rent requires changes in rental payments based on a published index, such as the consumer price index.

Tenant pays fixed rent plus a pro-rata share of one or more property costs.

Fees paid for property maintenance, insurance and real estate taxes

**DAILY
DOUBLE**



Additional rent , charged on top of base rent mainly composed of maintenance fees for work performed on the common areas of the property.

A landlord may offer to reduce the rent for a time period or temporarily offer free rent.

Opportunity to lease additional space in the property after a certain period of time

The right to extend a lease under specified conditions

When a lessee signs over the leased property to another party for the remaining portion of time the property is leased.

When a tenant remains in possession of the property after the expiration of the lease

An agreement that allows the broker to solely represent a property for lease.

Landlord may have this type of an agreement with several brokers.


An single use agreement that specifies a particular property and a specific tenant.

An agreement that allows the broker to represent the tenant exclusively.

FINAL
Jeopardy

Category: Commissions


Before showing any property you should have your commission agreement in _____.



What is In Writing?

Working with a Tenant

New Tenant	Relocating Tenant
<ul style="list-style-type: none">Who?What?Where?When?How much?How big?	<ul style="list-style-type: none">Why?Benefit?Pros?Cons?Configuration and size?



Site Selection

- ▶ Current zoning & allowable uses



- ▶ Location, location, location!
- ▶ Property-specific features

GROSS RENT

1. Square Footage X \$ Per Square Foot = Annual Rent
2. Annual Rent / 12 = Monthly Rent
3. Monthly Rent X 36 = Total Rent Over 3 Years

GROSS RENT EXAMPLE

$$\text{-----} \times \text{-----} = \text{-----}$$

$1500 \times \$11 = \$16,500$

$$\text{-----} / \text{-----} = \text{-----}$$

$\$16,500 / 12 = \$1,375$

$$\text{-----} \times \text{-----} = \text{-----}$$

$\$1,375 \times 36 = \$49,500$

GROSS RENT EXAMPLE

1. Monthly Rent X Months = Annual Rent
2. Annual Rent / Square Footage = Rent Per Square Foot

$$\text{-----} \times \text{-----} = \text{-----}$$

$$\$1400 \times 12 = \$16,800$$

$$\text{-----} / \text{-----} = \text{-----}$$

$$\$16,800 / 1500 = \$11.20 \text{ PSF}$$

TRIPLE NET LEASE

1. Square Footage X \$ PSF Base Rent= Annual Rent
2. Annual Rent / 12 = Monthly Rent
3. Square Footage X \$ PSF NNN = Annual NNN Fees
4. Annual NNN Fees / 12 = Monthly NNN
5. Monthly Base Rent + Monthly NNN = Total Monthly Rent

TRIPLE NET LEASE EXAMPLE

$$\text{-----} \times \text{-----} = \text{-----}$$

$$1500 \times \$10 = \$15,000$$

$$\text{-----} / \text{-----} = \text{-----}$$

$$\$15,000 / 12 = \$1,250$$

$$\text{-----} \times \text{-----} = \text{-----}$$

$$1500 \times \$1.50 = \$2,250$$

$$\text{-----} / \text{-----} = \text{-----}$$

$$\$2,250 / 12 = \$187.50$$

$$\text{-----} + \text{-----} = \text{-----}$$

$$\$1,250 + \$187.50 = \$1,437.50$$

PERCENTAGE LEASE

1. Annual Rent / Sales Percentage = Sales Threshold
2. Store Sales - Threshold = Threshold Exceeded
3. Exceeded Threshold Amount X Sales Percentage = Additional Rent
4. Annual Rent + Additional Rent = Total Annual Rent

PERCENTAGE LEASE EXAMPLE

$$\frac{\text{-----}}{\text{-----}} = \text{-----}$$

\$50,000 / 0.04 = 1.25 MILLION

$$\text{-----} - \text{-----} = \text{-----}$$

1.65 MILLION - 1.25 MILLION = \$400,000

$$\text{-----} \times \text{-----} = \text{-----}$$

\$400,000 X 0.04 = \$16,000

$$\text{-----} + \text{-----} = \text{-----}$$

\$50,000 + \$16,000 = \$66,000

TENANT IMPROVEMENT ALLOWANCE

1. Rent PSF X Square Footage = Annual Rent
2. Annual Rent / Months = Monthly Rent
3. \$TIA Amortized by Years and Rate = TIA Per Month
4. Rent + TIA = Total Monthly Rent

TENANT IMPROVEMENT ALLOWANCE EXAMPLE

		Tenant		Landlord
Required rent		\$12.00		\$12.00
Square footage	x	1500	x	1500
Annual net rent		\$18,000		\$18,000
Months	÷	\$12	÷	\$12
Monthly rent		\$1,500.00		\$1,500.00
Amort. Improvement costs		\$0.00	+	\$89.91
Rent due from tenant		\$1,500.00		\$1,589.91

TENANT IMPROVEMENT ALLOWANCE

1. Annual Rent / Square Footage = \$ PSF
2. \$TIA Amortized By Years and Rate = TIA per Month
3. TIA X Months/ Square Footage = TIA PSF
4. Rent PSF + TIA PSF = Total Rent PSF x Square footage = Total Annual Rent

TENANT IMPROVEMENT ALLOWANCE EXAMPLE

$\frac{\text{-----}}{\text{-----}} = \$ \text{-----}$
\$120,000 / 10,000 SF = \$12.00 PSF

$\$ \text{-----} [\text{Amortized}] = \$ \text{-----}$
\$300,000 [5 Yrs @ 8%] = \$6,082.92 TIA Per Mo

$\text{-----} \times \text{-----} / \text{-----} = \$ \text{-----}$
\$6,082.92 X 12 Mos / 10,000 SF = \$7.30 PSF TIA

$\text{-----} + \text{-----} = \text{-----} \times \text{-----} = \text{-----}$
\$12.00 PSF + \$7.30 PSF = \$19.30 PSF X 10,000 SF = \$193,000 Per Yr

REPRESENTATION AGREEMENTS

- ▶ Pocket Listing
- ▶ Commercial Exclusive Leasing Agreement (CF121)
- ▶ Commercial Open Listing Agreement (CF124)
- ▶ Agreement to Show Commercial Property (CF161)
- ▶ Commercial Exclusive Buyer-Tenant Representation Agreement (CF 141)
- ▶ Commercial Mutual Non-Disclosure and Confidentiality Agreement (CF461)

COMMISSION

- ▶ **Commission to be paid is determined:**
 - As an amount per square foot
 - Based on the value of the lease (percentage)
 - Based on the value of the lease, capped
 - A combination or variation of these
- ▶ **Commission may be paid out:**
 - As a "cash out"
 - "Term"

COMMISSION CALCULATION

Value Of Lease

\$_____ X _____ = \$_____ PER YEAR X 5
 YEARS = \$_____

**\$15.50 X 2500 = \$38,750 PER YR X 5 =
 \$193,750**

COMMISSION CALCULATION

Cash Out Commission:

Value Of Lease X ___% = \$_____

\$193,750 X 5% = \$9,687.50

COMMISSION CALCULATION

Term Commission:

Monthly: _____ X _____ / _____ = _____ X _____% = \$_____

\$15.50 X 2500/12 = \$3,229.17 X 7% = \$226.04/Mo

Quarterly: _____ X _____ / _____ = _____ X _____% = \$_____

\$15.50 X 2500/4 = \$9,687.50 X 7% = \$678.13/Quarter

Annually: _____ X _____ / _____ = _____ X _____% = \$_____

\$15.50 X 2500 - \$38,750 X 7% = \$2,712.50/YEAR

GROSS COMMISSION: _____/year x _____ years = \$Total
\$2,712.50 X 5 = \$13,562.40

	PROS	CONS
CASH OUT	Paid Quickly	Less Overall Commission
	More Likely To Get Full Payment	Less Risk Of Partial Payment
	Transaction Completed	Client Longevity
TERM	More Gross Commission	Paid Over Time
	Client Longevity	Risk Of Partial Payment
		Administrative Work

The Lease



Lease Rules

- ▶ **Rule 1:** There are no standard leases
- ▶ **Rule 2:** The terms of a lease favor the landlord
- ▶ **Rule 3:** There is ALWAYS room to negotiate



Common Lease Clauses

- ▶ Parties 
- ▶ Premises 
- ▶ Term 

Common Lease Clauses Cont'd

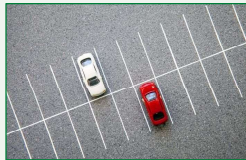
- ▶ Rent Structure
 - Full Service/Gross Lease
 - Modified Gross/Modified Net Lease
 - Triple Net



- ▶ Rent Increases
- ▶ Rent Incentives
- ▶ Pre-payment of Rent/Deposits

Common Lease Clauses Cont'd

- ▶ Occupancy & Use
- ▶ Signage
- ▶ Parking



Common Lease Clauses Cont'd

- ▶ Compliance with Laws, Rules, & Regulations
- ▶ Warranty of Possession
- ▶ Entry & Inspection



Common Lease Clauses Cont'd



Common Lease Clauses Cont'd



▶ Assignment & Sublease

▶ Termination/Holdover

- ▶ Deed Restrictions, Restrictive Covenants & Trade Restrictions
 - Deed Restrictions
 - Restrictive Covenants
 - Trade Restrictions



Common Lease Clauses Cont'd

- ▶ Tenant & Landlord Responsibilities
- ▶ Acquisitions & Mergers



Common Lease Clauses Cont'd

▶ Miscellaneous

- Notices
- Abandonment/Vacation of Premises
- Subordination, Non-disturbance, & Attornment
- Estoppel
- Destruction of Premises/Risk of Loss

Common Lease Clauses Cont'd

▶ Miscellaneous

- Condemnation
- Dispute Resolution/Attorney Fees
- Radon Gas
- Disclaimer/Indemnification

Common Lease Clauses Cont'd

▶ Miscellaneous

- Agency & Brokerage
- Attorney's Fees and Costs
- Entire Agreement
- Guarantee

▶ Signature Block

Lease Negotiation



Items That Result in the Most Success

- ▶ Length of Lease & Renewal Options
- ▶ Rent and Rent Increases
- ▶ Tenant Improvements
- ▶ Subleases & Assignments

Clauses You Should Include

- ▶ Corporate Entity
- ▶ Renewal Options
- ▶ Assignment Rights
- ▶ Tenant Inducements
- ▶ Signage
- ▶ Parking
- ▶ Exclusives/Non-Competes

Clauses to be Cautious About

- ▶ Holdover
- ▶ Radius Restrictions
- ▶ Demolition Clauses
- ▶ Default Clauses
- ▶ Relocation Clauses
- ▶ Limitations on Use
- ▶ Who Pays

GO OUT AND START LEASING!!!!



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