

10 Things You Must Know Before You Sign a Business Lease

Originally contributed by Julie King; Revised and updated by Women's Enterprise Centre

If you think you've found the perfect location for your business, your first instinct may be to sign on the dotted line. But, before you rush into such a critical agreement, consider these ten factors to make sure you're setting your business up for success.

1. TAKE TIME AND DO YOUR HOMEWORK

If you're rushed you won't be able to properly assess the marketplace to ensure that the needs of your business are met when you're signing a deal. If you have a lease renewal coming up, give yourself lots of time to renegotiate. Then, if you can't come to agreeable terms, or decide it's time to move to a different space, you have plenty of time to get everything in order for the transition.

2. YOUR BUSINESS LEASE IS NOT LIKE A HOUSE RENTAL

Business leases are totally different from personal dwelling rentals. In a personal dwelling rental, costs are usually restricted to a set monthly price plus specified expenses such as heat and water. The landlord is responsible for repair expenses, and the government is there to protect the rights of the tenant.

With business leases, there may be many other costs above the base lease price that will be charged back to the tenants. Outside of your written lease agreement, there is nothing like the protection offered to people renting home space.

Recognize that, as a business tenant, you won't be afforded the same legal protections offered to personal dwelling tenants. Before negotiating a lease, take time to understand what costs – above the basic lease costs – the landlord will charge you over the year. Know what actions the lessor can legally take under certain situations, such as the late payment of rent.

3. NEGOTIATE

Landlords and lease brokers will expect you to negotiate, but would love for you to take the first deal that they offer you, because they will have built in room to move downward. Doing anything less than negotiating will likely mean that you pay more, or that critical clauses to protect your best interests are left out of the lease agreement.

In the negotiation process it helps to be prepared and to not appear too eager. Put your pride aside and be ready to negotiate the best possible lease deal. Start low, ask for extras such as free rent, and ask for more than you hope to get. If your first offer is accepted, you didn't start low enough!

4. IF THIS IS YOUR FIRST TIME, PRACTICE.

Talk to different landlords, ask lots of questions, inquire about different incentives, and try to get a feel for the process of negotiating a lease. This process will help you understand the market, and will help you get ready to enter into actual negotiations once you have an understanding of what's available, what you need, and what you can ask for during negotiations.

5. GET EXPERT FEEDBACK

As you move through the negotiation process, consult someone with the expertise (likely a lawyer, accountant or lease consultant) who can act in your best interest. An expert should be able to help you include clauses that will benefit your business, tell you what to ask for during negotiations, and protect you from signing a lease agreement that could cost you money and problems in the long run. They will help you answer questions such as:

- Does the deal look like it could cause your business to incur any unexpected costs?
- Are operating costs shared based on the percentage of space you take up in the overall building, or are they based on the number of tenants in the building, even if there are expenses incurred for vacant units?
- Does the deal allow you to reduce the cost of your rental rate if you renegotiate after the lease expires?
- Do you have first right to lease your space on a long-term basis if you currently have a month-to-month lease?

There are many questions to ask; an expert can anticipate the questions and ensure that you are protected from making costly mistakes.

6. UNDERSTAND RENTAL RATES

Square footage rental rates won't likely reflect the true price of leasing, and rates are not always as they appear. Some may be artificially high with several free months of rent offered to drive down the actual price paid over the duration of the lease, a situation that benefits landlords who want to maintain the

value of their properties. Others may increase at set times and in set increments over the duration of the lease.

In some cases, you may think you're paying a set amount per square foot, but when the effective square footage is examined you may find that you're paying for space that doesn't really exist, based on the square footage calculations used by the landlord. As well, the landlord will likely add additional charges on top of the base rent (often quoted as cost per square foot). This could include operating costs (beware of costs that are inflated with capital improvements) and marketing costs.

7. UNDERSTAND SPACE

You'll need to know how the landlord has calculated the unit space. Is it based on the actual square footage? Does it include space that doesn't actually exist? Is it accurate? When you are looking for a certain unit size, start your search by looking at smaller spaces in the building.

It's often more desirable to the lessee to lease smaller spaces; by starting with a smaller space, and then inquiring about a larger space, the landlord may offer incentives to entice you to take the bigger space.

8. LOCATION, LOCATION, LOCATION

It's an old saying, but for many retail businesses this factor can make—or break—the business. Choose the best location you can, taking into account as many factors as possible, such as:

- Who are the other tenants? If a brand-name tenant is a big draw, are you sure they're staying?
- What is the traffic to the space like – and what are the demographics of that traffic?
- Is there adequate parking?
- Is there easy access?
- Will you be butting heads with a competitor?

Think of all the factors that are important to your business, and then look for the property that will offer the best "return on location."

9. BE PREPARED TO WALK

No matter how emotionally you may be tied to a potential deal, if you aren't ready to walk away from the table you won't be able to negotiate the best deal for your business. Being able to walk away from a deal is empowering. It gives you the ability to control the final outcome, and to ensure that you get the best possible deal for your business.

10. PUT IT IN WRITING

When you're ready to sign, make sure that all verbal agreements and promises are included in the written agreement. No matter what promises are made, if they're not included in the body of the lease, they will likely be excluded by a clause in the lease that says something like: "this is the entire agreement."

Whether you've negotiated for several months of free rent, you've made arrangements for future lease negotiations, or you've agreed on other terms, if it's not in the agreement you could face difficulties in the future. By putting everything in the written agreement you're more likely to avoid unnecessary problems and time loss later on.

STILL HAVE QUESTIONS? CONNECT WITH US!

Women's Enterprise Centre is a non-profit organization devoted to helping BC women start, lead and grow their own business. If you own a business, or are thinking of starting one, connect with us for business loans up to \$150K, skills training, personalized business advice, mentoring, practical resources and a supportive community to help you realize your business potential.