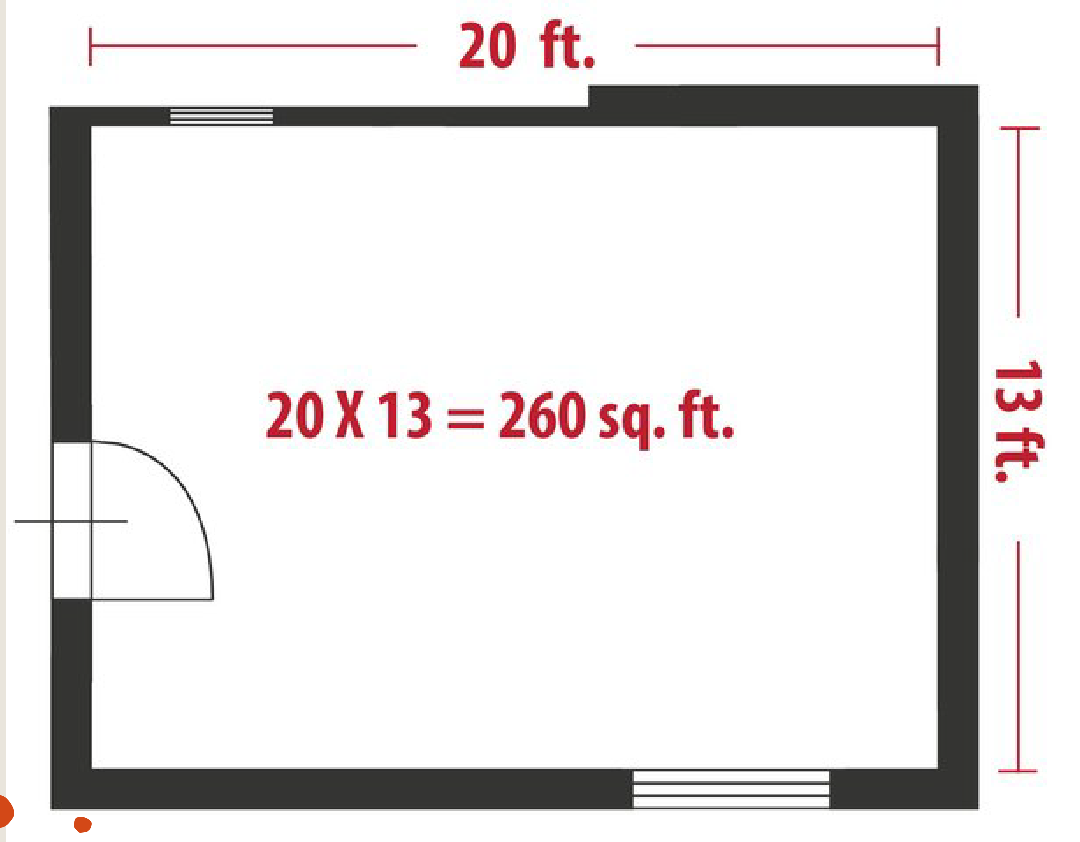
Fundamentals of Commercial Leasing

Background

Key Terms in Commercial Leasing

Monetary (Rent) Concepts



Square Feet / Per Square Foot

- Leased spaces are measured in square feet
- In CRE, Rents, Expenses, and other financial metrics are calculated on a **per square foot** basis

Base Rent

- Rental rate paid by Tenant periodically
- Quoted on a $/SF basis
- Negotiable

Rent Escalation

- Base Rent escalates periodically
- Typically on an annual basis
- Can be fixed or variable
- Negotiable

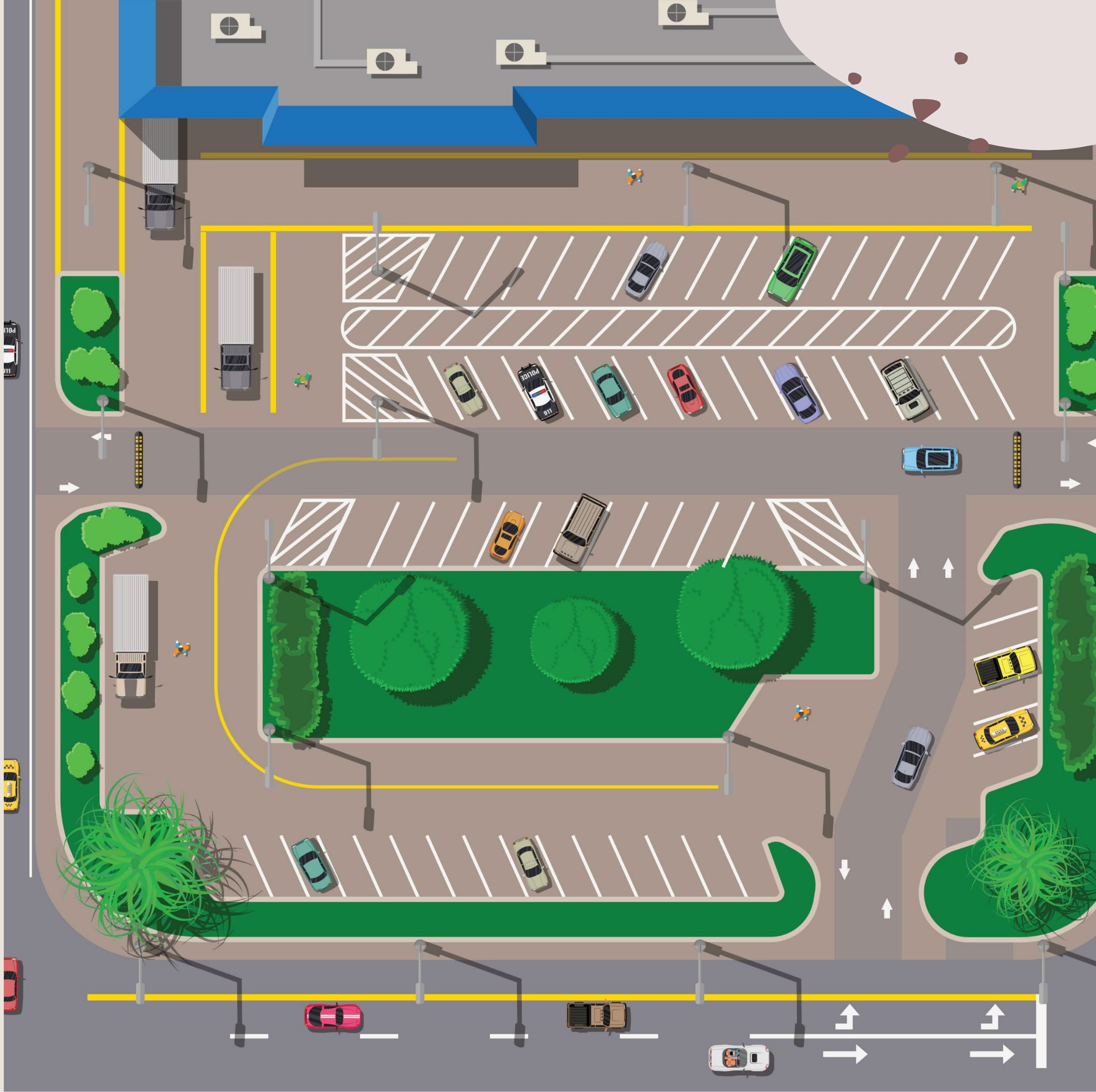
Additional Rent

- Rent that is paid by the Tenant in addition to the Base Rent
- This category of rent allows the landlord to recover expenses associated with operating the property from the tenant
- These expense "are what they are"

- Three categories of expenses are included in additional rent:
  - Common Area Maintenance (CAM)
  - Insurance (Ins)
  - Real Estate Taxes (RET)

Common Area Maintenance (CAM)

Expenses associated with the maintenance of shared space within or around a property



Common Area Maintenance (CAM)

Expenses associated with the maintenance of shared space within or around a property

Insurance (Ins)

- The landlord will typically have an insurance policy to cover losses from damage or claims against the property owner
- This is **in addition** to any insurance policy that may be required to be held by the Tenant

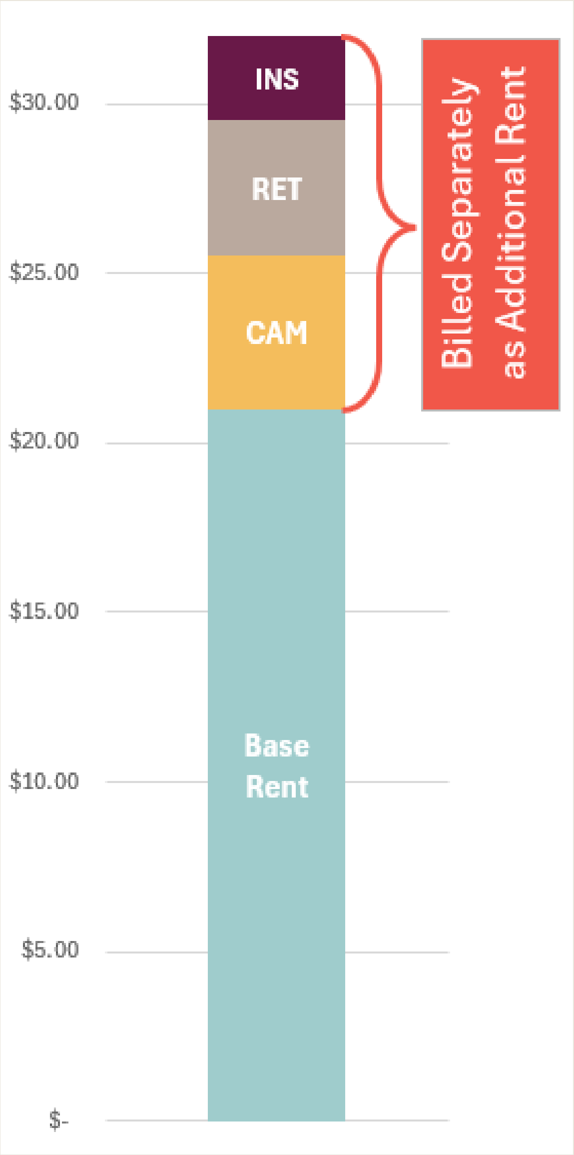
Real Estate Tax (RET)

- Taxes that are levied on the property by the jurisdiction
- May also include stormwater or other special assessments

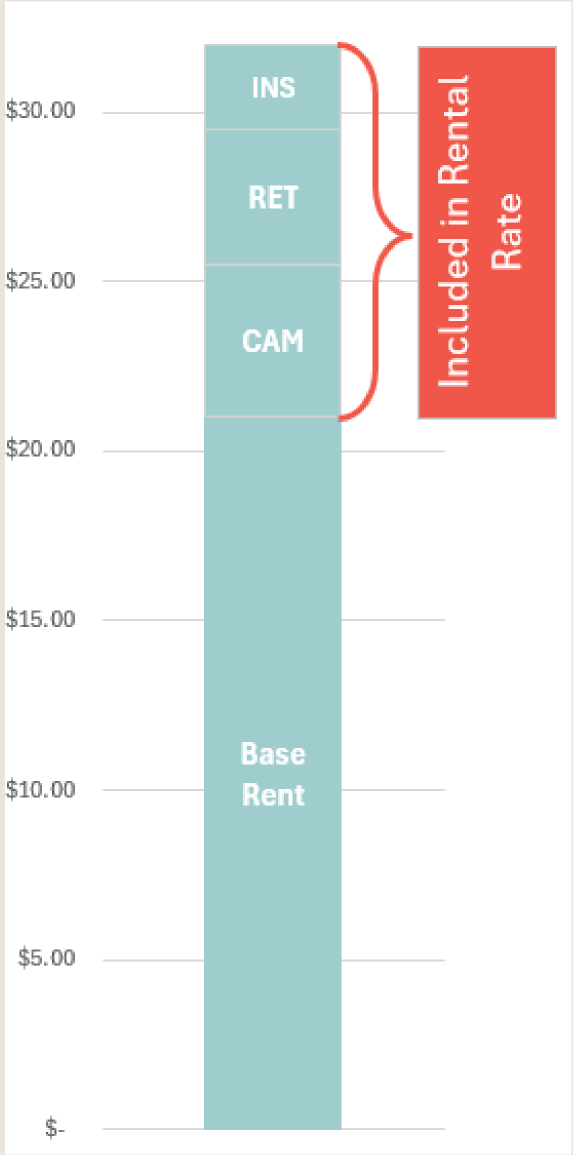
Triple Net (NNN) Vs. Full Service Rents

The two most common structures for commercial leases

Triple Net (NNN)



Full Service



Pro-Rata Share

- The share of the additional rent expenses that the Tenant will be responsible for paying
- $$\frac{\text{Tenant's Space (sf)}}{\text{Total Leasable Space of the Property (sf)}}$$

Assuming Property is 11,000sf, tenant's Pro-Rata Share would be $\frac{6{,}900}{11{,}000} = 62.7\%$

Key Terms in Commercial Leasing

Time Concepts

Term & Delivery

- Lease Term defines the duration of the lease
- Delivery refers to when the Landlord delivers possession of the space to the tenant

Lease Commencement & Rent Commencement Dates

- The Lease Commencement Date defines the point that the lease begins
- The Rent Commencement Date defines the point that the Tenant begins paying rent

Key Terms in Commercial Leasing

Other Concepts (that are important but didn’t fit under rent or time)

Landlord Concessions

- In **some** cases, the Landlord will offer the Tenant concessions

- Most Common:
  - Landlord's Work
  - Tenant Allowance (for buildout)
  - Rental Abatement

Permitted Use

- Common provision in leases
- Defines what business the Tenant can operate within the Leased space
- Landlords will want to keep the use a narrow as possible

The 4 Step Process to Lease a Commercial Space

1. Getting "Business Ready"
2. Finding THE Space
3. LOI & Lease Negotiations
4. Buildout & Opening

1. Getting your business…"Business Ready"

- Business Plan
- Financials (Business and Personal)
- Financing (if necessary)
- Assemble your real estate team

Not yet “Business Ready”? AEDP can help!

- Our Small Business Team can:
  - Connect you with consultants to develop a business plan
  - Provide potential options/preparation for financing
  - Connect you with appropriate City Staff for zoning, licensing, or permitting assistance
  - Services are **FREE** to use

And our Real Estate Team can help you too!

Assembling your Team: Key Members

- Broker
- Real Estate Attorney
- Financing Partner*
- Architect and Construction Management*

*if necessary

2. Finding THE Space

- Tour spaces with your broker
- Request a proposal from the landlord
- Can receive multiple proposals

3a. Letter of Intent

- The proposal is called a Letter of Intent (LOI)
- Will outline the general terms that will be incorporated in a lease
- LOIs are **<u>non-binding</u>** and almost always negotiable

3b. Lease Negotiation

- The Lease will contain the terms from the signed LOI
- It is more detailed and will contain other legal provisions and concepts
- Leases are <u>**binding legal documents**</u>

4. Buildout and Opening

- After the lease is signed and the space is delivered to the Tenant, the Tenant can begin their buildout
- Once completed, the Tenant can open for business

How about a nice ribbon cutting to celebrate your opening! AEDP does that too!

Q & A

Alexandria Economic Development Partnership

601 Prince St.
Alexandria, VA 22314

alexandriaecon.org