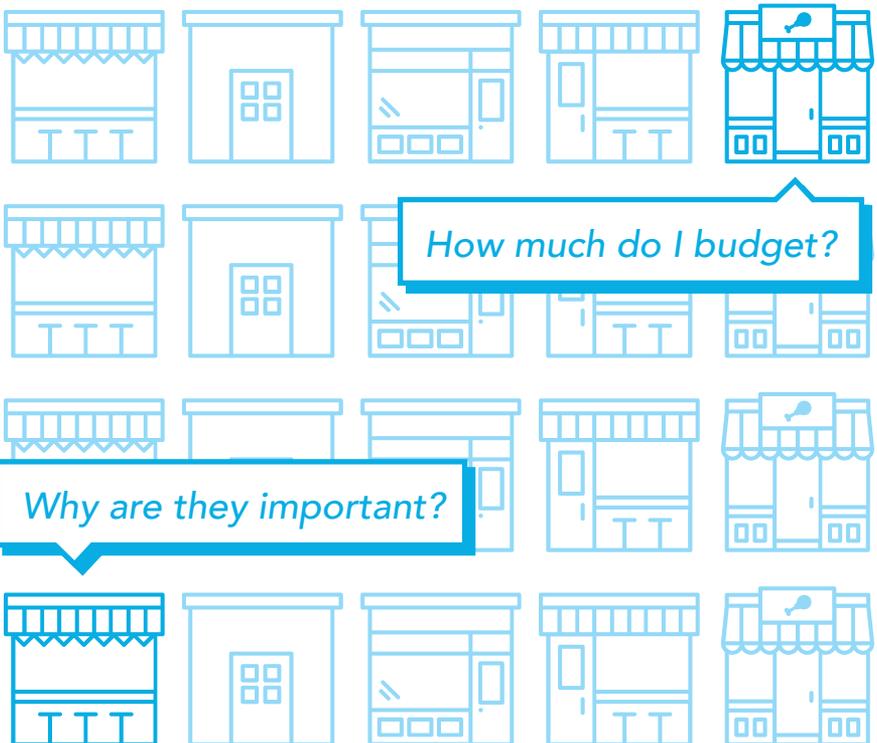




Commercial Lease Basics



What is a commercial lease?

A **commercial lease** is a contract between a business owner and a landlord. The lease allows the business owner to use the property to run a business and specifies that the business owner pays the landlord rent.

Handshakes are great but they don't make very good contracts. **It's important to have a written contract** with your landlord so that your business can be better protected.

What are the different types of commercial leases?

Percentage Lease

Tenant pays rent + percent of monthly sales

Net Lease

Tenant pays rent + property tax

Double Net Lease

Tenant pays rent + property tax + insurance

Triple Net Lease

Tenant pays rent + property tax + insurance + maintenance

Fully Serviced Lease (Gross Lease)

Landlord directly pays all costs (usually results in higher rent)

What are the different parts of a commercial lease?

PARTIES

Who is involved in the lease?

DESCRIPTION OF PROPERTY

What area is being leased? How is it being measured?

RENT AMOUNT

What is the cost of the lease?

TERM

How long will the lease last?

START DATE

When do payments start?

OPERATIONAL EXPENSES

What operational costs are included (ie. utilities, landscaping, etc.)?

COMMON AREA MAINTENANCE

Who is responsible for maintenance of "common areas"?

IMPROVEMENTS

Who pays for improvements to the property to begin operations?

A commercial lease should include all the terms agreed to by the tenant and landlord. Commercial leases do not contain as many requirements for landlords as residential leases, so everything agreed to should be in writing.

How much should I budget?

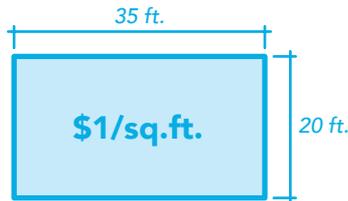
In general, rent should be less than 10% of a business' projected revenue. Rent is typically calculated as cost per square foot per month. See the example below.

A business owner is planning for their store to earn \$7,000 in revenue over the course of a month. If they need 700 square feet of space for their store, they should pay a maximum of \$1 per square foot, or \$700 in monthly rent.



Maximum Rent Budget

$$\begin{aligned} &\text{Total Anticipated Revenue} \times 10\% \\ &\$7,000 \times 10\% = \mathbf{\$700} \end{aligned}$$



Budgeted Cost Per Square Foot

$$\begin{aligned} &\text{Budgeted Rent} \div \text{Required Square Footage} \\ &\$700 \div 700 \text{ sq.ft.} = \mathbf{\$1/\text{sq.ft.}} \end{aligned}$$

Where should I locate my business?

The location of your business is a big decision and can take into account many different factors. Below are a few questions to consider when deciding where to locate your business.



- *Will the other businesses around you draw people to your business?*
- *Will the other businesses around you be competing for your customers?*
- *Are the people who are around the area the people who will want to come to your business?*
- *Is it easy for customers to get to your business?*

What does that mean?

There are a lot of different terms and clauses frequently used in commercial leases that are important to understand. Below are some common terms and clauses to know and look for when agreeing to and signing a lease.

Kick-out Clause

Terminates a lease when tenants do not meet their projected profit.

Co-Tenancy Clause

Terminates lease or lowers the rent if another business at that location closes.

Radius Clause

Tenant promises not to open another similar store within a certain radius, usually five miles. Term limit is an opportunity for negotiation.

Arbitration and Mediation Clause

Prevents parties from going to court if disputes arise.

Sublease

The right to sublease to other business owners. If your business is not profitable, you can sublease to another business.

Mortgage Foreclosure

If landlord has a mortgage on the property, business owners can include a provision specifying what happens if the landlord defaults. This is sometimes referred to as a "non-disturbance provision."

Personal Guarantee

If the business fails, tenants must continue to pay rent out of personal funds. Businesses should look to limit this to first few years.

Percentage Rent Clause

In the event the business owner's gross sales increase over a certain amount, the landlord will receive a percentage of the gross sales.

Where can I get more information?

This booklet covered some of the basics about Commercial Leases, but there is a lot more information available. Check out the information below for more resources to help out with your small business!

Legal Aid Foundation of Los Angeles

*634 S. Spring Street, Suite 400A
Los Angeles, CA 90014
(800) 399-4529
www.lafla.org*

Los Angeles County Office of Small Business

*113 N. Sunol, Suite 218
Los Angeles, CA 90063
(323) 881.3964
osb.lacounty.gov*

Los Angeles BusinessSource Centers

*Nine locations across LA
www.business.lacity.org/resources/service-centers*

Los Angeles Business Portal

www.business.lacity.org

US Small Business Administration

www.sba.gov

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