

## Commercial Leasing Made Easy



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Disclaimer: This class material is for informational purposes only. It is not intended to make you an expert in any of the subject matter covered.

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## What is a Lease?




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## 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

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LEASING

PROPERTY  
MANAGEMENT



VS

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## What Types of Properties are Leased?



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## COMMERCIAL LEASING TERMS

# Jeopardy

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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>

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

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### What is Finished Space?



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

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### What is a Cold, Dark Shell?



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

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**What is a Vanilla/Warm Shell?**



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

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**What are Common Areas?**



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

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**What is a Gross Lease?**



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

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**What is a Percentage  
Lease?**



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

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**What is an Index Lease?**



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

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**What is a Net Lease?**



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Fees paid for property  
maintenance, insurance  
and real estate taxes

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What are Net Fees?



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**DAILY  
DOUBLE**



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**What are Tenant Improvements?**

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

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**What are CAM fees?**

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

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**What are Rent Concessions or Incentives?**

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

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**What is an Expansion  
Option?**

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**The right to extend a lease  
under specified conditions**

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**What is a Renewal Option?**

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

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**What is an Assignment of Lease?**

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

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**What is a Holdover  
Tenant/Tenant at  
Sufferance?**



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

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**What is a Commercial  
Exclusive Leasing  
Agreement?**



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

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**What is a Commercial Open Listing Agreement?**

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

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**What is an Agreement to Show Commercial Property?**

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

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**What is a Commercial Exclusive Tenant Brokerage Agreement?**

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# FINAL Jeopardy

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Category: Commissions

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Before showing any  
property you should have  
your commission  
agreement in

\_\_\_\_\_.



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## What is In Writing?

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## Working with a Tenant

### New Tenant

- Who?
- What?
- Where?
- When?
- How much?
- How big?



### Relocating Tenant

- Why?
- Benefit?
- Pros?
- Cons?
- Configuration and size?

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## Site Selection

- Current zoning & allowable uses



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




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## 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

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## GROSS RENT EXAMPLE

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

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

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

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

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

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

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## GROSS RENT EXAMPLE

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

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

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

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

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

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## 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

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## TRIPLE NET LEASE EXAMPLE

$$\begin{array}{rcl} \text{-----} & \times & \text{-----} = \text{-----} \\ 1500 \times \$10 & = & \$15,000 \\ \text{-----} & / & \text{-----} = \text{-----} \\ \$15,000 / 12 & = & \$1,250 \\ \text{-----} & \times & \text{-----} = \text{-----} \\ 1500 \times \$1.50 & = & \$2,250 \\ \text{-----} & / & \text{-----} = \text{-----} \\ \$2,250 / 12 & = & \$187.50 \\ \text{-----} & + & \text{-----} = \text{-----} \\ \$1,250 + \$187.50 & = & \$1,437.50 \end{array}$$

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## 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

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## PERCENTAGE LEASE EXAMPLE

$$\begin{aligned} & \text{-----} / \text{-----} = \text{-----} \\ & \$50,000 / 0.04 = 1.25 \text{ MILLION} \\ & \text{-----} - \text{-----} = \text{-----} \\ & 1.65 \text{ MILLION} - 1.25 \text{ MILLION} = \$400,000 \\ & \text{-----} \times \text{-----} = \text{-----} \\ & \$400,000 \times 0.04 = \$16,000 \\ & \text{-----} + \text{-----} = \text{-----} \\ & \$50,000 + \$16,000 = \$66,000 \end{aligned}$$

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## 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

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## 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

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### 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

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### TENANT IMPROVEMENT ALLOWANCE EXAMPLE

$\frac{\text{_____}}{\text{_____}} = \$ \text{_____}$   
 **$\$120,000 / 10,000 \text{ SF} = \$12.00 \text{ PSF}$**   
 $\$ \text{_____} [\text{Amortized}] = \$ \text{_____}$   
 **$\$300,000 [5 \text{ Yrs @ } 8\%] = \$6,082.92 \text{ TIA Per Mo}$**   
 $\text{_____} \times \text{_____} / \text{_____} = \$ \text{_____}$   
 **$\$6,082.92 \times 12 \text{ Mos} / 10,000 \text{ SF} = \$7.30 \text{ PSF TIA}$**   
 $\text{_____} + \text{_____} = \text{_____} \times \text{_____} = \text{_____}$   
 **$\$12.00 \text{ PSF} + \$7.30 \text{ PSF} = \$19.30 \text{ PSF} \times 10,000 \text{ Sf}$   
 **$= \$193,000 \text{ Per Yr}$****

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### 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)

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## 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"

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## COMMISSION CALCULATION

### Value Of Lease

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

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

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## COMMISSION CALCULATION

### Cash Out Commission:

Value Of Lease X \_\_\_\_% = \$\_\_\_\_\_

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

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## COMMISSION CALCULATION

### Term Commission:

Monthly: \_\_\_\_\_ X \_\_\_\_\_ / \_\_\_\_\_ = \_\_\_\_\_ X \_\_\_\_\_% = \$ \_\_\_\_\_  
 $\$15.50 \times 2500 / 12 = \$3,229.17 \times 7\% = \$226.04/\text{Mo}$

Quarterly: \_\_\_\_\_ X \_\_\_\_\_ / \_\_\_\_\_ = \_\_\_\_\_ X \_\_\_\_\_% = \$ \_\_\_\_\_  
 $\$15.50 \times 2500 / 4 = \$9,687.50 \times 7\% = \$678.13/\text{Quarter}$

Annually: \_\_\_\_\_ X \_\_\_\_\_ / \_\_\_\_\_ = \_\_\_\_\_ X \_\_\_\_\_% = \$ \_\_\_\_\_  
 $\$15.50 \times 2500 - \$38,750 \times 7\% = \$2,712.50/\text{YEAR}$

**GROSS COMMISSION:** \_\_\_\_\_/year x \_\_\_\_\_ years = \$Total  
 $\$2,712.50 \times 5 = \$13,562.40$

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	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

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## The Lease




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## 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




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## Common Lease Clauses

- ▶ Parties 
- ▶ Premises 
- ▶ Term 

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## 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




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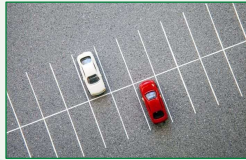
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## Common Lease Clauses Cont'd

- Occupancy & Use
- Signage
- Parking




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## Common Lease Clauses Cont'd

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




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## Common Lease Clauses Cont'd




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## Common Lease Clauses Cont'd



▸ Assignment & Sublease

▸ Termination/Holdover

▸ Deed Restrictions, Restrictive Covenants & Trade Restrictions

- Deed Restrictions
- Restrictive Covenants
- Trade Restrictions




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## Common Lease Clauses Cont'd

▸ Tenant & Landlord Responsibilities

▸ Acquisitions & Mergers




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## Common Lease Clauses Cont'd

▸ Miscellaneous

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

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## Common Lease Clauses Cont'd

### ► Miscellaneous

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

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## Common Lease Clauses Cont'd

### ► Miscellaneous

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

### ► Signature Block

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## Lease Negotiation




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## Items That Result in the Most Success

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

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## Clauses You Should Include

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

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## Clauses to be Cautious About

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

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GO OUT AND START LEASING!!!!



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