



SCORE column: Negotiate lease that favors your business

Negotiate. In the current market, that's about the best advice that small businesses can be given. At a recent SCORE seminar on locating your business, I was the presenter on trends in leasing.

With more than 25 years of experience in commercial leasing and about seven years as a SCORE volunteer, I have negotiated dozens of leases on behalf of tenants and landlords. Today's real estate environment is unique. There is an abundance of space available, and the tenant is in a great position to get favorable terms.

When the landlord makes a first offer, a potential tenant should consider it just that. This is a starting point, and every term in the typically large document is a potential area of compromise. Many tenants make the mistake of looking for space by price, ignoring what that figure actually includes.

A tenant might get excited by a low rental rate only to discover later that it didn't include any number of other expenses. After moving in, they might find that the heating and air conditioning unit needs replacement, and the lease makes them responsible.

Leases are usually considered "gross," "triple net" or some combination of the two. A gross lease includes most of your costs and is favored because it allows you to better control expenses. The triple net lease is base rent plus proportionate charges for real estate taxes, insurance and maintenance. Because those costs aren't known until an annual reconciliation, expenses vary, resulting in uncertainty.

Unless the space is ideally suited for your business, the cost of the build-out is a major expense that should be clearly defined. This is an area where a tenant can often ask for and obtain major concessions. Try to get the landlord to do as much of the work as possible. After all, almost every dollar that a tenant puts into their space will eventually belong to the landlord.

Negotiate the type of lease, the cost of the build-out, the term of the lease, options for renewal, subleasing and lease assignment provisions, the use clause, signage requirements, responsibility for major and minor repairs, hold over provisions, and parking.

Most landlords require a personal guarantee, and that means you will be responsible for payments even if the business fails. In negotiating the term, consider asking for a shorter-term lease with options for renewal. To allow your business to have lower expenses initially, ask for a "step-up" lease with a lower initial rent that goes up as the business matures. You might ask for a free rental period, or rent that is tied to the sales of the business. If you are concerned about the future of the business, you might ask for the ability to cancel the lease if sales don't reach a certain level.

There is no guarantee that a landlord will agree to a tenant's request, but some amazing deals have been struck. At the end of the day, a deal that allows the business to mature can result in a solid landlord/tenant relationship that benefits both parties.

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