

11 THINGS

TO LOOK FOR WHEN LEASING COMMERCIAL
PROPERTY IN FLORIDA



DEMETREE™
REAL ESTATE SERVICES

TABLE OF CONTENTS

Introduction PG. 2

How are Commercial Leases Different from Residential Leases? PG. 3

What are the Different Types of Leases? PG. 4

11 Things to Look For in a Commercial Lease PG. 5

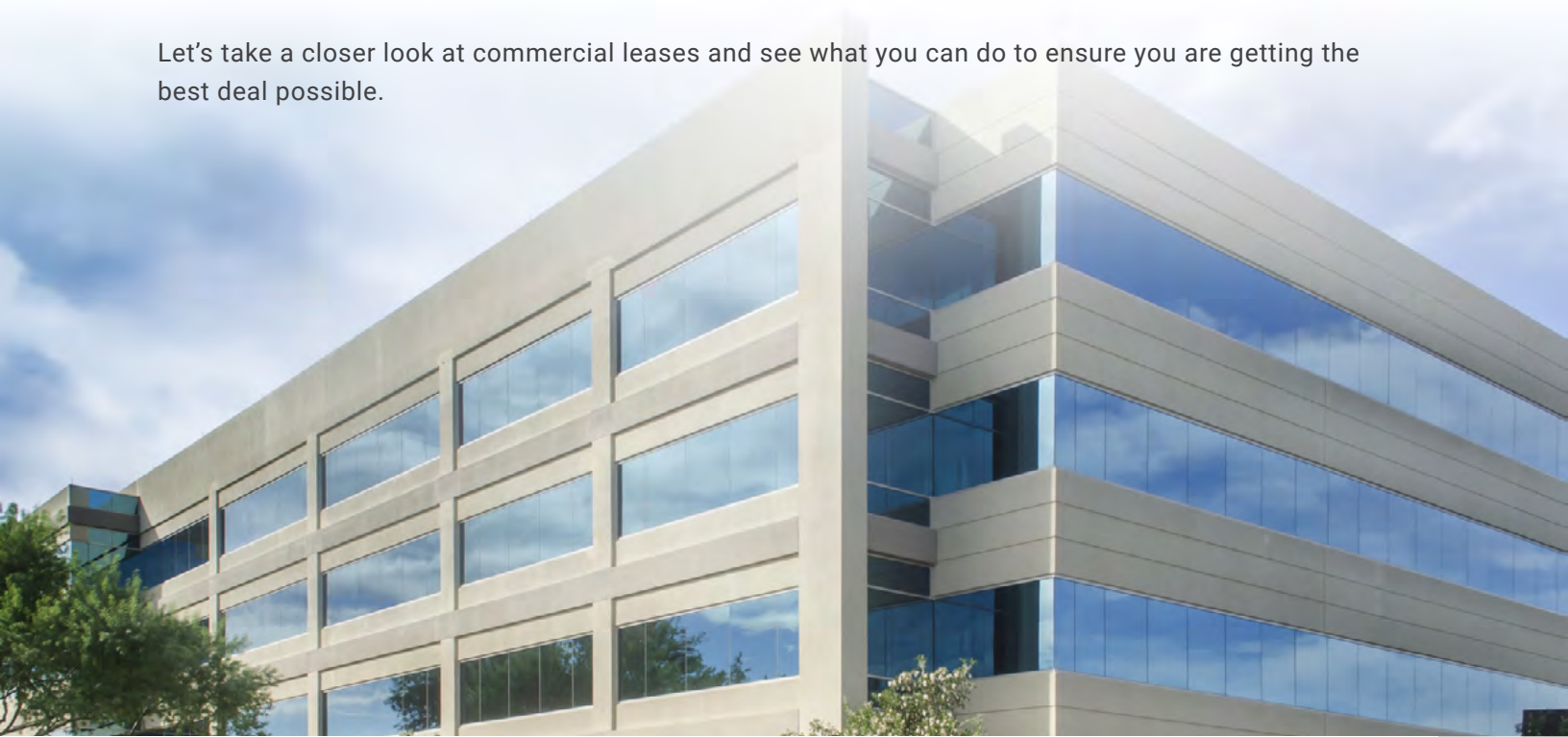
Protect Your Business PG. 8

About Demetree Real Estate Services PG. 8




Leasing a commercial space is a big undertaking that could make it or break it for your business. Before meeting with a landlord, business owners should take some time to understand the nature and structure of a commercial lease. Entering into a commercial lease is much different than a residential lease and the stakes are generally much higher. By understanding and negotiating favorable lease terms, you could very likely be placing your business in a position to succeed.

Let’s take a closer look at commercial leases and see what you can do to ensure you are getting the best deal possible.



HOW ARE COMMERCIAL LEASES DIFFERENT FROM RESIDENTIAL LEASES?



Commercial real estate is a whole other world from residential. It is absolutely crucial that you understand the differences before entering into negotiations. Here are a few of the main distinctions between commercial and residential leases:

FEWER PROTECTION LAWS

Commercial leases are not subject to the same consumer protection laws that dictate and regulate residential leases. For example, commercial leases do not have to adhere to caps on security deposits or tenant privacy rules.

NO STANDARD FORMS

Residential leases often adhere to a standard form or template. Commercial leases are much more complicated and are generally designed to favor the landlord. Tenants should carefully read through any commercial leases and ideally have them looked over by a real estate lawyer before signing anything.

THEY ARE MORE BINDING

Commercial leases are much harder to break or change than residential leases. Since there is often more money at stake, a commercial lease is treated as a legally binding contract that cannot be easily broken.

MORE FLEXIBILITY IN NEGOTIATION

Although commercial leases are more binding than residential leases, there is usually more room for negotiation between the tenant and the landlord. Since businesses often require special features to operate and landlords want their tenants to stay long-term, business owners have additional leverage when it comes to negotiating lease terms in a commercial space.

WHAT ARE THE DIFFERENT TYPES OF LEASES?

There are several different types of commercial leases out there that serve different purposes. They generally fall into one of two categories:

✓ Gross Lease ✓ Net Lease

While a gross lease is more convenient and favorable to the tenant, a net lease is designed to favor the landlord.

Here is a brief overview of the different types of commercial leases you should be familiar with:

SINGLE NET LEASE

In a single net lease, the tenant pays a base rent plus utilities and a portion of property taxes (usually based on the amount of space the tenant is using). The landlord is responsible for maintenance, repairs and insurance costs.

DOUBLE NET LEASE

This is where the tenant is responsible for paying a base rent plus utilities and a portion of the property taxes and property insurance. The landlord covers structural repairs and common area maintenance.

TRIPLE NET LEASE

This is probably the most common type of commercial lease where the tenant pays for a portion of the property taxes, property insurance and maintenance costs on top of utilities and base rent. The landlord covers all other building expenses and structural repairs.

FULL SERVICE OR GROSS LEASE

A full service or gross lease is designed to favor the tenant. It means the tenant pays one monthly fee that includes rent, utilities and cleaning costs. The landlord is responsible for taxes, insurance and maintenance of the building.

11 THINGS TO LOOK FOR IN A COMMERCIAL LEASE

Now that you know what the different types of commercial leases are, you need to know how to read one. Here are a few things you want to pay extra close attention to before signing any type of lease or binding contract:

1 THE LENGTH OF THE LEASE

The duration of a commercial lease can run anywhere from 3 to 10 years and the length is usually negotiable. Tenants need to pin down exactly when the lease will start and when it will end.

There are all kinds of last-minute problems that can occur, so you also need to know in advance what will happen if the space isn't ready by the agreed upon move-in date or you may find yourself out-of-luck while your lawyers battle it out over the fine print.

2 ALLOWABLE INCREASES

How will rent increases be calculated? These days, property taxes and energy costs rise so quickly that landlords have started to include escalation clauses in the lease. In some cases, rent will increase in regular increments over the course of the lease. In other cases, the rent will increase automatically according to the Consumer Price Index.

3 WHAT IS INCLUDED IN THE RENT?

As discussed earlier, there are different types of commercial leases and each one has a different framework for how rent is calculated. Furthermore, some types of leases are designed to benefit the landlord while others are designed to benefit the tenant. Be sure you are understanding exactly what fees you are responsible for and how they will be calculated so you aren't getting stuck with the short end of the stick.

4 SECURITY DEPOSIT AND CONDITIONS FOR RETURN

Unlike residential leases, commercial leases do not have restrictions or endcaps on security deposits so you'll need to ensure you aren't being taken advantage of. You should also read the fine print carefully to make sure you fully understand the conditions for return. If you violate the terms of your lease, you may not get your deposit back.

LEASING GUIDE

5 WHAT IMPROVEMENTS ARE ALLOWED?

Businesses often need special features or modifications to their space in order to function. Make sure you and your landlord have an understanding as to the nature and extent of any modifications you plan on making to the property. You should also look at who will be responsible for paying for these modifications and who will own them after the lease ends.



6 HOW THE LANDLORD MEASURES THE SPACE

There are different ways to take wall measurements. For example, some measurement practices include the thickness of the walls to make the space seem bigger than it really is. Make sure to clarify with your landlord how the space was measured and don't be afraid to get your own measurements, too.

7 WHO IS RESPONSIBLE FOR UPGRADES AND REPAIRS?

Some office buildings will provide allowances for improvements, such as partitioning, lighting, carpets, paint, etc. However, there is often a discrepancy in what a tenant feels they need and what a landlord feels they are responsible for. This is actually one area where you have a lot of room for negotiation, so make sure you are crystal clear about who will be paying for upgrades and repairs.





8 CAN YOU RENEW THE LEASE OR EXPAND THE SPACE?

Once a lease expires, the landlord has no legal obligation to renew the lease unless there is a clause in the original lease guaranteeing renewal options and rights. In other cases, the lease may be renewed automatically unless you take specific steps to cancel it.

But what happens if your business is doing well and you need to expand? Make sure there is an option in your lease to renew or expand the space you are renting.



9 HOW WILL THE LEASE BE TERMINATED?

What happens if you need to break the lease before the term has ended? This is something you want to negotiate with your landlord. Make sure specific details like notice requirements and penalties for early termination are clearly spelled out in your lease.

10 COMPLIANCE WITH STATE LAWS AND REGULATIONS

The landlord is typically the one responsible for making sure the overall premises remains in compliance with state laws and regulations. However, it is certainly beneficial for the tenant to understand expectations in relation to the specific space they are renting. If it is not covered in the lease, ask the landlord for clarification on the matter.

11 WHAT HAPPENS IF THE LANDLORD GOES BROKE?

If your landlord goes broke before the lease is over, you may be out of luck if the new building owner doesn't invite you to renew the lease. Even if they do, they might stick you with a higher rent price. Make sure you are protecting yourself with a standard "recognition" or "non-disturbance" clause.



PROTECT YOUR BUSINESS

There really is no standard lease or template when it comes to commercial properties and government regulations to protect the tenant are few and far between. As a business owner, it is important that you protect your business by understanding exactly what the terms of your lease are. Otherwise, you could be stuck paying exorbitant rental prices or tons of hidden fees.



ABOUT DEMETREE REAL ESTATE SERVICES

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With over 65 years of experience, market knowledge and a structured approach we are able to deliver value with creative solutions.



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