

Leasing Commercial Space with Ease

Set Your Business Up For SUCCESS, Avoid These Common Pitfalls





*We Dedicate This
The Book to You.....*

the intrepid business owner, sales professional or consultant, whether you are experienced or are just starting out on your path to entrepreneurship. You recognize the power of knowing what to do and when to do it—you are ready to grow your business with ease. We salute you for taking action and we celebrate your commitment to becoming the best you can be.

Success Always ~ Heidi Hoch



Lease Commercial Space with Ease

*Set your business up for success, avoid these
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By Heidi Hoch, Commercial Broker

Running a successful business means having access to the best Commercial Office, Retail or Warehouse space available. Often, however, even the most seasoned business owners run into a multitude of obstacles when trying to locate and secure Commercial Space that is suitable and affordable for their needs. From deciding what type of Commercial Space is best for business growth to negotiating the terms of a commercial lease, there are some guidelines that can help you take your business to the next level of success.

As an experienced Commercial Tenant Representation Broker (Tenant Rep. Broker) with more than 15 years in the industry, I have personally seen my share of the good, the bad and the ugly in the leasing of Commercial Real Estate. The truth is, there are many things that can go wrong without representation. On the flip side, there are also many things that can work in your favor when your representative finds you the right Commercial Space.

In this chapter, I am here to help you achieve your dreams with some expert guidance on how to select and negotiate the best commercial lease, and most importantly, share tips on how to avoid the common pitfalls in leasing Commercial Space.

Aim High on Your Wish List

Attaining a Commercial Space where your business will thrive first takes a dream. Consider the image of how you want your business to look. How do you want to spend your days? What are the types of clients with whom you will be working? This gives you the foundation of your wish list for finding the right place for your business. While there is no “perfect” Commercial Space, you want to aim high and start with the things you value the most.

For example, you may want to have an office with a unique atmosphere. Perhaps you have a tech company requiring primarily open office space. Maybe you want bike storage for the type of employees you hire. Perhaps you want ease of access to public transportation or maybe you want to include fun elements, such as slides between floors. For most business owners, some of the top values are monthly budget, upfront costs when signing the lease, size of space, demographics and location. Think about what you value the most and how your space can help your business flourish.

*“Your mind can build castles—
just make sure the foundations are in place first.”*

**—Donald Trump, American business magnate, investor,
television personality and author**

Narrow your search for a Commercial Space by looking for these factors. Too many business owners start their search wide open,

leading to unfavorable compromises and choosing the wrong location. It is a balancing act of being narrow enough, yet not too restrictive.

When making your wish list, consider your plans for the future growth of your business, as well as an appropriate location for the type of business you operate. For example, when looking at the location for your business, ask yourself, *Who is my target demographic for clientele? Where do my employees live and can they get to my newly leased Commercial Space easily in traffic or via public transportation?* These are some of the many questions that the right Commercial Space will answer.

Another factor to consider is the time you need to secure a space. For most businesses, expect the process to take between six and nine months. This is time you will need to locate, negotiate and secure the most appropriate Commercial Space. As you move ahead, evaluate your business start or re-launch date and watch out for new construction that could delay your business's grand opening. I have seen several businesses fail because the owners did not coordinate their business launch date with the actual completion of a newly constructed Commercial Space.

Also, I encourage you to err on the side of caution when it comes to construction of Tenant Improvements—TI's—in a leased commercial. Plan for thirty to ninety days for the TI's to be completed. Even the best of well-crafted leases by the greatest of real estate attorneys fall prey to unforeseen delays—this is because the lease document is always crafted prior to construction beginning.

Some of the tips I give my clients are simply common sense, yet often forgotten in the excitement of choosing a Commercial Space. Spend more time planning for your space than going out to look for it. Many business owners make the mistake of looking for space too

soon, before they are aware of what their budgets are or where their business needs to be located. It is truly a waste of time to start looking for space before you have your plan in place. Get your house in order first! Start with your financials, budgets and space requirements.

Super Tip: A good Tenant Rep. Broker will help you get started on making sure your business house is in order before you tour your first property.

Try not to be shortsighted when it comes to your business location. Understand you have a budget and a growth plan for the business. As you begin to plan for this growth, think of Commercial Real Estate in terms of the beginning, the middle and the end. Go beyond the short-term needs and take a closer look at the potential long-term forecast of your business.

I always say, *Think with the end in mind*, which may sound a bit strange at first. However, what happens if your business expands over three to five years and suddenly you find yourself with an expired lease? What if there is no more room in your current building to expand, therefore requiring you to relocate your business?

A Commercial Real Estate Broker—more specifically a specialist such as a Tenant Rep. Broker—has the knowledge to guide you as a partner in your business growth. Partnering with an experienced Tenant Rep. Broker often gives you access to vendors who are experts on your side, such as architects, space planners, commercial insurance brokers, Commercial Real Estate attorneys and business attorneys. All of these professionals can help you plan for your business today and in the future. Having a Tenant Rep. Broker as a partner can give you peace of mind that wherever you are in the growth cycle of your business, you can truly have it all.

The Deal is Way Beyond Rent: Focus on Negotiating Your Lease Terms

Perhaps one of the biggest mistakes a business owner can make is choosing to accept the terms of a Commercial Space, without considering the complete needs of the business or the terms of the lease. Often, what seems like a minor clause can have serious repercussions. With the help of an experienced Tenant Rep. Broker you can get the Commercial Space you need with terms that are more favorable to you. Try to think of all the ways your business will evolve over time and what the space can offer you before you sign on the dotted line.

Super Tip: Set yourself up for success before touring spaces. Plan ahead! What does your Commercial Space require? An elevator? Access to a kitchen or break room for staff? Giant lobby? A boardroom? What are the unique needs of your business as it relates to your space? Whatever those are, have your Tenant Rep. Broker target those spaces for you.

“Risk comes from not knowing what you’re doing.”

—Warren Buffett, American business magnate,
investor, philanthropist

Here are some common lease clauses to negotiate for the future success your business:

- **Expansion option** is a right that typically stipulates the Landlord is obligated to provide the Tenant with more space, should the space be available and upon demand from Tenant.
- **Termination option** or buy-out option are both example clauses in a lease giving the Tenant the right to break the lease under certain conditions, such as when the Tenant needs to expand or vacate a Commercial Space.

- **Renewal option** gives the Tenant a right to remain in the premises upon expiration of the current lease term for a period of time. The rental rate is typically negotiated at the time of renewal.
- **Option to sublease** is a right, which gives the Tenant the option to sublease the space, thus offering some flexibility and cost savings if the business must relocate before the lease terminates.

A Tenant Rep. Broker will negotiate specifics as it relates to your lease once he or she fully understands the needs—present and future—of your business.

The true cost of the space you may be leasing for your business may be modified and discounted for various reasons. Landlord incentives and improvements made can help your business reduce these costs, particularly on a second-generation space. For example, you may decide to open a dental office in a Commercial Space that was previously used as a medical office or was a former dental office. This choice helps reduce the startup costs of building-out the space.

Rental fees, submitting financials and security deposits are other areas where I see business owners struggle time and again. Savvy business owners must understand that everything is negotiable, including lease terms, deposits and guarantees. It is extremely important for business owners to understand there are different rental rate types. To understand how to get the true monthly cost in order to compare spaces equitably please refer to the graph on page 17.

When faced with the demand for a security deposit or a personal guarantee, do you know how to respond? Your business credit-worthiness may negate the requirement for a hefty security deposit and you may be able to limit your personal guarantee on a lease. Rental fees can be discounted according to certain criteria, such as length of the lease term and any upgrades you make to the space. Are

you aware of what you should disclose when submitting financials such as a business plan, profit and loss statements, bank letter of credit or line of credit?



Disclaimer: Tenants should always ask what costs are included in your Base Rent and paid in addition to! Costs are not universal and differ from building to building. The above graph is based off general definitions of costs typically paid by Tenant under each Lease type. Landlords pass thru costs accordingly as they so choose subject to negotiation by Tenant, general accounting principles and the law.

Hire a Professional Who Represents You as the Tenant

As a business owner, you do have certain rights and responsibilities when obtaining Commercial Space. You have the responsibility to look out for you! You have the right to representation when leasing a Commercial Space.

The Landlord—an owner of a Commercial Space—has two goals: to get the most money from you and to get the lease terms in the favor of the Landlord. Therefore, the Landlord does not have your best interests in mind during this transaction. The Landlord has the right to representation in most cases. Specifically, he or she can hire a Listing Broker, who is a commercial broker representing the interests of the Landlord. Often, Landlords leverage the use of their Listing Broker—who appears to be concerned with your business’s well being—when in fact that person is just trying to learn as much as he or she can about you to use it to the Landlord’s advantage.

Look at it this way: It is highly unlikely you would ever go to court without an attorney, nor would you use the opposing side’s counsel. Be a smart business owner and lease a Commercial Space with a Tenant Rep. Broker on your side. Level the playing field!

*“It is true that you may fool all the people some of the time;
you can even fool some of the people all the time;
but you can’t fool all of the people all the time.”*

—Abraham Lincoln, 16th President of the United States

When you work with a Tenant Rep. Broker, you partner with an advocate who can respond to intimidating Landlords and Listing Brokers to address difficult lease terms. Think of it this way: A Listing Broker is on the Landlord’s team and is concerned only with the Landlord’s interest and fiduciary duty. A Tenant Rep. Broker is

on *your* team representing *your* interests. You would not walk into a basketball game expecting the other team's coach to look out for your best interests, would you? Get a "coach" who looks out for *you!*

Here is a typical scenario: You find a Commercial Space you would like to see and on your visit you meet a savvy Listing Broker. Walking through the place, you exclaim, "Wow, I really love this space!" If the Listing Broker hears you, the price just went up 10 percent or more. This emotional attachment will blind you to the fact that the Landlord and Listing Broker are already drawing up a contract that sticks you with the financial burdens of a Commercial Space that may not be good for your business. The Landlord and Listing Broker are "phishing" for information from you.

Super Tip: A wise businessperson once told me, "Listen more than you speak." Therefore, it is best not to say much on a market tour of Commercial Spaces for lease. Always have your Tenant Rep. Broker with you!

Tenant Rep. Brokers protect your business. Here are some of the benefits you receive when you work with an experienced Tenant Rep. Broker:

- There is no fee involved. It does not cost you money to hire a Tenant Rep. Broker. He or she can only save you money. The Landlord commonly pays a set fee to the Listing Broker. The Listing Broker keeps the entire fee if the Tenant does not have a Broker, or splits the fee with the Tenant's broker. Understand that the fee for both brokers in a lease transaction has already been factored into the deal.
- They can help reduce rent over the lease term and also negotiate free monthly rent.
- They can negotiate for the Landlord to pay for some, or in certain cases, all construction costs for TI's in your leased space.

- They can negotiate favorable lease terms such as expansion options, renewal options, termination options, purchase options and any other options that favor you, the Tenant.
- They can avoid or reduce causes and penalties for default by the Tenant wherever possible in a lease agreement, such as increasing the number of days in a contract.
- They can make sure the construction of improvements, property updates to your specifications and time specifications are provided in detail in the lease agreement.
- They can stop or limit future rental rate increases, hidden fees and out-of-control operating expenses.

*“A good negotiator must be flexible to be successful.
In a good negotiation, all sides win.”*

**—Donald Trump, American business magnate, investor,
television personality and author**

Achieve your dreams with expert guidance on how to select and negotiate the best Commercial Space, and most importantly, how to avoid the common pitfalls in leasing Commercial Space by following these important guidelines:

1. Hire a Tenant Rep. Broker to protect your business interest.
2. Plan ahead. How much space do you need? Where is it located? What does the space plan and layout look like for your business? What is your budget?
3. Remember that no perfect space exists. You make the space become your reality.
4. Have your financial house in order prior to looking for space. I see this happen all too often with business owners. Financials can include profit and loss statements, your past two years of tax returns, your business plan, financial forecast and bank statements. I encourage you to speak with lenders, financial advisors and accountants, too.

5. Focus your requirements. It is a balancing act of being narrow enough, yet not too restrictive, either.
6. Be realistic about the market conditions, from expectations to rental rates to what you can expect the Landlord to address.
7. Everything is negotiable in Commercial Real Estate.
8. Listen more than you talk when speaking to a Landlord or a Listing Broker.
9. Ask questions! You can never ask enough questions when it comes to Commercial Real estate. Even if you know the answer, ask anyway. Sometimes you will learn more just by hearing the other person's response.
10. Think with the end in mind when leasing space. Often, I find a majority of costs and legal implications come to the Tenant's knowledge during and at the end of a lease term.

Choosing a Commercial Space for lease is an exciting time for your business. It can be a great learning experience, especially when you partner with a Tenant Rep. Broker to help you navigate the unfamiliar world of Commercial Real Estate. While some of the above pitfalls may concern you—and they should on some levels—you do not have to face them with uncertainty.

Remember, once more like a song bird singing in your ears, I encourage all business owners to hire a Tenant Rep. Broker to protect your business when leasing Commercial Space.

To learn more about how you can Lease Commercial Space with ease for your business, visit www.heidihoch.com. Sign in and receive your free copy of my latest eBook, *Leasing Space with Ease: Top 10 Tips to Know Before You Start Leasing Commercial Space*.



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Heidi Hoch, founder of Hoch Consulting, is a licensed Commercial Real Estate Broker specializing in Tenant Representation of leasing and buying Commercial Office, Retail and Warehouse Space. During her 15-year career, Heidi has been responsible for leasing and buying more than five million square feet of commercial space. Her expertise is in negotiations, financial controls and problem resolution, lease and landlord negotiations, acquisitions and dispositions. Her clients range from small businesses to private investors to multi-billion dollar international companies.

Since founding Hoch Consulting over five years ago, Heidi's most satisfying work is with smaller businesses and startups—setting her clients up for success and sustainability by finding and negotiating the perfect space for them. Add in her unique mix of advocacy and business savvy, and her reputation grows to include business owners who have tripled their revenue after consulting with Heidi.

Heidi was recently nominated for 2013 Northern California Real Estate Women of Influence award. She regularly speaks on several topics, most notably the “new normal” in Commercial Real Estate leasing. She has presented to the California State Bar, the San Francisco Lawyers Network and various other business associations throughout California.



*Finding Commercial
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