



**SIX SECRETS TO
COMMERCIAL LEASE
NEGOTIATION**
A SPECIAL REPORT



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Commercial real estate lease contracts are notoriously tricky documents, and a good or bad lease can mean the difference between success or failure for your business. With so much riding on this single document, it's wise to consult a professional commercial real estate broker.

We talked with two experienced commercial real estate brokers to find how they approach commercial real estate lease negotiations for their clients.

THE EXPERTS

Robert McBride, successful commercial real estate broker in the Atlanta area, has 13 years of experience in real estate and specializes in tenant and landlord brokerage.

Bob Gibbons, a commercial real estate broker from Plano, Texas, has 20 years of experience as a property manager and leasing agent. He has leased more than 6 million square feet of property and has been responsible for approving budgets and supervising leasing agents and property managers. Bob opened his own firm in 2004 where he uses his experience to represent and advise clients looking for office and warehouse space.



ON YOUR OWN, THE ODDS ARE AGAINST YOU

Commercial real estate lease contracts can be especially complex. A misunderstanding can result in a hard hit to your bottom line.

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“In the commercial tenant-landlord relationship, the unrepresented tenant is at a significant disadvantage,” Robert explained. “Most landlords are represented by commercial listing agents, but even those who aren’t are far more experienced with commercial leasing than the business tenant.”

Robert said commercial leases are more complex than a purchase or sale agreement because a lease sets up a relationship—not a single event.

“Look at it this way: a lease covers a period of time in which any number of events, both planned and unplanned, could occur,” he said. “It’s essential that someone familiar with commercial leases make sure most common contingencies are covered before you sign.”

COVER ALL YOUR BASES WITHOUT SPENDING MORE MONEY

It's a fact that the drafting party usually wins the fine points of a contract negotiation, but in the commercial leasing world, the landlord's attorney almost always drafts the lease, leaving you to protect your own interests.

“Most leases are dramatically lopsided to the landlord's advantage and many business tenants will sign them with little modification,” Robert said. “This is not malicious on the part of the landlord. They are simply protecting their interests, which is the responsibility of each party.”

But landlords know they must be flexible if they want to get their properties leased, so they usually expect you to make changes to a lease.

“Landlords will gladly make concessions if they are requested, but not if they aren't,” he said.

Bob also made the point that commercial brokers are not attorneys and should not draft contracts or amend them. However, a tenant broker and an attorney will complement each other.

“They look at a lease from different perspectives,” Bob explained. “A broker focuses on day-to-day management of the tenant-landlord relationship while the attorney deals in legal liabilities—what might happen and what to do about it if it does.”

“Most leases are dramatically lopsided to the landlord's advantage”

A broker will also save you money on legal costs, Robert added.

“I can often negotiate 90% of the contract before it goes to a commercial leasing attorney for review and editing of the legal language,” he said. “An experienced commercial attorney can easily charge over \$200 per hour, but a commercial tenant broker's services are free to the tenant.”

WHY ADD TO AN ALREADY FULL PLATE?



As a business owner negotiating his own lease, you may be satisfied with a lease if you find the rent acceptable. But there's much more to a good lease than the rent.

“Business owners are smart people who have built businesses,” Bob said. “They’re perfectly capable of negotiating their leases without a tenant broker. But why would they want to?”

Negotiating a lease takes a lot of time that could be better spent growing their businesses or billing hours, he explained. And, if you don’t have a lot of experience with lease agreements, it’s hard to know if the terms you’re offered are good or not, and that means more than getting a good deal on the rent. It includes how expenses are handled, construction allowances, options to renew, expand or terminate, personal guarantees, death and disability clauses, parking, signage, and many other issues.

“My goal as a broker is to make the process much easier for my clients by identifying the good points and getting changes to the less favorable points of a lease,” Bob said.

GET THE CONTRACT YOU WANT— AND KEEP YOUR INTEGRITY

Contracts should be a win-win for both parties. You don't want to put your landlord out of business with an unfair contract, but you shouldn't have to get the short end of the stick, either. How do you find the balance?

“The commercial leasing negotiation is a give-and-take like any other business.”

“Many landlords are turned off by a prospective tenant who plays games, is dishonest, or are overly aggressive during negotiation, even if they are desperate to fill their spaces,” Robert said. “This is not to say the tenant should accept everything in the first offer.”

The commercial leasing negotiation is a give-and-take like any other business. Robert pointed out that the goal is to get a lease with a balanced measure of rights, responsibilities and protections for both the tenant and the landlord. Experience is the key to knowing how hard to push and what should be expected from a negotiation.

UNDERSTAND WHAT TO ASK FOR AND WHEN

Lease extensions, renewals and options can make a huge difference in a lease, but before you push for the ones you want, it's important to understand how these requests impact a landlord.

“Every time a landlord gives an option to a tenant, he is giving up some control of his building,” Bob explained. “Landlords don’t like doing that, and their bankers may not even allow them to give these options. Clearly, the bigger the lease relative to the total building size, the more power the tenant will have.”

Robert agreed, and also made the point that extensions, renewals and options aren’t worth much if the lease is bad to start with.

“The unmodified lease that the landlord’s agent gets most unrepresented business tenants to sign is like a minefield,” he explained. “It is filled with technicalities that will cause the unsuspecting tenant to default without even realizing it.

“For instance, many leases contain unrealistic time limits to perform a certain requirement of the lease,” Robert said. “As a result, many tenants are technically in default and don’t realize it, and can prevent the tenant from exercising extensions, renewals and options included in the lease contract.”

Your broker will spot those traps and get them changed.

“...many tenants are technically in default and don’t realize it...”

YOUR CONTRACT SHOULD PROTECT YOUR LIFE OUTSIDE YOUR BUSINESS, TOO

To protect your personal property, you should sign a contract as an officer of the corporation. If you're a newly established business owner, however, you might have some difficulty doing that.

“Most landlords will agree to this if the tenant is an established business with a proven track record, credit and assets,” Robert said. “Start-ups will struggle to find a landlord comfortable with this arrangement, especially if the landlord is expected to contribute money to improving the space.”

“If a tenant’s balance sheet and income statement aren’t strong enough to support the lease, then they may have to enhance the deal in some way to induce the landlord to sign the lease,” Bob agreed. “This could include a personal guarantee, a letter of credit, prepaid rent, tenant-paid improvements, etc.”

Often we can get the landlord to agree to a clause that will release the personal guarantee after a number of years of good payment history.





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FIND YOUR BROKER

Finding a broker you know you can trust is a challenge. Dave Ramsey has decades of experience in commercial and residential real estate. He advises millions of people every day how to handle their money issues, including real estate, through his nationally syndicated radio show, The Dave Ramsey Show, and his New York Times bestseller, The Total Money Makeover. He has also built a successful Endorsed Local Provider (ELP) program that has been connecting individuals with local, high-caliber professionals in real estate and financial services for 10 years.

One of Dave's Commercial Real Estate ELPs can help renegotiate your lease. As an expert in your area, your ELP will represent you as you negotiate a contract that works for your business. [Contact your ELP today!](#)