

Preparing to Lease Space

Before looking for suitable space, forward thinking business owners and corporate decision-makers should devote some time to the preparation of documents that will enable them to present their businesses in the most favorable light. The following is a discussion of the components that should be included in your “credibility package,” i.e., information provided to landlords and utilized when evaluating whether to lease space to you, and precautions you should take when it’s time to locate and lease space.

NARRATIVE DESCRIBING YOUR BUSINESS MODEL:

A good narrative should discuss the WHAT, WHERE, WHY, and HOW of your business. “What” describes your product or service and the purpose/history of the business. “Where” chronicles your professional and educational experience. “Why” addresses the reasons your business will succeed. “How” focuses on your source(s) of financing for capital improvements and initial operating expenses. A narrative need only be several paragraphs in length.

INCOME STATEMENTS AND BALANCE SHEET: Existing businesses should be prepared to submit the last three years Income Statements and federal tax returns, and a current Balance Sheet. These generally do not need to be audited. If income was low, or shows a loss, attach a brief description of the cause. Remember, landlords are looking for reasons to lease space ... and most understand the challenges faced by small- to mid-sized businesses.

PERSONAL FINANCIAL STATEMENT: For start-up businesses, and when a personal guarantee is required, landlords reasonably require a detailed listing of your personal assets and liabilities. If you’ve ever applied for a loan at a bank you know the format and what information is required. Landlords look carefully at this statement when evaluating your ability to pay rent, what terms to extend, and which leasing concessions to grant. Both spouses must disclose their social security numbers, sign and date the statement. Note that landlords generally run credit checks to confirm what you say is accurate.

In instances where one’s credit history is weak, clouded or sketchy, landlords may require an additional security deposit, generally equal to two to three month’s rental amount.

OPERATING BUDGET: After employee salaries, real estate is the second highest on-going expense faced by businesses. When establishing an operating budget be certain to consider all of your occupancy costs, which include base rent, operational expenses (property taxes, insurance, maintenance costs and the like), utility and janitorial expenses, as well as telecommunications and internet services. A qualified commercial real estate advisor can help you with the numbers.

LOCATING AND LEASING SPACE: In most metropolitan areas there are thousands of commercial vacancies, represented by hundreds of brokers, agents and property managers from dozens of companies. Of those who advertise space for lease, few mention price. That’s because commercial real

estate is highly competitive, and prices for space in similar buildings can vary widely and change frequently.

Calling off signs, ads or brochures can be a time-consuming and frustrating process. The task is made more difficult because there is no single comprehensive database for commercial space. This intentional scarcity of information makes it almost impossible for self-represented business people to make fully-informed leasing decisions.

To the detriment of business owners and corporate decision-makers, most full-service real estate companies and many developers delegate the needs of small- to mid-sized businesses to entry level assistants or associates, who may use your business for on-the-job training. A new phenomenon is the in-house tenant/buyer representative, or so-called tenant/buyer “advocate,” whose principle goal is to steer you to their listings. Note that these agents have no duty to disclose suitable, but less costly properties listed by agents within their own company, or by competing real estate companies.

In order to make fully-informed site selection and leasing decisions, savvy business people seek guidance from an independent commercial real estate advisor who specializes in tenant and buyer representation. As you interview experienced practitioners, make certain you clearly understand their capabilities, professional experience, credentials, education, and if any potential conflicts of interest exist. On new transactions, most tenant/buyer representatives are paid by sharing commissions with listing agents, so there is generally no cost to the tenant or buyer for this service.

Practitioners who hold themselves out as advisors, counselors, consultants or representatives are legally accountable to their client. Therefore, it is critical to establish early-on that you have a client relationship (as differentiated from a prospect or customer relationship, which carry lower standards of disclosure and accountability.) Towards that end, insist on securing a signed document attesting that the advisor does not also represent landlords or sellers ... *you want a specialist who works exclusively for your benefit, and who will protect your interests above all others.*

Before engaging the services of any real estate professional make it clear that you will not accept any form of a “dual agency” (where one agent, or multiple agents from the same firm represent(s) both landlord *and* tenant, or seller *and* buyer, in the same transaction.) Failure of a broker/agent to disclose a dual agency relationship to all parties *before* negotiations commence can result in severe penalties for unethical behavior.

In this age of specialization, the experience of *others* is the best teacher. Sound advice will help you make the right decisions. Poor or self-serving advice can cost you thousands of dollars, irreplaceable time and perhaps your business. ☺



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