

# Commercial:

## What to know before leasing for your business.





# The basics:

The commercial real estate market is not as uniform as the residential real estate market is. Even the task of finding a commercial property that suits your needs is an involved task requiring a good understanding of zoning restrictions, lease conditions, subleasing, insurance etc. Learning from your mistakes can be a very costly lesson and one you can avoid with research and sound business advice.

The leasing of commercial property includes retail shops (inside and outside of shopping centres), office space, workshops, warehouses, industrial units, and other property considered non-residential. A commitment to a commercial lease is a financial commitment and legal agreement as significant as buying a property.

To help you be more confident that your property decision is the best course of action for your business, we've put together a few key things to consider when leasing a commercial property.

**Let's have a look at the key benefits of leasing a commercial property first:**

- 1. Flexibility:** If flexibility in your business location is important for your business, leasing a commercial property is a great option.
- 2. More liquidity:** Leasing allows your business to quickly adapt and respond to any changes.
- 3. Negotiating ability:** You have an opportunity to negotiate the terms of the lease that better suit your business.
- 4. Fewer outgoings:** The landlord maintains the building and fixtures.
- 5. Freed up capital:** If you are investing your business capital in areas such as human resources, technology and marketing that ultimately improve your business operations, property investment may need to take a backseat – leasing allows for you to concentrate your investments away from property.
- 6. Size vs Cost:** If floor space is what your business requires then leasing is a more cost-effective option.
- 7. Location upgrades:** Premier locations are cheaper to lease than buy, so this is a great cost effective reason to lease.



# The lease:

**On the basis of the type of business & understanding between the landlord and the tenant any of the following types of the lease agreement can be entered into:**

Before you sign a lease, you need to be confident that you understand and can meet all the terms and conditions. To find out if the lease is suitable for you, and to avoid expensive misunderstandings that could cost you money and potentially your business, consider consulting with your solicitor and financial adviser.

**Let's have a look at what a lease can look like:**

- 1. Percentage Lease** **This is the most common type of lease within retail spaces. Under this lease, tenant pays a base rent along with a percentage of sales to the landlord.**
- 2. Net Lease** **Tenant pays all of the expenses incurred while using the property such as maintenance expenses, as well as the rent to the landlord.**
- 3. Gross Lease** **All fees are included in the per m<sup>2</sup> price.**
- 4. Short Term** **This lease gives you flexibility – if you expect your business to grow in size, you can rent a smaller space and move into a bigger one as you expand.**
- 5. Long Term** **Long-term is ideal if you have found a location that captures your target market and gives you the stability to establish your business over time.**





# Crucial points:

Here are some of the most crucial points you'll need to know before signing a commercial lease and what they mean.

## 1. Cost

**The most obvious thing to look for in a commercial lease is the cost and frequency of payment. It's important to note that most commercial lease agreements will include an increase over time.**

This is calculated involving factors such as fixed and market rates, and percentage rent based on profits. It is important to understand the lease you are signing up for.

**Another important point to understand is what additional costs are incurred if your rental payments are late.**

## 2. Length

**Length of your lease is a crucial element to a commercial lease as they are often for longer periods of time. Signing a commercial lease will leave you legally bound for the duration of the lease.**

Commercial leases normally extend beyond a single year and are difficult to exit out of.

**Because of this, it is important to understand the cost and duration of the lease period that you are legally obligated to.**

## 3. Parking

**Something often overlooked is the amount of parking your business will need, not only for customers but for staff as well.**

Accessible parking is a must for any retail business and can heavily affect sales so it's important to consider when looking for your next location.



# Crucial points:

## 4. Inclusions

**Inclusions are listed in the commercial lease and outline the fittings and items that are included.**

A commercial lease for a cafe or restaurant may include fittings like cooking equipment and ovens. A lease for a pub may include beer fonts and refrigeration.

**Some other inclusions to consider are parking spaces, kitchen facilities and storage space.**

## 5. Outgoings

**Outgoing are the costs you are obliged to pay. These are costs that you will be obligated to pay in addition to regular rent.**

This is usually utility bills such as water, electricity and internet costs. In some cases, this can also include strata and property management costs.

**Often, these costs are not directly stated in the agreement so it is important to clarify any potential outgoings before signing your lease.**

## 6. Insurance

**Commercial leases will often require tenants to be insured for how they use the premises.**

The most common is public liability insurance should an individual injure themselves on the premises.

**Requirements like this are set out in the lease document.**



# Crucial points:

## 7. Rights + Responsibilities

**Your rights and responsibilities will always be outlined in your lease. It is important that you familiarise yourself with this section.**

These will outline what you will be able to do with the lease and what limitations are imposed. This normally relates to the tenant keeping the premises in a certain condition. Repairs and modifications for leased premises are governed by law, but an agreement will still outline what repairs or modifications may be done to the premises.

**This may limit the possibility of advertising or installing equipment or machinery. It can also be heavily restricted in heritage-listed buildings.**

## 8. Subleasing

**Subleasing is where the lessor sublets a portion of the premises out to another party.**

Limitations to this will vary depending on the lease, however, it is almost always required that the landlord is notified of the intention to sublet.

**If you are looking to sublease, the agreement will govern whether or not you will be able to.**

## 9. Default and Termination Clauses

**The contract will outline what happens at the end of the lease.**

It will also outline the process should a tenant default on their payments and seek to impose a dispute resolution process to be undertaken should it be required.

**The agreement will also outline how and when the landlord or lessor can cancel the lease.**

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# Are you:

**Ready to buy? Ready to sell?  
Or looking for a new rental  
property?**

**Call our team to confirm you're ready**

We'll confirm the details, discuss your plan, and outline how we can help.

**Sign the dotted line**

We'll prepare all the documentation for you.

**Want to get in touch?**

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