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What You Need To Know When Leasing

Finding the best place ... With no hassle.

SMALL BUSINESS SERIES

About The Author

Greg Hardee has over 25 years experience in Small Business, working as a partner, a project manager, a concept consultant, a business broker and finally as a commercial real estate broker.

Having achieved a high reputation in the hospitality industry, Mr. Hardee's passion is for entrepreneurs to reach their goals through the success of their small businesses.

For many, the beginning of the journey towards achieving their business goals is to find and afford that perfect location. Helping you set up shop is what we in commercial real estate do and this short E-Book, titled What You Need To Know When Leasing addresses the common scenarios and needs one should consider when looking for new space.

Read on and feel free to contact us at the info below.

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THINGS YOU REALLY SHOULD KNOW!

AGENCY – WHO IS REPRESENTING WHO?

The LANDLORD Has Their Guy! - This is the agent that markets the space, fields all calls and negotiates the deal for the Landlord, meaning, the agent needs to PROTECT the landlord's interest! That relationship is in writing and that agent has already negotiated with the landlord the amount of commissions that will be paid to all agents involved in the deal.

Now the landlord could represent himself, but Charlotte is a mature market and most, if not all property owners have an agent.

And so ...

The RENTER Should Have Their Guy! - This agent works for the renter or the tenant and knows exactly what to LOOK for, or better, what to ASK for in a lease ... including free rent and funds to build out the space to fit your needs. This agency relationship can be a casual or verbal one until it is time to submit a written proposal (a Letter of Intent) to the landlord's side or to broadcast to other brokers what property you are searching for.

Also this agent comes free to the tenant because the aforementioned "negotiated commission" will typically come from the landlord.

So unless the landlord makes the tenant happy, NO DEAL!

Sometimes An Agent Represents BOTH! - It just happens and we call that Dual Agency! Naturally commercial agents' firms deal with both landlords and tenants, ... so if an agent shows a property belonging to their firm or to themselves it creates Dual Agency and you'd have to agree whether to allow for that right up front. And of course the dual agent has to create a big WIN-WIN deal where EVERYONE IS HAPPY! Know that in the Charlotte market there are nearly 3,300 spaces for lease, so dual agency isn't common.

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The North Carolina Real Estate Commission has a much more detailed brochure about agency entitled "Working With A Real Estate Agent" that we'll send to you. Just shoot me a note at gbhardee@charlottecommercial.com.

SOME BASICS

Lease Guarantees - Unless you are Walmart or McDonald's, in addition to the lease, you are going to sign another paper that guarantees you will pay for the full length of the lease contract. That's how much we have to BELIEVE IN YOUR BUSINESS. Asking the question, "What if my business doesn't make it?" isn't in the vocabulary of leasing property.

How Fair Is Your Lease? - Well, in North Carolina the Real Estate Commission has a VERY FAIR commercial lease that many use, however MANY landlords have their own, and yes your agent has seen beau-coup leases and is very familiar with the language and slants of a lease. We will thoroughly examine every lease and give you a heads up on what is normal and where any red flags may be.

But remember that your lease is a legal document, so make sure you READ EVERYTHING IN IT and/or contact a real estate attorney before you sign!

Locating Your Space – Though location, location, location is fundamental to your business success, locating that right spot is only one part of a bigger job. You and your agent are on the same team and the agent should have a sixth sense about the viability and potential of a given area. And like we always say, whether you find it or we find it, we are ON IT!

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THINGS YOU'D WANT TO KNOW

In the negotiations, so much of a tenant's standing has to do with the strength of several key factors; 1. your business experience, 2. your business plan and 3. your financials, and of course our job is to put you in the best light.

1. Your Business Experience - Start-ups, or starting from scratch is not easy but of course everyone does it! The question is, how much experience do you have in an industry that relates to your product or service? The more experience, the better. But let's say it's an idea that popped into your head and you have NO BACKGROUND! ... then we'd better have a rigorous business plan in place.

2. Your Business Plan - A business plan answers the big WHY; why this business, why now, why me, why here, who's the customer (hopefully everyone), who's the competition and what are the 1, 3 and 5 year projections for sales, expenses, profit and growth. The plan holds the tension between an entrepreneur's optimism and a banker's realism. A good resource for guidance through the business planning process is found here at the non-profit the Small Business Administration's website, www.sba.gov/tools/business-plan/1.

3. Your Financials - Showing financial information including income tax returns, bank statements, credit reports and allowing for a background check are routine. If you'd say "no problem" then great, but if this makes you nervous then know that it's time to call in your network and have someone "sign" or guarantee that lease for you. But also know that as your agent we will not release any sensitive information about you *without your consent*.

4.

SOME BASICS

Long or Short Leases, What's The Difference? - In general the longer the lease the cheaper the rent and knowing that helps us in the negotiation.

When Do I Start Paying Rent? - Of course you will need time to get set up for business before you should have to pay rent. As your agent, we have the same goal and know that there is more than one way to achieve that in the process.

Can I Change The Space? - Absolutely! The question is, who will pay for those changes and do they benefit the landlord long-term? If so, then he might be willing to pay for a good part of the work. Once again, the longer the lease the more money we can get out of the landlord for up-fits and improvements.

Escalations – Almost every lease increases the base rent by a small percentage each year, say two to four percent. It is assumed that costs for most things rise year over year, however, this escalation is a negotiable number.

TYPES OF LEASES

In addition to the base rent that you would pay, there are several constant expenses involved with every commercial property. These are the building's operating expenses and they include; property taxes, property insurance, utilities, janitorial, air or HVAC, and taking care of the general upkeep of the building (including landscaping, the parking lot, signage and more) called common area maintenance. The first three; taxes (T), insurance (I) and common area maintenance (CAM) are referred to as **TICAM**.

So the question for any lease is; between the tenant and the landlord, who pays for what expenses?

A Triple Net Lease (NNN) – Think McDonald's or your corner bank or drug store; they are free-standing and because they alone have a vested interest in the upkeep of the property, they pay ALL expenses.

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A Full Service Lease – Usually in an office building where there are common restrooms, elevators and even conference rooms and where you will never see a meter of any kind outside of your office; the landlord pays ALL expenses.

A Modified Lease – Where neither party is absorbing all operating costs we have a negotiated “who’s paying for what” kind of lease.

In summary, the base rent can be both negotiated and escalated, but expenses are a real number and therefore are not only non-negotiable but, expressed as an estimate in your lease, they must be rectified at the end of each year.

Zoning

In terms of where I can put my business?, zoning runs from the least restrictive, industrial, to the most restrictive, residential, with various business classes in between. Essentially you can live in a warehouse but you can't store shipping freight in your backyard.

The expense of leasing a property is more-or-less related to its zoning class and location.

For example, for;

Industrial / Warehouse – Think low, as in a few dollars per square foot (/sf) for basic, no air conditioned space, and up to maybe \$10 – \$12/sf for industrial space being converted to design centers in an up and coming area.

Office – Here we have on one end, Office/Flex space located in business and industrial parks that are a combination of some office and some warehouse (often already air conditioned) in the \$6 – \$10/sf range, all the way to CLASS A buildings going for \$25 – \$35/sf and everything in between.

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Retail – More consistently expensive than other categories, retail units are self-contained, individually metered and are required to have restrooms with one, two or more toilets depending on the type of occupancy and the average number of guests expected or allowed. Also in high-end areas there is the chance of paying an additional rent as a percentage of sales over a negotiated gross amount called “percentage rent”. Retail rates start at roughly \$20/sf, but continue to go up and up from there.

City Permitting

Another headache for most is, when do I need a permit from the “city”? And by headache we mean “How long could this take?”

In general, if you are changing the use, meaning going from office to retail, or industrial to a restaurant then you'd have to meet current code. But if you move in and make no structural or updated changes and can take a space “as-is”, then there's little delay in getting started.

Should we need plans, an experienced commercial general contractor or architect is a great place to start to get plans drawn in order to begin the conversation with a city's Planning and Code Department. Submitting a rough sketch to answer the question, “Is this use permitted in this location?”, gets you to the next level of getting the real plans drawn, submitted, approved or sent back for another try.

Essentially, we are working on getting the green light approval BEFORE any construction begins.

For the process of planning, review, permitting and construction, you can expect 90 – 120 days.

7.

S U M M A R Y

We are here to help you and to advocate for you. For example, were you to ask a landlord directly for free rent and he says no, then you are out of free rent. But the beauty of having an agent is knowing exactly what his competition is doing and we'll hold him to the wider standard.

Helping locate properties, build your file and negotiate a favorable lease for your small business is the work we do every day. Helping you to prepare and to understand the process is the other part of our job ... and we love it!

A handwritten signature in black ink that reads "Greg Hardee". The signature is written in a cursive, flowing style.

We're pulling for you,

Greg Hardee