5 Steps Every New Business Owner Should Take When Renting a Storefront

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Even before the word “pandemic” was a part of our daily vernacular, starting a new business has been an exciting, but often challenging and overwhelming venture – particularly if the business involves a brick-and-mortar location. Leases of storefronts come with financial obligations as well as compliance with applicable laws and regulations. Therefore, it is advisable for a business owner to build a team that includes an attorney and an accountant, who can provide guidance on key legal and financial decisions at the outset, and on an ongoing basis.

5 Steps for Business Owners Renting a Commercial Property

1 – Have a business plan.

A written business plan will guide numerous business decisions, including what level of rent is affordable and what lease terms make the most sense for a physical store. The business team identified previously can be helpful in reviewing the business plan to make sure all factors are considered before seeking out a physical location that meets those criteria.

2 – Get the commercial lease in writing and review it thoroughly.

It sounds simple but any lease should be obtained in writing from the landlord. Basic lease terms for a commercial property are typically negotiated directly with the landlord or through a broker and should include the amount of rent, the lease term, renewal rights, and the responsible party for real estate taxes, utilities, and any other expenses. Once those terms are agreed to, it is common for the landlord (or their attorney) to prepare the written lease.

For commercial spaces, leases can take many forms, and in New Jersey they can run between 15 to 50+/- pages. Leases shorter than this should be examined closely as they tend to strongly favor landlords. The business owner should provide their attorney with a copy of the lease, as well as a copy of any term sheet, letter of intent, or similar written statement(s) of terms of the transaction.

3 – Understand the rent.

During the negotiation period, the business owner must make sure they fully understand the terms of the rent. Rent for businesses can take various forms depending on the space being rented, whether in a shopping center, strip mall, or freestanding building. One form of rent can be considered “Gross Rent,” where a tenant pays a fixed gross amount that is negotiated to include most anticipated costs for use of space, but excludes any obligation on the part of a tenant to pay additional amounts towards landlord’s expenses such as real estate taxes, insurance premiums or operating expenses to improve, maintain or repair the leased premises. Gross Rent typically places most costs and risk on landlords.. However, the most common rent in retail leases is “Net-Net-Net Rent” (often referred to as “triple net rent”), whereby a tenant pays a fixed base rent, together with paying one or more additional expenses. Triple-Net leases generally include tenant’s obligation to pay towards property taxes, property insurance premiums and operating expenses (such as maintenance costs and repairs). Triple-Net leases help landlords reduce their costs and risk of a commercial lease. There can also be other forms of Net leases (commonly known as single net or double net leases.) Generally speaking, in a single net lease, the tenant pays a fixed base rent, together with tenant paying only for the property taxes. In a double net lease, the tenant pays a fixed base rent, together with property taxes and insurance premiums. Rent can also be based on a percentage of gross sales, which is more common for large retail tenants.

Business owners should inquire if there are any expenses shared with other tenants, and if so, determine what those are and how they are calculated. They should also ask about maintenance and repair obligations for the leased space as well as for common areas, parking areas and sidewalks. Unplanned costs are never pleasant – especially when they can be avoided – so it is important to understand what fees are included in the rent in order to set the new business up for success.

4 – Understand the lease term.

Most start-up businesses try to negotiate a 3- to-5-year initial lease term. It may also be prudent for the business owner to ask for a right to renew the lease term if the business is doing well or, conversely, to request an early termination right in case the business struggles.

It would also be beneficial to understand what happens to the lease if the business is sold, whether a lease can be assigned to the new owner or if subletting is an option.

5 – Determine alterations and premises use.

When the business owner has identified the space, it is easy to start thinking ahead about how to alter the space to suit the business needs. However, it is important to think through what is permitted and prohibited and examine exclusive rights. If alterations will be needed, it should be determined if those will be handled by the tenant or landlord, and which party will be responsible for performing and/or paying for such alterations. Some landlords may agree to perform certain alterations (commonly referred to as "tenant fit out") to get the premises ready for the tenant's use and occupancy.

Obviously, there are numerous steps throughout the business start-up process and there is no "one-size fits all" approach, which is why having professionals who understand the goals of the business owner is important. Part of being a business owner is managing risk, so taking necessary steps at the beginning of a business venture and along the way, to consult with and invest in forming a team of professions (such as an attorney and accountant) will often lead to better informed decisions; all leading and contributing to the success of a business.