RENTING YOUR FIRST SPACE: LEASES EXPLAINED (MAIN STREET)

What a commercial lease really costs, the terms that matter most, and what to negotiate before you sign.

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AT A GLANCE

- A commercial lease is often the **biggest commitment** a main-street business makes. Many run 3 to 10 years.
- The real cost is usually **more than the base rent**: shared building costs, taxes, insurance, utilities and buildout.
- **Everything is negotiable**: rent, free months, buildout money, length, renewal options and personal guarantees.

WATCH OUT

General information only, not legal advice. Have a lawyer review any lease before you sign.

Why it matters

Commercial leases offer fewer protections than home leases. A lease that's too expensive, too long, or wrong for your business can sink you even if customers love you. Testing first with pop-ups or shared spaces reduces the risk. See **I-08 Testing a Main-Street Idea: Pop-Ups, Markets and Pre-Orders**.

How rent is quoted

Commercial rent is often quoted **per square foot per year**.

Lease type	What you pay
Gross	One rent amount; the landlord pays most building costs
Modified gross	Rent plus some building costs, as agreed
Triple net (NNN)	Base rent **plus** your share of property taxes, building insurance and maintenance

Example: what Lina's bakery really pays

> EXAMPLE
>
> Lina finds a 1,200 square foot space at **$24 per square foot per year, triple net**. Shared costs (taxes, insurance and maintenance) are estimated at **$6 per square foot per year**.

Cost	Calculation	Per month
Base rent	1,200 × $24 ÷ 12	$2,400
Triple-net costs	1,200 × $6 ÷ 12	$600
Total occupancy cost		**$3,000**
Utilities (her estimate)		$450
Total monthly cost of the space		**$3,450**

Over a 5-year lease, that's about **$207,000** in commitments, before any rent increases.

Terms that matter most

Term	What to look for
Length and renewal options	A shorter first term with options to renew gives you flexibility
Rent increases	Often a fixed percentage each year; know it before you sign
Free rent	Months of free rent while you build out are common to ask for
Tenant improvement (TI) allowance	Money the landlord gives toward building out the space
Use clause	Make sure it allows everything you'll do, including future services
Exclusive clause	Can stop the landlord renting nearby units to a direct competitor
Personal guarantee	Try to limit it to a set amount or a set number of years
Assignment and subletting	Your right to transfer the lease if you sell or move
Who repairs what	Especially heating, cooling, plumbing and the roof

Step by step

1. **Know your numbers first.** How much rent can your sales support? Many advisors suggest keeping total occupancy cost to a modest share of expected sales, often around 10% or less for restaurants and retail, but it depends on your business. See **M-08 Costs, Margins and Break-Even**.
2. **Check zoning and permits** for your use at that address. See **B-05 Licenses and Permits: Finding What You Need**.
3. **Get a letter of intent** listing the main terms before the full lease is drafted.
4. **Negotiate** free rent, buildout money, a shorter term with options, and a limited personal guarantee.

5. **Have a lawyer review** the full lease.
6. **Budget for buildout,** deposits and equipment beyond rent.

Common mistakes

- **Looking only at base rent.**
- **Signing a 10-year lease for an untested business.**
- **An unlimited personal guarantee.**
- **Not checking zoning first.**
- **Underestimating buildout costs and time.**

Your checklist

- ☐ Calculate the total monthly cost, not just base rent
- ☐ Check that your sales can support it
- ☐ Confirm zoning and permits
- ☐ Ask for free rent, buildout money and a limited guarantee
- ☐ Have a lawyer review the lease

Key words, explained

Word	What it means
Triple net (NNN)	You pay base rent plus your share of taxes, insurance and maintenance.
CAM	Common area maintenance: shared costs for parking lots, halls and grounds.
TI allowance	Landlord money toward building out your space.
Personal guarantee	You personally promise to pay if the business can't.
Letter of intent (LOI)	A short summary of proposed lease terms before the full lease.

Where to go next

- **L-08 Opening a Physical Location (Main Street)**
- **I-08 Testing a Main-Street Idea: Pop-Ups, Markets and Pre-Orders**
- **B-06 Business Insurance Basics**

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