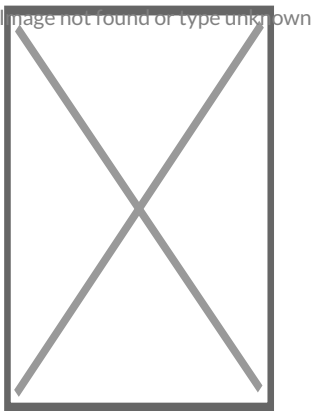


Think Before You Sign: What Small Business Owners Need to Know About Commercial Leases



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Too often, many small business owners looking to rent commercial space think of their lease like one for a residential apartment: if the rent amount is affordable and the location looks good, then they are ready to sign the lease.

However, like most things in life, it's wise to take a look at the fine print. Like many legal documents, commercial leases can be complex and usually contain “legalese” that is hard for a layman to understand. Understanding the terms of a commercial lease, however, is imperative for entrepreneurs in order to protect their business interests.

Consider the following examples of lease provisions that small business owners should be aware of:

Many commercial leases are triple net leases, meaning that the tenant is responsible for all real estate taxes and property insurance for the leased space, in addition to the base rental amount. If you as a tenant are leasing space in an area where property values are on the rise, however, you may be forced to incur more cost in the near future if those

increasing property values cause property taxes and insurance costs to also rise.

That scenario unfolded recently on Broughton Street, where improvements to many properties led the Chatham County Board of Assessors to increase property valuations of surrounding properties. One business owner saw annual taxes on one of his properties skyrocket from \$7,870 to \$29,383 – approximately a 373 percent increase. Another building's valuation went from \$689,000 to \$1.8 million, also resulting in a steep increase in property taxes.

While he was the owner of those buildings, he would have been equally hit with the tax increase had he been merely renting those properties under a triple net lease. To avoid or minimize such negative effects, a commercial tenant should try to negotiate a cap to the amount of any increases in taxes and insurance that they pay.

Another potential trouble spot for commercial renters is rent abatement, which provides a tenant with reduced rental rates for some period of time. While such a provision can be beneficial because it can allow a new business to get on its feet, a tenant should carefully review the rent abatement provisions. In some instances, leases contain terms requiring that in the event of a default the past abated rent is immediately due and payable, often with accrued interest. Especially for small businesses, such an occurrence could create a large enough financial burden that it puts a tenant out of business.

While landlords often hire attorneys to draft leases, small business tenants don't always have legal representation, either thinking there is no room for negotiation of the lease or because they consider the cost of hiring an attorney to review the lease too expensive. However, a landlord may very well be flexible and willing to negotiate, and an attorney can advise and assist a tenant in such a negotiation.

And while hiring a lawyer will cause you to incur costs, it will cost you far more, in the long run, to commit to a lease that's bad for your business. If things go south with your lease or location, it could put an end to your business entirely. Lay the groundwork upfront to help ensure your success.

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Practice Areas

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