



## 4 tips for navigating commercial leases to avoid long term consequences

Finding a suitable office space is one of the major decisions all startup companies need to make during their initial stages of its growth. As commercial lease terms are typically 3 – 10 years, this decision can have long-term consequences.

### Tip 1

#### Understand Total Lease Costs:

Commercial leases are usually priced based upon square footage of the space being rented. In addition, to your base rent and utilities, there are generally additional costs for maintenance of shared spaces, property taxes and building insurance. Your lease may also include details about rent escalation provisions. Some provisions may be more apparent than others, so take note of the fine print and terms such as “net costs” or “triple net lease”. In some cases, these additional costs can be more than the base rent.

### Tip 2


#### Pay Attention to the Length of the Lease Term:

As a startup company, long-term lease may not be suitable for your changing needs. A shorter lease term will provide more flexibility, should the business needs change thus avoiding significant costs associated with early termination of a long-term lease contract. On the other hand, a short-term lease will affect your ability to continue to operate from the same premises. A better option than having a 5-year lease term, would be to negotiate a short-term lease with a renewal option such as a 2-year initial term with a 3-year renewal option, rather than committing to a 5-year lease term.

### Tip 3

#### Negotiate Right to Sublease and Assignment:

Make sure you negotiate the right to sublease all or part of the space. This can add much needed flexibility to otherwise an onerous long-term contract. For example, if you are expecting your company’s head count to grow rapidly, it may be a good idea to lease more space than your



immediate needs, as long as you have the ability to sub-lease the additional space. This will allow your company to keep the initial costs down, while still providing the flexibility to access more space without moving to a new location. Subleasing and assignment rights can also be important in case of a sudden downturn in the business.

## Tip 4

### Explore Lease Alternatives:

If you are not sure about the growth of your company and are not willing to commit to a long-term contract yet, there are some office lease alternatives such as WeWork, LiquidSpace, Regus and Breather. These companies provide access to shared space offices with no long-term lease commitments, and will allow you to lease as much or as little space your startup business needs, anywhere from a day-to-day to an annual basis. Office space options can range from a shared desk to fully furnished exclusive use of offices and boardrooms.

Additionally, you can also search for available sublease opportunities before entering into a direct lease. A short-term sublease can be an excellent alternative at the initial stage of your startup business, as generally you cannot predict the growth of startups and need to be prudent about your limited financial resources.

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**For more tips on how to navigate through commercial leases, contact one of our Zeifmans Real Estate experts:**

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