**How to Rent the Commercial Property**

As a landlord, it is important to familiarize yourself with the process of renting a commercial property to ensure the correct procedure is followed. Commercial lease suitability is dependent on location, the condition of the property, market conditions, and others. Each property is unique and should; therefore, its lease agreement terms should be negotiated with that in mind. The process of renting commercial property should be carried out as discussed below:

1. **Hire a real estate agent**

A real estate agent/realtor can be consulted. As they are deemed more informed about the lease markets, they can assist in setting rental rates that mutually benefit the landlord and the tenant. This could be in relation to rental rates of other similar commercial properties in the locality.

Hiring a realtor will come at a price; ordinarily, it is set between 4-6% of the total rent amount. For example, for a 10-year lease of $10000 annual rent and the agent asks a 5% fee, the agent’s fee will be $5000. 50% of the fee is paid once the lease has been initiated, and the other 50% once the tenant takes occupancy.

If one chooses not to use a realtor, they should verify market conditions before setting their preferred rental rate. This can be through comparing the prices of different commercial listings on available online platforms.

1. **List the property**

A Realtor's job description involves listing the property for sale, so if a landlord opts to involve a realtor, the listing should not be a source of worry to them. However, if a landlord chose to market the property themselves, they would have to assume the responsibility of listing the property, usually done online these days.

When listing the property, one should ensure that they use clear and nice-looking pictures of the interior and exterior accompanied by images of the common areas. One should include the available amenities, water, parking, sewer services, and any other details that would be important to a prospective tenant in the listing. Popular commercial listing sites in the US are viable options to use.

1. **Pull property data**

Property data is important when determining the feasibility of a business if it is set up at a particular property. Property data is especially crucial for retail tenants who are highly dependent on traffic and demographics. Traffic data necessary for evaluating property suitability can be obtained from the Department of Motor Vehicles in one’s state for free. Demographics data can be obtained from the US Census Bureau. Other property data include income levels within the locality. Property data is known to influence rental rates; higher traffic rates will command higher rental rates.

1. **Prepayment of rent**

Sometimes tenants may prefer to pay a certain amount of rent in advance. Prepayment facilitates negotiation for a lower rental rate; for example, if a tenant can pay 6-18 months’ rent upfront, the landlord may be convinced to reduce the amount of rent. Paying a significant amount of money as a security deposit can also be required by the landlord to sign the agreement.

1. **Set the price per square foot ($/SF)**

The rent should be set in terms of price ($) per square foot (FT), which is representative of the annual rent for the commercial space. It is determined by dividing the annual rent by the total square footage unless it is a land lease. For “living space,” square footage is determined by measuring the length and width of the interior walls. To illustrate the relation between rent and square footage, the following examples have been provided.

***Determining $/SF from annual rent***

If a landlord is leasing a 2500 square feet space for $10000 per year, the $/SF would be given by dividing the $100000 by 2500, which gives a $/F of $40/SF.

***Determining $/SF from the monthly rent***

In a situation where a landlord is charging $2000 per month for a 1000 square feet space, the $/SF can be determined by multiplying $2000 by 12 months and dividing the product by the total square footage. This would result in $24000/1000, which gives $24/SF.

***Determining Monthly rent from $/SF***

In a situation where the landlord is offering a 4500 square feet warehouse at $15/SF, the monthly rent can be determined by multiplying $15/SF by 4500, which gives an annual rent of $67500. This is then divided by 12 months to get $5625 as the monthly rent.

1. **Verify market conditions**

Verifying market conditions helps with setting rental rates. It is important to verify what other landlords and tenants are charging and paying respectively for similar commercial property. It can be done by reviewing other commercial listings in the market that are being advertised on popular listing sites.

The landlord and tenant should do their own investigations. However, if a real estate agent was hired, they should present comparable leases that have been signed as proof of rental rates applicable to other similar tenants and landlords. By verifying market conditions, both parties can have an estimate of how much a commercial space would go for.

1. **Conduct a credit check (Business + Individual)**

Conducting a credit check is important in order to have an idea of a tenant’s financial status. This is even more important because when dealing with entrepreneurs and small businesses as tenants. Credit checks, business or individual, can be done through the use of any available websites or platforms.

For a business credit check, the findings will usually show the credit history of the company detailing information like how fast it pays back its vendors/creditors and its annual sales. The cost of such a check is between $39.95 and $49.95, depending on the plan selected. Businesses are given a score of between 0-100, an 80 and above score representing credit-worthy businesses.

* 1. ***Good credit history* -** Tenants with good credit history for paying their creditors on time or have businesses with multiple locations are desirable. Good credit history should be a consideration for landlords before approving tenants. BBB+ or better credit ratings give landlords higher value for their property should they decide to sell in their property.
	2. ***Bad Credit*** ***History***- Businesses that do not qualify or have a poor credit score will often require to sign with a personal guarantee provided the tenant has the necessary assets such as property, home, vehicles, and personal finances. Should the tenant default on lease payments, the landlord is authorized to take possession of the outlined assets in order to recoup their losses emanating from the tenant’s default.

For individual Credit checks, the outcomes will often show the business owner’s income and financial liabilities that could be separate from those of the business. It costs the potential tenant $14.95.

1. **Approval or disapproval of the tenant**

Once the landlord has evaluated the tenant’s application, they should then decide to approve or disapprove. If a tenant is rejected, they should be issued a ***Tenant Rejection Letter***.

If a landlord wants to approve a tenant’s application even though the tenant’s business is not credible, a **Personal Guaranty** should be considered. A personal guaranty binds the owner of the business to the lease such that, should they default, the tenant’s personal assets would also be liable and not just the business.

1. **Negotiating the lease**

Negotiations are part of commercial renting process. So as to have a mutually benefiting agreement, the landlord and the tenant should understand each other. for landlords, it is best to understand what a tenant needs so that together with their agent, they can get creative when formulating a deal. For example, charging the tenant a percentage of their earnings can be more prudent than charging a higher monthly rent, for should the tenant make high-profit margins, the landlord benefits as well.

1. **Determine the security deposit**

Once a tenant has been approved, the landlord should communicate the amount of money they expect as a security deposit. In commercial renting, there are no limits as to how much a landlord can charge a tenant for a security deposit, unlike in residential renting, where this is governed by state laws. Ordinarily, a security deposit amounting to 2-3 months’ rent is asked to cushion the landlord should the tenant stop paying rent or cover for damages that may occur during their tenancy.

1. **Write the commercial lease agreement**

Once all the relevant information about the lease has been gathered and the terms established, it is time to write the lease agreement. One can opt to craft the lease agreement themselves or use an attorney. Once the agreement/contract is completed, it should be signed in the presence of a notary public to validate the signatures. A notarized commercial lease agreement’s legality is least likely to be questioned in a court of law.

1. **Mention lease type**

When renting a property, the question of whether the rental rates cover the real estate taxes, insurance, and/or maintenance of the property should be answered when advertising the property. The most common lease types are:

* **Gross lease** – This type of lease informs the tenant of the landlord’s responsibility to pay for insurance, property taxes, and property maintenance.
* **Triple (NNN) lease** – This type of lease implies that the tenant will be obligated to pay the monthly rent expected, which is inclusive of property taxes, maintenance, and insurance.
1. **Taking occupancy**

Soon after the tenant pays the security deposit and the check clears, the keys can be handed over, and the tenant can start using the space as agreed on in the rental agreement. Both parties (landlord and tenant) are obligated to abide by the rental agreement and be held accountable until the end of the lease term.