



careers
businesses
neighborhoods



Comprehensive Guide to

COMMERCIAL

LEASING

in New York City

ABOUT THIS GUIDE

Definitions are located on sidebars and are highlighted in purple.

This guide provides basic information to consider before you enter into a commercial lease in New York City. Topics include location selection, evaluating space needs, space construction, working with professionals, reviewing key lease terms, and limiting business and personal risk.

Links to resources are highlighted in blue. **Additional resources** are at the end of each section, and a list of all resources are at the end of the guide.

This guide is provided by NYC Department of Small Business Services (SBS). SBS offers free services to help businesses start, operate, and grow in New York City. Resources include:

- » Commercial lease education courses. To find a course near you, visit:
 - » Link: nyc.gov/businesscourses
- » Assistance with pro bono (free) legal advice, business development, finance, navigating government, licensing, permits, and inspections needed to open your business:
 - » Link: nyc.gov/businesssolutions
 - » Select [Operate & Grow](#), then select [Contact us for more information](#)
 - » Or Call: **311**

The NYC Department of Small Business Services (SBS) helps unlock economic potential and create economic security for all New Yorkers by connecting New Yorkers to good jobs, creating stronger businesses, and building thriving neighborhoods across the five boroughs.

The law firm of Goulston & Storrs PC and Volunteers of Legal Service's Microenterprise Project (VOLS) created content for this guide. This guide is not a substitute for legal or other professional advice. Consult an attorney and other professional advisors before you sign a commercial lease.

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PLANNING

Signing a commercial lease can be one of the most significant and expensive choices that you can make as a business owner. Investing the time to create a plan will give your business an advantage. This section presents some important considerations when developing your plan.

THE LOCATION

Selecting the right location is an important decision that can affect the success or failure of your business. Below are questions to consider when looking for the location that best suits your business. These questions can apply to office, retail, or industrial businesses.

Who are my customers? Where do they live, work or shop?

Identify who your customers are, and research where they are located. Select a business location near people who will buy your products or services.

Is location important to my employees?

Consider if a location is convenient and accessible for employees.

Do my customers or employees need easy access to public transportation or parking?

Not all customers and employees will be within walking distance of your location. Locating your business near public transportation or parking facilities can help attract customers.

How close do I need to be to my suppliers? Will delivery trucks need easy access to my business?

If you need frequent deliveries, your business may need to be located near suppliers. Easy access to loading and unloading areas may also be important.

Do I need to be on a busy street where many potential customers will pass by my business? Or will my customers seek out and visit my business?

If you expect customers to buy your products without planning in advance, you may want to locate your business where a large number of people will pass by. If customers will seek you out, you can be in a less travelled location. Spend time around the space and its neighborhood on different days of the week to observe the amount of traffic.

Examples of businesses that need street traffic	Examples of destination businesses
Convenience store	Specialty store (such as a bridal shop)
Grocery store	Doctor's office
Restaurant	
Nail salon	

**Would other businesses nearby attract customers to my business?
If so, what type of businesses?**

Locating near similar businesses can attract customers who are already visiting other nearby businesses. If you want to attract a specific group of customers, you may want a location near other businesses that target and appeal to the same group. *For example, if you want to sell specialty foods imported from Latin America, you may want to locate near businesses that sell different items also imported from that region.*

Is the area growing or declining in population and businesses?

It can be an advantage to locate in neighborhoods experiencing population and businesses growth. If commercial activity is decreasing, you may have difficulty building a sufficient customer base.

Is a desired area too expensive for my business?

Even if a location seems perfect, the rent may be higher than your business can afford. Before you decide on a location, create a budget for your business, and determine what you can afford.

Is my business permitted in the desired area?

New York City laws may prohibit your type of business from operating in a specific area or building. Every property has its own **zoning designation**. This can mean that your planned use of a space may not be allowed. If you find a space like this, you can seek a **zoning variance** that will allow for that use. However, the process to acquire one requires significant money and time. To learn if you can get a variance, contact the NYC Board of Standards and Appeals by going to nyc.gov/bsa.

To view the zoning restrictions for a property, visit **NYCityMap**:

- » Link: nyc.gov/citymap
- » Enter address at top
- » Zoning information is on right panel under **Building & Property Information**

Who can help you answer these questions?

- » People who operate a business in a similar industry
- » Businesses in the neighborhood you would like to move into
- » Trade associations
- » Local development organizations (such as **Business Improvement Districts (BIDs)** throughout the city)
- » **Merchants Associations**

Search online for organizations in your neighborhood. It is important to consult with experienced professionals (see page 10). They can provide answers to questions and guide you through the leasing process.

Zoning Designation: New York City limits the uses of areas through numerous “zoning districts” throughout the city. The most common zoning districts the City designates are residential, commercial, and manufacturing. Zoning designation can also limit building features in a district, such as its height and signage.

Zoning Variance: the City can give permission for owners or tenants to use a property for a purpose outside the zoning laws.

Business Improvement District: A geographical area where local stakeholders oversee and fund the maintenance, improvement, and promotion of their commercial district.

Merchant Association: A group of business owners working together to support and promote businesses in a particular commercial area.



EXERCISE: LOCATION NEEDS AND PRIORITIES

Make a list of your business needs for a location. Assign a number based on its importance. Since you may not find a location that suits all of your needs, prioritizing your needs is important.

To succeed my business needs:	Priority (1, 2, 3)



ADDITIONAL RESOURCES

For an interactive map with data from New York City agencies, visit [NYCityMap](#):

View information about the neighborhood:

- » Link: nyc.gov/citymap
- » Enter address at top
- » View information on right panel under [Searched Locations](#)

View neighborhood demographics (population, ages, etc.):

- » Select [Other Map Themes](#) (upper right)
- » Select [NYC Census FactFinder](#)

View nearby transportation, parks, schools, senior centers, etc.:

- » Select [Show Additional Data on Map](#) (right panel)

View building, landlord name, building violations, inspections, and zoning:

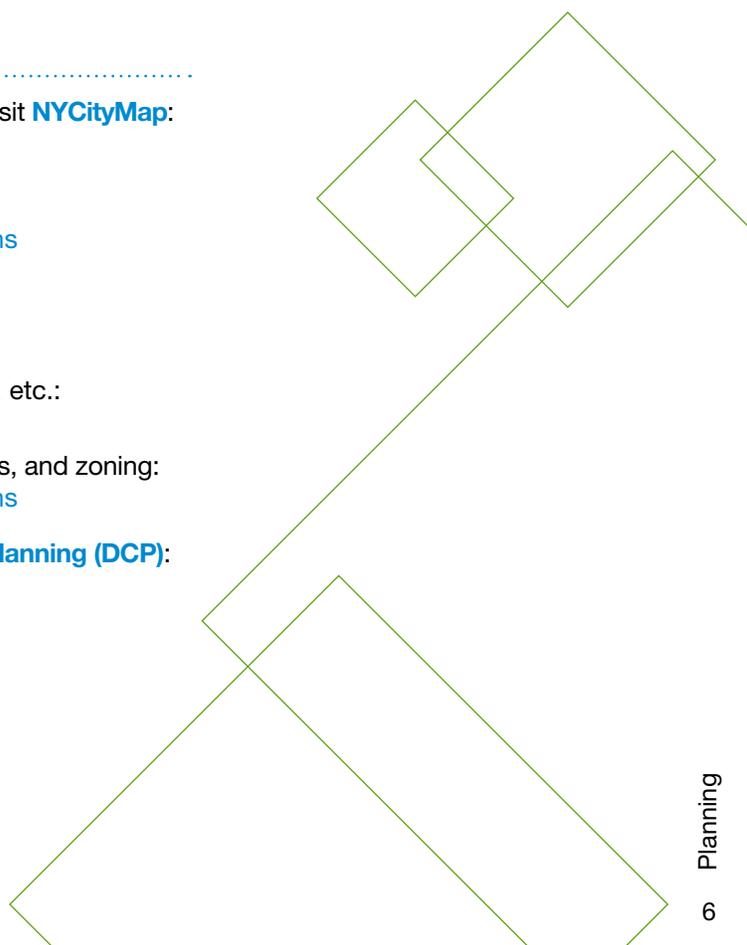
- » View information on right panel under [Searched Locations](#)

For additional zoning information, visit [Department of City Planning \(DCP\)](#):

- » Link: nyc.gov/planning
- » Select [Zoning](#)

For a list of [Business Improvement Districts \(BIDs\)](#):

- » Link: nyc.gov/biddirectory



Did you know?

Businesses located in New York City are eligible for a wide variety of incentive programs, including tax benefits, energy incentives, and wage benefits.

SBS offers one-on-one consultations to help small business owners identify City, State, and Federal incentives. To learn more, visit nyc.gov/incentives.

THE SPACE

Once you select a location, you can determine your space requirements. Consider these questions:

How much space do you need?

Different types of businesses need different amounts of space. You want only enough space to meet the needs of customers and to manage your operations. Unused or unnecessary space means unnecessary costs.

Is the layout important?

Some businesses or offices may need a large open area. Other businesses may need multiple offices or separate rooms. *For example, if you plan to open a clothing store, a space with a large open area can help customers see and navigate your entire selection. If your employees need privacy for phone calls or meetings, you may need a space with separate offices or the ability to add cubicles.*

Do I need lots of windows?

Spaces with few or no windows, or windows that do not face the street, are usually less expensive.

Do I need to be on the ground floor?

If you want customers to find and visit your business by seeing it on the street, a ground floor spaces with windows may be a good choice, even though they are usually more expensive. Second floor spaces are better for businesses whose customers are more likely to seek the business out. *For example, if your business is an office or expects customers to make appointments, a second floor location may be the better choice.*

Do I need space for storage?

Using commercial space for storage can be expensive. Basements can be a less expensive place for storage. Off-site storage facilities can also be a cheaper option than using commercial space for storage, but will take time and money to move items to and from the storage facility.

Do I need the ability to add space in the future?

It is not easy to predict how well your business will do. You may want to start with a smaller space with the option to expand in the future if your business grows. You may wish to negotiate an option in your lease to rent space next to yours if it becomes available.

Do I want a space already set up for my type of business?

Or am I willing to change it to my specifications?

Construction takes time and can be expensive. This is especially true if the space will need structural changes, such as building or removing walls. If you find a space that fits your needs and does not need much work, you will save time and money.

What utilities does my business need?

Make sure the location has access to enough electricity, natural gas, water, and internet access to run all of your equipment.

Does my business need special equipment?

For example, a restaurant may need refrigerators, ovens, and grease traps. Some spaces, such as a previous restaurant location, may already have the equipment you need. This will save you the cost of buying new equipment and connecting the equipment to [building systems](#).

Building Systems: These may include electrical, plumbing, gas, or air conditioning (HVAC) systems.

Is the building structurally sound with no leaks?

Inspect the space for any signs of problems such as large cracks or water damages. If you see a reason for concern, ask a professional, such as an architect, contractor, or engineer, to inspect the space.

Will I need to remove asbestos, mold or other hazardous materials before I can occupy the space?

Renting a space with hazardous materials that must be removed will increase the cost of preparing the space. Older spaces may contain asbestos, a fire-proofing material that is a health hazard. The law requires asbestos to be removed in a specific way that can increase the cost of renovation. Speak to a licensed professional to find out if the space has hazardous materials.

Can I lease an occupied space and wait for the current tenant to leave? Or do I need the space immediately?

A landlord will want to lease a space to a new tenant before the current tenant moves out, which ensures a steady income for the landlord. It is possible, however, that the current tenant may not leave when its lease term ends. The landlord can bring a lawsuit against the **holdover tenant**, but it may be weeks or months before the space is available. If you already signed the lease, you are required to take the space and start making rent payments once the space is available. To protect yourself, include a lease provision that allows you to cancel the lease if the space is not available by a certain date.

Do I want a direct lease with the landlord? Or will I accept a sublease from an existing tenant?

In some cases, commercial tenants can choose to lease their space to a secondary tenant through a sublease. These “primary tenants” act as “sublandlords.” If you sign a sublease, be aware that any violations by your sublandlord can lead to the landlord terminating your sublease. If you are paying rent to the sublandlord but the sublandlord fails to pay rent to the landlord, the landlord can evict you.

Whichever option you choose, be sure you know whether you are leasing directly from the landlord or from a tenant. You can check the identity of the landlord on the [NYCityMap](#).

Does the Certificate of Occupancy (CO) for the building allow my use?

How you use the space must comply with the legal uses allowed by the building’s CO. *For example, if you rent a space for a yoga studio and the CO says the space can only be used as an office, your use is not permitted. For your use to be legal, you will need to change the CO. Some landlords may not allow you to change the CO, and making changes can be expensive.*

Buildings built before 1938 may not have a CO. If this is the case, it is important to speak with a lawyer about your options.

Holdover Tenant: A tenant that does not leave the property after its lease ends.

Sublease: An agreement in which tenant leases property from another tenant (or “sublandlord”) instead of from the landlord directly.

Certificates of Occupancy (CO): Issued by NYC Department of Buildings (DOB), which states a building’s legal use and/or type of permitted occupancy. It is illegal to occupy a building before the DOB issues a CO or Temporary CO.



ADDITIONAL RESOURCES

To view a building’s Certificate of Occupancy, visit [NYCityMap](#):

- » Link: nyc.gov/citymap
- » Enter address at top
- » View information on right panel under [Searched Locations](#)
- » Under [Building and Property Information](#), select [Building Profile](#)



**TEAM OF
PROFESSIONALS**

If possible, consult with professionals from the start because they can help answer many questions and help negotiate a lease that protects your interests. It means more costs at the beginning, but will save money in the future. You can find professionals to help you at no or low cost. For each specialty, be sure to interview several professionals and hire the one who best suits your needs. Below are types of professionals you may want on your team.



REAL ESTATE BROKER OR TENANT REPRESENTATIVE

Purpose: Brokers and tenant representatives will show you potential spaces based on your desired location and space. They can offer information about the space's surrounding neighborhood, provide expertise on what parts of the lease the landlord may negotiate, and insight on how the landlord operates.

Timing: Look for a broker or tenant representative when you know your desired neighborhood(s) and are ready to look at potential spaces.

Where to find: Ask for recommendations from other business owners, trade associations, and local real estate broker association.

To check whether a real estate broker is licensed:

- » Link: dos.ny.gov/licensing
- » Select [Search Licensees](#), then select [Real Estate Industry](#)

Cost (Broker): The broker is only paid if the tenant signs the lease. The landlord usually pays a commission to the broker that is a percentage of the annual rent or equal to a number of months' rent. The amount depends on the length of the lease, the location, and the broker. The percentage usually varies over the course of the lease (e.g. for a five-year lease, the broker could be paid 5% of the first year's base rent, and 4% for the second through fifth years).

Cost (Tenant Representative): A tenant representative only represents your interests and not the landlord's interests. You pay a flat fee whether or not you sign a lease.



ARCHITECT

Purpose: An architect can help determine the space and layout your business needs, create a plan for the space, and make sure your space complies with building codes and other requirements. The architect can also supervise construction to ensure it is done according to the plans.

Timing: If you need to renovate the space, look for an architect before you sign the lease.

Where to find: Other business owners, broker or tenant representative.

Cost: Typically, the architect is paid a fixed fee.



ENGINEER

Purpose: An engineer helps determine whether the space has the technical requirements your business needs. This is necessary if your business requires alterations to the building systems or structure. *For example, some businesses may need special air conditioning or electrical systems.*

Timing: If your business requires alterations to the building systems or structure, you should work with an engineer before you sign the lease.

Where to find: Your architect, broker, or tenant representative.

Cost: Typically, the engineer is paid a fixed fee.



CONTRACTOR

Purpose: The contractor will construct your space according to the building plans created by your architect and/or engineer. They can make cosmetic repairs and alterations such as painting, repairing minor electric and plumbing problems, installing new floors, and building countertops.

The landlord often requires a licensed contractor to make alterations to electrical, gas, and plumbing systems. Most licenses are issued by the NYC Department of Buildings.

To confirm whether a contractor is licensed, visit: nyc.gov/buildings

- » Select [Business](#), then select [Business Resources](#) (on right)
- » Select [Licensing Information](#) (on left), then [online search tool](#)

Timing: If construction will change the building's structure or utility systems, you may need to hire a contractor after the architect develops plans. If the alterations are mainly cosmetic, you may not need an architect and can hire a contractor after you sign the lease.

Where to find: Your broker, tenant representative, architect, engineer, or landlord.

Cost: Contractors are typically paid either by a fixed fee or a percentage of the cost of the work.



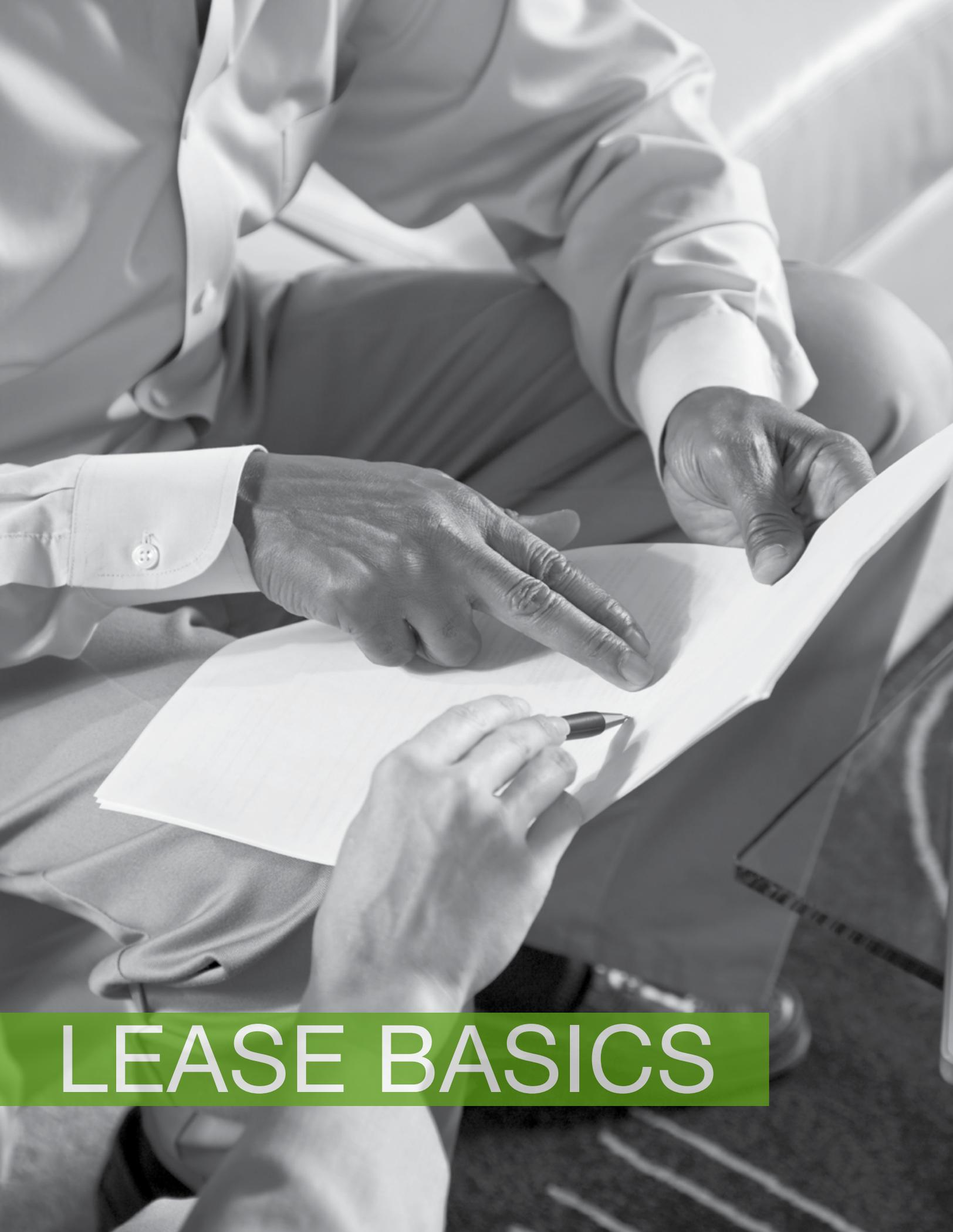
LAWYER

Purpose: The lawyer is your legal representative and is critical to protecting your rights. A lawyer reviews the lease to determine your responsibilities and liabilities under the lease. They can negotiate contracts with both the landlord and other professionals.

Timing: It is important to engage a lawyer early in the process, especially before you sign the lease. Even if your broker or tenant representative is negotiating the basic terms of the lease, a lawyer has additional expertise that can make the lease negotiation easier and faster.

Where to find: SBS staff can assess your lease needs and connect you to a pro bono lawyer for free legal consultation and lease review.

- » Link: nyc.gov/LegalAssistance



LEASE BASICS

A lease is an agreement between a landlord and a tenant that allows a tenant to occupy a space for a certain amount of time. **Commercial leases and residential leases have important differences.**



Residential Leases

- » Residential tenants have **protections under the law.**
Example: The landlord is required to make repairs and provide heat.
- » If an apartment is regulated, landlords are limited by how much they can increase rent.
- » If an apartment is regulated, landlords must offer to renew the lease.

VS.



Commercial Leases

- » A tenant's rights are almost all **governed by the lease.**
Example: Unless it is required by the lease, the landlord is not required to make repairs or provide heat
- » When the lease ends, the law does not limit how much the landlord can increase the rent.
- » The landlord is not obligated by law to renew the lease.

LEASE PROCESS

This section gives an overview of each step towards signing a commercial lease. Depending on the size of the space, the length of the lease, and how the landlord usually handles leases, you may not follow each of these steps.

REQUEST FOR PROPOSALS

Your broker or tenant representative will help you identify a desired location and the type of space you need. The broker will then gather information or proposals from multiple landlords for you to compare. Proposals usually include basic terms, including length of the lease, base rent, any additional rent, utilities, security deposit, and possibly other items discussed in detail below.

LETTER OF INTENT OR TERM SHEET

After gathering proposals, consulting with professionals, and discussions with landlords, decide which space you want. The next step is often to prepare a **letter of intent**, also called a term sheet, with the landlord. The letter of intent contains basic terms of the lease, such as rent amount, length of the lease, and security deposit that you and the landlord agreed to. The letter of intent is generally not a contract. Do not make payments to the landlord or start alterations before the lease is signed. Many important terms are on the lease itself. Once the term sheet is agreed upon, the landlord will usually have its lawyer prepare the lease.

Consult with your broker and lawyer before signing a letter of intent. It is important to include terms that are important to you because the landlord may not renegotiate those terms during lease negotiations. If the landlord will not agree to terms you need to operate your business, the space may not be a good fit for your business. Knowing this will save time and money negotiating a lease you won't sign.

For small spaces or short-term leases, the landlord may choose to skip a letter of intent and move right to the lease negotiation.

Letter of Intent: A letter between the tenant and the landlord that states the basic terms of the lease (ex. length, amount, construction) and that the tenant and landlord intend to enter into a lease together.

THE LEASE

The landlord will usually propose the first version or draft of the lease. Many commercial landlords use a template or form lease. The lease can be difficult to understand because of the way it is written, the length, and the small print. **This version will usually heavily favor the landlord.**

The lease should include the terms included in the term sheet but will contain many other important provisions. Carefully review the lease with a lawyer so they can explain your rights and obligations and help negotiate favorable terms for you.

You can negotiate changes to the landlord's offered lease terms. Write changes on the lease or add them in a separate document, called a "rider." The rider is attached to the lease and contains terms that add, clarify, or replace terms in the form lease.

You may only be able to negotiate a few changes to the landlord's offered terms. If your lease is for a small space, the landlord may be reluctant to make many changes to its lease. It is critical that professionals explain what these terms mean for your business.

The written lease will govern your relationship with the landlord. **Do not depend on oral statements from the landlord.** Everything you agree to with the landlord should be **written** in the lease. If a term is not included in the lease, it has no effect.

ASSIGNMENT & SUBLEASING

Even with careful planning, you may decide it is best for your business to move to a different space, maybe larger or smaller, or in another location, before the lease ends. Or you may decide you need to share the space with another tenant to help you pay the rent. You may also choose to close your business during the lease term.

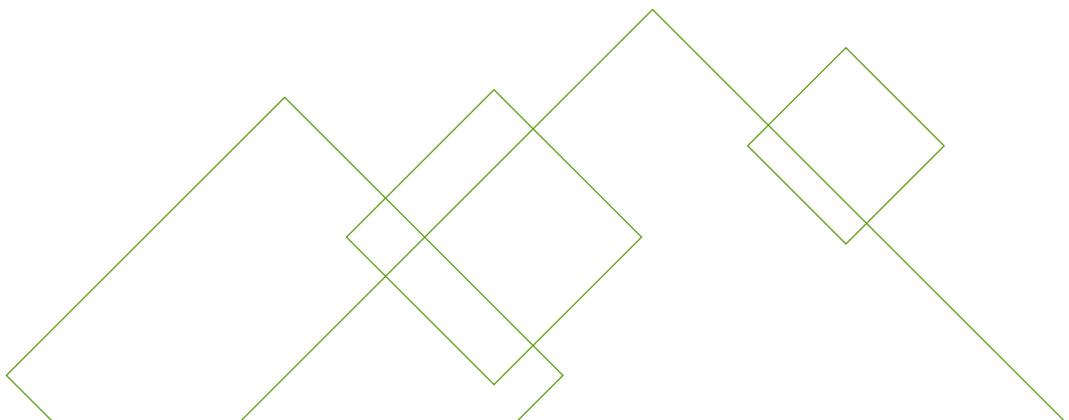
To reduce personal and business liability, you may want another business to take over your lease by **assigning** or **subleasing** the space to them. You can negotiate and include in the lease to have the right to assign the lease or sublet the space. Most landlords will only permit an assignment or sublet with its prior written consent. You can, however, negotiate a provision in the lease that requires the landlord to be reasonable in giving its consent.

Whether you assign the lease or sublet the space, you still have obligations and liabilities under the lease. If the new tenant fails to pay rent, you, the original tenant, will be responsible for the unpaid rent. The same is true if a subtenant does not pay rent.

Landlords will sometimes allow assignments or subleases to companies that are affiliated with the original tenant. *For example, if you sell your business to a new owner who continues to operate the business with no substantial changes.*

Assignment of a Lease: An arrangement in which the rights and obligations of the original tenant are transferred to the new tenant. The new tenant pays rent to the landlord.

Sublease: An arrangement in which the tenant rents its space to a subtenant. The subtenant pays rent to the tenant. The original tenant remains the tenant under the lease and pays rent to the landlord.





TERMS OF THE LEASE

The basic financial terms of the lease may have a significant effect on your business's success. These terms include the base rent, additional rent, length of the lease, permitted uses, and utilities.

BASE RENT

Rent is often divided into separate categories. Base rent is the minimum rent that the tenant owes the landlord each month for occupying the space.

Base rent is usually calculated as an annual amount. The amount is determined by multiplying the size of the space by a dollar amount. This is what "rent per square foot" means. The rent per square foot is generally determined by the market. The landlord will charge what other landlords are charging for similar space in similar areas. The size of the space is usually the square footage of the space plus a portion of common areas, such as common hallways or bathrooms. The addition of this common space turns the "usable" area of the space into the "rentable" area. The rentable area is then multiplied by the dollar amount per square foot to determine the base rent.

Usable vs. Rentable Area: The usable area is the space that you control. Rentable area includes the usable area plus a portion of the common areas.

Usable Area:

	Entrance	
Your Space	Common Hallway	Other Tenant

Rentable Area:

	Entrance	
Your Space	Common Hallway	Other Tenant



TIP: Measure the space yourself (or ask your architect) so you know the exact amount of usable area. To determine the rentable area, ask the broker or landlord which spaces are common areas, their square footage, and the percentage you will need to pay.

EXERCISE: CALCULATING BASE RENT



$$\begin{array}{l} \text{Square footage of usable area} \\ + \\ \text{Your portion of square footage of common area} \end{array} \times \text{Price Per Square Foot} = \text{Base Rent}$$

Example Rent Calculation

An office space has **1,000 square feet (sq. ft.)** of usable area. The rent is **\$50** per square foot. The tenant is also responsible for **10%** of **1,000** square feet of common space.

1. Calculate your share of the common area:

Square footage of common area	×	Your portion of the common area	=	Your share of common area
1,000 sq. ft.		0.10 (10% of common area)		100 sq. ft.

2. Calculate the rentable area:

Square footage of useable area	+	Your sq. ft. portion of the common area	=	Rentable area
1,000 sq. ft.		100 sq. ft.		1,100 sq. ft.

3. Calculate the total yearly rent:

Rentable area	×	Price per square foot	=	Total yearly rent
1,100 sq. ft.		\$50 sq. ft.		\$55,000

The yearly base rent is **\$55,000**. The monthly rent is **\$4,583.33**.

Operating Expenses: A landlord spends a certain amount of money per year operating a building. This includes maintaining and insuring the building. The landlord looks to tenants to recover these costs.

Real Estate Taxes: Property taxes that the landlord owes to New York City.

ADDITIONAL RENT

The landlord will likely require you to pay costs in addition to the base rent. This is because the landlord's own expenses, such as the property's **operating expenses** and **real estate taxes**, will likely increase over time, and landlords generally prefer for tenants to cover a part of these expenses.

The additional rent takes various forms. Your lease may make you responsible for paying one or a combination of the following:

1. A share of the increase in operating expenses;
2. A share of the increase in real estate taxes;
3. A fixed annual percentage increase of the base rent (e.g. 3% each year); or
4. An additional rent increase based on some other measure (e.g. increased wages for building staff).

To plan for these expenses, ask the landlord or broker for an estimate of additional costs.

To find past real estate tax assessments, visit [NYCityMap](#):

- » Link: nyc.gov/citymap
- » Enter address at top
- » On right panel under **Building & Property Information**, select **Tax & Property Records**

LEASE TERM

The lease term is the period of time you are allowed to occupy the space. There are several factors to consider when deciding on a lease term.

Short-Term vs. Long Term-Leases

Short-Term (5 years or less)

Advantages

- » Limits the length of your obligation if the business does not succeed or you decide to move.

Disadvantages

- » No guarantee that the landlord will renew the lease.
- » If you will pay a substantial amount to alter the space, you may not want a short term lease in case the landlord chooses not to renew the lease.

Takeaway

A short-term lease may be a good option for a new business or a business that is less certain whether they will be successful.

Long-Term (more than 5 years, often 10+ years)

Advantages

- » Provides the stability of knowing that your business will have a space, and your base rent will not increase for a long period of time.

Disadvantages

- » You are responsible for the rent for a longer period of time even if your business fails or you want to move to another location.

Takeaway

A long-term lease may be a good option for an established business that has a history of success and believes it will operate for many years.

RENEWAL OPTIONS

Commercial landlords are not required to renew your lease. Once your lease ends, the landlord is also permitted to ask for any amount of rent.

Protect yourself against a high increase by negotiating for an **option to renew** in your lease. Options for how to determine the increased rent include a **fixed rent** increase or a “market” base rent, also called **fair market rent**.

Fixed rent is a fixed amount your rent will increase each year. Typically the increase is 2-3% each year.

Fair market rent is determined by looking at similar prices to rent in the same area. Consider asking the landlord to set a limit to the increase. The limit could be a fixed amount or a percentage of fair market rent (e.g. 90% or 95%). If you and the landlord cannot agree on the fair market rent, it is typical to designate a neutral broker or appraiser to determine the market rate.

If your lease does not have an option to renew and you want to stay in your space, contact your landlord well before your term will end to request that they renew the lease. If you are a good tenant, the landlord may be motivated to extend the term at a reasonable rent.

Option to Renew: Tenant has the option to renew at the end of the lease. The most common commercial lease term is 10 years with an option to renew for another 5 years.

How can I be a good commercial tenant?

- ✓ Pay your rent on time each month
- ✓ Do not violate the lease
- ✓ Be respectful of neighbors, especially regarding noise
- ✓ Quickly contact the landlord when building systems need repair, such as a leaking roof or burst pipe

PERMITTED USE

The lease describes how your business can use the space. It is important that the lease has a clear statement of which type(s) of business(es) may operate in the space. This is called the “**permitted use**.”

For a retail business, the lease should permit your specific use, but the landlord should allow a reasonable expansion of the use. *For example, if you operate a pizza parlor, you may want the option to expand into a full service restaurant with the right to sell alcoholic beverages. In this case, the permitted use provision should say “restaurant” and not specifically “pizza parlor.” For an office business, the lease can allow for any office use.*

Sometimes retail businesses will include “**exclusives**” in the lease. These “**exclusives**” prohibit the landlord from renting another space in the building to a similar type of business. For example, in a shopping center or mall where landlords want a variety of businesses, the landlord may be more restrictive about the types of businesses. Most landlords, however, will resist giving a tenant an exclusive unless it is a large tenant.

Permitted Use: The part of the lease that describes the types of uses permitted in the space.

UTILITY CHARGES & SERVICES

When comparing and deciding among spaces, the method of paying for utilities is an important cost factor.

Electricity: The primary utility expense is electricity. You will typically pay for electricity as a separate and additional charge from the rent. There are two different ways you, the tenant, can pay for electricity:

Direct Meter: A main (master) meter installed by the utility company that measures the tenant's usage.

Submeter: A secondary meter that the landlord uses to measure and bill the tenant for their usage.

1. **Direct meter** – You obtain electricity directly from the utility company. This is usually the least expensive option and is called “**direct meter**.”
2. **Submeter** – The landlord charges you based on your actual usage, as measured by a “**submeter**.” The landlord reads the meter and directly bills you. The cost is based upon utility company charges the landlord plus an additional administrative charge. If a submeter is installed, the lease should state who is responsible for the cost of installation.

Other Utilities: Water, sewage, heat, and gas are less costly and are usually charged by a fixed amount or by meter. If usage is low, such as normal bathroom usage, the landlord may cover that cost in the base rent or will determine a fixed charge. If usage is high, the landlord may not want to take the risk of a fixed charge, so will measure and charge you for actual usage.

A landlord is only responsible for providing utilities and services agreed to in the lease. Your lease should provide electricity, water, heating, air conditioning, passenger and freight elevator service (unless you are on the ground floor), and potentially gas, cleaning, and directory listings.

Costs



The landlord usually provides heating and air conditioning either through a building system or a unit only for your space. The landlord is only required to operate the building-wide heating and air conditioning systems during hours stated in the lease. If you require these systems to operate after those hours, you need to notify the landlord, who will usually charge an overtime charge.

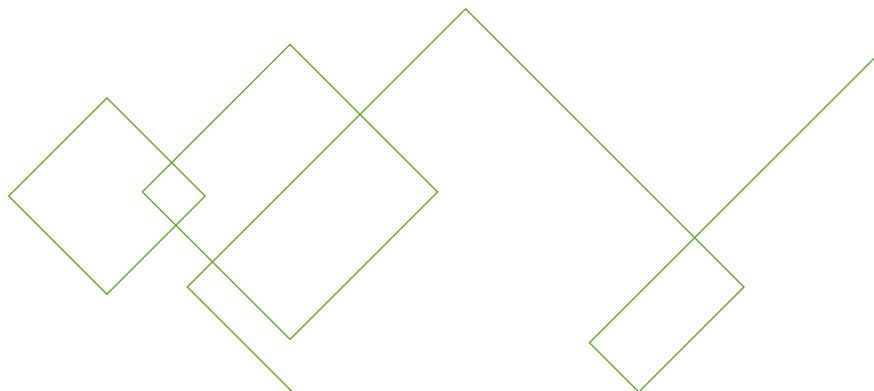
If heating and air conditioning is provided through a unit that only serves your space, you will usually control the hours you use the unit. However, you will likely be required to repair, maintain, and replace the unit.

Interruptions



The lease can also address how quickly a landlord must respond to utility interruptions they cause. If the leased space is small, most landlords will not agree to a specific time period. In a large space lease, you may be able to negotiate a time period that the landlord must respond to the interruption. Three (3) to ten (10) days is typical. You can negotiate a reduction in rent payment until the problem is fixed if the landlord does not fix the issue within the time period.

In some cases, you may also be able to negotiate for the right to terminate the lease if the interruption continues for a much longer period, typically 30 days. The landlord will usually limit these rights to interruptions that are the fault of the landlord and not the utility company.



SECURITY DEPOSIT

The landlord will generally require you to pay a security deposit when you sign the lease. Discuss the security deposit if you have the option at the term sheet stage. The security deposit protects the landlord if you fail to pay rent or violate the lease. The security deposit is refundable, but the landlord will hold the deposit on your behalf during the term of the lease. The landlord may deposit the money in a bank account that earns interest. In such case, you may receive the interest when the landlord returns the security deposit.

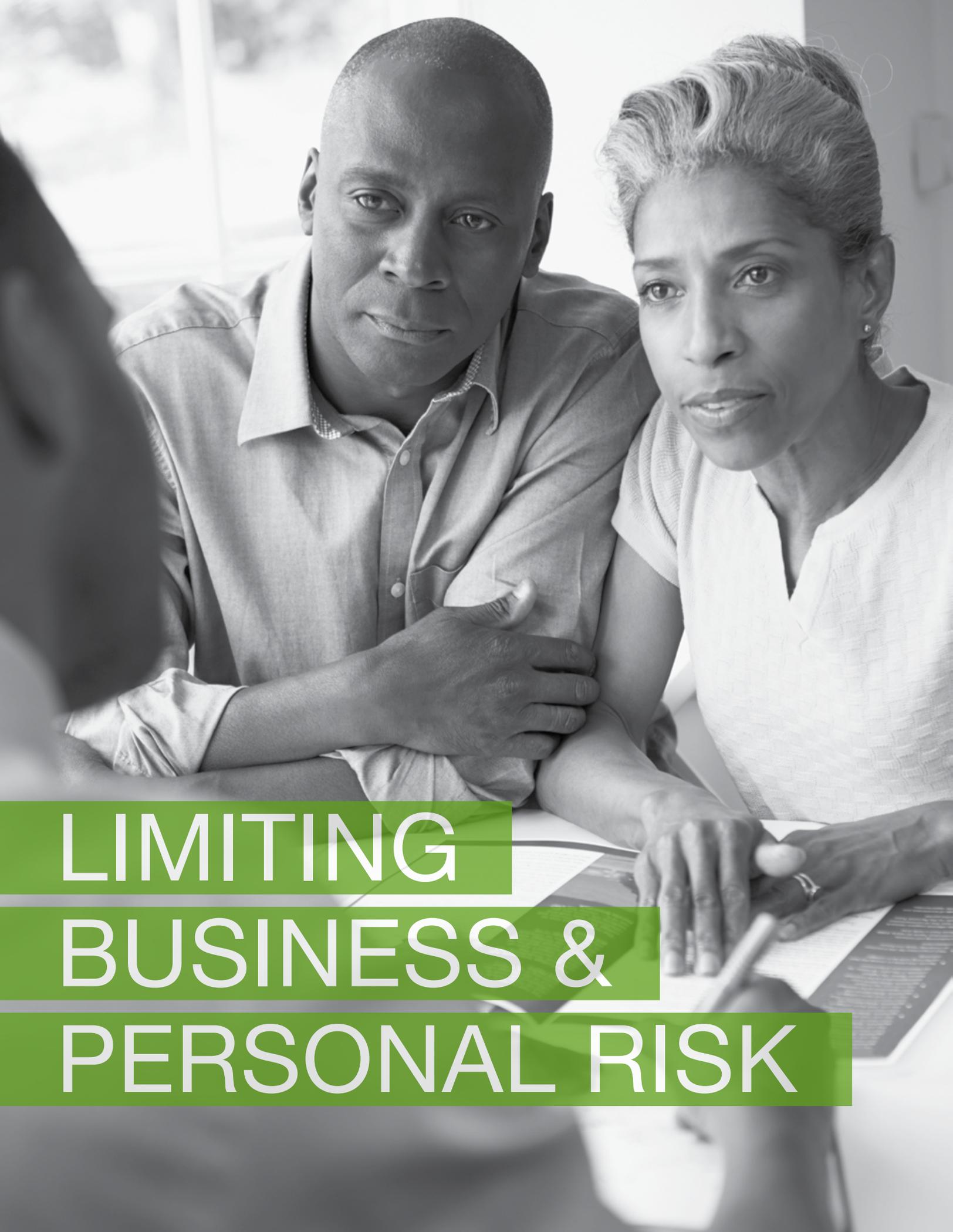
The amount of the security deposit is based upon several factors:

- 1.Amount of the base rent
- 2.Your business's financial condition. If your business has little or no financial history, or have limited access to cash or credit, the security deposit may be quite large. In this case, the landlord may be willing to negotiate returning part of the security deposit after a few years if your business is successful.
- 3.Whether you provided a guaranty (discussed on next page).

The security deposit is usually equal to a number of months' rent. The number of months is commonly two, but it depends on factors listed above. The landlord may also require a **letter of credit** from an acceptable bank as the security deposit instead of or in addition to cash.

At the end of the lease term, the landlord should refund the security deposit if you leave the space in the condition required by the lease, and do not owe the landlord any money under the lease. The landlord will usually refund the security deposit 30 to 45 days after you vacate the space.

Letter of credit: A document through which the bank guarantees they will pay the security deposit if the tenant is unable. The bank charges a fee and may require collateral, such as a mortgage on your home.



LIMITING
BUSINESS &
PERSONAL RISK

This section includes the most important ways to limit your business and personal risk in regards to a commercial lease. A combination of these will likely be necessary to adequately protect you and your business. The landlord will also try to limit its risk around the points below, so careful negotiation of each is important.

TENANT ENTITY

If you have a business entity, such as a corporation or a limited liability company (LLC), you can sign the lease as the business to avoid personal liability. The business, not you, is the tenant and is called a **tenant entity**. Ideally, the tenant entity would be separate from your main business entity, and its sole purpose would be to sign the lease.

The advantage of a tenant entity is that claims by the landlord or a third party against the tenant are generally limited to that entity. The disadvantage is that entities can be expensive to set up and maintain. A tenant entity with low **financial worth** will require a significant security deposit. It can also require a personal guaranty, which will place personal liability on you.

GUARANTY

Even if the business entity is the tenant according to the lease, a landlord may require you, the business owner, to provide a personal guaranty. This means you agree to be **personally** responsible for obligations under the lease. A guaranty of **all** of obligations of the tenant is considered a “full guaranty.” A “**good guy guaranty**” is a “partial guaranty.”

Whether the landlord will require a guaranty depends on these factors:

1. The financial condition of the tenant entity. If the business is new and has no history or financial worth, the landlord will likely require a guaranty. If the business has high financial worth, the landlord may not require a guaranty.
2. The amount of the security deposit. If you are able to provide a large security deposit, the landlord may not require a guaranty.

If a full guaranty is not required, the landlord may still require a “good guy guaranty.” If the tenant entity (e.g. the business) **defaults** under the lease and vacates the space, the guarantor (e.g. the business owner) is not personally responsible for the rent for the time after you vacate. The tenant entity that signed the lease, however, can still be responsible for the remaining rent.

If any of the following provisions are in a lease, it does not have a true “good guy guaranty.” **Avoid provisions that would require you to:**

1. Pay the entire balance of unpaid rent under the lease (“accelerated rent”);
2. Make extra repairs or improvements (“performance obligations”); or
3. Repay the landlord for any tenant improvement allowance, rent abatement/free rent, or real estate broker’s commission.

Tenant Entity: An entity you create that will be the tenant under the lease.

Financial Worth: Calculated by adding the value of business assets and property and subtracting liabilities and debts.

Good Guy Guaranty: The guarantor is personally responsible while the business is operating in the space. Once the space is vacated, they are no longer personally liable.

Default: A violation of your responsibilities under the lease.

Commercial General Liability

Insurance: Protects your business from lawsuits for physical injuries.

Property insurance: Covers damage to personal property and to the space when caused by fire, theft, vandalism, or some natural weather events.

Indemnification: Agreement by a person or entity to be responsible for loss or damage.

INSURANCE

Insurance limits your risk by protecting your business against claims for personal injury or property loss. Your landlord will likely require you to maintain insurance. At a minimum, you will usually need **commercial general liability insurance** and **personal property insurance**. If your business is in a flood zone, you may also need to purchase flood insurance. Speak to a licensed insurance broker about the types of insurance to best protect your business.

Your landlord may require you to name additional insured parties on your policy including the landlord, property manager, and mortgage lender of the landlord. This protects additional insured parties if a claim against them is your fault as the tenant.

Additionally, obtain business interruption insurance to cover lost income if your business is closed temporarily because of damage to your space. Such insurance may only cover damages that result from some accidents and not others. Review provisions thoroughly before making a decision.

INDEMNIFICATION PROVISIONS

Leases contain **indemnification** provisions which determine who is responsible when there is an incident in your space and on the property. Generally, these are incidents that result in injury or damage.

The landlord does not want to be responsible for anything that occurs inside your space. You do not want to be responsible for anything that occurs on the property outside your space. To address these concerns, leases should contain indemnification provisions.

The landlord should agree to protect you against claims from incidents that occur in areas of the property it controls. Exceptions are those incidents that are your fault. *For example, if you spill water in a shared elevator and someone slips and falls, you will be liable for the personal injury claim.*

As the tenant, you protect the landlord against claims from incidents that occur inside your space. Exceptions are those incidents that are the landlord's fault. *For example, if the landlord makes a negligent repair in your space and someone is injured, the landlord will be responsible.*

CONTINGENCY TERMINATION PROVISIONS

If your business requires a certain license or permit, consider including a contingency provision. This is the right to end the lease early if you are not able to get the license or permit despite reasonable efforts. *Examples include liquor licenses, day care licenses, and certificates of occupancy.*

The landlord will likely require you to show proof of reasonable efforts to obtain the license or permit. This may mean working with a professional to apply for the permit or license, submitting an application to the appropriate agency, and tracking your communications with the agency.



ADDITIONAL RESOURCES

SBS staff can help you find a lawyer to help you with creating a business entity. To learn more, visit: nyc.gov/LegalAssistance

To check an insurance broker's license, visit: dfs.ny.gov

» Select **Consumers** then **Insurance Products**

» Select **Producer/Licensee Search** (at bottom)



ALTERING THE SPACE

It is rare for a space to meet all of your needs without some alterations. During the term of the lease, you may also want the ability to further alter the space.

INITIAL ALTERATIONS: WHO PERFORMS AND WHO PAYS?

When evaluating a space, consider how much time and money alterations will require and when you can begin operating. Here are some questions to consider:

- » What is the estimated cost of the alterations?
- » When would I *like* to start using the space? When do I *need* to start using the space?
- » How long will it take the architect and engineer to prepare alteration plans?
- » How long will it take the landlord to review plans?
- » What governmental permits and approvals are needed before beginning construction? How long will it take to get all required permits and approvals?
- » Are there any special approvals I must obtain that could extend the approval process?
- » Will I need approval from the Landmarks Preservation Commission, co-op board, or condominium association?
- » When will the space be available to begin construction?
- » How long will it take to build out the space?
- » Do I need to get any approvals from governmental agencies upon completion of the work, but before occupying the space?
- » What will happen if there are construction delays and I am unable to open on time?
- » Once construction in the space is complete, how long will it take to prepare the space to operate my business? Do I need to factor in time to stock the space?

In many leases, a landlord will only perform minimal alterations to the space before the tenant moves in. *Examples include putting up walls if a large space is split into smaller units or repairs to building systems.* You will usually be responsible for other desired alterations such as floor and wall coverings. If you need extensive alterations, negotiate these terms at the term sheet stage.

Tenant Improvement Allowance:
Amount the landlord is willing to pay for initial alterations.

If substantial alterations to the space are needed, decide whether you or the landlord will perform the work and who will pay. A common option is the landlord makes the alterations and you pay part of the expense. If you make the alterations, the landlord may provide a **tenant improvement allowance** to cover some or all of the costs.

If the landlord makes substantial alterations, you can negotiate the right to review and approve the plans. If you make the alterations, the landlord will want to review and approve the plans. The landlord may charge a fee to review construction plans or supervise work. You can negotiate a limit to how much the landlord can charge and require the landlord to review the plans in a reasonable time period.

RENT ABATEMENT

If you need time to make alterations, the landlord will often agree to a rent abatement. A rent abatement applies to a period of time at the beginning of the lease when no rent is due. Rent abatements are common and best discussed with the landlord during the term sheet stage.

PERMITS & LICENSES

Before beginning significant alterations, you may need to obtain permits and approvals from governmental agencies. Your licensed professionals will determine which permits are necessary for the work and will prepare and submit the applications for permits and approvals on your behalf.

SBS can help facilitate licensing, permitting, and inspections needed to open your business. To make an appointment, call [311](tel:311) or visit nyc.gov/businesssolutions.

To learn more about permits and approvals, visit: nyc.gov/NavigatingGov.

BUILDING CODES

Require the landlord to deliver the space in compliance with all applicable laws. Certain governmental agencies may not permit alterations to start until the space complies. Any time you make alterations to the space, the landlord will require the alterations to comply with the law.

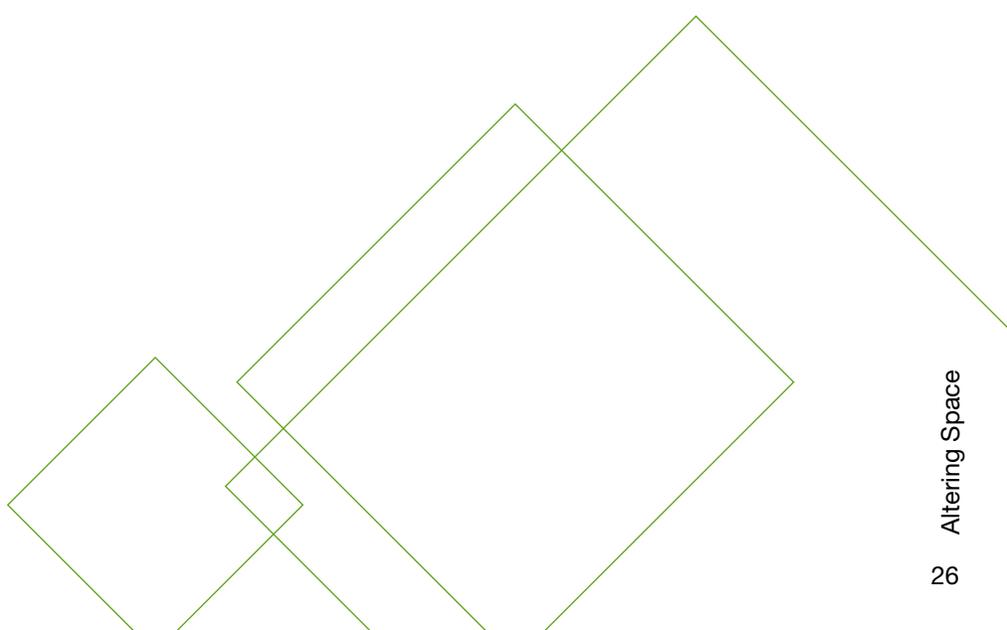
If your space is open to the public, you will likely need to comply with [Americans with Disabilities Act](#). An architect can help you understand these requirements.

Some types of businesses may have additional building code requirements. *For example, day care centers must follow specific rules about the number and height of toilets and sinks.* The NYC Department of Buildings, your architect, engineer, or code consultant can help determine these requirements.

Americans with Disabilities Act (ADA): The ADA is a law that prohibits discrimination against people with disabilities, making sure spaces open to the public are accessible to the disabled.

ALTERATIONS DURING THE TERM

Most landlords will allow you to make cosmetic or decorative alterations to the space without its approval. There will often be a limit to the cost and type of alterations you can make. While painting and installing wall or floor coverings are unlikely to require landlords' approval, most others will. This should be written in the lease. The landlord will always require review and approval of alterations that require a permit or affect any building systems.



RETURNING THE SPACE TO THE LANDLORD

Most leases require the space to be left in good condition, free of personal property, swept with a broom (“broom-clean”), and with certain tenant alterations removed. Avoid any agreement to restore the space to its original condition. Your lease should allow for reasonable wear and tear.

The lease may require you to remove certain “specialty alterations” (such as kitchens, staircases, and showers) at the end of the lease. A landlord will often agree that you should only remove an alteration if it was required when the alteration was approved. You will usually be required to repair any damage caused by the removal of your property and alterations.

Unless otherwise written in the lease, you must remove all furniture at the end of the lease. Usually a landlord will require you to leave all **fixtures**, but generally **trade fixtures** remain your property. This should be written in the lease. Any furniture or personal items left at the end of the term become the property of your landlord, or the landlord may charge you to remove them.

Fixture: Anything you attach to the property that is fixed in place and would damage the property if removed (ex. counter).

Trade Fixture: Personal property used for a business purpose and detachable from the space (ex. soda machine).



ADDITIONAL RESOURCES

To see whether a building is landmarked, visit: nyc.gov/landmarks
» Enter the building address under [Landmark Search](#)

For information on permits and buildings codes, visit: nyc.gov/buildings
» Select [Codes](#)



END OF LEASE

It is equally important to review the lease when you end it as when you sign it. Know what your obligations are when returning the space to the landlord, including any alterations that need to be removed or repairs needed.

LEASE RENEWAL

Landlords are not required by law to renew a lease or engage in renewal negotiations unless it is specified in the lease. New York also does not have commercial rent regulation, which means landlords can raise the rent however much they want in the renewal offer, unless there are specific renewal provisions in the lease.

DEFAULT ON THE LEASE

A default occurs when a landlord or tenant violates the lease. *Examples of default include failure to pay rent or utilities, placement of a **lien** on the property, or cases when the tenant abandons the space.*

You can negotiate a provision in the lease that requires the landlord to provide written notice of any default. This can include the opportunity to cure, or fix, the default. Landlords are less likely to agree to provide notice of defaults on rent payments since you know when the rent is due and whether you paid. Landlords are more likely to agree to provide notice of failure to make a required repair. Depending on the type of repair, they usually give you 15 to 30 days to complete the repair.

A court will not extend a commercial lease after it is terminated. You may, however, have some legal protections that will allow you to delay a termination and cure (fix) the default. If you receive notice of default, consult an attorney immediately because options are time-sensitive.

Lien: Claim against a property for an unpaid debt. For example, a construction company may place a lien against the property during a payment dispute.



ADDITIONAL RESOURCES

For information on finding an attorney, visit: nyc.gov/LegalAssistance



SUMMARY & TAKEAWAYS

Careful planning with a team of professionals when choosing a space and signing a lease is critical to a business's success. Once you are ready to negotiate the term sheet and lease, you must understand all of the terms, including your responsibilities and the landlord's. When preparing your negotiation, determine the most important concerns for your business and consider what you can and cannot accept in a lease.



COMMERCIAL LEASING DO'S AND DON'TS

✓ Do

- ✓ Identify what your business needs in a space and what you can afford before you sign a lease.
- ✓ Work with professionals (brokers and tenant representatives, lawyers, architects, and engineers).
- ✓ Consider the complexity and timing of build-out when deciding the start date of a lease term.
- ✓ Determine whether your business will need special licenses or permits to operate.
- ✓ Negotiate a lease term that guarantees the option to renew.
- ✓ Figure out how much additional rent you will need to pay.
- ✓ Consider negotiating a "good guy guaranty" to reduce your liability.
- ✓ Be clear who is responsible for expenses and liabilities.
- ✓ Buy insurance.

✗ Don't

- ✗ Rely on oral agreements or a letter of intent.
- ✗ Sign a "standard lease" without understanding your responsibilities.
- ✗ Sign a lease without trying to negotiate terms more favorable to you.
- ✗ Sign the lease in your own name without conditions.
- ✗ Trust the landlord knows the space's permitted uses and restrictions.
- ✗ Assume the landlord is required to make repairs or provide heat, water, electric, or other utilities free of charge.



SAMPLE TIMELINE

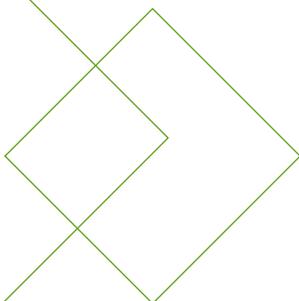
Timing of the commercial lease process will depend on factors discussed in this guide. Factors include the type and size of space, extent of alterations, and types of permits needed. Below is a sample timeline of the process from start to finish.

Note this is a *sample*:

- » Your process may be longer or shorter.
- » You may not need each step.
- » You may not need to complete each step in this order.
- » Some steps can be completed at the same time.

The right column of the timeline is blank for you to estimate how long each step may take.

Steps toward opening your business	Time estimate
Consider and research what your business will need from a location and space	
Interview and decide on a real estate broker and/or tenant representative	
Look at potential spaces and choose ones that meet most of your needs	
Ask broker for proposed basic lease terms	
Hire an architect and/or engineer	
Consult with the architect/engineer about whether the space will work for you	
Interview and hire a lawyer	
Draft a term sheet with the landlord	
Architect draws up plans for the space	
Research insurance options and costs	
Negotiate and sign the lease	
Review architect plans and submit them to the landlord for review	
If you need a government permit to make the alterations, hire a code consultant	
Submit plans to NYC Department of Buildings	
After approval, interview and hire a contractor	
Construction (<i>this will vary significantly</i>)	
If necessary, schedule inspections	
Minor and decorative alterations, move-in furniture	





CHECKLIST & ADDITIONAL RESOURCES

SBS help businesses start, operate, and grow by:

- » Connecting entrepreneurs to free resources ranging from business courses to legal services
- » Explaining government rules and regulations
- » Helping entrepreneurs apply for funding to launch or grow a business

GETTING STARTED

- Learn about free resources and classes for small business owners in NYC.
NYC Department of Small Business Services (SBS)
 - » Link: nyc.gov/sbs
- Find a commercial lease education course:
 - » Link: nyc.gov/businesscourses
- For assistance with pro bono legal consultations for commercial leases, contracts, business development, finance, navigating government, licensing, permits, and inspections contact SBS:
 - » Link: nyc.gov/businesssolutions
 - » Select **Operate & Grow**, then select **Contact us for more information**
 - » Or Call: 311
- Learn about licenses, permits, certifications, and regulations:
 - » Link: nyc.gov/business
 - » Select **Start a Business**
- Find out if you qualify for City, State, or Federal Government incentives:
 - » Link: nyc.gov/incentives

LEASING COMMERCIAL SPACE

- Research the neighborhood:
 - NYC Business Atlas**
 - » Link: maps.nyc.gov/businessatlas
 - NYCityMap**
 - » Link: nyc.gov/citymap
- Engage a real estate broker, and verify they are licensed:
 - NYS Department of State Division of Licensing Services**
 - » Link: dos.ny.gov/licensing
 - » Select **Search Licensees**, then select **Real Estate Industry**
- Check the Certificate of Occupancy, including the building's legal use and/or type of permitted occupancy:
 - NYC Buildings**
 - » Link: nyc.gov/buildings
 - NYCityMap**
 - » Link: nyc.gov/citymap
 - » Enter address at top
 - » View information on right panel under **Searched Locations**
 - » Under **Building and Property Information**, select **Building Profile**

- Determine the zoning designation of the property you want to lease and verify applicable zoning restrictions:
 - NYC Buildings**
 - » Link: nyc.gov/buildings
 - NYCityMap**
 - » Link: nyc.gov/citymap
 - » Enter address at top
 - » Zoning information is on right panel under [Building & Property Information](#)

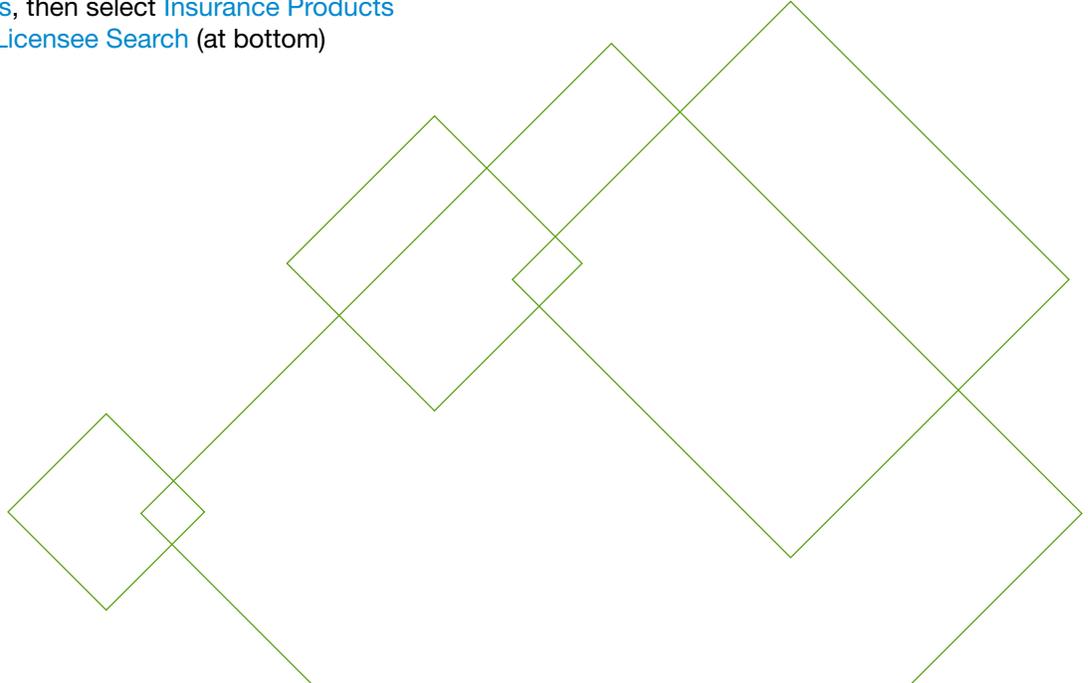
- Check landlord identity and building and property information:
 - NYCityMap**
 - » Link: nyc.gov/citymap
 - » Enter address at top

- Determine if property tax is due on the building:
 - NYC Finance**
 - » Link: nyc.gov/finance
 - » Select [Property Records](#)
 - NYCityMap**
 - » Link: nyc.gov/citymap
 - » Enter address at top
 - » Select [Tax and Property Records](#) (right bottom)

- Have the lease reviewed by an attorney. SBS staff can connect you to a pro bono attorney for free assistance with the lease:
 - NYC Department of Small Business Services (SBS)**
 - » Link: nyc.gov/LegalAssistance

- Consider creating an entity that will be the tenant on the lease:
 - NYS Department of State**
 - » Link: dos.ny.gov/corps
 - SBS staff can connect you to a pro bono attorney for free assistance with entity formation:
 - NYC Department of Small Business Services (SBS)**
 - » Link: nyc.gov/LegalAssistance

- Check a insurance broker's license before purchasing commercial general liability insurance and property insurance:
 - NYS Financial Services**
 - » Link: dfs.ny.gov
 - » Select [Consumers](#), then select [Insurance Products](#)
 - » Select [Producer/Licensee Search](#) (at bottom)



CONSTRUCTION

- Identify and engage professional assistance from architect, contractor, and/or engineer. See pages 10-11.
- Check if a contractor is licensed:
NYC Department of Buildings
 - » Link: nyc.gov/buildings
 - » Select **Business**, then select **Business Resources** (on right)
 - » Select **Licensing Information** (on left)
 - » Select **Online Search Tool**
- Have a professional review the lease to ensure construction plans are permitted. See pages 10-11.
- Have a professional submit construction plans to landlord if required by the lease.
- Have a professional submit applications to relevant government agencies.

OTHER HELPFUL LINKS

- Consider business incubators and co-working spaces if you seek temporary, low-cost space and networking opportunities:
NYC Economic Development Corporation
 - » Link: nycedc.com/service/incubators-workspace-resources
- Review potential equity, financing, and incentives programs available for your business. Search online for a local economic development corporation or small business development centers:
NYC Economic Development Corporation
 - » Link: nycedc.com
- Review rules for liquor licenses and apply for one if you wish to serve liquor at a food and/or drinking services establishment. Consider consulting an attorney who specializes in procuring liquor licenses because of the process's length and complexity:
NYS Liquor Authority
 - » Link: sla.ny.gov



GLOSSARY OF TERMS

Accelerated Rent: Lease provision giving the landlord the right to demand the entire balance of unpaid rent

Additional Rent: Any costs for a tenant in addition to the base rent (most often a share of the operating expenses) due to the landlord

As-is: A term used to describe the state of the space upon landlord's delivery, and tenant's acceptance of the space, in its present, unaltered, or improved condition

Assignment: When the tenant vacates a property and turns over the remainder of the lease to another party through a contract

Base Rent: The minimum fixed rent due to the landlord under the terms of a lease agreement

Broker: A guide to the local real estate market and neighborhood

Brokerage Commission: Money that the landlord pays to the broker for finding a tenant for the property

Business Interruption: Insurance in case of a disaster and a disaster-related closing (ex. extended power outages). A policy usually will cover lost profits and operating expenses still being incurred

Casualty and Liability Coverage: Casualty insurance covers injuries and crimes that occur on the premise. Liability insurance covers injuries caused by an owner or employee or injuries caused by your product

Certificate of Insurance: A document from the insurance company verifying your insurance coverage

Certificate of Occupancy: NYC Department of Buildings (DOB) issues Certificates of Occupancy (CO) which state a building's legal use and/or type of permitted occupancy. No one may legally occupy a building until the DOB issues a CO or Temporary CO

Commencement Date: The date on which the lease term begins. This date is often the day that the tenant takes possession of the leased space

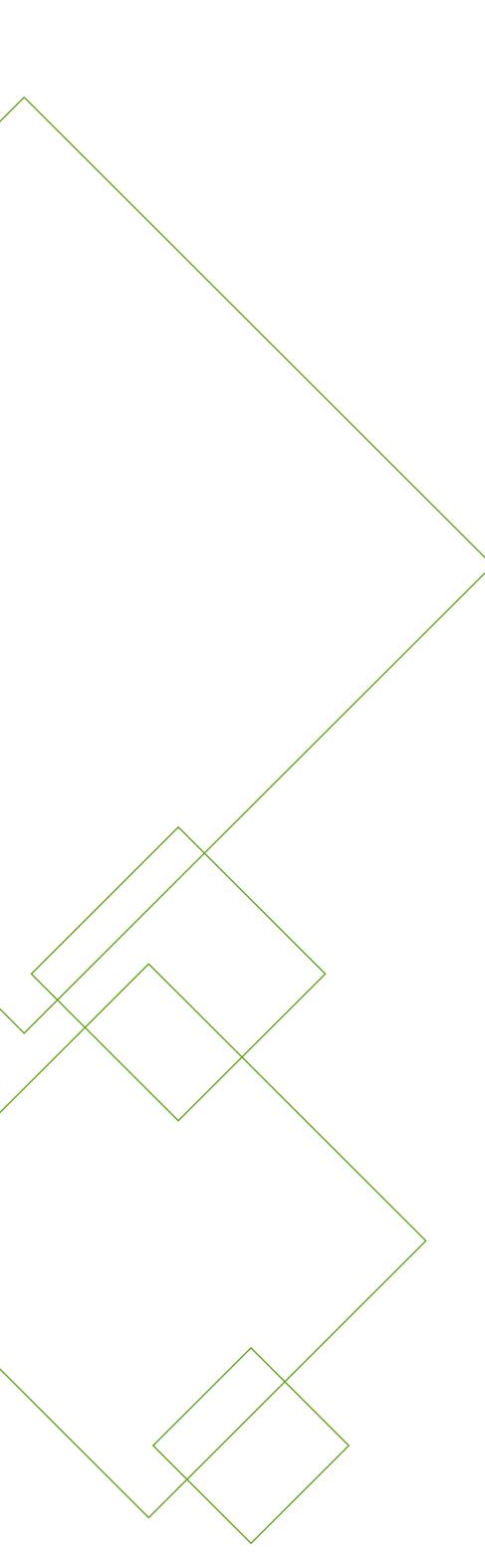
Commercial General Liability Insurance: Protects your business from lawsuits for physical injuries

Default: A failure to perform a contractual obligation

Escalations: Increases in rent above the base year. This can include a fixed amount each year, a percentage increase each year, or an increase based on the landlord's actual increase in expenses such as real estate taxes

Exclusivity Provision: An exclusivity provision prohibits the landlord from renting space in the building to a competing business

Fair Market Rent: An estimate of what a reasonable tenant would be willing to pay a reasonable landlord for a given space



Form Lease: A template lease landlords use as the first draft of the lease. It will usually heavily favor the landlord's interests

Fixtures: Anything you attach to the property that is fixed in place and would damage the property if removed (e.g. window treatments, built-in furniture and some appliances like washing machines in a laundromat)

Free Rent: A period during which the tenant does not have to pay rent, typically during the build-out. It is also known as rent abatement

Good Guy Guaranty: A lease provision that holds the space's guarantor (e.g. the business owner) personally responsible for its obligations only while the business operates there. Once the business vacates the space, the guarantor is no longer personally liable. (See also Personal Guaranty)

Holdover: The previous tenant continues to occupy the premises after its lease term has ended

Indemnification: A promise to repay another party for future losses or damages

Landmarked Buildings: Property that you may not be able to make interior or exterior changes to without an approval process by the City

Lease Term: The period of time in which the landlord grants the tenant the right to possess and use the space

Letter of Credit: A letter from a bank or financial institution that can be a substitute to a cash security deposit. The letter guarantees that the bank will pay the security deposit if the tenant is unable to do so. The bank requires a fee and may require collateral such as a mortgage on your home

Letter of Intent: A written agreement between the tenant and the landlord stating the intention of both parties to sign a lease and the essential terms of the lease (ex. length, costs, construction)

Lien: Claim against a property for an unpaid debt. *For example, a construction company may place a lien against the property during a payment dispute*

Operating Expenses: The costs of operating a building, including maintaining and insuring the building A tenant may pay a share of these costs, known as the Additional Rent (See above definition)

Permitted Use: Lease provision describing how the space may be used

Personal Guaranty: The promise by a business owner, or guarantor, to pay on a loan or contract in the case the business cannot

Performance Obligation: Contractual obligation to deliver services such as repairs or improvements to a space

Premises: The space that a landlord leases to a tenant

Property Insurance: A policy that repays a property owner for loss of or damages to personal property. Examples of loss and damages include fire, theft, vandalism, and natural weather events

Property Manager: A company hired by the landlord to manage the property. They handle tasks including the leasing process, collecting rent, and making repairs

Rider: Attachment to the lease that adds, clarifies, or replaces lease terms in the “form” lease

Security Deposit: A deposit of cash or non-cash alternative (See Letter of Credit) the tenant gives to landlord to secure performance of a lease throughout the lease term

Sublet: When a tenant leases part or all of a space to another party for a period of time during the lease term

Submeter: A system for measuring utility usage, such as electricity, by a tenant in a building with multiple tenants

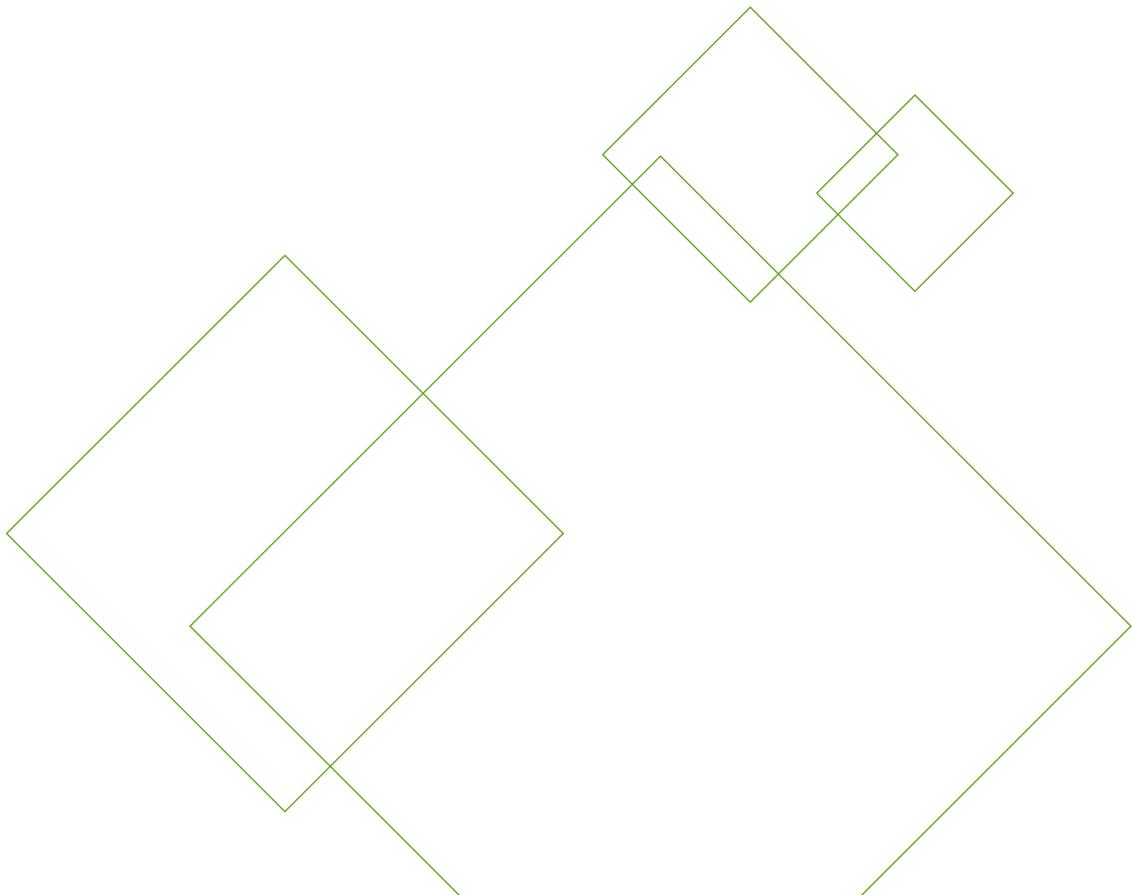
Tenant Improvement Allowance: Amount the landlord will pay for the tenant to renovate or alter the space

Tenant Representative: Professional hired by the potential tenant to represent only the tenant’s interests when negotiating with a landlord

Trade Fixture: Removable personal property that a tenant attaches to a space for business purposes. *Examples include a display counter or kitchen equipment*

Termination Right: A provision that allows the tenant to terminate the lease when a certain condition is met. *For example, if a restaurant is unable to secure a liquor license*

Zoning Restriction: Limits to how property owners and tenants can use space. They are generally residential, commercial, and manufacturing





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