



Top 10 Things Tenants Should Know About Real Estate (and most don't).

6 LETTER OF INTENT— THE NUTS AND BOLTS OF YOUR LEASE



What is a “letter of intent”?

At the beginning of a lease negotiation a letter of intent is your opportunity to spell out the general lease terms that are important to you. In most cases, it is a non-binding document created with the goal of having the tenant and the landlord come to an agreement on the broad terms of the lease.

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WHO STARTS THE PROCESS?

You, your tenant rep, the landlord, or his broker can begin the letter of intent process by proposing terms and conditions to the other party.

We typically like to keep the letter of intent simple. We discuss the larger deal points upfront, and then focus on the smaller details of the lease during lease negotiations. These broad lease terms will include the following:

PREMISES- This states the location and then describes what areas you can and cannot use. There may be fenced areas, storage, alleys, closets and back corridors that you may want to use, but cannot assume that they are included as a usable part of your space. For example, some retail users want to use the sidewalk for sidewalk sales, but that needs to be agreed to ahead of time. It can be helpful to include a site plan or floor plan that indicates the premises.

“A picture is worth a thousand words.”

TERM- This is the length of the lease. If you are a seasonal business, be sure your lease doesn't expire right in the middle of your high season, such as the tax accountant whose lease expires on April 13th.

RENT COMMENCEMENT- This is the day you begin paying rent, which may be different than lease commencement. Some leases allow for a period of “Prior Occupancy” after tenant improvements are done to install phones and computers, inventory, furniture etc, before the first months' rent is due. You don't want to be obligated to pay rent before you are generating income.

RENTAL RATE- The three most common structures are gross rent, modified gross rent, or triple net rent. In each of these cases, you need to clarify which party is responsible for various building expenses. Here are some definitions to help:

- **Gross Rent**— is the total rent that you pay and there will be no additional charges.
- **Modified Gross**— means that you pay a portion of the landlords' expenses (real estate taxes, insurance, maintenance, etc.) in addition to the base rent.
- **Triple Net** — means you pay your prorated share of the buildings expenses. Some feel that this gives the landlord an open invitation to your check book
—See “CAM Reconciliations Revisited” on our website at <http://tenrea.com/education.php>





TENANT IMPROVEMENTS- This includes all improvements to the space or building that you will need to operate your business. The cost of these can be paid by you, the landlord or shared by both. It includes who will oversee the improvements, who is responsible if they are not completed on time, and whether or not you have to pay rent if they aren't done on time.

BUILDING MAINTENANCE AND REPAIRS- This describes who is responsible for the maintenance and repairs for your space and the building. This should include concealed plumbing, electrical, landscaping, roof, parking lot, etc.

UTILITIES- This covers whether utilities are separately metered or prorated between the various tenants.

EXPANSION OR CONTRACTION OPTIONS- We all hope that our business will grow which usually requires more space to make more widgets to make more profit. Not being able to adjust your space can limit your ability to grow. Options to expand, contract, or terminate can be written into your lease and can be essential if your business model changes. However, those options can be expensive in the form of higher rental rates or lower landlord concessions.

EXTENSION OPTIONS- It is in the best interest of the tenant to have an option to extend at a fixed rate. Many landlords will try to give you a "fair market" option, which means that you will have the right to negotiate a new rate at the time of renewal. There is no guarantee you will be able to stay in the space at a fair rental rate.

Some might ask, "If my fixed-rate option is above market rate, do I have to pay the fixed rate?" We say "Nay, Nay!" If the market has dropped below your fixed rate, you can go back and renegotiate a new, lower rate.

NON-BINDING- This clause states that the letter of intent is an attempt to agree to the general terms and conditions. From here, you take it to the lease form where you hammer out the specific lease provisions.

There are additional terms that can be included in the letter of intent such as security deposits, hours of operation, subleasing etc., and again, each of these requires careful thought and professional input. But, basically, the letter of intent is your chance to spell out the most important terms of your lease before you spend a lot of time in detailed negotiations. Once you and the landlord agree on these major deal points, you can record them in a comprehensive lease document.

Real estate can be complicated and intimidating.

There are many brokers that would jump at the chance to represent you and your company. Most would probably do a good job, but...

Tenant Real Estate Advisors is the *only company* in Colorado Springs that only represents tenants, never landlords. It's all we do, all day, every day. Give us a call for a no obligation consultation.

ABOUT TREA

Tenant Real Estate Advisors ("TREA") is an outsourced full-service real estate department that serves as an advocate for commercial tenants throughout Colorado and nationwide. Our creative, common sense solutions have been proven to save time and money so that you can remain focused on your business.



GARY L. CHRISTENSEN, SIOR, CCIM, CPM
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Gary founded TREA to provide small to mid cap companies with the advantages of a professional real estate department. His 25 years of experience in real estate management and negotiating thousands of leases, allows him to draw on this knowledge and skill to get the best results for his clients.

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