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Commercial leasing tip sheet

Written by Jemima Codrington



Investing in and then leasing commercial space may seem like no-brainer in this hot market, but there's more to the process than meets the eye. From finding the property to finding the right tenant to securing the rent, here's your must-read primer.

"There's a huge shortage of commercial inventory for investment properties, such that it's compressed cap rates," says Toronto-based commercial Realtor Chris Seepe. "Because there is such a shortage of stock, you go where that property is. And if you do find something, you're going to be up against 10 people who want to buy it."

According to Seepe, roughly 50% of commercial properties are never listed on the MLS.

It means Investors wanting to find office, retail or industrial space often turn to Realtor specialists to not only get a property, but to win the right tenant.

"One of the challenges is finding AAA tenants and brand names," says Seepe, "but approaching a client like that can be tough because they often don't want to deal with a one-off or an independent."

That makes the approach all the more important.

"If (you) can approach them and say, 'I know what you're looking for, I know your business model, your demographics and the amenities that you require,'" he says, "then those clients or tenants will take your call."

So what makes for an ideal signature on the commercial sublease agreement? Seepe points to “covenant,” or an agreement from the head office of a franchisee, to secure your investment should the he or she default on the lease.

“If you can get the head office of the franchise to sign, then you’ve got the corporate backing of this monolithic corporation,” says Seepe. “That way if anything happens with the franchise, you can go to the franchisor for rent.”

On the other hand, some franchisors may guarantee the lease, and put another franchisee in there seamlessly, he tells CREW online, although that’s less common.

More likely, he says, “the franchisee will take the full brunt of the rent.”

The length of the lease varies from investment to investment. In retail, most leases are usually five years. Pharmacies are often 10 years, and grocery stores normally 20 years. But according to Seepe, unlike residential transactions, commercial leases are anything but cookie cutter.

“Every single commercial lease and offer to lease is different,” he says. “There are so many variables and options for managing the financial relationship, no two deals are ever the same.”

<http://www.canadianrealestatemagazine.ca/news/item/1436-commercial-space-for-success>