PRECISE PROPERTY

GUIDE TO A COMMERCIAL LEASE

www.precise.property

PRECISE PROPERTY GUIDE TO A

COMMERCIAL LEASE

A commercial lease is a legally binding agreement between a landlord and a tenant for the rental of a commercial property. This type of lease is used for properties that are used for business purposes, such as offices, retail stores, warehouses, or factories.

In this guide, we explain the top 10 commonly asked questions and things you should know when entering into a Commercial Lease:

01

What are the types of Commercial Leases available?

There are two main types of commercial leases: retail commercial leases for properties where goods or services will be sold to the public, and non-retail commercial leases for properties used as warehouses, industrial spaces, or offices. Retail leases are governed by the Retail Leases Act 1994.

02

How long is a Commercial Lease term?

The length of a commercial lease is subject to negotiation between the landlord and tenant based on their individual requirements and can vary accordingly. Typically, they have a fixed term of 3-5 years, although shorter or longer lease terms may be negotiated.

If the lease contains an option to renew, the tenant has the right to extend the lease for another specified period of time, provided they follow the option clauses outlined in the lease.

03

What is an option to renew?

An option to renew is a defined period of time in which the tenant is able to extend their lease, after the initial term expires. The original lease document remains the governing document for a tenant's further term. The tenant must formally advise their landlord of their intention to exercise their option. The timeframe to provide this notice is specified within the original lease document.

04

Who determines the rent for a Commercial premises?

The rent for a commercial property is determined through negotiations between the landlord and tenant, taking into account factors such as the property's location and condition, market rental rates for similar properties in the area and any additional costs or services included in the lease.

05

What are Outgoings?

Commercial property outgoings are the expenses related to operating and maintaining a leased property during the term of a lease. These expenses are usually paid for by the tenant in addition to rent and regular bills like electricity and phone. While each lease is different, typical outgoings can include council rates, water and sewerage charges, strata fees and property management fees.

06

What is a rent review?

A rent review is a provision in a commercial lease agreement that allows for the periodic adjustment of the rent paid by the tenant. This means that the rent amount can be adjusted during the lease term, based on the terms of the lease agreement.

Rent reviews are commonly included in longer-term commercial leases to ensure that the rental income for the property remains in line with current market conditions.

There are different methods that can be used to calculate rent reviews, including:

1. Consumer Price Index,
2. Market Review; and
3. Fixed Increase.

Rent reviews are typically conducted at specific intervals, which are outlined in the lease agreement. The intervals can vary but are generally on the anniversary of the commencement date of the lease.

07

Who is responsible for the signing of a Commercial Lease?

In a commercial lease agreement, both the owner and the tenant are responsible for signing the lease for it to be valid and legally binding. The lease should be signed by the landlord or their authorised representative , and by the business owner or an authorised representative of the business, such as a director and company secretary.

08

What is the security deposit and how is it handled?

The amount of the security deposit for a commercial lease depends on factors such as the lease agreement, the type and size of the property, and the tenant's risk profile. Typically, the deposit is equivalent to three (3) months' rent, but it can be higher or lower is specific circumstances.

Once the tenant pays the security deposit, the landlord or their agent holds the funds to protect themselves in case the tenant violates the lease terms or damages the property. In the instance of a retails lease, the bond must be held by an intermediary body; the NSW Small Business Commissioner. If the tenant meets their obligations and leaves the property undamaged, the deposit is returned at the end of the lease term. However, if the landlord needs to make deductions from the deposit, they must provide an itemised list of the deductions and return the remaining deposit.

09

What is a fit-out in a Commercial Lease?

A fit-out is the process of customising the interior of a leased commercial space to meet the tenant's specific needs, such as building partitions and painting, carpeting, and electrical or plumbing work associated with the new configuration. The cost of the fit-out is usually the responsibility of the tenant, and the details of the work are negotiated and agreed upon by the landlord and tenant. The lease agreement should clearly specify the terms of the fit-out, including who is responsible for the cost and the scope of the work to be performed.

10

What is a 'make good' clause in a Commercial Lease?

The 'make good' clause refers to the tenant's obligation to restore the leased premises to their original condition at the end of the lease term, including removing any tenant-installed improvements or modifications, repairing any damage caused by the tenant, and ensuring that the premises are suitable for re-leasing.

The tenant is typically responsible for the cost of the make good, unless the lease agreement specifies otherwise. The lease should clearly outline the scope of the make good, including what repairs and restorations are required, and the deadline for completion.

MEET YOUR TEAM

Rob Bakker

Commercial Sales and Leasing - Northern Beaches

rob@precise.property 0414 430 445

A coffee aficionado at heart, Rob is committed to building open and supportive relationships with his clients.

Leigh Edwards

Property Manager

leigh@precise.property 0414 881 861

Leigh's passions include the ocean, whales, and ensuring that she secures the perfect commercial space for her clients.

Ethan Rowe

Property Manager

ethan@precise.property 0435 626 775

Ethan's love of Jazz shines through as he applies a meticulous and detail-oriented approach to supporting his clients.

Marta Oceipa

Sales, Leasing + Property Management - Northern Rivers

marta@precise.property 0478 012 672

Marta's passion for adventure and excellent communication skills allow her to simplify and enhance the sales and leasing process for her clients.

CONTACT US

If you have any questions, please
don't hesitate to reach out to us.
We're here to help and look forward
to hearing from you.

PRECISE PROPERTY

the Sales and Leasing team

Northern Beaches: 02 9091 0369

Northern Rivers: 02 6694 3244

www.precise.property