



**MERCANTILE**  
REAL ESTATE ADVISORS INC

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# THE ROAD MAP TO A COMMERCIAL REAL ESTATE TRANSACTION

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# INITIAL QUESTIONS

Before you look at spaces  
have answers to these questions



## **#1 WHO ARE YOUR IDEAL CUSTOMERS?**

This will influence which areas you consider?

## **#2 WHO ARE GOOD POTENTIAL CO-TENANTS?**

This will influence your site selection?

## **#3 WHAT ARE YOUR RISKS?**

Your risks influence how agreements are structured.

## **#4 WHO ARE YOUR COMPETITORS?**

Will they influence what areas you select?

## **#5 WHAT ARE YOUR 1,3,5+ YEAR PLANS?**

Will this influence how you negotiate your lease?

## **#6 HAVE YOU CONSIDERED AN EXIT STRATEGY?**

Will this influence how you negotiate your lease?

## **#7 WHAT IS YOUR BUDGET FOR RENT AND IMPROVEMENTS?**

The locations you consider should fit your budget.

## **#8 HOW ARE YOU FINANCING YOUR LOCATION?**

How will your financing timeline affect negotiations?

# GET YOUR TEAM IN PLACE BEFORE SEARCHING FOR SPACE

When preparing to find a new space for your business, it is imperative to involve several specialized professionals early on. They are necessary to help you draft a business plan and make preparations to get set up efficiently.

**A**

Commercial  
Real Estate  
Lawyer

**B**

Accountant

**C**

Designer/  
Architect

**D**

Franchisor/  
Partner

**E**

Contractor

**F**

Lender or  
Investor





# A COMMERCIAL REAL ESTATE LAWYER



Your lawyer's job is to help you mitigate risk. They will review your lease, explain legal implications, and provide advice, direction and more.

It is vital to engage a lawyer who specializes in commercial real estate. If your lawyer is unfamiliar or does not know how to enforce a clause as laid out, their first reaction may be to completely remove it.

This may cause unnecessary friction with a potential Landlord and could result in you losing a desirable space.

At JR Mercantile, we share our insights and help structure deals, but we always work with lawyers to get deals done.

# B ACCOUNTANTS

## WHY DO I NEED ONE?

An accountant is a key team member for any business. They help their clients navigate tax implications, complete year end financials and interim financials. A good accountant will also help advise their clients on the financial implications of decisions.

## WHEN SHOULD I ENGAGE AN ACCOUNTANT?

Get your accountant involved as early in the planning stages as possible. They can be extremely helpful in determining costs and developing projections for a new location.



# C DESIGNER / ARCHITECT

Enlisting a Designer/Architect/Space planner will help you get your vision on paper. They will help coordinate with contractors and engineers to calculate costs and make sure your built space fits your vision.



## WHEN TO CONTACT A DESIGNER?

Select and involve a designer/architect as early in the process as possible. They'll help you establish a solid vision and get a plan in place. Landlords can't always see your visions the same way you do. Clear renderings and designs help sell your landlord on your vision.

# D FRANCHISOR/PARTNER

## WHAT ROLE DOES A FRANCHISOR OR PARTNER PLAY?



Should you choose a franchise concept, your franchisor's directive is to help you understand what brand standards you need to adhere to. This can mean everything from clauses in the lease, size of the space, location and even signage.

When working with partners it is important to divide and assign responsibilities.

Too often we see partnerships miss out on good opportunities or fail because the roles and responsibilities are not defined ahead of time.

Having too many cooks in a kitchen can hinder the selection and negotiating process.

When partners are involved it is important to consult your Lawyer to determine what roles and responsibilities each partner will play.





# E CONTRACTORS



## CONSULT A CONTRACTOR BEFORE SEARCHING FOR SPACE?

Don't wait until you've secured space to engage a contractor. It almost always results in delays, cost overruns, and unnecessary stress.

A good contractor will help you understand what types of spaces will work for you. They can advise on how to minimize expenses in your build-out process.

When considering options, look for an experienced contractor, with a good track record in commercial buildouts. They should be bonded and insured. Most landlords will want a say in who you use, which precludes using friends or family for the work.

# F LENDER OR INVESTOR



## WHEN TO START THE FUNDING CONVERSATION?

The main reason to contact contractors in advance is to understand your costs and to have your financing in place before starting your search.

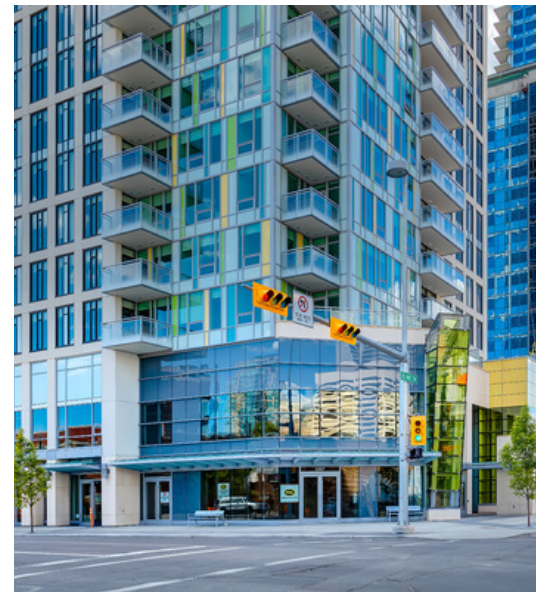
In our experience, time kills deals, you do not want to be the Tenant that misses out on a prime location because you have not prepared in advance.

Once you've completed your due diligence, and have your team behind you; you can start your property search with confidence.



# ESTABLISH AN EXCLUSIVE RELATIONSHIP

If you've not already done so, you'll want representation by a commercial real estate broker. Most require an exclusive relationship. Once in place, they will tap into their extensive networks and access industry directories to narrow down potential sites to review.



Establishing A Workable Partnership



Define Search Criteria and Filters



Review Existing Options



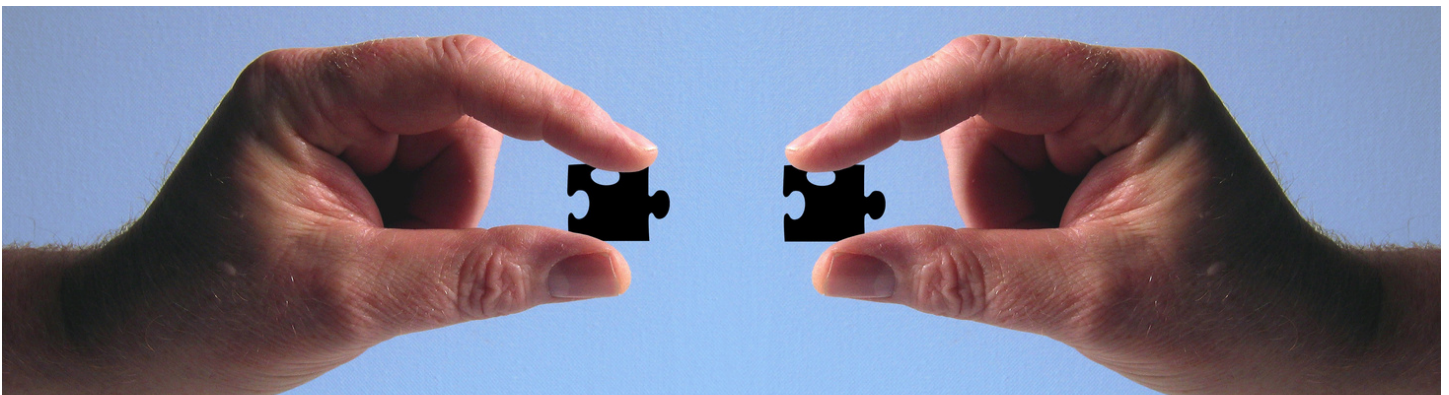
Contact Landlords For Unlisted Opportunities



# ESTABLISHING A WORKABLE PARTNERSHIP



To ensure we are able to connect at times that work best for each party, we establish an understanding of each others' schedules and timelines. This helps facilitate a productive and workable partnership.





# DEFINE SEARCH CRITERIA AND FILTERS



Where do your customers live, work and play?  
Is there a target demographic profile?  
Do you cater to any special groups?

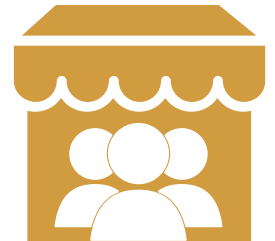
## Demographics

Do you need to locate near high traffic anchors?  
(*grocery stores, big box retailers, medical offices*)

Are there synergistic businesses you need to be near?

Do you need access to transit or specific services?

Does proximity to competitors matter?



## Ideal Co-tenants



## Size

How much space do you need?

Do you intend to expand to multiple locations?

What are your signage requirements?

Do you need a high traffic location?

Do you have specific accessibility requirements?

Do you have other special requirements?



## Exposure

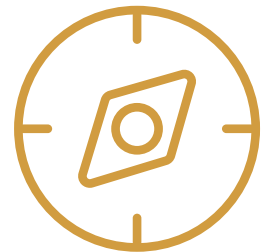
# ADDITIONAL SEARCH CRITERIA



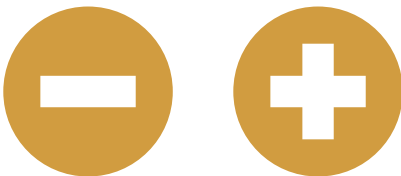
## **Building Attributes**

Loading dock, Electrical, HVAC, Elevators, Drive-thru?  
Zoning or special permitting?  
Parking requirements?  
Amount of renovation/demolition required?

What is your principal use?  
Are there ancillary uses?



## **Navigate Exclusives**



## **Analyzing Options**

The more clearly we understand your needs, the more effective we'll be in finding suitable options that align with your business plan.

# CONTACTING LANDLORDS DIRECTLY

We have great relationships with many of the local developers and landlords. This keeps us on top of opportunities before they hit the market.

***For example,** a tenant approaching the end of their term or a new development in the works.*

*Working our network is always important.*



# SETTING UP TOURS

## ARRANGE TOURS

With proper notice, we'll organize an efficient block of tours. Afterwards, we'll discuss each property and determine next steps.

## FOLLOW UP TOURS FOR SHORT LISTED PROPERTIES

Once you've shortlisted properties, it is important to bring your advisors out to validate assumptions and build confidence in the workability of a space.

To simplify this step, it's best to coordinate one visit where all your advisors can attend.

Your general contractor and designer will check building requirements such as HVAC, fire systems, structural status, code compliance, and mechanical. It's necessary to have your contractors present when permit or license applications are required before possession.





# LETTER OF INTENT OR OFFER TO LEASE



We found an ideal location; now comes the fun part of negotiating the terms of the lease.

We start this process with either a Letter of Intent (LOI) or an Offer to Lease (OTL).

Both the OTL and the LOI will state the intended use, the financial terms and timelines of the Lease transaction.

Learn about the leasing terminology used during the negotiation on page 22.

# LEASE PREPARATION

## GETTING THE BEST TERMS

Many Tenants focus solely on the economics of the deal and lose sight of the other important parts of the OTL or LOI.

i) **Exclusive Language** – Having a Restrictive Use Clause or Exclusivity Clause allows you to operate without the Landlord putting a direct competitor on-site.

ii) When preparing an OTL or an LOI it's important to ensure you're not bound to a space. If there are problems, you need a path forward. Conditions to manage include:

- a) Buildout Costs Estimate
- b) Financing
- c) Management Approval
- d) Zoning/Permits/Licenses



# LEASE PREPARATION



Adding workability conditions provide time to finalizing your due diligence, and finalize your budgeting and financing, before closing the deal.

They can also provide a way out of a deal, if for example, your financing falls through.

If you are starting a franchise, you'll need to disclose any terms set by the franchisor. Their language will need to be incorporated into the leasing documents.



# LEASE NEGOTIATIONS



## **Your Lawyer Reviews The Lease**

The actual lease is an expanded, more detailed version of the Offer to Lease. Your lawyer will review this document to ensure the language lines up with the executed offer.

Be aware of review deadlines and make sure your lawyer has sufficient time to review the lease and address any issues that arise.

## **Broker assists with negotiation**

It is not uncommon for a broker to get involved in negotiating outstanding clauses. They collaborate with your lawyer to finalize the deal.



# PRIOR TO POSSESSION



## WHAT NEEDS TO GET DONE?

- Execute the lease
- Provide a certificate of insurance to the landlord
- Have your drawings approved by the landlord
- You'll need proof of permits
- Contractors must provide proof of insurance and WCB coverage

**Note:** Before construction, ensure you provide sufficient time for approvals and time to resubmit if changes are requested.

# SEND US A REFERRAL

There is no greater compliment than when a client or peer refers us to a colleague or peer. We're always eager to help.

It's important to us that we make leasing commercial real estate as smooth and painless as possible. We promise to take good care of anyone you refer.



# GLOSSARY OF TERMS

## A) NET RENT

The amount of rent, expressed in a dollar amount per square foot per year. Sometimes referred to as minimum rent or basic rent.

## B) MARKET RENT

The amount of rent a tenant would be expected to pay for similarly sized, fixtured or located premises.

## C) ADDITIONAL RENT

Sometimes referred to Common Area Maintenance (CAM) costs or Operating Costs is an estimate associated with maintenance of the property; including parking lots, snow removal, garden upkeep etc.. It's important to clarify whether this figure, expressed in dollars on a square foot basis, includes property tax and the management fee. This is an estimated number and can fluctuate through the term of the lease.

## D) PROPERTY TAX

This is the tax levied by the City or Province for the property the location is situated in. The tenant's responsibility is based on a proportionate basis.

## E) MANAGEMENT FEE

Additional charge applied by the landlord or 3rd party management company expressed as a percentage of total rent (Net rent plus Additional Rent) or Additional Rent alone.

# GLOSSARY OF TERMS

## **F) TERM**

The length of the lease. Most leases are either 5 or 10 years in length but can vary in some situations.

## **G) RENEWAL OPTIONS**

A tenant right to extend their term with notice first provided to the landlord prior to expiry. Usually each renewal option is for 5 years.

## **H) FREE RENT**

A period of rent abatement, typically at the start of the term offered by the landlord as an incentive.

## **I) TENANT ALLOWANCE**

A sum of money provided by the landlord to be used towards improvements made by the tenant within the leased premises. This payment occurs after the space is renovated and the tenant is open for business.

## **J) FIXTURING PERIOD**

The period of time, usually free of net rent and additional rent, in which the tenant undergoes renovation of the lease premises.

## **K) DEMOLITION/TERMINATION RIGHTS**

Rights of the landlord to terminate the lease in the event of proposed extensive renovations or redevelopment



# GLOSSARY OF TERMS

## **L) USE**

The defined description of your business.

## **N) EXCLUSIVE USE**

The exclusive right of the tenant to carry on with the specific use, preventing other potential competitors to the property.

## **O) PREPAID RENT AND SECURITY**

The prepaid amount of rent, usually applied to the first month of the term with the balance held as security for the duration of the lease as protection for the landlord in the event of tenant default.

## **P) INDEMNITY/GUARANTEE**

Either a person or existing business providing themselves as additional security in the event of a tenant default, similar to a co-signer.

## **Q) ENVIRONMENTAL LANGUAGE**

Be aware of what substances you use in the course of your business that may put you in conflict with the landlord's language.

## **R) RESTORATION CLAUSE**

The requirement to remove your improvements at the end of your lease.



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