GENE WILLIAMS · RE/MAX INMOTION

A PLAIN-ENGLISH GUIDE FOR TENANTS AND BUYERS

The commercial deal, *decoded* end to end.

Commercial real estate runs on a vocabulary nobody teaches you: NNN, TI, CAM, load factor, burn-down, cap rate. Every one of those words is attached to money. This guide walks the whole deal — how rent is really calculated, who pays for what, what the buildout is worth, which clauses protect you, and when buying beats leasing.

LEASING | BUYING | COLORADO | RETAIL · OFFICE · INDUSTRIAL

PART 01

How a commercial deal actually moves

A commercial lease is not a residential lease with bigger numbers. There is a negotiation phase before any lease document exists, and that phase is where the money is won or lost.

01 **Search & tour** 2–8 weeks	02 **Letter of Intent** 1–3 weeks	03 **Lease negotiation** 2–6 weeks
04 **Permits & plans** 4–12 weeks	05 **Buildout** 4–16 weeks	06 **Rent commences** Day one

Plan on **three to nine months** from first tour to open doors on a space that needs work. Second-generation space you can use as-is can move in six weeks. The single most common planning mistake is signing a lease with a rent start date that assumes permits take two weeks.

> KEY IDEA Almost everything that matters is decided at step 02, in the Letter of Intent — before an attorney writes a word. Once terms are in the lease draft, you are negotiating against a document the landlord's counsel wrote. Win it early.

PART 02

The money: how rent is really calculated

A listing that says **$18.00/SF** is telling you one component of the cost, quoted per square foot per *year*. It is not the rent. Here is the full stack.

Base rent

THE HEADLINE NUMBER

The rent for the space itself, almost always quoted in dollars per square foot per year in Colorado. Divide by 12 to get a monthly rate. Some smaller retail and flex listings quote monthly instead — always confirm which.

NNN / operating expenses

THE SECOND NUMBER

Your share of property taxes, building insurance, and common area maintenance, quoted the same way — dollars per square foot per year. It is billed monthly as an estimate and reconciled once a year against actual costs.

WATCH Reconciliation means a true-up bill can arrive in Q1 for the prior year. Ask for three years of actual expense history before you sign.

Escalations

HOW IT GROWS

Base rent increases on a schedule — commonly a fixed 3% per year, a stepped dollar amount, or a CPI-linked bump. NNN charges rise on their own as taxes and insurance rise, whether or not base rent escalates.

Free rent / abatement

THE OFFSET

Months of rent waived, usually during buildout or at the front of the term. Ask whether abatement covers NNN too — often it covers base rent only, and you still owe operating expenses from day one.

Percentage rent

RETAIL ONLY

Common in malls and anchored centers: a percentage of gross sales above a stated breakpoint, paid on top of base rent. Less common in standalone or strip retail.

Effective rent

WHAT YOU ACTUALLY PAY

Total rent across the whole term, minus free rent and TI value, divided by the term. This is the number to compare two offers with — not the headline rate.

Worked example: 2,400 SF at $18.00/SF NNN

ILLUSTRATIVE MATH — NOT A MARKET QUOTE

Base rent — 2,400 SF × $18.00/SF/yr	$43,200 / yr
Base rent, monthly	$3,600 / mo
NNN — 2,400 SF × $6.50/SF/yr	$15,600 / yr
NNN, monthly	$1,300 / mo
Actual monthly payment	**$4,900 / mo**

The listing said $18.00. The all-in cost is **$24.50/SF/yr** — 36% more than the advertised rate. Every comparison you make between two spaces has to be done on the all-in number, and NNN loads vary widely between buildings.

PART 03

Who pays for what: the four lease structures

The structure decides which costs sit on your P&L and which sit on the landlord's. Two spaces at the same headline rate can differ by 40% in real cost purely because of this.

TYPICAL ALLOCATION OF COSTS BY LEASE STRUCTURE

COST	FULL SERVICE GROSS	MODIFIED GROSS	TRIPLE NET (NNN)	ABSOLUTE NET
Base rent	Tenant	Tenant	Tenant	Tenant
Property taxes	Landlord	Varies	Tenant	Tenant
Building insurance	Landlord	Varies	Tenant	Tenant

COST	FULL SERVICE GROSS	MODIFIED GROSS	TRIPLE NET (NNN)	ABSOLUTE NET
Common area maintenance	Landlord	Varies	Tenant	Tenant
Your utilities	Landlord	Tenant	Tenant	Tenant
Your janitorial	Landlord	Tenant	Tenant	Tenant
HVAC servicing	Landlord	Varies	Tenant	Tenant
HVAC replacement	Landlord	Landlord	Negotiable	Tenant
Roof & structure	Landlord	Landlord	Landlord	Tenant
Parking, landscape, snow	Landlord	Varies	Tenant	Tenant

Tenant pays Landlord pays Varies deal by deal — negotiate it

Modified gross is the dangerous one. There is no standard definition. Two modified gross leases in the same building can allocate costs completely differently. Read the actual expense language; never assume.

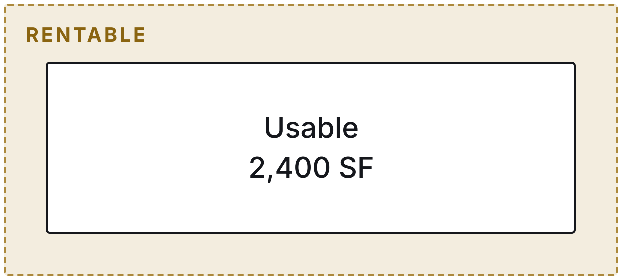
COST TRAP

In a triple net lease, ask specifically about **HVAC replacement** and **capital repairs**. A rooftop unit is a $12,000–$25,000 event. On a three-year term, being responsible for replacing one can erase every dollar you negotiated off the rent.

Rentable vs. usable square feet

You pay rent on more square footage than you can put furniture in. This is normal and legitimate — but it needs to be in your math.

WHAT YOU OCCUPY VS. WHAT YOU PAY FOR



The dashed area is your pro-rata share of lobbies, corridors, restrooms, and mechanical rooms — the common areas.

THE LOAD FACTOR IN NUMBERS

Usable	**2,400 SF**
Load factor	**15%**
Rentable	**2,760 SF**

Rent is billed on **2,760**, not 2,400. At $18.00/SF that is **$540/mo** for square footage you cannot occupy.

Load factors typically run **10–18%** in multi-tenant office and enclosed retail, and near zero in freestanding buildings and most industrial. Always ask for both numbers, and ask how the building measures — BOMA standards differ from one another, and a re-measurement mid-term can quietly raise your rent.

PART 05

The buildout and the TI allowance

TI stands for **tenant improvements** — the work that turns a shell into your business. Who funds it, and how much, is usually the largest single dollar item in the negotiation.

What condition are you getting the space in?

Cold dark shell	Bare structure. No HVAC, no electrical distribution, no plumbing fixtures, no ceiling, no flooring. Cheapest rent, most expensive buildout.

Warm shell	Utilities brought to the space, HVAC unit set, but no interior finishes. You build everything inside.
Vanilla shell	Finished walls, ceiling grid, lighting, HVAC, one ADA restroom, basic flooring. Ready for your fixtures and trade-specific work.
Second generation	A previous tenant's finished space. If the layout works for you, this is the fastest and cheapest path to opening.

How the buildout gets paid for

OPTION A

TI allowance

Landlord contributes a set dollar figure, usually stated as $/SF. You manage the work and get reimbursed against invoices, often only after you open and start paying rent.

ASK

Is it paid on completion or progress-billed? Unspent allowance — can it convert to free rent?

OPTION B

Turnkey buildout

Landlord builds to an agreed plan at its own cost and hands you keys. Simplest for you, but you lose control over finishes and schedule.

ASK

Is the approved plan and finish schedule attached as a lease exhibit? If it isn't drawn, it isn't promised.

OPTION C

Amortized TI

Landlord funds more than the base allowance and you repay it inside the rent, with interest, across the term. Preserves your cash, raises your monthly.

ASK

What interest rate, over how many months, and what is the payoff if you leave early?

OPTION D

As-is, with free rent

No allowance. Instead you get abated months and do the work yourself. Common on second-generation space and with smaller landlords.

ASK

Does abatement cover NNN as well as base rent? That gap is often thousands.

Worked example: when the allowance doesn't cover the job

ILLUSTRATIVE MATH — 2,400 SF

Contractor bid for buildout	$95,000
TI allowance — 2,400 SF × $25.00/SF	– $60,000
Gap the tenant must cover	**$35,000**
If amortized by landlord — 8% over 60 months	≈ $710 / mo
Added to rent over 5 years	**≈ $42,600**

Financing $35,000 through the lease costs roughly **$7,600 more** than paying cash. Sometimes that is the right trade for working capital — but it should be a decision, not a surprise.

LEVERAGE

TI is where landlords have the most room to move, because they are spending capital on their own building and they get the improvements back at the end of the term. A landlord who won't drop the rent will often fund the buildout. **Trade term for TI:** a longer commitment is what justifies the spend.

PART 06

The Letter of Intent

A one-page, non-binding summary of business terms that both sides sign before attorneys draft the lease. It is the handshake before the paperwork — and the cheapest place to negotiate.

WHAT BELONGS IN AN LOI

TERM	WHY IT HAS TO BE THERE
Premises & square footage	Rentable and usable, stated separately. Everything is priced off this number.
Base rent	A specific rate with the escalation schedule. Without a number, there is nothing to counter.
Lease structure	NNN, modified gross, or full service — plus the current NNN estimate per SF.
Term & commencement	Length, start date, and what triggers the start: delivery, permit, or opening.
Renewal options	How many, how long, and at what rate — fixed, market, or a stated formula.
TI allowance	A dollar figure or $/SF, plus delivery condition. A wish list is not an ask.
Free rent	How many months, and whether NNN is abated too.
Permitted use	Written broadly enough that you can change your model without a lease amendment.
Security deposit	Amount, and whether it burns down over time with good payment history.
Guaranty	Whether a personal guaranty is required, and for how long.
Contingencies	Zoning confirmation, permit approval, expense history review, financing.
Expiration & signatures	An offer with no deadline is a document nobody has to answer.

Non-binding matters. Signing an LOI does not commit you to the space. It commits both sides to negotiating from one shared set of numbers — which is the only way a deal moves forward instead of circling.

PART 07

The clauses that protect you

Rent is what you negotiate. These are what you live with. Each of these has cost your predecessors real money when it was written the landlord's way.

Personal guaranty

YOUR LIABILITY

You personally guarantee the lease, so the entity shield doesn't protect your house. Landlords ask for it from almost every small business.

NEGOTIATE A **burn-down** (guaranty shrinks each year of on-time payment) or a **good guy clause** (liability ends when you surrender the space clean, with notice).

Renewal option

YOUR FUTURE

The right, not the obligation, to extend. If you fund a buildout on a short term without one, you have handed the landlord all the leverage at renewal — they know moving costs you more than paying.

NEGOTIATE Rate defined as a formula or a cap, not “then-prevailing market rate” alone.

Exclusive use

RETAIL PROTECTION

Landlord agrees not to lease other space in the center to a direct competitor. Worth real money in a multi-tenant retail property.

Co-tenancy

RETAIL PROTECTION

Rent reduction or exit right if the anchor tenant or a stated occupancy percentage goes away. You signed up for the center's traffic, not just the box.

Assignment & sublease

YOUR EXIT

Whether you can transfer the lease when you sell the business or need to leave. Most leases require landlord consent.

NEGOTIATE “Consent not to be unreasonably withheld, conditioned, or delayed,” and a carve-out for transfer to an affiliate or a buyer of the business.

Holdover
THE OVERRUN PENALTY

What you owe if you stay past expiration — frequently 150–200% of rent, sometimes with consequential damages. Buildout delays make holdover far more common than tenants expect.

Relocation clause
THE RUG-PULL

Landlord's right to move you to comparable space in the building. Standard in multi-tenant office.

NEGOTIATE Landlord pays all moving, buildout, signage, and reprinting costs — and cap how far and how often.

CAM caps
COST CONTROL

A ceiling on how fast controllable operating expenses can rise — often 5% per year, cumulative. Taxes and insurance are usually excluded from the cap, and that's normal.

SNDA
LENDER PROTECTION

Subordination, Non-Disturbance and Attornment. It means that if the landlord's lender forecloses, your lease survives and you stay. Without one, a foreclosure can terminate you.

Estoppel certificate
ROUTINE PAPERWORK

A signed statement confirming your lease terms and that nobody is in default, required when the building is sold or refinanced. Expect to sign these; just read them.

Delivery & commencement
THE CLOCK

What starts your rent. Tie commencement to the **later** of landlord's delivery in agreed condition and your permit issuance — never to lease execution.

NEGOTIATE An outside date: if landlord hasn't delivered by then, you get day-for-day free rent, then a termination right.

Restoration
THE END OF TERM

Whether you must remove your improvements and restore the space at the end. A full restoration obligation on a heavy buildout can be a five-figure surprise on your way out the door.

Eight red flags in a lease draft

None of these are deal-killers. All of them are negotiable, and all of them cost money if they go unnoticed.

01 **A rate quoted without a structure**
"$18 a foot" is meaningless until you know if it's NNN, modified gross, or full service — and what the current NNN estimate is.

02 **Uncapped operating expenses**
No ceiling on controllable CAM increases, and no right to audit the landlord's reconciliation.

03 **Commencement tied to lease signing**
Rent starting before you have permits or possession means paying for months you cannot use.

04 **"Landlord's standard buildout"**
An allowance with no dollar figure and no attached finish schedule is not an allowance.

05 **An unlimited personal guaranty**
Full-term, full-amount, with no burn-down and no good guy provision.

06 **A narrow use clause**
Written so tightly that adding a product line or service technically breaches the lease.

07 **No renewal option after a funded buildout**
You paid for improvements to their building and have no right to stay in it.

08 **Silence on HVAC and capital repairs**
If the lease doesn't say who replaces the rooftop unit, in a NNN lease assume it's you.

PART 09

Buying instead of leasing

If a business is stable, staying put, and the space fits, buying the building changes what the monthly payment is doing: building your balance sheet instead of someone else's.

LEASE VS. BUY, SIDE BY SIDE		
	LEASING	BUYING
Cash up front	Deposit, first month, and your share of buildout	Down payment, closing costs, due diligence, reserves
Monthly payment	Rises with escalations and NNN reconciliations, forever	Fixed for the loan period; taxes and insurance still move
What it builds	Occupancy. Nothing retained at the end.	Equity, plus any appreciation in the property
Control	Landlord consent for changes; renewal is negotiable	Full control of the space, signage, and improvements
Tax treatment	Rent is generally a deductible business expense	Interest, depreciation, and operating costs — ask your CPA
Flexibility	Exit at end of term; sublease if you need out sooner	Sell or lease it out — slower, but you keep the asset
Repair risk	Depends on structure; roof and structure often landlord's	All of it is yours, budget for capital reserves
Best when	Growing fast, testing a market, or unsure of footprint	Stable operation, right size for 5–10 years, cash available

The numbers a buyer has to know

NOI
NET OPERATING INCOME

Gross income minus operating expenses, before debt service and before income tax. It is the property's earning power, independent of how you financed it.

Cap rate
NOI ÷ PRICE

The unleveraged annual return. A property with $84,000 NOI priced at $1,050,000 trades at an **8.0% cap**. Lower cap rate means higher price for the same income — and usually lower perceived risk.

Debt service coverage
DSCR

NOI divided by annual loan payments. Most commercial lenders want **1.20–1.35** or better. For an owner-user purchase, lenders look at your business's cash flow instead.

Price per square foot
THE COMPARISON METRIC

Purchase price divided by building square feet. The fastest way to sanity-check a price against recent sales of similar buildings.

Owner-user vs. investment
TWO DIFFERENT BUYS

An owner-user buys a building to operate their own business in it — and typically qualifies for far better financing. An investor buys it for the income stream from tenants. Many owners do both: buy the building, occupy part, lease the rest.

Due diligence before you close

ENVIRONMENTAL

Phase I ESA

Records-based screen for contamination history. Nearly always required by the lender. A Phase II follows only if the Phase I flags something.

LEGAL

Title & survey

Easements, access rights, encroachments, and recorded restrictions that can limit what you build or how you use the site.

MUNICIPAL

Zoning & use

Confirm your specific use is permitted by right, not by variance. Check parking minimums — they kill more deals than zoning does.

PHYSICAL

Property condition report

Roof, structure, mechanicals, and paving with remaining-life estimates, so you can price the capital you'll need in years one through five.

INCOME

Leases & estoppels

If tenants come with the building, read every lease and get signed estoppels confirming the terms and that no one is in default.

FINANCIAL

Operating history

Three years of actual income and expenses, tax bills, insurance, and utility records — not the seller's pro forma.

PART 10

How to finance a purchase

The financing path changes the down payment dramatically. For a business buying its own building, the SBA programs are usually the difference between possible and not.

CONVENTIONAL

Bank commercial mortgage

20–35%

TYPICAL DOWN PAYMENT

- Amortized over 20–25 years
- Term often 5–10 years with a balloon — you refinance at the end
- Fastest to close, fewest requirements
- Works for investment property as well as owner-user

OWNER-USER

SBA 504

~10%

TYPICAL DOWN PAYMENT

- Structured roughly 50% bank / 40% CDC / 10% borrower
- Long fixed-rate term on the CDC portion
- Requires you to occupy at least 51% of an existing building
- Higher down payment for special-use property or a new business

FLEXIBLE

SBA 7(a)

~10%

TYPICAL DOWN PAYMENT

- Can roll real estate, equipment, and working capital into one loan
- Up to 25-year amortization when real estate is the main use
- Usually variable rate
- Same owner-occupancy requirement applies

Worked example: a $1,050,000 owner-user purchase

ILLUSTRATIVE STRUCTURE — ACTUAL TERMS VARY BY LENDER AND BORROWER

Purchase price	$1,050,000
Bank first mortgage — 50%	$525,000
CDC / SBA second — 40%	$420,000
Borrower injection — 10%	**$105,000**

Compare that to conventional financing on the same building at 25% down: **$262,500**. The gap — about $157,500 — is the working capital that stays in the business. Closing costs, reserves, and due diligence are on top in both cases.

COMMON PLAY

Many owners buy the building in a separate holding entity and lease it back to the operating business at market rent. It separates the asset from business liability and can create a clean retirement asset. **Structure this with your CPA and attorney before you make an offer** — it is much harder to unwind afterward.

WORKING WITH ME

You don't have to learn all of this. You have to have someone who already has.

Every item in this guide is a place where a deal either costs you money or saves it. My job is to run that list on your behalf — so you can focus on the business that's going in the space.

- Space search and market comparison on the all-in number, not the headline rate
- Operating expense history pulled and checked against the quoted NNN
- Lease draft reviewed clause by clause with the red flags flagged
- Introductions to lenders, contractors, and CPAs who work in this space
- LOI drafted and negotiated before an attorney's clock starts
- TI allowance negotiated against contractor pricing, not guesswork
- Purchase analysis when leasing stops being the better math
- Representation through closing or commencement, start to finish

WORTH KNOWING In most commercial lease transactions, the landlord pays the commission — including the side that represents the tenant. Having your own representation usually costs you nothing directly. Confirm it deal by deal; I will tell you straight if a particular one is different.

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