

Episode10: Commercial Leasing

Get comfortable. You're in The Marketing Stylist™ chair and it's time for some shop talk!

Shoptalk podcast is where entrepreneurs and small business owners gather to learn how to market themselves and their businesses. And we do it all from The Marketing Stylists' chair. And now your host and resident stylist Lisa Alexander.

[Lisa]: Hi everybody! Welcome back to another episode of shop talk with me, The Marketing Stylist™ Lisa Alexander. This is episode number 10. And it also begins our business expansion series for the next few weeks up until January. We're going to talk about how small businesses can expand their businesses. I know at the end of the year we're usually making goals and looking towards the coming year on how we can better ourselves or better our businesses. So, the next few podcasts series are going to deal with how we can expand our businesses and what you need to know. So today we're going to talk to broker and teacher Michica Guillory of the Guillory Group and Commercial Leasing 101. And she's going to share with us what we need to know before we sign our first lease. There are some very important things that we need to know if we're going from a home office and going to look into renting commercial space. It's not like renting an apartment—farthest thing from it. And so Michica a dear friend of mine is going to share with us what we need to know about a commercial lease what's in there some hidden things that we need to know about. So, enjoy today's show we're going to talk about commercial leasing and what you need to know before you sign that lease.

Enjoy everybody.

[Lisa]: Michica thank you so much for joining us today.

[Michica]: Thank you for having me.

[Lisa]: I'm so excited. Now we're going to discuss what business owners need to know before they ever sign a lease. A lot of have small business owners have the very wrong concept that it is just like renting an apartment.

[Michica]: Which it is not. Do you have three hours or is this one just an hour?

[Lisa]: We have just the hour!

[Lisa]: So first explain to us why this process is so different. What makes it different from renting an apartment?

[Michica]: Easy answer. Renting an apartment literally means signing the lease move and everything's taking care of. And inspectors already come through the check the place out. It's been cleared for occupancy. So, it's something you never have to worry about as a resident. But when you go into an office building or a retail center as a business owner all of that falls on your shoulders. And so people have the misperception, I signed a lease to get into an apartment and everything was easy. So, when I signed the lease to get into an office or retail space it should be just as easy.

[Lisa]: And it's not. It really is not.

[Michica]: And that's where half of what I teach comes from is all these mistakes that people make trying to get into their offices.

[Lisa]: That's right. You do teach a class for small business owners and real estate agents where they can come and find out get the skinny if you will on what's going on with your commercial leasing and everything. So, we'll talk about that at the end of the show. The class of people can take. So, tell us a bit about what we do need to know if we're going to go in and we're going to sign a lease. You know our small business owner, they're ready to leave their home office, you know they're ready to grow. They can't do anymore from home...it's time to have the look... So, we're ready to make that move. What are some things that we need to know? Going into an office space we just need office space versus retail space.

[Michica]: Get a Realtor®. That's the easiest thing for me to tell you is to get a Realtor® but I'll address your question from another point of view. There's this document called a lease and it's anywhere from 30 to 40 pages long and you've got to live with this thing for the two, three, five, years that you signed this piece of paper for. So, we'll get a good Realtor® to help you understand what you're getting into. So, use your office space

example first. When you go in there your bills will be paid. The water is already on and the electricity is already running but you need to be aware of how the building functions. Does the elevator stop a lot? You know do we have issues with air conditioning? And I know people who left buildings across the street from buildings I used to manage to come into my building because we had working air conditioning. So, you need to find out what life and work is like in a building you think you want to go into. So, I always send my people out with homework. Talk to the neighbors, get to know the folks you're going to be looking at every single day. Find out what this building is like. So those are some of the things that they can do before they get in there.

[Lisa] So not just location or you loved the way the building looked, or they had a beautiful atrium, or you know just all those things those things really don't matter. What really matters is getting in there and finding out if you can function or if you're going to have to take the stairs every day. Get in a workout.

[Michica]: Yes, and let me tell you what it really does to you without naming any particular part of town. I really didn't want to name it but without giving any particular detail. There are some buildings that are absolutely gorgeous, but they're very difficult to figure out which one of seven lookalike buildings is the one you're supposed to be in. You've got the garage that's halfway across town. You've got that hot elevator to get down to the lobby or across this giant atrium thing to get on another elevator. Go up 10 floors to cross over yet again to get to the 60th floor. It's absolutely unreal some of the things you have to do to get into these buildings. So, beauty is not the key sometimes and sometimes it's simplicity. And if you have a client base for example your senior citizens who do not want to do all that to get into your office. If you have patients that are not just geriatric but pregnant you don't want to do all that to get to your office. You've got to consider your client not just yourself.

[Lisa] You tell a story because I've sat in on some of your classes. You tell a story about a gynecologist OB/GYN who has a patient who is in a building with a non-consistent non-working elevator. Can you tell us more?

[Michica]: Yes, well when I first got custody of the building as the property manager one of the first things that we knew was that the elevators just went down constantly. They were old elevators. A lot of these buildings in Houston were built in the 80s and some of

the equipment is still 80s equipment. Bottom line is this. This elevator goes down. I've already called someone to come out and fix that thing but in the interim this woman who is eight months pregnant insists on making her appointment to the doctor. She didn't want to reschedule, and she didn't wait for the repair. So, she climbs all four stories worth of stairs. That's a lot of steps. I wouldn't climb four flights and I'm not pregnant. And then she immediately passes out in the doctor's office. The doc calls me up screaming. And as the property manager she is upset with me. and I'm like well one forgive me but I didn't tell the lady to climb any steps you know. It's an independent decision that she made. But likewise, you know this doctor had been in this building for years and continued to renew her lease knowing that these elevators were in this condition. It begs the question, should you have stayed.

[Lisa] Exactly. And even from a marketing standpoint you always think about the target audience. The people who are going to come to visit you in your office and so that needs to even play a part. That's a part of branding as well. All that plays a part in picking this location where you're going to have your clients. Are they going to have to pass cigarette smoke? Even with all the regulations. So, all of that really matters. So, if you're picking your office, one, please get a Realtor® and then two, definitely make sure that the building you are going to get fits your brand. And think about your end user, your target audience.

[Michica]: And even your employees. I worked for a company that made me do the garage, across the atrium, hit the second set of elevator kind of thing. I had to calculate an extra 15 minutes just to get to work on time. So, consider that as well. It drove us all insane. We actually convinced the boss to get out of that building. He found another place to go because we all couldn't stand it. Beautiful office but it was a pain in the behind.

[Lisa] Wow. So, ease of access is a huge thing. It really is it's a huge thing and so it's something to keep in mind now. Ok what can we expect to see in a lease? What's on a lease for an office space versus retail? What are some of the things you said...the electricity is already on... the water is on...

[Michica]: Housekeeping is also added when you when you're in an office building. Housekeeping is your responsibility in retail. In retail, the utilities you do pay a share of

the utility bill for water and for electricity. But you don't necessarily get your independent bill from the city of Houston water or from Reliant or whomever you're using. So, all that's kind of rolled in in an office building. So, it's a lot easier. Trash dumpsters are a part of the equation or provided on property. When you're in a retail setting, it's kind of like your house. You're kind of on your own to replace air conditioning...that's something the tenant most of the time has to do. The electricity bill is your bill. The water is your bill. The dumpster behind the suite is your bill. So, it is drastically different. And then repairs in an office building are usually taken care of a lot of times by the landlord because he wants to maintain a certain look and consistency in a building. In a retail setting, that space is yours to maintain. So, it's extremely different to be in an office building versus a retail setting.

[Lisa] But you still want to hire a Realtor®. Even in a in an office setting because sometimes you have to build out. Let's say some office settings it's just the one room. But let's say you you're going to bring in staff and you can't have just like six people in this one office room and you have to have more space. And so, talk about build out. How is that handled? Is that something that's in the lease? Does that have to be written in? Do you have to use their contractors? How does all of that work?

[Michica]: That really varies from landlord to landlord. But I'll tell you where a Realtor® comes in even in an office space. You're going to pay those bills—your share of all utilities, the housekeeping, the trash pickup and the landscaping. You still need someone there to help you negotiate your share. You can be paying a bill every year that escalates beyond what you ever thought you could manage financially. A Realtor® may help you put a cap on that. Literally, a cap on how much on expenses you're going to be paying. A Realtor® can help you do that. You know you also have a Realtor® helping negotiate things like exclusivity. So, no one else in the building is doing what you're doing. Or negotiate a use clause that says even though I'm only doing this as a service today—a certain type of dentistry for example—maybe three years I want to expand my dentistry business. So, I want to put these things in the use clause so that I can expand my business. So, you're still going to need a Realtor® there to help you with that. And then you need a Realtor® to help keep things out of your lease. I just found out that a friend of a friend who signed a lease and agreed to something called percentage rent. I don't know why he signed up for that and he didn't realize what it was until it was time for the additional rent to be paid. He agreed to that. He said he didn't

realize it was in there. His lease is for five years. So, he's stuck paying extra money on top of base rent for five years.

[Lisa] And once you signed the lease there is no renegotiating a signed a lease.

[Michica]: It's tough. Unless you're one of those tenants like a large scale, large big box tenant like a Kroger or something. You can have a tough time renegotiating the lease. If the landlord really values you, has a good relationship with you, you've been there for years, maybe. But if you're the new kid in the spot and you sign the lease that somehow you don't like now, chances are it's going to be hard to get out.

[Lisa] So you don't have any options at that point? Is that correct?

[Michica] Pay the lease as you signed it. That's the time to do did a lot of my business. I have to tell adult people who come back to my office at least when I was a property manager...and even now from my consultation service...you signed this thing. Did you not read it at all? I always hear sentences that start off, "but we thought," "well, I thought." And my next question is, what did you read? And as difficult as it sounds these leases are not difficult to read. What we're talking about right now is in the first three to four pages of a lease. It could be 40 pages long. But what you really need, the meat potatoes right there in in the front. Pretty plain English. Did you read it?

[Lisa] The percentage rent sentence wasn't buried deep in page 38.

[Michica] It was page two.

So you do have to read it and if you don't want to read it again...hire a Realtor®!

[Michica] Yes, and one that specializes in commercial because our business is very different from residential.

[Lisa] Ok. So that's the office side. So, certificate of occupancy is already taken care of.

[Michica] No, it is not. You need to get one. It is not like the apartment that you just move into and say let's go. You still need permission from whatever jurisdiction is over

this building...City of Houston...Harris County. You still need something that says you have permission to occupy the space. Office, retail, warehouse industrial you name it. You still have to have permission to occupy it.

[Lisa] Now there are some people who don't get one and still take possession. Who's responsible?

[Michica] The business owner needs permission to occupy that space. Property managers get certain certificates from these jurisdictions, to even have the elevators operating. To have the building even open in the first place to lease out space. We get our certificates. We have our inspections et cetera that we have to make sure that we are abiding by. When you get into this little space you know this is in an office building, you still have to go in and apply to have this space and use it the way you want to use it. Because you could be in an office building and you could be opening up one of those cafes downstairs that has nothing to do with office stuff. You have restaurants that have a whole different set of rules to follow to keep everyone in an office building safe.

[Lisa] So how much. I know it's going to vary from city to city and county to county but what's the price range?

[Michica] I really can't tell you. Let's just say you, Lisa, have your marketing business in an office. And the next person who comes in right after you who's using the office you just left, happens to also be a marketing firm. Doesn't want to change anything in this case. It can go one of two ways. If the certificate of occupancy is listed as The Marketing Stylist™ in that space and another marketer comes in behind you. Great. It's literally just a name change. What if you didn't? And what if you were one of those people who flew under the radar and another marketing person came in behind you applied for certificate. The city finds out there never was one before them. There is an inspection process that has to happen. Then they have to see if the space is up to code. Because Lord knows how long it's been since no one's been in there to see it. It changes everything. So, I can't even begin to tell you things past self.

[Lisa] This is in an office! We're not talking retail yet! We're talking just about just an office space! So you have to have a certificate of occupancy and it is not the

responsibility of the property manager, the lovely people who are showing you..yes, you can have this and with bathrooms are. It is not on them because they don't occupy it.

[Michica] The business does. But does he who occupies needs to get their certificates. It's just that simple.

[Lisa] And technically you're supposed to have your certificate of occupancy before you occupy?

[Michica] Yes. So, before you open for business occupy this space and start either providing a service or selling some goods. You need to have that. Just like you've seen in restaurants all over town, on the wall you have that certificate that says we have the right to be here to do what we said we're doing. And it's just the office building and we haven't even hit retail yet.

[Lisa] So across the board, if you're going to do office. warehouse, if you're going to do an office building, if you're going to do retail, first things first is a certificate of occupancy.

[Michica] Yes, you have to have permission to be there.

[Lisa] And it does cost money! And I don't think that sometimes small business owners understand that there are additional expenses. Like all these certificates that you have to get and especially if you're going to retail. And we'll start talking about retail and retail signage and all these other lovely things. So, explain the process that you've hit on it a little bit. Retail space is like owning a house, but I don't own the house and anything I do to it I don't get to keep.

[Michica] Nope! Unless you have your Realtor®, who sets up your lease to help you with these specific things. Now you really don't get to walk away with what you did to the space. Let's give it a visual so people understand. It's kind of like you'll see a big-box tenant like a Randall's grocery store or Kroger and HEB. And then you'll see lots of smaller stores...the Payless Shoe Source, the smoothie shop. You'll see just different little shops that kind of shoot-off the side of the big-box tenant—that's what we'll call retail. And in those spaces once you have your certificate of occupancy understand

when the air conditioner breaks that sits on top of that space that only services your suite. Unlike the office building where everybody's cooled by the same system. But in a retail space when that thing breaks unless it's a new lease that the landlord will somehow take responsibility for or fix it, that is your air conditioning or heating system to fix. If the thing has a nuclear meltdown in one of these hot Houston summers and decides it's not going to work anymore, it is also yours to replace completely. And the heartbreaker is when your lease is up, you are not allowed to take it with you. Like a house, it's a fixture. It's affixed to the building, so you don't have the right to remove it. Kind of like a garage door opener is affixed to the unit. You cannot take it. So those are the things that you need a Realtor® to help you negotiate. Because what I've seen happen, Lisa that's a horrible thing. It'll be a year from the expiration of the lease and then the air conditioning system goes out. The tenants are trying to figure out do I break the lease a year early and ruin my company's credit or do I pay five thousand dollars for this new unit that I have to leave behind. You don't want to be that person.

[Lisa] So, it sounds like that if you are a small business and you are retail you really need to have the financial resources in place because that building is yours. That space is yours and everything that could go wrong is then on you to either repair or replace.

[Michica] Yes, kind of like a condo. You know the air conditioning and heating, some of the plumbing, it's all yours to take care of. Housekeeping, there's no housekeeper that comes in there keeps that thing clean. Window cleaning, inside and out, you know that's another service you have to pay for. A dumpster behind a location, that is yours to pay for. Landlords don't provide dumpsters necessarily for tenants at retail locations. Especially if it's food related. That's all on you. Some of us do. I did for my tenants, but all places don't necessarily offer dumpsters for all retail tenants. Sometimes you have to get your own.

[Lisa] So that's an extra expense. So, you really you again you have to know all of this going in and you're going to need somebody to walk you through this process. Now what are some things in the lease on the retail side that we really need to look out for. You know some of the things where the landlords will get you because you don't know. Just a few points. What should we look for just right off the bat?

[Michica] Look for your triple net expenses. Now this is going to be really difficult to explain so I'll try and keep this as easy as possible. The triple net expenses are the expenses that tenet reimburses the landlord. And these are those expenses a landlord accrued because he had a landscaper and a security guard. And you know, and he had a day porter on that property. The roof needed to be repaired—these are those things that the landlord takes care of that the tenants don't. But in the end the tenants pay. That's it. You'll see it expressed as the capital letter 'Ns' and on paper and that's triple net. And so, when those bills come in unless you somehow put a cap on that or control of that or even ask for an explanation of where did this number come from? You might be surprised what you could be paying for. Some landlords inadvertently some on purpose include air conditioning repair. But if you think about it, why would all tenants take a share of air-conditioned repair if every tenant is responsible for their own unit? Some people glaze over that they don't pay attention to it. I've had landlords I've worked for accidentally leave that number in the reimbursement calculation. And I have to remind them, "Hey you have to take air conditioning out." That is if you did a favor for a tenant, but you can't bill that back to everybody. So, we have to remove it. So, you have to be cautious. You have to know to look for the triple net numbers and ask where did they come from. Then you also have to find out if you can put caps on things. If you can, get a warranty put in place for air conditioning, and for plumbing. Because the truth is when you get a building, kind of like an apartment, you have no idea if it was abused or taken care of before you got in there. So those are some of the things that you can look for in the lease.

[Lisa] So, I heard you mention a warranty. So you can ask for one, does it mean you'll get one?

[Michica] If it's in the lease. Asking for one and getting one, depends on what you're offering. If you're going to sign the lease for five years instead of two or three, you might get that.

[Lisa] Ok. So, it depends on the length of it? Are landlords then more willing to play ball then if you sign a longer lease?

[Michica] Absolutely.

[Michica] If you're starting with a five-year lease, you're looking better to a landlord. Having to find a new tenant every two-to-three years is no fun. They'd rather you be there for a while. And if you're qualified, you have great credit, you have a good rental history. They want you there and they don't want to have to worry about replacing you later.

[Lisa] Now you mentioned exclusivity. Now you can do that on an office. Should you ask for that on the retail side?

[Michica] Yes, you should. Well here's the catch on retail. If you are a clothing store for example don't ask for exclusivity unless what you're selling is so specific that your business would shut down with competition next door. A wedding dress store for example, two of those do not need to be in the same retail center. However, you'll see a Dot's and what is the other, the Old Navy and you'll see T.J. Maxx and Marshall's Ross all at the same center. They feed each other traffic and that's fine. But if you get a smoothie shop and another smoothie shop three doors down, that is not going to help you. So, some businesses need the exclusivity and you should ask for it.

[Lisa] And that is your right as a small business owner is to ask for it. And if that landlords not willing to do it then you go look elsewhere.

[Michica] You'd better believe that. Lisa, I don't know why but once one business goes in someone else with the same business model says, "Oh that's a good place to be, business is booming. I want to be over there." I don't know why people sometimes maybe because it doesn't cross their minds don't compete because it will harm your business. I've seen landlords allow two day care centers to be in the same strip. One suffered when the new one came in because all she did unfortunately was lower her prices compared to the one that had been there all that time. There was a war of the daycares. The original tenant is the one that eventually stayed and the new one is the one that left. Both women suffered for that. So, you have to know will your business survive competition, or will it be aided by it.

[Lisa] So you have to you really have to do your homework and know what to ask for in your lease.

[Michica] Absolutely. With the assistance of a Realtor® that can help guide you through this.

[Lisa] Now. Is there a way to abuse a retail spot? Let's say you want to if you have an office but you want to be in a retail spot. Is that a allowable?

[Michica] Ask me that a different way.

[Lisa] OK. I'm a marketer. I have a marketing company and people that work for me and I want to rent retail space. I want to put my office in retail space. Can I do that?

[Michica] You can. But how valuable is walk up traffic to you?

[Lisa] There's this space I'm eyeing a spot and it's a very nice spot. But all they have, they don't have office space. They only have retail. That's the only thing they only have retail.

[Michica] I don't think so. Not for your company. Because, you're not going to be how I describe this. What you do for a living doesn't require a lot of foot traffic. Doesn't require a lot of walkup. You don't need goo-goobs of parking. It's true that when you're in a retail setting you get lots of parking, lots of walk-up traffic. You don't need that when you're the kind of business you have. You have appointments. You have clients that come to see you. Maybe one client a day comes to see you and the rest of the day you and your staff are in your offices delivering the product. You don't necessarily need retail. And with retail you're going to be paying for a lot of stuff. Just to sit in your square to sit in your box. You're going to pay more. And again, more is kind of relative to how much space it is. Is it a class A B or C property?

[Lisa] Explain that.

[Michica] Well that depends on the demographics of the neighborhood and the income of the neighborhood age and condition of the building. "A" class properties don't necessarily have to be in the Galleria. They can be in certain parts of town. But "A" class property tends to be in the Galleria area. Just as an example. Older more dilapidated buildings and things that have a ... what's the word there is that the

elevators and escalators are kind of old. You know they don't even make parts from them anymore. I know I'm about those obsolete type of building. Those are some of your Class C buildings. But it really goes by demographics and finances and neighborhood.

[Michica] I would put you in an office. Put me in an office where your services are taken care of like water and you get the one bill you know what you're getting.

[Lisa] Now talk about another expense on the commercial side, retail side, signage. The signs are not inexpensive. That's going to be a major investment you know to pay for. And I know in your class you were talking about one landlord who said that all signs had to be lit. You know they had to be. You couldn't just have a sign. And so those are extra expenses.

[Michica] Again that's in their lease. It's in a place where there are definite pages that address signage only. They say how big the letters and we call them channel letters because they the letters sit literally on a channel where the power runs, and the letters sit on top of it. But the letters have to be a certain size, a certain color. They cannot be box signs. When you just have one big square, and the whole one big square is illuminated. You have to have individual letters. I'm sure people are going to go driving pass buildings going is it a box? But they want the channel letters signs. One they are not they're not cheap and two, they have to meet certain requirements in the city. And then you have to pay to keep that thing illuminated all the time.

[Lisa] Now I know in the city of Houston you have to get a sign permit and that we even Harris County and probably all the counties you do have to. So again, that's extra expense. So again, it's this is so far beyond just like renting an apartment and moving in.

[Michica] You know some of these office buildings have these nice you know television monitor looking things. You can press a button to see what floor they're on and my sign is on the door. That's as deep as it gets. Those are easier to be in than in a retail setting. Retail is actually expensive. I mean this is why you will see people moving in and moving out and not realizing all the expense that came with it. They haven't built

out a thing yet. We haven't even built the thing to look like they wanted to look. This is just moving in as it is.

[Lisa] You have your certificate of occupancy. You have your sign permits. You have to pay for your sign because the lease says, the landlord says you've got to have a sign. It's got to be lit.

[Michica] And we haven't put one on the marquee yet. A giant sign, we call them pylons. The big marquees that you're looking at as you drive down the street to see if the store you're looking for is in that strip. That big thing. You also have to put panels on both sides of that thing. I mean there's all kinds of stuff that happens and you have it even moved in yet.

[Lisa] If you're not aware, if you don't know what's in the lease it can really come back to bite you. You've got to know. So, there's room for negotiation. You can put caps. If I'm hearing you correctly. Put caps on things. You can negotiate repairs?

[Michica] Absolutely. For me when I was managing property, I understood that when my tenants moved in they didn't know what the person before them did to the suite. The first two months even without asking me if something went wrong with the suite I'd take care of it. I'd go ahead and fix the toilet. Traditionally, that is not something a landlord does in retail. I would also take care of air conditioning because if I said it was working when he moved in and somehow it blew up, I'll go ahead and take care of it. And after a certain point all hands are off. You're on your own unless you build something into the lease that says Mr. Landlord you're going to continue to help me do these things. And it's all negotiable.

[Lisa] So everything is negotiable. Put it in writing.

[Michica] Please don't walk away from the table with a handshake and a smile. I know this is Texas but you need it in writing.

[Lisa] So the worst thing you can do as a small business owner if you are seeking out retail space is to sign a lease as is.

[Michica] Absolutely. People do in retail and even the office buildings the same thing they do want to move into houses. They get in and they begin to visualize. "Oh, the checkout counter can be over here." "The dressing rooms over there." "We can mix the smoothies in this corner." "We'll put this in the back where we manage the books." And they just see all the counters here and the sofa over there. And they get to dreaming and imagining and they forget all about the numbers the business and the obligations that are in this 40-page living document.

[Michica] It gets tough. I had a guy move in and he did this very thing. So happy about this space and how we're going to send it out and what we're going to do and our people will flow. You would have thought he was conducting an orchestra by the way his hands were moving as he dreamed. And then he gets in there and he starts to put things on shelves. And every time he put something on a shelf the shelf disintegrates and fall down. And he called me up and said hey these shelves are sawdust. I can't put anything on them. What are you going to do? I said hold on for a second. I go grab his lease from the file, flip to the appropriate page and I said unfortunately I can't do anything for you. And he said why not? I said because you signed the lease as is. Which means you took the space as it was. This repair is going to be yours. He was unglued. He was nice, but he was unglued. He said I can't believe I did that. And he says you know, the lights weren't even on when we looked at the space. I said you know sir you should have had your Realtor® with you and insist that the lights get turned on. He said I didn't have a Realtor®. Those of us who were in the real estate community are probably reading between the lines already. There are some lines to be read through from. But the bottom line is, insist that lights are on. That power is on. Don't look at that retail space or an office space without some kind of power or the ability to backtrack and make sure that things are working. How do you know what air conditioning is working and air conditioners working if you don't have power? How do you inspect that if you don't have any power? You've got to make sure that those things are running.

[Lisa] Now in an office space if there's a receptacle that's not working that's going to be on...

[Michica] The landlord most times is likely to take of your electrical in an office building. But if a receptacle was working and suddenly it's not maybe because the tenant may

plug too many things in that receptacle. It may still come back to the to the tenant in a separate bill later. It might not. If it is a full-floor tenant and the landlord values that tenant, he may take care of it for them. And we did that sometimes for some of our huge full-floor tenants.

[Lisa] So, there are some advantages to being big and signing very lengthy leases and taking up entire floors. Okay got it.

[Michica] We love them. We were nice to them. But the smaller mom and pop you gotta know what you're getting into.

[Lisa] And you better find somebody really good to represent you.

[Michica] Absolutely. And that's what we do is we teach people. Is how to how to read, how to live with these documents. What did you sign? Even if you have a Realtor® who was with you what we teach is how to also look. We want you to be able to scrutinize this thing as much as your Realtor® does. Because again once these transactions are over, commissions have been paid Realtor® is gone it's like here's your baby. Welcome. Just like parents don't get an instruction manual on how to raise the kids, there's no instruction manual except you do have this lease. And it does tell you what you can and can't do so at least it guides you through your process.

[Lisa] Now it happens on occasion. A company gets in, a business gets in and it's way more. They didn't. They didn't hire a Realtor®. And now you know all the triple net and all these wonderful bills and the tenant is like I didn't know and I can't stay here.

[Michica] That's not a good time. Some landlords report to the credit agencies. Period. It shows up. Some landlords don't because it's a hot property. They can get someone else in. They move on they roll with the punches it's no big deal. But some of them are absolutely going to come after you with collections agencies. And then they're going to actually send you to report each of the credit bureaus.

[Lisa] Now is that is that both office and retail space or does one happen more than the other.

[Michica] No, all of them. And I've had to do it. I had to send the collections companies after some of my prior, you know my past tenants. And some of my tenants we have to report to the credit bureaus. And you'd better be cautious that is reported properly because it may be reporting as an eviction. You know...I've seen I'm even saying don't ask me how it happens because I've never done it. I saw one show up as a foreclosure. And that does not help a person's credit. Yes, ma'am it was reported foreclosure. I don't get that.

[Lisa] So all the more reason to get that you have to go in with your eyes wide open and as if you're definitely looking at leasing space. That's for churches. That's for small businesses. That's for if you've got to sign a commercial lease you have to walk in there...see the vision later...you will put the desk here and this here...don't care about curtain lines and flooring at this point. Does the toilet flush? How old are the pipes? That's the kind of mindset you have to go in if you're looking on a retail spot or even for church you know that's renting space commercial leasing. Forget the aesthetics. What's in the document?

[Michica] What's in the document. And again, like you were just saying, are pipes leaking? Now for my clients when I represent them, they think I'm crazy. Because in a suit and heels and jewelry and full makeup, I will climb the ladder, take a stick with me and prop up a ceiling tile to take a look at the pipe that's running overhead in the retail space. I just want to know if the pipe galvanized steel. Which is really prone to leak; if it's old and or is it PVC pipe. Is it something that's going to last. Is it durable? Was this replaced recently? If it is galvanized steel, which is not a problem but it's kind of thing that I can look at and see a leak about to happen. You can also warn your client, don't put any good electronics under this line. This is where your water pipe is. Because if this thing blows everything under it gets wet. But we can also address certain repairs. Mr. Landlord, I'm looking at this pipe. I see the clamps on this pipe which speaks of major problems before. How are you going to address these issues if this happens to my client? All kinds of stuff.

[Lisa] and all of that is negotiable but you have to go in forgetting about where you're going to put curtains.

[Michica] I got a little sidebar though. I've got to remind people who want to get into office buildings who want the corner space on the top floor. Keep in mind it's the hot box. So, if you're going in an office building and you want to be on the top floor be advised that's the warmest floor in the building. And the corner space is the worst because of all the window exposure. And I've got people calling me now who need help because the landlord isn't running enough air conditioning for them. While people on first floor are freezing! They are freezing down on the first and second and third floors with people on the sixth floor are burning up. It's a blacktop roof. You're on the corner. There's plenty windows for days and they didn't think about that before they moved in. And I got a good friend who is dealing with a landlord who does not want to change the thermostat settings. Well it's on 72. It may be 72 and an average maybe. But where's the thermostat located because it couldn't be in this 89-degree office. And in an office building you don't largely control your air. So, you have to make sure there's enough. You have to make sure that if you're on that corner spot on the top floor that it has sufficient air. Because if there are ten bodies in a room met for five you know... you've got computers...come on it gets to be pretty bad. And it's a common issue that I've had to deal with as a property manager for years.

[Lisa] So that's just good advice then for small businesses. You don't want the corner office on the top floor.

[Michica] Not unless you're warm spirited person and you just like warm atmosphere. Now there are things we can do we actually add supplemental air to an office. No big deal. Some of the newer buildings are built with better radiant barrier. For radiant heat that comes in. Some of the buildings now have the white cool roofs on top. You have to know what you're getting into. But if you don't, you need to ask or at least get yourself someone who does know to ask those questions.

[Lisa] So there is there really is so much more, there's so much more to leasing commercially. Just renting an apartment or something. There's so much to know. So you really have to go in very focused and realizing this is going to cost me. And the question is how much is it going to cost me.

[Michica] Absolutely. Absolutely.

[Lisa] Because we go in, oh the rent is only. I've heard that! Oh the rent is only so much a month. And that's where a lot of small businesses can get in trouble because the rent was only.

[Michica] You've sat in my class one too many times! If you called me at the time I was managing the office building and said how much is the rent, I would have quoted the rental rate for you. If you're not interested in triple net rates I'm not going to throw them out there. I'm probably in the middle of some disaster or something. I'm not thinking about it. If you want to know if there's been a capital improvement on the property lately... has that been also added into the cost. All kinds of things that come up you know just if you don't think to ask it sometimes a property manager might not think to tell it to you.

[Lisa] And there are a lot of things that get passed on to people. You just mentioned capital improvements. And I sat in your class and that's something that you can negotiate because those things are spread out over years and depending on where you come in it's like what do I really have to pay. So, small business owners you really need to hire a Realtor® preferably Michica here in Texas. You really need to hire a Realtor® to walk you through the process so that you don't get taken advantage of. And that's the nice way I'm going to put that. You really need to hire somebody to who knows all the ins and outs. Because as a small business owner, I know my business. I don't know that the landlord is trying to get over on me and having me sign a percentage lease.

[Michica] If you don't know what it is and it's in there... Now I have landlords who've been pretty awesome too. There have been some percentage clauses left in lease and they didn't realize it did not get stricken from the lease. And everybody agreed even after the fact. Let's go back and retroactively strike this out. You got some really great landlords. But I always tell people even in my class you know a lot of times it's not landlords trying to get over on people. It's a 40-page document. We're juggling 30 of you. You don't have someone checking it out. We might not. We might now have read your lease with a fine-tooth comb. If you sign that thing and agreed to the terms that are in it OK fine. We're signing it too. Let's move on. After all it's our document. If you don't like what's in it. It really is the onus is on the owner to say I don't like that. Let's change that. I want to negotiate this. I want to do something different. Only maybe once or twice in my entire career as a property manager have I sat down with a client who did not

understand the lease. Took us two hours. We went clause by clause. The man and his family were so thankful. It was a slow day. I had some time. I had some time. No one does that. Property managers are not going to go through every single clause 30, 40, page leases to explain what this is. Like I said I've only done it once maybe twice in my entire career because I had the time.

[Lisa] One last question before we close. In your lease if you want to build out make changes. Is that in your lease or can you just go and start making changes to the inside and you want to build a wall here you want to take a wall down. Even signage on the windows. You know you can have these vinyl signs that you can cover your windows with. I think you need some permit for some of the those?

[Michica] You need permits for not for that though. There's a big old no you cannot just do what you want. No. No. No. You know technically this building belongs to somebody. And any time you want to change you to do something to it you need two sets of permissions. You need permission from the man who owns or the woman who owns the building. May I change this space? I want to put a wall here. I want to do this. I want to do that. The landlord says fine I agree to this. The second set of permission you need to get is from City of Houston, Harris County or whatever jurisdiction you're in. Because when inspectors go through to check the work your contractors have done. Did they do it properly? So even before construction starts those plans need to have been taken to whatever jurisdiction you're in for them to look at the plan.

[Lisa] So, we have to take plans?

[Michica] Yes, it starts with a plan. They just think they can call anybody up and get the walls slapped up. You have to have plans drawn up, taken down to whatever jurisdiction that you're in and have the plans approved. Once they're approved...and let me just back up. You've got daycares. Daycares are very serious business. You cannot just have a room where the babies are going to be housed as opposed to the 2-to-3-year olds as opposed to the six-year-old child. And there's no back door to the room where the infants are. I even had a daycare that did not have a back door. So, the inspector says you all can operate this business once you create a back door to this room. Because it needed another point of ingress and egress. Literally the escape point if something happens. So, you need those plans to be approved. And once they're

approved your general contractors, your plumbers, the electricians, the people who are going to be building this thing for you will go pull the permits to do the work.

[Lisa] I hear dollar signs right there. And permits are not free.

[Michica] Those are not free. The work has to be done according to the approved plans. And just to make sure it was once your contractors your electricians plumbers finish that work they will call for the inspection team to come inspect the work. If the work was done properly then you will get your certificate of occupancy to open up. If the work was not done properly. They'll tell you hey you need to fix this fix that fix this will come back in re-inspect. Go through that little process again and once you've gotten it right. We'll let you open the doors.

[Lisa] Now what if you have your certificate of occupancy. You're already in. And then these are changes you need to make later on. You know for whatever reason there's growth and you need to add an office or things like.

[Michica] You would start that process just like you would if it was the first day. You go to the landlord, show the plans to Mr. Landlord. He's like this is fine whatever. Go get your permits and whatnot. Take that same set of plans over to the city, over to the county have them review the plans are approved. And it can happen at any stage in your tenancy.

[Lisa] So what's the consequence or what happens if you don't follow that process? Let's say you just didn't know. You just really didn't know. And so you get in, you don't have a certificate of occupancy, you don't ask the landlord if you can start putting up walls or tearing down walls and you haven't pulled the permit. And you know you have made it. It is just very lovely, and it is you know the vision you saw. It's all laid out it's beautiful decorated. What are the consequences?

[Michica] You know for doing that it can go so bad. So bad in so many different ways. As you spoke there about six different scenarios that flash before my eyes. You know you run the risk of being seen in the middle of this construction by inspectors who you know just driving down streets of their area.

[Michica] Who may say wait a minute, did y'all get permits to work at this place over here? An inspect can walk right on site and say where are your permits because they should be in the windows and shut down right there. Shut you down right there in the middle of your work. You've got contractors who want to get paid. You've got work that needs to get done. You have a lease that says you'll be open by a certain date. All of a sudden, this thing is snowballing. Or you could have successfully gotten the work done under the radar opened up, but that same inspector says wait a minute, when did the new restaurant get over there. I didn't inspect that. Who opened that up? The minute he goes in looking or she because we have some great female inspectors but the minute they walk in and look at the papers. You have to shut that down. And what we're talking about is people who are getting laid off at this point. We're shutting businesses down. Landlords aren't getting their money. Business owners aren't getting their money. And let's just say it's a restaurant. They're renting the dishwashing equipment. The soda dispensers. They're renting all kinds of stuff inside this business that now they can't even make payments on because they've shut down because they didn't go through the proper channels.

[Lisa] So, you run the risk then of losing your business. Of not being able to operate your business if you don't go through proper channels. So if people are wondering what if I just do it any way, you know I can fly under the radar. Then you really do run the very real risk of being shut down. And then how do you operate? How do you operate your business if they've shut down and you've got to go and go through that process? So it's better then to just go ahead and do things the right way and a Realtor® will be able to really help you through that process.

[Michica] Absolutely. The one that specializes in commercial because most Realtor®s that people are working with are likely to be residential. So, you want somebody who understands this business.

[Lisa] Now Michica, you teach a class we mentioned it back and forth. You teach a class its Commercial Leasing 101. I have sat in on a few of these classes and have learned so much just by sitting in on the class.

[Michica] You could have done this interview by yourself! You didn't need me for this!

[Lisa] Yes, I did. Because the triple nets and all of that! No, I'm not the one. But the class originally was for small business owner and it kind of like morphed into this thing for now it's a MCE for real estate agents but small business owners are more than welcome to come to this class.

[Michica] It just happens to be for Real estate agents now because they seem to want to take the class more so than most small business owners. And unfortunately for small business owners they are making the mistake first and then coming to us for the help. So, we'd love it if they would join us on the front-end in class.

[Lisa] So come take the class if you want more information just so that you are aware even if you're going to hire a Realtor® you can at least be educated about the process. So, you really know what kinds of questions to ask. It's a very good class. I highly recommend it. And then if you want to hire Michica, hire Mish... I call her Mish... to represent you if you're here in the Houston area or surrounding areas. She has a company called The Guillory Group. And you can go to her Web site www.theguillorygroup.com Check her out there and I'll put all this information on the show notes. And give us your email real quick.

[Michica] It's going to be Michica@theguillorygroup.com

[Lisa] And I'll spell that for you. It will be on the site.

[Michica] There's a second one as well that yes, the one is michica@commercialleasing101.com You don't want you to me. But isn't the key to learn how to sell Michica?

[Michica] It is. Yes. And once you see it you'll go oh it is. And feel free to call me Mish like Lisa does. I've known you for what almost 20 years of if at all.

[Lisa] Small business owners you have been wonderfully just notified on the ins and outs on commercial leasing. What not to do what to do what to expect. And there was even so much more that we only scratched the surface. This is like a two-hour class car. I'm sorry. It's a three-hour class so we only skirt it. I mean just the very basics a little bit here a little bit there. Yes. Just enough to tease them. Call Michica. Go see your Web

site. Go visit get the information you need. Because business owners we don't want you to be taken advantage of. We want you to go through the process very knowledgeable know what you are walking into. Michica, I have enjoyed our time together so much I've enjoyed this. Thank you. And until next time everybody that's our show for this week.

Thanks to Michica Guillory, my good friend for stopping by and sharing with us what we need to know before we sign a commercial lease. It is so not like renting an apartment and now we know. And so, if you're interested in taking her class just to get all the information go to the show page. There there's a link to her commercial leasing class and to her Guillory Group. Thanks for joining us. hope you're enjoying your series. We have another great show another great interview coming up for you to be to expand your own business so make sure you tune in next time. Thanks everybody.