



GUIDE

SAN FRANCISCO REAL ESTATE



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FUNDED BY:



SAN FRANCISCO
OFFICE OF ECONOMIC &
WORKFORCE DEVELOPMENT

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GETTING STARTED



TIMING

From the moment manufactures start their search to the day they move into a new facility *typically* takes 6 months to a year. We've seen companies do this in as few as three months and take as long as three years.

Ideally you'll want to create your checklist (next section) about a year out from when you need to move.

Whether you're just starting out, moving your business, or adding to your production footprint, every search should start here:

- Zoning
- A checklist of your needs
- Getting help

PRO TIP

Set a reminder of when you'll need to start your search working backwards from when your lease expires.

SEARCH CHECKLIST

Take some time to fill out this form - writing it out is a good forcing function to keep all of these things in mind as you search later:

Timing

Earliest possible move in:

Must be in no later than:

Monthly Rent

Ideal: \$ _____/SQFT

Maximum: \$ _____/SQFT

How much space do you need?

Minimum: _____SQFT

Maximum: _____SQFT

- Would consider 2nd floor and up (passenger elevator only).
- Would consider 2nd floor and up (freight elevator required).
- First floor only.

Requirements

- Dedicated parking. If "street parking only" is a dealbreaker, how many dedicated spots do you require?
- Easily accessible via public transportation
- Roll up door (so that a vehicle can back up into your space)?
- Loading dock (so that you can ship/receive with trucks that don't have lift gates).
- Gas
- Floor drains
- 3 part sink
- Ventilation for equipment
- AC / Heat

Specific electrical needs:

Minimum ceiling height:

Specific floor load

(for heavy equipment):

What neighborhoods will you consider?

- Dogpatch
- Bayview
- Mission
- SOMA
- Anywhere in SF

Have you prepared an application packet with your financial resume (tax returns, three financial statements, credit report?)

Now that you have answers to these questions, you're ready to start looking around. Signing a lease is a major commitment, so you want to make sure your new space checks as many of the same boxes as you did before you go for it. Take another look at your answers. What are the must haves and what are the nice to haves?

HERE TO HELP

SFMADE

We are here to help you. That's why we asked you all those questions (Checklist previous page), it wasn't to be annoying. We'll take your answers and use them to consider different properties that might be of interest. But no one can run your search for you. Even if you decide to engage a broker (we can recommend one for you), you will be the one to make the final decision, so you should stay involved throughout the process and ask for help at every step.

OFFICE OF ECONOMIC & WORKFORCE DEVELOPMENT (OEWD)

Periodically check the OEWD's website for grants, programs, and resources that will answer questions, save you money, provide support.



OFFICE OF SMALL BUSINESS (OSB)

The Office of Small Business has a number of resources that may be useful in your search. This is a service-oriented department that has resources to share and a network of connections. For example:

- **Retail Vacancy Specialist**
If you're looking for a space with storefront retail, definitely contact OSB.
- **Permitting Support**
They can answer questions, help you with timelines, and connect you to the Permitting Help Desk.
- **Access to Co-Star**
Need property details that aren't readily available elsewhere?

Start with: **Iris Lee**
iris.m.lee@sfgov.org
sfosb@sfgov.org

ABOUT BROKERS

Brokers are licensed professionals who work on your behalf to find a space. They have access more listings than you do and relationships with landlords. So they also know what's coming onto the market before it is listed. They know who is ready to make a deal, who is ok with you making lots of noise... in short, they know a lot about the local real estate market.

Important note: *When you engage with a broker, they expect an exclusive relationship. They work entirely off of commissions, so when they spend their time on your search, they're sticking their neck out for you. You cannot ask multiple brokers to look around for you.*

BROKER FAQs

WHO PAYS THE BROKER?

The landlord/property owner pays their commission. You don't have to pay them anything.

HOW MUCH DO THEY MAKE?

It depends on the size of the transaction, but it is usually within 3-6%. The landlord/property owner expects to pay a commission, they have already accounted for it - but it doesn't affect your rent.

ARE THEY HAPPY FOR THE TENANT TO HELP WITH THE SEARCH OR DO THEY PREFER TO BE RESPONSIBLE FOR THE SEARCH?

A broker may be more than willing to take total responsibility for your search. But you may not be their only client. Feel free to do your own research in tandem or at the very least, check in with them regularly.

HOW ARE BROKERS DIFFERENT FROM COMMERCIAL REAL ESTATE AGENTS?

The oversimplified answer is that Brokers help you lease commercial space and agents help you buy them.

HOW DO I FIND A BROKER?

Brokers all have different specialities - some work within specific geographies, some with building or tenant types. Once again, networking is your best bet here - if you know people with businesses or space needs similar to yours, ask them who they used, or if there's a specific neighborhood you want to be in, try to ask around and see who people in that area have used. Also, look up! Visit the neighborhood you want to be in and take down the names of brokers you see advertising on available properties.

WHO ELSE CAN HELP?

Brokers aren't for everyone or every search. But you should always try to get help when you're looking for space. Who else can you ask?

- Social Media
- SFMAde members
- Neighbors
- Your Customers

Don't just ask if anyone knows of any available spaces either, try to get people to share their search experiences, compare lease terms... gather as much information as you possibly can. The better informed you are, the more prepared you will be when you identify the right space.

When you've found a place that you really like, and you've asked the landlord to see the lease, ***let us know and we'll connect you with an expert who can review it. Getting your lease reviewed by an expert is one of the most important things you can do in this entire process.***

THE SEARCH



LOOPNET & CRAIGSLIST

Go to Loopnet and Craigslist and search based on the criteria you outlined above. Save those searches so that you get alerts when new listings come on line. On Loopnet just look for the 'save' button on the right side of the top menu.

LOOPNET

CRAIGSLIST

WORD OF MOUTH

You may be able to uncover opportunities before they are listed - maybe word of your search gets to someone who had never thought about subleasing their space before, but because they know you, they'll be willing to make something work.

Be a *participant* in the manufacturing community. Grow your network and spread the word. You'll find out who's moving in and out where and when.

MULTI TENANT BUILDINGS

San Francisco has a few multi tenant industrial buildings. These are especially worth considering if you need some of the features that are typical of a large industrial building (high ceilings, loading docks, etc.). SF's multi tenant buildings feature spaces from 100-10,000 SQFT.

BUILDING	CONTACT	EMAIL
American Industrial Center "AIC"	Kristel Craven	kristel@aicproperties.com
Yosemite Place	Martha Thompson	martha-t@pacbell.net
1890 Bryant	Trish Tunney	trish@1890bryant.com
150 Hooper	Zac Monsees	zac.monsees@transwestern.com
1661 Tennessee	Alex Cartlidge	alex@czsproperty.com
Building 12 @ Pier 70	Michael Sanberg	msanberg@tcpred.com
Potrero Business Center	Zach Hauptert	zhauptert@tcpred.com

SHARING

There are two ways to share PDR space with another manufacturer.

AS A MASTER TENANT

You may find that what's currently available on the market is too big for your current needs (though maybe you'll grow into a larger space in the coming 3-5 years). Renting a space that's too big and subleasing the extra space to another tenant has some pros and cons:

PROS

You may have more options. Finding the spot that is just right for your current size needs isn't easy.

Renting a space that's too big might allow you to grow into it as you scale. When your sub-tenants lease expires, you have the option to renew or expand into their space.

You may be able to charge your subtenant a slightly higher rate per SQ/FT than your landlord is charging. Larger spaces are usually a better value than smaller spaces. So even if it's more than what you were paying before - you can still charge market rate to your subtenant and make a bit of "profit" to help subsidize your rent.

CONS

Being a landlord is a part time job. Sorting out utility bills, collecting rent, trying to figure out who left the door unlocked, and maintaining the relationship takes time. This can be a distraction from running your own business.

Kicking out your tenant can be awkward. Let's say you have a 5 year lease and your subtenant signs a 2 year lease. If your business grows and you're going to need to take over that space, it can be really uncomfortable to have to break the news that you can't let them renew. Your relationship may not recover.

AS A SUBTENANT

Because finding the perfect size can be difficult, sharing a space may give you new options.

PROS

Sharing a space may not be ideal (your roommate likes to cook smelly fish in the common kitchen, their air compressor makes you jump out of your chair everytime it kicks on, and even though you split the garbage bill in half they produce 3X more garbage than you. Grrr.). But sharing can buy you some time to find the perfect “forever home.” Sign a 1 or 2 year lease. As your business grows you’ll have a better sense of how much space you’re going to want, how much you will be able to afford, and you’ll have plenty of time for a long term search.

CONS

You need to have a slightly higher tolerance for risk to share your space. It may be the right size in the right neighborhood at the right price. What happens when you find out that even though you’ve been paying your portion of the rent to the master tenant, the master tenant hasn’t been paying any rent to the landlord. Do you have trade secrets to protect? Are you uncomfortable sharing a space if you have expensive equipment or goods you can’t secure?

Ask hard questions and listen to your gut.

RESTAURANT KITCHEN SHARING

If you’re operating a food business, you need to find a facility that will meet all the requirements for safe food handling, preparation and storage. Many people opt to rent space in a commercial (aka commissary) kitchen.

But did you know that you can actually rent space (or time) in any restaurant kitchen in SF as well? All you need to do is apply for a zoning referral along with your DPH food safety permit.

We recommend going to the Permit Center at 49 S Van Ness to make sure you’re covering all of your bases. The Permit Center is open for anyone to walk in and get assistance. They have a front desk agent that can point you in the right direction of which department you need to talk to, and two help desks to further assist with your questions.

MARKET RATE

There's no single source or algorithm that defines "Market Rate."

CoStar publishes an annual report which includes PDR market rate - but their definition of San Francisco extends all the way down to San Mateo, so the data is skewed.

There is often a significant difference in what SFMAde manufacturers actually pay compared to what the real estate industry would like market rate to be.

Smaller spaces (100 - 1,500SF) will be at a higher per-square-foot-rent than larger space. (For example, you

won't pay \$1 SQFT / month on a 200SF space. For a space that small, you're looking at around \$3 SQFT / month. And alternatively, a 10,000SF space should be close to \$1 SQFT/month.)

We do our best to keep our finger on the pulse of the market and gather as much data as we can from both renters and landlords to be able to have a sense of the market at any given time.

At the time of writing, here's what it looks like from where we sit:

NEIGHBORHOOD	\$/SQUARE FOOT	NOTES
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*Updated January 1, 2023.

Please check sfmade.org for the most current numbers.

Bayview/ Hunters Point	\$1.50-2.00	Best availability of larger PDR spaces (+10,000 SQFT), free street parking, and easier shipping/receiving logistics due to less traffic and wider streets. The building stock in this neighborhood is older and may require some investment by you, the tenant. The MUNI T 3rd Street line provides easy access to the rest of the city.
Dogpatch	\$1.50-2.50	The AIC offers most of the manufacturing space in this neighborhood. Building 12 at Pier 70 and the Noonan building are worth checking as well. Spaces in these multi-tenant buildings sometimes offer basic amenities for smaller manufacturers. This can reduce the upfront capital investment requirements.

NEIGHBORHOOD	\$/SQUARE FOOT	NOTES
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*Updated January 1, 2023.

Please check sfmade.org for the most current numbers.

SOMA	\$2.00 - 3.50	This mixed use neighborhood still has some great industrial spaces that will be easy for your staff to access. Look for spaces advertised as "Flex" and prepare to negotiate.
Mission	\$3.00 - 4.00	There are manufacturing spaces in the Mission due to neighborhood activism and protections. This is some of the most expensive PDR space in the city due to easy access (2 BART stations) and proximity to vibrant commercial corridors. If your factory would benefit from a retail storefront, this Mission may be ideal.
Overall	\$2.50	This is our over-simplified number for PDR market rate for San Francisco. A starting point. Smaller places cost more, larger spaces are less. Factors such as amenities and neighborhood will make this number tick up or down.

A NOTE ABOUT THE CURRENT MARKET

There are two kinds of landlords - those who own their building outright, and those who are still making payments on it. Why is that important? The landlords who own their buildings outright may have a lot more leeway on rent.

On the flip side, landlords who are making payments to a bank have negative flexibility. Sometimes, the bank will not even allow them to accept anything less than what would cover their payments, meaning the property will stay vacant rather than the landlord making a 'loss-making' deal.

What does this mean for you? Deals are out there if you look hard enough. This is where a broker could really come in handy - a good one will know which landlords are ready to make a deal.

ZONING

You might be wondering why we provided examples from only 4 neighborhoods on the east side of the city? What if I want to manufacture in Ocean Beach so that my team and I can take surf breaks? That's valid, but it's going to seriously complicate your space search.

Manufacturing is only permitted in certain zoning categories, and similarly zoned spaces tend to be clustered together - residential with residential, commercial with commercial, manufacturing with manufacturing.

ZONING

NOTES

NCT	Neighborhood Commercial Transit	This is usually clustered around Commercial Corridors that have a lot of retail storefronts. As a result of their proximity to transit and high foot traffic, these lots tend to be more expensive.
PDR1	Production Distribution Repair	Light manufacturing, usually found in the Mission, Potrero Hill and Dog Patch. Often the best value for smaller manufacturing spaces.
PDR2	Production Distribution Repair	Heavy manufacturing, usually found in Bayview and Hunter's Point. Often features larger manufacturing spaces.
UMU	Urban Mixed Use	Because you're competing with offices for this space, you may end up paying more for UMU space. Usually found in the Mission District, SOMA, Potrero Hill, and Dog Patch.
C3	Downtown Commercial	Light manufacturing is permitted on C3 zoned lots, however, this is usually more theoretical since the price per SQFT is usually too high for manufacturing downtown.

In reality, most zoning enforcement is complaint-based. If someone suspects you are carrying out an activity that's not permitted in your building, they can report you to the Planning Department. If Planning finds that you are in violation, you - and you alone - are responsible. Neither your landlord, nor your broker, will be held responsible, even if they told you your activity was permitted. When you sign a lease, you take on all of the responsibility. No matter what your broker or prospective landlord tells you, always double check on the zoning of your space.

Use this tool to look up the zone for a specific address:

<https://sfplanning.org/resource/find-my-zoning>

Use this tool to find an area for the type of activity you do:

<https://build.symbium.com/business/sanfrancisco>

How do you avoid complaints? Your safest bet is to stick to PDR zoned spaces, where you can generally make as much noise and strong odors as you want. Outside of PDR, try to limit the impacts of your activities. No matter where you are, be a good neighbor!

What happens if you have committed a zoning violation? You'll probably have to stop production and relocate. Remember, your landlord is not obligated to let you off the hook. You'll be paying two rents at once for a while.



BEFORE YOU SIGN



NEGOTIATING

Even if you are able to score a location that is below “market rate” it still might make sense to negotiate further. Don’t get too caught up on the price per square foot. Over time, annual increases and tenant improvements could be even more important.

These are a few areas you may consider negotiating:

- Annual increases
- Move in date / free rent
- Length of lease / renewal options
- Tenant improvements
- Assignability / guarantees
- Ability to sublease
- Hours of operation

Negotiations can take many forms, so it is essential that you get any concessions from your prospective landlord in writing. A verbal agreement is a great start. Adding these details to an LOI (see below) gets you closer. But nothing really counts until it’s in the lease or an addendum to the lease.

LETTER OF INTENT (LOI)

So you’ve come across a space that you’d like to move on. If you’re lucky, nobody else is competing with you for this space.

If you want to send a message (figuratively and literally) to the landlord that you are *seriously interested*, sending an LOI lets them know:

- You are done shopping around. This is the one!
- They should immediately stop talking to other prospective tenants.
- They can move forward with preparing a lease (which costs them money).

An LOI is about as legally binding as a firm handshake but it sends a stronger message than bullet points in an email. For clarity, include a recap of what you have already agreed upon via email and verbally.

YOUR NEW SIGNIFICANT OTHER...

Just as you'll exercise due diligence on the *space* itself, do some recon on your prospective landlord too. Can you talk to any previous or current tenants at other properties? Google your landlord's name and look them up on LinkedIn. If you are able to get the address of other properties they also manage, see what you can find out here:

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<https://sfplanninggis.org/pim/?pub=true>

BAY AREA

<https://www.sfchronicle.com/projects/2022/sf-bay-area-property-map/>

If you discover that your landlord has a reputation for not being responsive, you may want to renegotiate terms in the lease that could be impacted by their indifference (ie: utilities, repairs, improvements).

It's also worth taking a moment to consider your landlord's perspective. They are trying to minimize risk as well. They have dealt with nightmare tenants in the past, who could have violated the planning code, or damaged the space, or didn't pay rent, or all of the above. Don't give them any reason to think that could be you, or they may choose to rent to someone else.

THE LEASE



THE LEASE

You might take one look at your lease, see a bunch of Olde English looking words such as HEREIN and SHALL, and be tempted to think, “I’m sure it’s all boilerplate, I’ll just skip ahead.” Please don’t!

Once you’ve found the place and have a copy of the lease, SFMade will connect you with an expert who can review it. ***Getting your lease reviewed by an expert is one of the most important things you can do in this entire process.***

Take the time to sit down with a red pen and a highlighter (or the digital equivalent) and read every section. Circle things you don’t understand, cross out things you don’t like. Make a list of questions for the landlord, a list of questions for yourself, and a list of questions for your broker if you have one.

Be thorough. All leases originate from boilerplate templates. There will certainly be sections that don’t apply, don’t make sense or aren’t good for you. Every clause in that document is going to matter once you sign it, so make sure that you understand what everything means and why it is there.

There are no stupid questions!

You are going to want to have all of your negotiation in writing anyway, so go ahead and work directly on the lease itself. You can scratch stuff out and write stuff in - add your initials next to your changes if you’re working on a final copy.

PRO TIP

Dump your lease into a word processor and use the find and replace feature: turn [lessee] into [your name]. Turn on the “Suggesting” or “Tracking Edits” feature of your word processor.

Are you subleasing?

Congratulations, you now have to do this twice - you should ask your prospective landlord to show you their lease. Look for a clause that explicitly allows them to sublease (or not), and make sure there are no conflicts with your operating plan... (hours of operation, etc.)

AMENDMENTS

WHEREAS your lease will not change upon signing, amendments can alter the terms of your lease in really significant and impactful ways. For example, a lease extension can take the form of an amendment, a rate increase (or decrease!) can take the form of an amendment, even permission to bring your dog to work could take the form of an amendment.

When amendments are made, they only alter the specific term or clause to which they refer. The rest of the lease remains in effect as is. It's a good idea to save copies of the amendments with the lease (in the same file in your office, on your hard drive, or both) so

that you can always refer to them together when issues arise.

Imagine you've extended your lease 3 times and the rate has changed every time - those will be 3 separate amendments to the original lease - and now you have a question about who is going to pay for the leaky roof? You'll want to be able to refer to all of the amendments and the original lease itself to find the answer.

A FEW KEY TERMS

WHAT IS TRIPLE NET (OR NNN) VERSUS INDUSTRIAL GROSS (OR IG)?

The three Ns, or Nets are:

- Property taxes
- Building insurance
- Common area maintenance (CAM)

In a 3N or Triple Net lease, you are responsible for paying all 3 of these, not the landlord. You might also find that your lease has you on the hook for just one or two of these (look for the terms Full Service or Modified Gross in the listing)

WHAT IS THE DIFFERENCE BETWEEN USABLE SQUARE FEET AND RENTABLE SQUARE FEET?

Unless you are renting an entire building, make sure you have a grasp on what is considered the Usable Square Footage of the space you are renting is.

Are there communal spaces in the building, like a lobby, hallways, or bathrooms? Check your lease to see if these, or some portion of them, are included in the square footage that you'll be paying for. Look for the term "Common area maintenance fees" which can cover everything from janitorial and security services to the toilet paper in the bathroom.

USEABLE SQFT

Floor Plan that includes just your space

LEASABLE SQFT

Floor plan that includes hallway, bathrooms, elevator, shared kitchen.

FREE MONTHS

There is such a thing as a free month. One of the most common bargaining chips that landlords will offer is one or a few free months at the start of the lease. This can be very appealing, as it offsets some of the move-in costs you're going to have to deal with. However, be sure that you take a look at the overall picture. Is the landlord offering a couple of free months up front, but then charging you a higher rate over the life of the lease? The savings from those free months could disappear in a year or two if you take them in exchange for making your lease NNN, for example.

RENT ESCALATION

You want to have in writing when and by how much your rent will increase. This will allow you to make accurate forecasts and plan for your business' growth. Your lease should include a clause that stipulates the maximum increase (as a percentage of the rent) that your landlord can impose, as well as the timing of any increases (yearly in January? On the anniversary of signing?)

COMMERCIAL LIABILITY INSURANCE

Your lease might require you to take out a commercial liability insurance policy, which is in there so that any accidents or incidents that occur in your space don't become your landlord's problem. This isn't really something you can negotiate, but it is something you should look for and prepare to comply with if necessary.

These are just a few of the most important terms to look for in your lease. After you've done an initial review, reach out to your point of contact at SFMADE. We'll connect you with an expert adviser who can take a look as well.

TENANT IMPROVEMENTS

What are typical Tenant Improvements? For some, a lighting upgrade and added insulation above the ceiling for the top floor unit that bakes in the sun all day. You might need to tear down some interior walls and add new ones to configure the space the way you want.

Depending on how your negotiations go, your landlord might pay for some or all of the work done. Even if you pay for it yourself, it is important to get it in writing that you are allowed to do this construction. Make sure you discuss and agree with your landlord before any work is done. Be sure you and the landlord are in agreement (i.e., get it in writing) about the TI work when you move: Do you have to remove the wall you put in? Do you have to replace the window you installed with drywall? Basically, do you have to return the unit to its original state?

TI VS TRADE FIXTURES

A trade fixture is any item of your property that pertains to your business, whether it is affixed to the building or not. Picture a neon sign with your logo on the roof, an AC unit that you install, a 3 door display fridge. These remain your property, and even though they are difficult and expensive to move, you'll be expected to take them with you unless you make another arrangement with the landlord.

A GUIDE FOR PDR LANDLORDS



WHO QUALIFIES AS PDR?

The short answer: Hardware - not software.

There must be a physical component. *Designing* a physical component doesn't cut it. If your new tenant won't be manufacturing goods in the traditional sense (ie: making candles, soap, chocolate, or widgets), the focus of the work being done should be R&D. People sitting at desks working on computers can be a part of the equation, but the point of the work should be the development of a physical prototype which is in the room with them. If there aren't any tools or machines on site, the Planning Department will likely not consider the use "permitted."

View full PDR code descriptions [here](#).

Confirming your new tenants are PDR

If you have any questions around whether or not a tenant should be operating in your space, start by contacting the Planning Department. If they can't give you a definitive answer, consider requesting a written

letter of determination from the Zoning Administrator (about \$800). Apply [here](#). Keep in mind this is a time consuming process and that what you will receive is one person's interpretation. It's like bringing in an expert witness to make a case before a jury (Planning Department Board of Appeals). It's an educated opinion that carries a lot of weight. In the event of a disagreement, the Board of Appeals will have the final say.

If you need to take your project to the next level, you may need to engage a land-use attorney.

John Kevlin of Reuben Law,
comes highly recommended.

j.kevlin@reubenlaw.com

RISKS OF LEASING TO A NON-PDR BUSINESS

Brokers have no legal obligation to ensure that they are connecting you with tenants that are permitted to operate in your space. Ultimately this is the responsibility of your tenant.

Still, renting to a tenant that is not permitted to work in your space could result in a long and costly migraine. If

the city tells your tenant they can no longer operate in your space, effective immediately, but they have a year left on their lease, this is the kind of financial burden not all companies can survive. This could result in wasted time and energy, legal expenses, and months of uncollectible rent.

REDUCING YOUR RISK

Get to know your tenant's business. Start by understanding what they make and how they plan to use the space.

- What site improvements will they need?
- What kind of equipment will they use?
- What are their power requirements?

You may want to add a stipulation to the lease that the tenant agrees to *usage requirements* potentially reducing your liability in the case of a dispute.

UNDERSTANDING WEAR & TEAR

Manufacturing sometimes put more stress on a space than office workers. They can draw more power, use equipment (forklifts) and need more structural integrity to carry additional weight.

For Heavy Industrial uses consider one of these lease structures:

- Triple-net (NNN) lease structures so that your tenant is responsible for the costs of insurance, damage, wear and tear, etc.
- Industrial/Modified Gross agreement. Make the tenant responsible for most or many costs (wear and tear, improvements, taking out ground bolts, etc.) while the landlord covers costs like insurance.

For most Light Industrial uses, adding situations around who is paying for what can go a long way to reduce your risk.