

YOU HAVE DECIDED TO LEASE A BUILDING...WHAT NEXT?

Many aftermarket businesses, both small and large, new or established, and whether a Manufacturer, WD, Retailer or Installer/Jobber, may likely engage in the process of leasing a building location for their business. The complexity of lease terms, length of lease and conditions can be difficult to navigate, particularly when it comes to the Insurance Clause within the lease. While this review is not intended to replace the advice of a competent Attorney or legal advisor specializing in Lease Contract law, it will attempt to point out some of the issues that will affect your business once you have “signed on the dotted line”.

How do you best protect your business and meet the obligations of your lease agreement? A standard lease will require that your company provide Commercial General Liability insurance coverage that will protect you and also add the Lessor of the building as Additional Insured (AI) on your policy. If someone were to slip and fall and sue your company while on your premise, if you have the correct Liability insurance in place and also have AI included with the Landlord named, all parties will be protected. Look for the provision under the heading of “Insurance” in the lease contract. Make sure your Agent provides the proper Certificate of Insurance to the Lessor.

Make sure you have your Insurance Agent review the Lease agreement for your company, as aside from General Liability there will be a clause for insuring the Property. Depending on the type of lease that you have, either a Gross Lease where the Landlord would pay for all expenses including the insurance, or a Triple Net Lease, where the tenant pays for their share of expenses including the Landlord and Tenant’s insurance, make sure your insurance policy is able to match your contract. Often these terms are negotiated and fall somewhere in between the two. But make sure your business has the Property Contents covered and an adequate amount of Business Interruption and Extra Expense property insurance coverage in place so your Company can remain in business. Remember, and this is very important, any Tenant Improvements that you have made to the interior of your leased area needs to be adequately insured on your Property Policy under “Tenant Improvements” in order to rebuild at the same building or at another location to restore your business.

If a Casualty Loss occurs, what does your lease contract require? The insurance clause in your contract should provide your requirements as to what happens when a loss, such as a fire or windstorm occurs. Pay careful attention to this portion of the lease. If you can’t occupy the building as a tenant are your rents discontinued until there is a restoration? Is there a clause allowing for a complete cancellation of the lease should you be unable to occupy the building for 120 days or more? Continuation of your business is the key and planning is everything.

More than 50% of small businesses never make it back into business after a Casualty Loss, coupled with a Lease that does not work in the favor of the Tenant. Alliant is here to assist you with navigating the Insurance Clause portion of your lease, or make sure your Agent can assist you with this review, as well as your Legal Advisor.