

The following is a brief summary of some of the factors you should consider when selecting a location for your business when it cannot be run from home. Before signing any leases or purchase agreements you should always consult a lawyer to make sure your best interests are represented.

## SELECTING A LOCATION

### Items to Consider:

- Type of premises required – office, warehouse, retail store, storage, etc.
- Physical requirements – loading facilities, parking, truck access, waste disposal, snow removal, layout, etc.
- Utilities – power supply, water, gas, sewers. Are they adequate? What do they cost?
- Fixtures – equipment, design, decor required.
- Amount of space required – Is there room for expansion? Be careful not to over or under estimate your space requirements.
- Affordability – include hydro, utilities, business taxes, common area fees, etc., in order to determine total monthly cost
- Preferred municipality – central, suburban, rural. Also, consider the local business climate.
- Location of your target market – you should be accessible to your customers.
- Location: consider suppliers, competition, transportation facilities, etc.
- Required security – police patrols, fire hydrants, sprinkler systems, alarms, private security services.
- Availability of labour/employees and the prevailing wage rates.
- Length of lease required.

## GOVERNMENT REGULATIONS TO CONSIDER WHEN LOCATING

- Zoning and by-law regulations. The property must be zoned for the proper use (i.e. residential, commercial, industrial, green-belt, etc.) Check with your municipality's zoning or planning department.
- Local property or business taxes.
- Ontario building code standards to be met for fire safety, exit doors, washroom facilities, sprinklers, parking, etc.
- Building permits for renovations, construction or additions. These permits are issued through City Hall.
- Electrical permits and special energy requirements.
- Types of storage allowed for your location
- Waste disposal laws.

## **LOCATING A RETAIL BUSINESS**

First determine if your business is:

A “convenience” type store where you must be located close to your customers so that they can drop in frequently.

**OR**

A “destination” type store where customers will seek you out based on the product/service you offer. The type of “store” your business is will dramatically affect your criteria for selecting a location.

### **Items to Consider:**

- Locate to attract customers. Define your target market and observe the population, demographics, community atmosphere and environment in the proposed venture. What is the average purchasing power?
- Where are your competitors located? Do you want to locate close to them or establish your own unique territory?
- Is your business best served by a low-rent or high-rent facility? An inexpensive lease on a site that fails to generate business is not bargain. Also, your advertising budget may have to be significantly higher to attract clientele.
- Do you want to be in a large mall? Large malls are often a desirable location for retailers as traffic flows tend to be higher and sales records can be provided by mall management. However, you must convince the landlord that your business will draw people and that it fits the “image” of the mall. Large established chains tend to dominate malls. Rent is high and they require a percentage of gross sales on top of the base rent, plus you will be expected to contribute to common area fees. Another point to consider is that your hours of operation will be dictated by mall management. Weigh all of these points carefully before making a decision.

## **LOCATING A WHOLESALE OR MANUFACTURING BUSINESS**

### **Items to Consider:**

- Zoning restrictions
- Central location in order to reach all your markets
- Transportation readily available at reasonable rates
- Raw materials readily available
- Adequacy of utilities
- Adequacy of loading and storage space
- Accessibility of showroom facilities
- Adequacy of labour and housing nearby
- Environmental restrictions.

## **THE LEASE AGREEMENT**

The lease is an extremely important document and can be quite complex. Make sure that you understand all the terms and conditions BEFORE signing the agreement. The services of a lawyer

can be an invaluable resource in the decision making process of whether or not to enter into a particular lease agreement. The lease should be drawn up or reviewed by a lawyer. In some cases an initial “offer to lease” may be prepared by the landlord. Be aware that this tends to be an incomplete document and is not the final lease agreement. If there are clauses or conditions that you disagree with or want added, negotiate with the landlord to have the offer amended. **DO NOT SIGN THE LEASE UNTIL YOU ARE FULLY COMFORTABLE WITH ALL THE TERMS AND CONDITIONS.**

#### **Items to Consider:**

- Terms of payment (gross, net, percentage of sales). Some definitions to be aware of are:
- Fully or Whole Net Lease – All operating costs are paid by the tenant. This includes property taxes, business taxes, hydro, heating, repairs, maintenance, etc.
- Gross Lease – All operating costs are borne by the landlord
- Semi-Gross Lease – Operating costs are shared by the landlord and tenant after negotiation.
- Method and timing of payments. Are deposits required and are they refundable?
- Length of lease – It can vary from 6 months to over 10 years. The average is from 2 to 5 years. Although longer leases ensure a stable rental rate, you must also consider the expected market rate in the immediate future. You do not want to be locked into a high rate if prices in the market are falling.
- Is there an option to renew the lease at the end of the term and if so at what rental rate?
- Ability to sublet, sell or assign lease to a third party.
- Description of space to be leased. This should be very specific and include all furniture, fixtures, appliances, etc.
- Restrictions on use of premises
- Leasehold improvements – restrictions on what changes or renovations can be made and which party will pay for them.
- Responsibility for expenses – repair and maintenance, insurance, taxes, waste and snow removal, cost of drawing up the lease, etc.
- Insurance – required level and type of coverage. Option of self-insurance versus the purchased via the landlord.
- Lease termination procedures, policies and penalties.
- Personal guarantee of tenant required to cover losses experienced by landlord if tenant goes out of business.
- Lease commencement date – This is especially important for tenants moving into premises that are under construction.

## **BUSINESS CENTRES**

Business centres consist of furnished or unfurnished units located in a cluster of offices where tenants share overheads, employees, resources, etc. Services may include reception, secretarial, word processing, janitorial, mail handling, board rooms, etc. Costs of these services may be included in the monthly rate or be billed on a per use basis.

A business centre location may be a cheaper option for businesses in the initial growth stages. Also, short term leases can be negotiated for these locations which allows you the freedom to move as your business expands. For a listing of available business centres, check the yellow pages in the municipality in which you wish to locate.

## **PURCHASING OR CONSTRUCTING PREMISES**

The lease or purchase decision will be influenced by a number of issues depending on the nature of the business, real estate market and the financial situation of the business. All relevant factors

should be analyzed thoroughly before making the decision to buy. Purchasing is costly in the short run because of the up front capital outlay. Generally the benefits of ownership arise over time. The point in time where the buying option becomes more attractive and viable will be unique to the business in question.

### Items to Consider:

- Equity or debt financing available for the real estate purchase
- projected future cash flow of the business
- Future cash needs of the business
- Tax implications – business taxes, property taxes, income taxes
- Projected growth of the business
- Willingness to assume risk
- Willingness to manage property
- Current and future lease rates
- Current and future real estate costs
- Projected increase in taxes, operating costs, inflation, etc.
- Current and projected supply and demand for space
- Transportation availability and costs – consider highway and airport accessibility now and in the future.

## GLOSSARY

<b>Business Tax</b>	Money collected from businesses by the local municipality. The assessment is made on an annual basis and the proceeds are used to provide for city services. For more information on business taxes, contact the assessment office in the municipality in which you wish to locate.
<b>Bylaw</b>	Legal instrument used by municipalities to enforce a policy.
<b>Lease</b>	A long-term rental agreement.
<b>Leasehold Improvements</b>	Alterations, renovations, upgrading purchases and other expenses that are required to transform the leased space into a form satisfactory for use by the tenant.
<b>Lessee</b>	Tenant
<b>Lessor</b>	Landlord
<b>Non-Disturbance Clause</b>	An agreement entered into between the tenant and the holder of a mortgage over the leased property. Should the landlord default on the mortgage, the tenant is not forced to vacate the premises.
<b>Offer to Lease</b>	A preliminary document which is not the actual lease document. The offer to lease usually represents a description of the premises, commencement date, terms and options, etc. The offer to lease is often an incomplete document. A lawyer should be consulted if it is required that the offer be executed.
<b>Percentage Rent</b>	Tenant is required to pay the landlord a stated percentage of their gross sales once the sales exceed the minimum square footage rate. Be sure that the definition of gross sales is clear.
<b>Property Tax</b>	Money collected from property owners by the local municipality.
<b>Sale/Leaseback</b>	A transaction in which a property interest is sold to another party but the original owner retains a long-term leasehold interest in the property.
<b>Sublet</b>	To lease or rent all or portion of a property from the original lessee. The original tenant still holds the head lease and is responsible for all payments to the landlord.
<b>Zoning By-law</b>	By-law relating to the regulations of land use.