

COMMERCIAL PROPERTY LESSOR BEST PRACTICES

Owning commercial real estate can be a profitable and rewarding investment, if it is managed and insured properly. The below recommendations are best practices that we have compiled from our experience dealing with landlords, property managers and insurance adjusters. This is not meant to be an exhaustive list, but an overview of recommendations:

1. Lease Terms and Conditions

We recommend you use a commercial lease form that has been reviewed by an attorney or experienced property manager. The lease agreement should carefully and completely detail the expectations of the property owner including, but not limited to:

- The full legal names of both parties to the lease (the lessor and lessee),
- Personal guaranty of payment if desired by the lessor,
- Lease terms such as length, deposits and monthly rents, fees, penalties,
- Responsibility for expenses such as taxes, utilities, maintenance,
- Insurance provided by the landlord and expected from the tenant,
- Allowable and expected usage of the property by the tenant,
- Responsibility for existing improvements and betterments,
- Allowable new improvements, betterments and alterations to the property,
- Ownership of improvements, betterments and alterations upon termination of the lease,
- Conditions for subletting or assignment of the lease to another party,
- Right of entry to allow for inspections of the property by the landlord or manager,
- Indemnification and hold harmless verbiage to the lessors benefit.

2. Insurance, Indemnification and Additional Insured

We typically recommend that landlords provide insurance for the building and liability for the premises. In certain cases, such as a triple-net or bondable lease it may be appropriate for a tenant to provide building coverage. However the specific coverage and conditions need to be carefully reviewed by a qualified insurance broker or attorney. Your lease agreement should specify the type of insurance required of the tenant and have a properly written indemnification agreement. We recommend, at a minimum, the following:

- Property coverage for the replacement value of the tenant's furniture, fixture, equipment and any improvements, betterments or alterations the tenant assumes responsibility for in the lease (existing or newly added),
- General liability coverage of at least \$1M each occurrence and \$2M aggregate. This should be a standard ISO occurrence form policy issued by an insurance company with an rating of no less than "A-" and a financial size category of at least "VII".
- A certificate of insurance disclosing the limits of coverage provided by the tenant's insurance policy and naming the landlord as additional insured. Attached to the certificate should be the actual additional insured endorsement form. The endorsement should be a standardized form such as CG2010, CG2011, CG2026 or equivalent.

3. Inspection, Maintenance and Vacancy

We recommend the property owner or manager conduct regular inspections. This will ensure the property usage and maintenance are as expected by the landlord. Landlords or managers should look for potential hazards that could cause injury to a person or damage to the property. Those hazards should be noted and a written demand for rectification should be sent to the tenant. Most property insurance policies contain verbiage that removes coverage, such as vandalism and water damage, if a property is vacant for more than 30 or 60 days. Property vacancies should be disclosed to the insurance company or agent immediately to avoid coverage issues.