

TENANT ALLOWANCES WHAT TO KNOW

Improvements to existing commercial spaces can be very costly. Whether you are receiving a tenant allowance or offering one, it is crucial to know the ins and outs. When a landlord offers upfront funding, it's commonly referred to as a tenant allowance, or also known as money with strings attached. Tenant allowances are similar to a loan that the landlord agrees to provide as part of a lease agreement. With that being said, below are critical pitfalls to avoid that specifically outline two key strings of how funds can be spent along with the timing.

Pitfalls to Avoid in Tenant Allowances

Tenant allowance funds can be used to build out unfinished space, also known as space in shell conditions. The allowance is usually intended to cover the essential build-out costs along with some portion of the costs necessary to customize space for a specific use. Tenant allowances can also be used to pay for renovations of an existing space. When a new business takes over a space, renovations are almost always part of the move. Even if a new business replaces a similar one, there typically will be some changes needed such as new paint, signage, lighting, etc.

Timing of funds can be another one of those attached strings. Allowances may only be payable to the tenant versus directly to a contractor or vendor. This arrangement ultimately requires both someone to manage the payments and the necessary cash to bridge the period of time between the vendor invoicing and landlord releasing the funds. Essentially then, the lease will usually state that work has to be completed and funds requested by a certain date or the allowance will no longer be provided. In addition, tenant allowance funds are often not enough to cover the entire costs of the project (design, construction, furniture, equipment, etc.)

Conclusion

SCGWest is here to assist with the entire scope of your project, which also includes negotiating tenant allowances to get the best bang for your buck! We are here to guide you through the whole process as experts in the industry and have worked on numerous projects regarding negotiating tenant allowances! Make sure to also check out one of our top blogs about How to Negotiate the Best Lease.

