



# How to Choose Tenants for Your Commercial Property

# ABSTRACT

Choosing the right tenants for your commercial property is crucial to ensuring a steady income, maintaining the property's value, and fostering long-term business relationships. This process involves evaluating potential tenants based on their financial stability, business reputation, and compatibility with the property. This article outlines practical steps to streamline tenant selection and maximize your property's potential.

# INTRODUCTION

Selecting tenants for your commercial property is more than just filling vacancies; it's about partnering with businesses that align with your goals and enhance your property's reputation. The right tenants can create a thriving environment and ensure a consistent rental income. In this guide, we'll explore essential criteria and strategies to help you make informed tenant choices.

## I. Commercial Real Estate: Definition and Types

Investopedia contributors come from a range of backgrounds, and over 25 years there have been thousands of expert writers and editors who have contributed.

### What Is Commercial Real Estate (CRE)?

Commercial real estate (CRE) is property used for business-related purposes or to provide workspace rather than living space. Most often, commercial real estate is leased by tenants to conduct income-generating activities. This broad category of real estate can include everything from a single storefront to a massive factory or a warehouse.



The business of commercial real estate involves the construction, marketing, management, and leasing of property for business use.

There are many categories of commercial real estate such as retail and office space, hotels and resorts, strip malls, restaurants, and healthcare facilities.

## Understanding Commercial Real Estate (CRE)

Commercial real estate and residential real estate are the two primary categories of the real estate property business.

Residential properties are structures reserved for human habitation rather than commercial or industrial use. As its name implies, commercial real estate is used in commerce, and multiunit rental properties that serve as residences for tenants are classified as commercial activity for the landlord.

Commercial real estate is typically categorized into four classes, depending on function:

1. Office space
2. Industrial use
3. Multifamily rental
4. Retail

Individual categories may also be further classified. There are, for instance, different types of retail real estate:

- Hotels and resorts
- Strip malls

- Restaurants
- Healthcare facilities

Similarly, office space has several subtypes. Office structures are often characterized as class A, class B, or class C:

- **Class A** represents the best buildings in terms of aesthetics, age, quality of infrastructure, and location.
- **Class B** buildings are older and not as competitive—price-wise—as class A buildings. Investors often target these buildings for restoration.
- **Class C** buildings are the oldest, usually more than 20 years of age, and may be located in less attractive areas and in need of maintenance.

Some zoning and licensing authorities further break out industrial properties, which are sites used for the manufacture and production of goods, especially heavy goods. Most consider industrial properties to be a subset of commercial real estate.

## Commercial Leases

Some businesses own the buildings that they occupy. More commonly, commercial property is leased. An investor or a group of investors owns the building and collects rent from each business that operates there.



Commercial lease rates—the price to occupy a space over a stated period—are customarily quoted in annual rental dollars per square foot. (Residential real estate rates are quoted as an annual sum or a monthly rent.)

Commercial leases typically run from one year to 10 years or more, with office and retail space typically averaging five- to 10-year leases. This, too, is different from residential real estate, where yearly or month-to-month leases are common.

There are four primary types of commercial property leases, each requiring different levels of responsibility from the landlord and the tenant.

- A single net lease makes the tenant responsible for paying property taxes.
- A double net (NN) lease makes the tenant responsible for paying property taxes and insurance.
- A triple net (NNN) lease makes the tenant responsible for paying property taxes, insurance, and maintenance.
- Under a gross lease, the tenant pays only rent, and the landlord pays for the building's property taxes, insurance, and maintenance.

## Signing a Commercial Lease

*Tenants generally are required to sign a commercial lease that details the rights and obligations of the landlord and tenant. The commercial lease draft document can originate with either the landlord or the tenant, with the terms subject to agreement between the parties. The most common type of commercial lease is the gross lease, which includes most related expenses like taxes and utilities.*

## Managing Commercial Real Estate

Owning and maintaining leased commercial real estate requires ongoing management by the owner or a professional management company.

Property owners may wish to employ a commercial real estate management firm to help them find, manage, and retain tenants, oversee leases and financing options, and coordinate property upkeep. Local knowledge can be important as the rules and regulations governing commercial property vary by state, county, municipality, industry, and size.

The landlord must often strike a balance between maximizing rents and minimizing vacancies and tenant turnover. Turnover can be costly because space must be adapted to meet the specific needs of different tenants—for example, if a restaurant is moving into a property formerly occupied by a yoga studio.

## Direct Investment

Direct investment in commercial real estate entails becoming a landlord through ownership of the physical property.



People best suited for direct investment in commercial real estate are those who either have a considerable amount of knowledge about the industry or can employ firms that do. Commercial properties are a high-risk, high-reward real estate investment. Such an investor is likely to be a high-net-worth individual since the purchase of commercial real estate requires a considerable amount of capital.

The ideal property is in an area with a low supply and high demand, which will give favorable rental rates. The strength of the area's local economy also affects the value of the purchase.

### Indirect Investment

Investors can invest in the commercial real estate market indirectly through ownership of securities such as real estate investment trusts (REITs) or exchange-traded funds (ETFs) that invest in commercial property-related stocks.

Exposure to the sector also derives from investing in companies that cater to the commercial real estate market, such as banks and realtors.

### Advantages of Commercial Real Estate

One of the biggest advantages of commercial real estate is its attractive leasing rates. In areas where new construction is limited by a lack of land or restrictive laws against development, commercial real estate can have impressive returns and considerable monthly cash flows.

Industrial buildings generally rent at a lower rate, though they also have lower overhead costs compared with an office tower.

## Other Benefits

Commercial real estate benefits from comparably longer lease contracts with tenants than residential real estate. This gives the commercial real estate holder a considerable amount of cash flow stability.

In addition to offering a stable and rich source of income, commercial real estate offers the potential for capital appreciation as long as the property is well-maintained and kept up to date.

Like all forms of real estate, commercial space is a distinct asset class that can provide an effective diversification option to a balanced portfolio.

## Disadvantages of Commercial Real Estate

Rules and regulations are the primary deterrents for most people wanting to invest in commercial real estate directly.

The taxes, mechanics of purchasing, and maintenance responsibilities for commercial properties are buried in layers of legalese. These requirements shift according to state, county, industry, size, zoning, and many other designations.

Most investors in commercial real estate either have specialized knowledge or employ people who have it.

Another hurdle is the risks associated with tenant turnover, especially during economic downturns when retail closures can leave properties vacant with little advance notice.

The building owner often has to adapt the space to accommodate each tenant's specialized trade. A commercial property with a low vacancy but high tenant turnover may still lose money due to the cost of renovations for incoming tenants.

For those looking to invest directly, buying a commercial property is a much more costly proposition than a residential property.

Moreover, while real estate in general is among the more illiquid of asset classes, transactions for commercial buildings tend to move especially slowly.

### Pros

- Hedge against stock market losses
- High-yielding source of income
- Stable cash flows from long-term tenants
- Capital appreciation potential

## Cons

- More capital required to directly invest
- Greater regulation
- Higher renovation costs
- Illiquid asset
- Risk of high tenant turnover

## Commercial Real Estate and COVID-19

The global COVID-19 pandemic beginning in 2020 did not cause real estate values to drop substantially. Except for an initial decline at the beginning of the pandemic, property values have remained steady or even risen, much like the stock market, which recovered from its dramatic drop in the second quarter (Q2) of 2020 with an equally dramatic rally that ran through much of 2021.<sup>1</sup>

This is a key difference between the economic fallout due to COVID-19 and what happened a decade earlier. It is still unknown whether the remote work trend that began during the pandemic will have a lasting impact on corporate office needs.

## What Is the Difference Between Commercial and Residential Real Estate?

Commercial real estate refers to any property used for business activities. Residential real estate is used for private living quarters.

There are many types of commercial real estate including factories, warehouses, shopping centers, office spaces, and medical centers.

## Is Commercial Real Estate a Good Investment?

Commercial real estate can be a good investment. It tends to have impressive returns on investment and considerable monthly cash flows. Moreover, the sector has performed well through the market shocks of the past decade.

As with any investment, commercial real estate comes with risks. The greatest risks are taken on by those who invest directly by buying or building commercial space, leasing it to tenants, and managing the properties.

## What Are the Disadvantages of Commercial Real Estate?

Rules and regulations are the primary deterrents for most people to consider before investing in commercial real estate. The taxes, mechanics of purchasing, and maintenance responsibilities for commercial properties are buried in layers of legalese, and they can be difficult to understand without acquiring or hiring specialist knowledge.



Moreover, it can't be done on a shoestring. Commercial real estate even on a small scale is an expensive business to undertake.

Commercial real estate has the potential to provide steady rental income as well as capital appreciation for investors.

Investing in commercial real estate usually requires larger amounts of capital than residential real estate, but it can offer high returns. Investing in publicly traded REITs is a reasonable way for individuals to indirectly invest in commercial real estate without the deep pockets and specialist knowledge needed by direct investors in the sector.

## **II. Looking for the Perfect Tenant? Seek out These 6 Traits!**



Your most important decision that will determine the success or failure of your rental is the person you put in the property. A bad tenant can potentially cause years of stress, headache and financial loss, while a great one can provide years of security, peace and prosperity.

So, don't underestimate the importance of renting to only the best tenants. While it's not possible to know with 100 percent certainty what type of tenant your applicant will be, here are six telltale signs and traits that will give you a pretty darn good indication that this person is great tenant material:

### **1. The ability to pay**

The first and foremost quality of a good tenant is his or her level of financial responsibility and ability to afford the rent. Without proper payment, the landlord may be forced to evict the tenant and face potentially thousands of dollars' worth of legal fees, lost rent and damages.

Most landlords require that a tenant's (documented) income equal at least three times the monthly rent. Many tenants believe that they can afford more than they really can -- so it is the landlord's job to set the rules to protect his or her investment. If the tenant is already financially responsible, income that amounts to three times the monthly rent should be sufficient.

## 2. The willingness to pay on time

While some landlords look at late rent as a benefit because of the extra income from the late fee, a late-paying tenant is more likely to stop paying altogether. The stress generated when the rent doesn't come in is not a pleasant experience and can be avoided by renting only to tenants with a solid history of paying on time.

## 3. A positive long-term outlook for job stability

While a tenant may be able to pay the rent and pay it on time right now, his or her ability to do so in the future is often determined by the job situation. If this person is the type to switch jobs often or has had long periods of unemployment, you may find long periods of missed rent.

## 4. Cleanliness and housekeeping skills

No tenant stays forever -- and upon departure needs to leave the property in good condition. As such, it is important that the tenant's day-to-day lifestyle be clean and orderly. This means taking good care of the property.

## 5. An aversion to crime, drugs, and other illegal activities

A person who has no regard for the law will also likely have no regard for your policies. Tenants who engage in illegal activities will cause you nothing but stress and expense. So, be sure to run a background check on your prospective tenant to ensure he or she doesn't have a shady past.

That said, keep in mind that a prospective tenant's past history of drug or alcohol abuse could be considered a medical problem -- and thus something you can't reject him or her over without being guilty of violating fair housing laws. If this person is selling drugs, that's different from using. Be sure to study up on the fair housing laws in your area.

## 6. The 'stress quotient' -- how much stress will this person cause you?

The final quality of a great tenant is something I call the "stress quotient" or, in other words, the amount of stress a tenant will cause you as landlord. Some tenants are very high maintenance and constantly demand time and attention. Others simply ignore the terms in their lease and need constant babysitting, reprimands and discipline (late fees, notices, phone calls, etc.). This type of tenant will only be a thorn in your side.

### So, is a perfect tenant even possible?

Obviously, no tenant is going to be 100 percent perfect, so deciding how much near-perfection you require is a personal choice that largely depends on your desired involvement and the community in which your property is located. If tenants are difficult to find, it may be financially advantageous for you to rent to a less-than-perfect tenant in order to fill a vacancy.

Notice the use here of "less-than-perfect tenant," and not "anyone."

On the other hand, if you have plenty of applicants to choose from, you can be significantly more picky. Just remember, it's much better to have your unit vacant a little longer while you wait for the right tenant than to rent to the wrong person.

So, how exactly do you weed out the bad tenants and find those quality tenants? The answer involves setting strict qualifying standards and screening your applicants to verify whether or not they meet those standards.

## **III. Effective Ways to attract tenants for commercial property**

In commercial real estate, attracting high quality tenants to your rental property needs a planned approach. This approach goes past the normal marketing means. Landlords and property owners should aim to keep their properties rented to maintain constant yields.

To attract and retain tenants to your commercial property requires a strategic approach. This approach will combine visibility, value, and an effective marketing scheme.



Stutts Property Management Company is a leading property management company. Our Influence spans the whole of North Alabama. This guide will show you 22 effective ways to attract high quality tenants for a commercial building and increase your investment yields.

### 1: Prepare Commercial Space for the Rental Market

You must make sure your rental property is in the best condition. This comes first before market strategies. A well-maintained property can strongly impact how prospective tenants feel about a space. I suggest you create a list of what should be in place for a strong first impression.

### 2: Conduct Necessary Repairs and Maintenance

Next, the 25 effective ways to attract tenants for commercial property is to do all needed repairs and maintenance. Start by addressing any maintenance issues or repairs within the property. Fixing leaky faucets and faulty outlets can improve the looks of your home. It also shows that you value a warm living space for yourself and others.

We can read this article to know the importance of regular repair and maintenance

### 3. Enhance Curb Appeal

The exterior of your property is the first thing potential tenants will notice. Invest in landscaping and clean up every dirt. Also, consider adding a fresh coat of paint to boost curb appeal. A welcoming exterior sets a positive tone for the viewing session. Learn more on how to increase your curb appeal

#### 4. Professional Photography and Staging



Invest in trained photography and staging services. This will raise your sales efforts. High-quality images will show the property in its best light and attract more interest from prospective tenants. Staging helps potential tenants see themselves living in the space, making it more appealing.

Use a good camera with good pixels to capture every part of the apartment. We have seen clients decide to rent a home just from seeing the pictures alone. This was because it was well-covered and of high quality.

#### 5. Online Platforms and Websites

Use popular online rental platforms and listing websites to reach a wide audience. Platforms like Zillow, Trulia, and Apartments.com attract millions of potential renters. These renters search for properties in these web spaces.

Ensure you beef up your listing with detailed accounts and good images to make it stand out.

#### 6. Social Media Marketing

Use the power of social media to showcase your rental properties. Platforms like Facebook, Instagram, and LinkedIn allow you to target specific polls. You can also

meet with potential tenants directly. Share visually charming content like photos and virtual tours to create interest and inquiries.

### 7. Utilize Rental Listing Services

You can also work with rental listing services or agencies. You can choose to work with those who connect landlords with tenants. These services often have a network of qualified renters actively seeking properties. This will trim the tenant choice process.

### 8. Networking and Word-of-Mouth

Do not neglect the power of networking and word-of-mouth referrals. Build connections within the community. Attend local events, and engage with other property owners and commercial real estate experts. A personal endorsement can be effective in attracting quality tenants.

### 9. Create Compelling Rental Listings

Crafting compelling rental listings is key to capturing the attention of quality tenants and encouraging them to inquire further. Your listing must be detailed enough and the content must be easy to read. Avoid hard terms and words that are not professional.

### 10. Write Detailed Property Descriptions

Provide detailed and accurate descriptions of the property. This should include key features, layout, and amenities. Highlight any recent upgrades or renovations and nearby attractions and conveniences. Be transparent about rental terms, such as lease duration and pet policies, to avoid future problems.

## **IV. On Commercial Real Estate Landlord Responsibilities**

Landlords have responsibilities in both commercial and residential leases, but those obligations can vary dramatically. Clear up what is part of commercial landlord obligations with today's guide:

When we hear "landlord," it's common to immediately think of residential properties. Many landlords start with residential investments due to the lower costs compared to commercial properties. However, stepping into commercial real estate brings a new set of responsibilities. Are you aware of what these commercial real estate landlord responsibilities entail?



Many rental property investors initially lack familiarity with commercial landlord responsibilities or leases. This inexperience can lead to unfavorable deals, unexpected expenses, and communication breakdowns with tenants or lessees. To protect your bottom line, understanding and avoiding these pitfalls is crucial.

## Types Of Commercial Leases

Understanding the various types of commercial leases is crucial in grasping the scope of commercial real estate landlord responsibilities. Generally, commercial leases are categorized into two main types, each with its own subtypes.

1. **Gross or Full-Service Leases:** In a gross lease, the tenant's rent covers all property expenses. This type of lease simplifies budgeting for tenants since they pay a flat fee. However, there are modified versions, such as the triple net lease, where the negotiation determines which expenses are included in the rent.
2. **Net Leases:** Conversely, in a net lease, tenants are responsible for specific property expenses. These expenses are either reimbursed to the landlord or paid directly by the tenant. An absolute net lease goes a step further, transferring all costs, including maintenance, repairs, and other expenses, to the tenant.

While these categories represent the most commonly used standards in commercial leasing, it's important to remember that each contract is unique and negotiable. The terms can vary significantly from these general standards.

We've compiled a comprehensive guide to aid your understanding of commercial landlord obligations and the intricacies of commercial leases. This guide is designed to help you start your commercial investment journey with a solid foundation.

## 5 Commercial Real Estate Landlord Responsibilities

### 1) Compliance With Building Codes

Commercial property owners must adhere to local and state safety, habitability, and accessibility standards. Don't assume your building is up to code; many require updates. Regular inspections and staying abreast of code changes are essential. Ignoring these standards can lead to serious legal issues, impacting your business negatively, whether through ignorance or negligence.

### 2) Negotiating Clear Lease Agreement Terms

Ensure every clause in your commercial lease is scrutinized. Define the space, its size, and the basis of measurement (rentable vs usable). Clarify maintenance responsibilities in the contract. Consider who handles cleaning, tenant alterations, tenant responsibilities for repairs, and response times for minor repairs.

### 3) Minimizing Risk and Liability

Protecting your investment means proactively addressing potential risks like water damage, break-ins, or faulty equipment. Regular checks should include door and window locks, security systems, smoke/fire alarms, roofing, and electrical/heating units. Effective preventative measures also influence insurance coverage and safety standards.

### 4) Duty to Maintenance and Repairs

Commercial leases often state landlords are responsible for structural repairs, excluding elements like partition walls, stairways, windows, or decorative features. Typically, landlords handle roofing, exterior walls, and utilities repairs. Tenants usually cover other repairs unless otherwise negotiated. Remember, if a landlord-neglected item adversely affects your business, options may be limited.





## 5) Obtaining Diverse Insurance Coverage

Choosing the right commercial insurance is a landlord's responsibility. Understand your business's specific risks and discuss options with a licensed broker-agent. Familiarize yourself with various insurance types, including Property Insurance (Commercial Property, Inland Marine, Boiler and Machinery, Crime) and Casualty Insurance (Commercial Automobile, General Liability, Commercial Umbrella, Workers Compensation), to adapt as your business evolves.

## Commercial Lease Tips For Landlords

When handling commercial leases, detail is key, especially in defining responsibilities for different aspects of the property, like internal wall maintenance. This clarity helps prevent conflicts with tenants. Here are essential tips to create the most effective commercial lease:

1. **Check State-By-State Provisions:** Be aware that different states have unique provisions impacting contracts. Just like residential leases, it's crucial to research local and state regulations to ensure compliance. Given the higher financial stakes in commercial leases, consulting an attorney to verify the legality of your lease is a wise step.
2. **Be Prepared For Diverse Contracts:** Commercial leases can vary greatly, so familiarize yourself with different types. Study lease examples, particularly those in your industry, to understand common inclusions and potential variables.

3. **Choose Tenants Carefully:** Screening commercial tenants is as important as screening residential ones, but the process differs slightly. Often, commercial tenants are businesses, so the screening process should include evaluating the business entity (like an LLC) responsible for the lease.

## **FAQs On Commercial Landlord Responsibilities**

1. **What are the primary responsibilities of a commercial landlord?**

Commercial landlords are primarily responsible for ensuring the property is up to code, negotiating clear lease terms, minimizing risks and liabilities, maintaining and repairing the property, and obtaining adequate insurance coverage.

2. **How do commercial and residential landlord responsibilities differ?**

Commercial landlord responsibilities tend to involve less regulatory oversight than residential ones, giving more flexibility in lease terms. Commercial landlords often deal with more complex issues related to property usage, insurance, and lease negotiations.

3. **Are commercial landlords responsible for building maintenance?**

Yes, commercial landlords are usually responsible for structural repairs and maintenance of the property, including roofing, exterior walls, and utility systems, unless specified otherwise in the lease.

4. **What should a commercial lease agreement include?**

A commercial lease agreement should clearly define the rented space, rental terms, maintenance responsibilities, alterations and repairs policies, and any specific tenant and landlord obligations.

5. **How often should a commercial property be inspected?**

Regular inspections are essential for compliance with building codes and risk mitigation. The frequency depends on local regulations and the nature of the property but generally should be done annually or bi-annually.

## **V. The Importance of Tenant Improvements in Commercial Real Estate**

Commercial real estate tenants are businesses that want to leverage the location to generate sales and operate effectively. They seek strategically positioned properties with high visibility and excellent accessibility to grow their business. Besides the attractive outward appearance of the structure, they also require the interiors to match their needs. The office space, retail store, or industrial property must have the ambience, fixtures, framework, and features that make it apt for specific operations.

Tenant improvements are also known as fit-out, which is customised to suit the business needs of the occupant. It can include everything that prepares the space for the set-up, such as flooring, ventilation, window placement, workstations, storage space, reception area, kitchen, etc. For example, a restaurateur will need an expansive commercial kitchen, pantry, storage room and dining area, whereas a yoga studio will need a big hall, reception and restrooms.

**Let us help you understand the importance of tenant improvements in commercial real estate.** Landlords and tenants can benefit from these improvements and forge a long-term relationship.

## 1. Understanding Tenant Improvement



Tenant improvements or fit-out in commercial real estate is the process of renovating the space to make it ready for business operations. The landlord must consider the tenant's requirements while taking up the project. The tenant can also take up the fit-out project, and the landlord must approve the plan. It includes everything inside the property, including walls, ceilings, windows, carpets, HVAC systems, lights, power points, fittings, plumbing, paint, etc.

While carrying out the improvement, the tenant must get approval for the construction work from the local council. This involves preparing a development approval document or complying with a development checklist. The tenant or the landlord must be clear about the duration of the project and must plan it with the help of a professional contractor who can create the blueprint of the design.

## 2. Tenant Improvement Cost and Contributions

The lessee must predefine the tenant improvement budget if they take up the project. It is easy to get carried away in the excitement of setting up the business. Thus, the cost must be calculated with the help of the contractor and evaluated for

feasibility. It is better to choose an affordable option than going all out because the property does not belong to the tenants.

Owners of commercial real estate Brisbane can offer fit-out contributions to tenants. It is known as a commercial lease incentive, and the landlord can pay for the entire construction or only a part of it. They can make the payment later when the construction is completed, and the bills are submitted by the tenant. The landlord will not pay until the lease is signed and the tenant provides the security deposit. Other payment details are mentioned in the lease agreement.

### 3. Tenant Improvement Responsibilities

When the improvement project begins, the tenant becomes the principal contractor. They must provide their input to ensure the work progresses according to their plan and needs. Also, they are legally in charge of the project, which makes them responsible for maintaining optimum workplace health and safety. The tenant can request to pass on the responsibility of the principal contractor to the professional contractor.

When the tenant is in control of the improvement, they must ensure the professional contractor understands the fit-out plan and needs of the business. The professional must adhere to the compliance needs and maintain the safety standards during the construction.

### 4. Tenant Improvement Deed and Guide



The landlord must provide the tenant with a fit-out access deed and guide. The fit-out deed is a legal document that allows the tenant to access the premises during the fit-out period. The defined period begins before the lease term starts and gives free access to the property. However, access will be granted only after the lease is signed and the deposit is submitted.

A fit-out guide is provided by the landlord when the leased Brisbane commercial real estate is present inside a shopping centre or a building with multiple tenants. The tenants of these properties have to follow certain guidelines to maintain design consistency or quality. The tenant must refer to the guide before planning the design and interiors of the leased space.

## **5. Tenant Improvement At The End of Lease**

Tenant improvement stays in the space, which is to be vacated by the tenant. Some of the removable features of the interiors can be moved by the tenant at the end of the lease, such as shelves, etc. However, it must be communicated to the landlord and mentioned in the lease agreement. Some property owners request the tenants to remove the fit-out completely while vacating.

Tenants must take pictures of commercial real estate in Brisbane before leasing and mention the details in the entry condition report. If the lease mentions leaving the property in the same condition, the pictures can help achieve the goal even after several years. Fair wear and tear and damages that are not caused by the tenant are acceptable.

## **6. Benefits of Tenant Improvement**

Tenant improvement is an integral part of leasing commercial real estate in Brisbane because it ensures the smooth functioning of the business. It is necessary for tenants and fit-out contributions by the landlord can help attract tenants quickly. It reduces the vacancy period and brings a better rental income because the tenant takes advantage of getting the fit-out without paying for it.

Customisation of the leased space keeps the tenant satisfied with the property and they continue to stay in the same place for several years. Tenant improvements are also helpful in increasing the market value of the property if the owner decides to sell it. With their quality fit-out, they can stand out in the sea of properties.

## **7. Tax Benefits of Tenant Improvement**



The owner of the fit-out is the individual who bears the cost of the improvement. They become eligible for tax deductions for the depreciation of the tenant improvement. The construction work done by the tenant on the property to run the business can be claimed as capital works and depreciation while filing business taxes.

The fit-out owner can get a deduction for wearing out of the improvements on the property due to its utilisation. If the owner does not have receipts for the capital works and cannot calculate the depreciation, the ATO can help estimate the claim deductions.

Tenants looking for commercial real estate in Brisbane must know about tenant improvements and their responsibilities. A customised fit-out is the basic leasing requirement and should be carefully planned and budgeted for a seamless tenancy.

## CONCLUSION

The success of your commercial property investment depends on the quality of your tenants. By carefully assessing financial stability, business compatibility, and long-term potential, you can secure reliable tenants who contribute positively to your property's value. Thoughtful tenant selection not only minimizes risks but also fosters a prosperous and mutually beneficial relationship.

## REFERENCES

By Somer Anderson | Commercial Real Estate: Definition and Types | Investopedia, Retrieved 21 July 2024 from <https://www.investopedia.com/terms/c/commercialrealestate.asp>

By Brandon | Looking for the Perfect Tenant? Seek out These 6 Traits! | Entrepreneur, Retrieved 14 September 2016 from

<https://www.entrepreneur.com/growing-a-business/looking-for-the-perfect-tenant-look-out-these-6-traits/282287>

By Huston | Effective Ways to attract tenants for commercial property | Stutts Properties, Retrieved 19 March 2024 from

<https://www.stuttsproperties.com/blog/22-Effective-Ways-to-attract-tenants-for-commercial-property>

By Ira | On Commercial Real Estate Landlord Responsibilities | Gparency, Retrieved 7 January 2024 from

<https://gparency.com/blog/commercial-real-estate-landlord-responsibilities/>

By Sophie | The Importance of Tenant Improvements in Commercial Real Estate | CommercialProperty2Sell, Retrieved 19 April 2024 from

<https://www.commercialproperty2sell.com.au/blog/2024/04/the-importance-of-tenant-improvements-in-comm.php>