

Restaurants in Office Buildings: What is the Best Type of Lease Agreement ?



Naturally, when it comes to leasing space for a restaurant in an office building, both the building owner and the tenant signing the lease agreement would like to get real value for money. However, the real value for money lease agreement should secure smooth cooperation between the owner and the operator and satisfaction of other tenants in the building, who are also future customers of a restaurant.

Different types of lease agreements are used for space designed for a catering operation in office buildings. The selection of a particular type of lease agreement is based on many criteria, including the following:

- type of food/catering operator (employees' canteen, snack bar, restaurant);
- location of office building;
- type of building: for lease/ owner occupied;
- occupancy rate of the office building;
- specific features of tenants' business and operations (office hours, corporation structure, employees' habits).

After consideration of the above factors, an appropriate type of a lease agreement is selected to satisfy the needs and expectation of the building owner and the operator in the most comprehensive manner. The market uses lease agreements with a fixed total monthly rent for leased premises and lease agreements where the rent is based on the performance of the catering business and thus the rent is variable and based on a percentage of the operator's sales. Lease agreements of premises for catering services in office buildings can be split as follows:

- Lease Agreement with Rent Depending on Sales Volume of Catering Operator;
- Standard Lease Agreement;
- Hybrid Lease Agreement;
- Business Rental Agreement.

The above lease agreements treat differently rights and obligations of both the office building owner and the catering operator.

Lease Agreement with Rent Depending on Sales Volume of Catering Operator

Such lease agreements result mainly from the need to make available a canteen/restaurant to people working in the building and are mainly used in buildings where companies' headquarters are located, with controlled access not allowing people from outside to use the facility and in buildings which suffer from a shortage of canteens/restaurants in a neighborhood.

In such lease agreements the rent paid by a tenant is not calculated based on the total area of premises and market rent rates, this applies also to operating expenses. The rent is based on monthly or average annual sales of the operator (net of VAT). Usually the operator starts paying after an agreed monthly sales threshold is exceeded. The market amount of the threshold varies considerably. General idea is that the more the building owner cares about quality of food and services offered by the operator and the more owner demands from the operator, the higher is the threshold amount.

Standard and Hybrid Lease Agreements

Standard and hybrid lease agreements are used by owners/developers of office buildings when it is not absolutely necessary for them to provide catering services to people working in the building. Such lease agreements are frequently signed with restaurants and cafeterias which decided to lease space in the building.

Such lease agreements provides for a fixed or hybrid lease payments. Under the hybrid system, the tenants pays a base rent and operating expenses calculated based on a per square meter rate and on top of that a percentage rent depending on actual monthly net sales. In practice, the percentage rent is paid above a certain sales threshold.

Business Rental Agreements

They are signed in buildings where the owner creates conditions for conducting a catering business, provides necessary space, kitchen equipment, furniture and leases the whole unit to someone who runs the catering business.

Correct Structure of Each of the Above Lease Agreements Should Include Provisions Regarding:

1/ duration of lease agreement

In case of large chain companies from the catering sector, lease agreements are signed for a long-term, for several years. In case of smaller operators, the minimum duration of the lease is one year.

2/ catering equipment

In many cases, the landlord is responsible for providing standard catering equipment and appliances to the space, while the tenant is responsible for utensils and tableware.

3/ range of provided services

Opening hours and days of the week are to be specified. What is also often agreed is the menu in terms of the number of meals of a particular type and their prices.

4/ quality of food

The landlord, through a relevant provision in the lease agreement, may restrict the tenant to use preservatives in meals, other additives quickening preparation of meals and taste improvers.

5/ termination of agreement

In case of fixed lease term lease agreements, the tenant may require a provision regarding termination of the agreement when an office building vacancy rate drops down a certain percentage.

6/ exclusivity

The landlord may grant the tenant exclusivity right for rendering catering services in the building and a ban of door-to-door selling of food products in the building.

When the landlord and the building owner take a decision on starting mutual cooperation, both parties have limited information data concerning the number of potential customers of the catering service and future sales. Therefore choosing the most appropriate and beneficial to both parties contract, despite a wide range of available choices and flexibility of the above described agreements, may prove to be an extremely difficult task.