



# Corporate Real Estate Scope

## Money Talks – But You Need to Know the Language

**Money talks, but sometimes it talks in its own language and you need to be an accountant to understand what's actually being asked for when it's time to fund a new lease. Your tenant representative can provide advice and help negotiate these types of tenant costs to a minimum. Here are the most common forms of funds that are requested in the property market.**

**Security deposit:** This is also referred to as a **Cash bond** and vice versa. This type of security is an amount of money as agreed under lease terms that is usually (but not required to be) held in a trust account. It is provided by a tenant to a landlord and is kept as a separate fund for the landlord to call on should the tenant cause any damage, go into arrears or otherwise breach any lease terms causing a financial cost to the landlord. A security deposit may be held in an interest bearing account whereby all accrued interest should legally be returned to the tenant.

### *Who Benefits?*

- Money usually held in trust – benefit to both parties
- Money is not required to be held in a bank account – landlord benefit
- Often interest bearing accounts – tenant benefit
- Can be used to cover final month's rental liability if agreed to by landlord – tenant benefit

**Bank guarantee:** This is essentially a "written promise" from a bank/finance institution to make a payment to the landlord up to and/or for the nominated amount of the guarantee.

Under those conditions, the bank does not need to seek any referral or approval from the entity providing - and indeed requesting - the guarantee be established.

No physical funds are necessarily transferred, but rather security is offered by way of cash in account or sometimes property can be used to secure the bank guarantee.

### *Who Benefits?*

- Third party involvement protects landlord, more secure
- Can be called on at any time during lease term – landlord benefit
- Does not require tenant's approval – landlord benefit
- Expiry dates usually run past the lease term expiry – landlord benefit
- No physical funds are necessarily transferred – tenant benefit

**Personal / Director Guarantee:** This is often requested in addition to either a security deposit or a bank guarantee or sometimes in lieu of these. This is typically open ended meaning that any costs or losses incurred by the landlord are recoverable from the personal assets of the person / director providing this guarantee. It is possible to include a "cap" on this security type to say "x" months' rent however this has to be negotiated to ensure all parties are aware of the limits."

### *Who Benefits?*

- Full financial security against any loss - landlord benefit
- Can be called on at any time – landlord benefit
- Does not require tenant's approval – landlord benefit
- Does not require any cash to be set aside / removed from a business - tenant benefit

**Way to go?**

The reason a security deposit or a bank guarantee exists is solely to minimize a landlord's property and financial risk when entering into a lease. A security deposit is more reasonable for a tenant; it's a once-off payment and is returned immediately upon completion of end of lease obligations. A bank guarantee can run past the lease expiry by between 3-6 months. It can be more time consuming and costly to organize.

Personal guarantees are often easier for start-up / smaller businesses where capital is required for operational growth and having cash set aside is a hardship. Always try and limit this to a set amount to minimize the overall exposure – particularly if a business has multiple sites. Where possible however, it is far safer to not provide personal / director guarantees.

For more information about this topic please contact Beth Wade, ITRA Global Executive Director, at 706.654.3201 or email [bwade@itraglobal.com](mailto:bwade@itraglobal.com).

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*Article submitted by Danni Toshack / ITRA Global Brisbane, Australia.*