



LEASE MISTAKES THAT COST YOU

The Hidden Risks in Every Lease By Brandon Willey

Most lease conversations start in the same place: rent, free rent, and tenant improvement dollars. Those numbers matter, but they're rarely what cause the biggest problems. The real risk lives in the structure behind the deal.

A rent number that looks manageable can become far more expensive once NNN (triple net) charges—like taxes, insurance, and common area maintenance—are added in. Lease commencement timing can further impact the true cost.

So before signing anything, operators should move beyond asking, "Can I afford this rent?" and start asking a better question: "What lease terms could hurt me even if I run the business well?"

I recently sat down with Larry Leon, head of the Anchortainment division at Focus Real Estate Advisors, to break down the lease questions every operator should ask.

START WITH THE GUARANTEE

Lease guarantees often get treated like boilerplate, but they are far from routine. This is the clause that can turn business underperformance into personal exposure.

Leon suggests starting by asking who guarantees the lease. He explains, "If you have a strong corporate entity and can avoid personal liability, that is normally ideal. If not, determine if the guarantee is limited to one principal or anyone above a certain ownership percentage. Then ask what exactly is covered."

He continues, "Is it the full lease obligation for the entire term, or is it capped? Does it include only unpaid rent and NNN charges, or also legal fees?"

Just as important is understanding how long the guarantee lasts—and whether it can be reduced over time. Can it burn off after a period of on-time payments? Does it expire if the business is sold?

Leon reinforces, "The goal is not always to eliminate the guarantee completely. It is to narrow it, shorten it, or reduce it where possible."

Tip: Focus on how much risk the guarantee creates—and when that risk ends.

UNDERSTAND THE TI TRAP

Tenant improvement allowances are easy to overvalue. A landlord may provide an attractive dollar amount, but that number means very little without understanding the details behind it.

The key question is simple: What costs actually qualify?

Entertainment venues often require electrical, plumbing, HVAC, kitchen buildout, AV, and specialty installations. Leon cautions, "If the TI allowance covers only a narrow slice of the buildout and excludes design, engineering, permitting, signage, or project management, the operator may be carrying far more of the budget than expected."

Tenants should also ask who controls the buildout and when the allowance is paid. If reimbursement comes only after completion and documentation, the tenant may have to front a substantial amount of capital—creating a significant pre-opening cash squeeze.

It is also important to understand what happens if costs exceed the allowance and whether unused funds can be applied elsewhere.

Tip: Landlord-funded buildouts are often built into higher rent. Investing more upfront may help keep rent lower and provide flexibility during slower periods.

RENT ISN'T THE REAL COST

A lease can look attractive in an LOI (letter of intent) and still become burdensome once the real payment structure begins. That is why it's important to look beyond starting rent and understand the full occupancy-cost picture.

Leon explains that many landlords now build in annual increases—often around 3% starting in year two. Even a small difference matters. On a 50,000-square-foot facility at \$15 per square foot, reducing that increase from 3% to 2% can mean more than \$80,000 in rent by year 10.

It is also essential to confirm when rent actually starts. Is it tied to delivery, completion, or opening? Those distinctions matter. Leon notes that if rent begins before the venue is operational, tenants may be paying before revenue starts. Even a free rent period may not include NNN charges.

Next, understand what other costs begin alongside—or before—base rent. CAM, including taxes, insurance, utilities, and other pass-through expenses, can significantly increase the real monthly burden. Leon advises pushing to cap controllable CAM and watching how major capital expenses are handled.

Tip: Ask for a month-by-month occupancy cost breakdown to understand the real numbers.

The biggest lease risks aren't in the headline numbers. They're in the fine print that affects cash flow over time.

MAKE SURE THE SPACE WORKS

Because entertainment centers are more complex than typical retail tenants, Leon says operators need to ask questions that reflect real operational needs.

- What condition will the space be in at delivery?
- Is there adequate HVAC, electrical capacity, plumbing, and slab condition?
- What approvals are required for signage, façade changes, themed elements, or food and beverage operations?

He continues, "Do what you can to negotiate up front the ability to do periodic internal remodeling including how much you can spend without having to go to the landlord for approval." Operators should also ask about exclusivity and transfer rights. Leon notes, "Can the landlord lease nearby space to a competing concept? Can the lease be assigned if the business is sold or recapitalized?"

These details matter. A lease that limits exclusivity or is difficult to transfer can reduce flexibility and long-term enterprise value.

Tip: Make sure the space works not just on opening day, but as your business evolves.

YOUR LEASE IS AN OPERATING PARTNER

Too many operators treat lease negotiation as a race to secure the site. But the lease is more than a document; it functions as an operating partner that affects flexibility when construction slips, costs rise, or revenue ramps more slowly than planned.

That is why experienced operators focus on structure, not just price. They look at how the guarantee ends, what the TI allowance covers, when reimbursement happens, and when rent begins. They also model the real occupancy cost before signing.

The most expensive lease clauses are often the ones that received the least attention because the headline numbers looked appealing. The question is not just whether the space works—but whether the lease will still work when challenges arise.

Tip: A well-structured lease protects cash flow, flexibility, and long-term success.

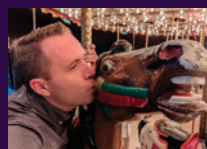
Leon concludes, "Always remember that you may do one deal every several years, whereas property owners may be doing numerous deals annually. You are often dealing with highly sophisticated landlords, so take advantage of leasing and legal professionals and lease review platforms who can point to elements you may wish to attend to."

At the end of the day, the best lease is not the one with the flashiest TI package or the lowest starting rent. It is the one that reflects how an entertainment venue gets built, opens, and ramps up.

Asking better questions on the front end puts you in a stronger position to protect cash flow, reduce personal exposure, and maintain flexibility.

THE BOTTOM LINE

Before signing anything, make sure the deal works not just on paper—but in the real-world conditions your business will actually face. ●



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