



SEATTLE CITY COUNCIL
CENTRAL STAFF

CB 120643: Commercial Lease Requirements

ANN GORMAN, ANALYST

PUBLIC ASSETS AND HOMELESSNESS
AUGUST 16, 2023



Commercial Leases

- Legally binding contract between a lessor and a tenant for the rental of property
- Property is used for the purpose of conducting business
- Lessor's purpose is to generate profit from the property
- Term can vary from three to 20 years and can include options to renew
- Either as an element of a lease or as a separately executed document:
 - Most require a personal guaranty
 - Many also require a security deposit and/or letters of credit



1. Personal Guaranty

- Commitment to a lessor that certain expenses will be paid over a certain period of time
- Makes an individual liable for expenses associated with the business, for instance:
 - Rent
 - Tenant improvements
- Has both value and duration
- Continues to be in effect should the business cease to operate

2. Security Deposit

- Tenant payment to lessor before the lease begins
- Can be made by a business or an individual
- Does not go towards the tenant's rent obligation
- Mitigates financial risk to lessor
- Ensures that the lessor has cash on hand should the tenant fail to make certain payments associated with the lease
 - Rent
 - Utilities
- Commitment of capital



3. Letters of Credit

- Financial instrument that guarantees a tenant's ability to fulfill obligations committed to in a lease
- Secured by a bank or financial institution
- Can be made by a business or an individual
- Mitigates financial risk to lessor
- Types
 - Line of credit, to an individual or to a business
 - Access to funds held by an individual or a business
- Commitment of credit or capital



What CB 120643 Would Do

- Limit personal guaranty liability
 - The first two years of rent payments
 - The total cost of tenant improvements provided by the lessor
- Limit value of aggregate security deposit and letters-of-credit liability
 - Two months of rent payments
- Require lessors to provide information to current tenants about the new legislation
- Require lessors to provide information about the new legislation to any prospective tenant when a new lease is offered
- Allow for the issuance of citations including monetary penalties

What to Know About CB 120643

- Central Staff were not able to find another jurisdiction that had implemented similar requirements
- The City does not collect data that discretely identifies or suggests the need for this regulation
- Local lessors have not yet had the opportunity to provide feedback on the bill as drafted
- There may be costs to the Department of Finance and Administrative Services to implement the legislation

Questions?