Legal Literacy Tip Sheet for Cannabis Entrepreneurs

Commercial Leasing 101

Navigating commercial leases is one of the most critical, and often challenging steps for social equity entrepreneurs. Knowing what to look for, how to protect yourself, and why strong lease terms matter can make or break your business.

IMPORTANT: Never sign a lease before knowing you are eligible and approved to receive a license.

TYPES OF COMMERCIAL LEASES

- **Gross Lease:** Tenant pays a fixed rent; landlord covers property expenses like maintenance, taxes, and insurance.
- **Modified Gross Lease:** Landlord pays major expenses upfront; tenant may share in future cost increases.
- **Triple Net Lease (NNN):** Tenant pays rent plus property expenses including taxes, insurance, and maintenance.

KEY LEASE TERMS AND OPTIONS

- **Effective Date:** Lease is signed or becomes binding.
- **Commencement Date:** Lease term begins, and you gain access to the space**.**
- **Rent Commencement Date:** May start later to align with opening.
- **Renewal Options:** Allows for lease extension, deadline tracking and flexibility if your business does well..

SMART NEGOTIATION TIPS

- **Start with a Letter of Intent (LOI):** Outline key terms **before** signing anything binding.
- **License Contingency:** Include language that delays rent until after approval or operational start date.
- **Avoid Personal Guarantees:** Ensure the lease does not hold you personally responsible for business obligations.
- **Limit CAM and Maintenance Costs**: Set clear caps on CAM charges and negotiate limits or shared responsibilities for tenant repairs and maintenance.

COMMON CANNABIS LEASING CHALLENGES

Lease/Rent Approval
Landlord consent is required to operate cannabis businesses.

Higher Rental Costs
Landlords often charge cannabis tenants above-market rates.

Zoning Restrictions
Limited areas are approved for cannabis businesses.

Insurance Requirements
Policies must cover rent, use, and liability.

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RED FLAGS IN COMMERCIAL LEASING

- Personal guarantees required for new operators
- Short deadlines to sign
- Undefined or unlimited CAM charges
- Short cure periods (less than 5 days) for violations
- Rent based on gross revenue
- "As-Is" clause shifts repair costs to operator
- No clarity on repairs, insurance or surrender
- Landlord can terminate without cause
- No exit clause if licensing fails

KNOW YOUR RIGHTS UNDER SB 1103

Under SB 1103 (Commercial Tenant Protection Act), microenterprises - defined as businesses with 5 or fewer employees - may be entitled to:

- **Lease in your Language**: Landlords must provide lease translations.
- **Fair Rent Notices**: 30–90 days' notice before increases.
- **Termination Notices**: 60 days' notice for termination (30 days' if lease is under 1 year).
- **Cost Transparency**: Transparent costs and the right to cancel unfair leases.

KEY TAKEWAYS

✓ **License Compliance:** Never sign a lease before verifying your license eligibility and zoning approval.

✓ **Plan For Licensing Delays:** Build in extra time before rent starts to avoid paying before you're approved.

✓ **Understand Lease Terms:** Negotiate favorable terms and watch out for red flags like revenue sharing, NNN leases, and personal guarantees.

✓ **Seek Legal Counsel:** Consult a lawyer **before** signing lease to ensure it aligns with licensing needs and protects against future issues.

NEED LEGAL HELP?

Public Counsel offers free legal assistance to qualifying individuals:
Phone: 213-385-2977, ext. 300
Website: publiccounsel.org/services

LOS ANGELES COUNTY OFFICE OF CANNABIS MANAGEMENT
cannabis.lacounty.gov
cannabis@lacounty.gov