

Location, Location, Location... Site Selection Issues for Tenants

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We all know the old adage favored by real estate brokers... "location, location, location." While more frequently used in the context of residential real estate, it is equally applicable in the commercial real estate market when tenants are looking for land, buildings, or spaces to lease for their business operations.

Every tenant will have different needs that its prospective site should meet. The first issue to consider is the nature of the tenant's business. Is it industrial, office, retail, or some specialty like daycare, fitness, school or a myriad of other uses? It is important for a tenant to know the demographics of any area being considered for the location of its business and whether they are suitable.

Key considerations include:

- Safety for employees, customers and visitors
- Nearby businesses
- Availability of a suitable customer base
- Governmental jurisdiction and overall tax burden
- Potential tax incentives
- Required utilities
- Cost of building or leasing

Real estate brokers are tasked with knowing the attributes of the market in which they operate, and play a critical role in site selection. Some brokers specialize in particular types of businesses, and large brokerage companies have different divisions for various business types. It is a good idea for a tenant to find a reliable broker who specializes in their specific business type and can act as the tenant's agent, instead of relying on a broker representing a landlord or serving as a transaction broker.

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A broker can be classified as a landlord's broker, a tenant's broker, or a transaction broker. The duties that a broker owes to the landlord and tenant can vary based on that classification. Most landlords have brokers who agree to share their commissions with a tenant's broker, so tenants can usually obtain specialized assistance at no additional cost.

Access is important to all tenants, but the type of access needed varies significantly by business type:

- Industrial users prioritize access to major transportation hubs, such as interstates, which facilitate shipping. They are not concerned with attracting customers who are driving by.
- Office users need access that facilitates commuters and may prefer locations near public transportation.
- Retail users want visibility and often rely on passersby as potential customers. They frequently want to be part of a shopping center with an anchor tenant and other retailers that attract customers. Some may also want to lease in an area with high foot traffic.
- Specialty users have unique needs that must be taken into consideration.

Once you have decided on an appropriate site, consider the following factors within the site:

- Visibility: How easy is it for visitors to find you?
- Accessibility: How easy is it for them to access your premises?
- Parking: Is nearby parking suitable and sufficient? Do you need exclusive spaces within a parking lot or parking garage?
- Signage: Is your signage clear and visible?
- Nearby tenants: Do nearby tenants complement your business, or are they potential competitors?
- Building age: How old is the building?
- Space: Does the site have enough space?
- Modifications: Do you need to modify existing improvements?

Most real estate attorneys who assist tenants do not get involved in site selection, although they may be consulted on specific issues. Typically, tenants approach attorneys after finding a site. The attorney then helps negotiate the lease, usually starting with a form provided by the landlord or its attorney. One of the attorney's goals is to ensure that the tenant's needs regarding the site (i.e., the reasons why the site was selected) are properly addressed in the lease, protecting the tenant's rights and preserving the initial reasons for choosing the site.

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