



What is the “Good Guy Clause” in commercial real estate? Understanding the term - by Ron Koenigsberg

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In commercial real estate there are many terms and phrases that are often tossed around like the “Good Guy Clause,” but how many of them are actually understood inside and out? As a leading professional in the commercial real estate industry, we feel it is our obligation to provide our audience and clients with the tools they need to make educated decisions regarding to commercial real estate.

Here we explain the “Good Guy Clause,” which is also referred to as the “Good Guy Guarantee.”

Explaining the “Good Guy Clause” in Commercial Leases

A “Good Guy Clause” is a limited personal guarantee that evolved as a compromise between landlords and tenants and is now a standard component of commercial leases. In a “Good Guy Clause,” an individual’s personal liability ends when the commercial space is vacated.

This clause states that if a company defaults for any reason the individual that signed the “Good Guy Clause” is responsible for the rent in between the default date, and the property surrender date when the property is vacated.

This way, if a company goes bankrupt, the tenant still has an incentive to vacate the space, but is not responsible for the remainder of the lease as long as they adhere to the clause and vacate the commercial space.

“A Good Guy Clause” serves as an additional form of lease securitization beyond the security deposit. It is looked at as a promise that the tenant will return the space to the landlord if the tenant’s business goes bankrupt or fails.

This enables the landlord to find a new tenant to pay rent, and therefore the tenant will not suffer personal legal ramifications from the landlord.

What is the Purpose of a “Good Guy Clause?”

The clause was developed and instilled because landlords were having problems with companies going bankrupt, defaulting on their rent payments, and not surrendering the commercial spaces.

The legal eviction process can take over a year and during that time the landlord cannot rent the space or recoup any of its losses.

Because the eviction process can be so extensive and costly, this clause acts as an “insurance policy” for the landlord and serves as a mode of financial and legal protection.

Although every “Good Guy Clause” will vary and contain different language, the following is typical language that may be found therein a “Good Guy Clause.”

Common Language Found in a “Good Guy Clause”

- Tenant must give notification to the landlord (notification period varies – typically three to six months.)
- Tenant must deliver keys of the demised premises to the landlord or managing agent and surrender the demised premises to the landlord in “broom clean” condition and free of all subleases or licensees.
- Tenant must be up to date with all amounts due and payable under the lease base rent or additional rent or other such charges.

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