

Quality Lease Negotiation is a **3-STEP** Process

How systematized is your site selection, lease negotiation and lease review?

BY SCOTT J. SIMCIK



The primary responsibility of franchise industry CEOs is unit-level profitability. While awarding qualified candidates and providing comprehensive training and support programs are a high priority, a quality three-step location and lease negotiation process will have the greatest impact

on retail brick-and-mortar store volume within any industry.

An honest appraisal of the strengths and weaknesses of your real estate department and processes is the first step to improve franchisee support.

The cost of acquiring and training a new franchisee, the franchisee's total investment and the potential income of both parties suggest the importance of deeply analyzing how systematized (or not) your current real estate processes are and how they may be affecting your franchisee annual turnover rate.

STEP 1: Site Selection (Market Visit)

Site selection must include a market visit from a strategic partner who acts as an exclusive tenant representative and works closely with the corporate management team. The same expert conducting each market visit improves the quality for each location. Combining the assistance of local leasing agents and your franchisees' valuable input gives your brand the highest quality control in identifying perfect locations. Consider these actions:

- Develop a pre-leasing questionnaire with a comprehensive checklist. Include defining trade areas within rural, medium, metropolitan and major-metropolitan markets; demographics (population, age, income and ethnicity); minimum and maximum square footage; and tenant mix, visibility and other characteristics unique to your business. Failure to do so reduces the quality of locations for your franchisees as does outsourcing to multiple regional and national

brokerage firms and individuals who are not properly trained or supervised by the franchisor on the questionnaire checklist.

- Review your last 10 franchisee locations and determine how many different commercial leasing agents have performed site selection or market visits on a local level for your franchisees. If the answer is more than one, your site selection process is ineffective.

- Do not refer franchisees to outsourced regional or national real estate firms that provide real estate services. This commonly used method holds little benefit for franchisees. A highly trained expert who is a true strategic partner, supervised and experienced on your customer and business concept, is most effective when visiting your franchisees' markets.

- This exclusive strategic partner should drive three natural trade areas and identify up to 15 locations within each trade area. Maximizing the number of vacancies and including the franchisor and franchisee in the short-listing process accelerates the location search, improves location quality and provides leverage in the lease negotiation stage.

STEP 2: Lease Negotiation

Each franchisee must have an exclusive tenant representative working on his behalf. This individual will have an enormous financial impact on your occupancy rental rate and reducing franchisee start-up costs by negotiating, among other things, an aggressive tenant improvement allowance. Outsourcing these critical economic factors to multiple untrained, inexperienced leasing agents is detrimental to the business. Consider these options:

- Develop a real estate operations manual that fully describes the definitions of a vanilla shell, site criteria, building requirements, floor plan specifications, site package, signage and other unique characteristics of your business concept. The absence of this manual will result in a major financial impact and lack of consistency on franchise locations.

- Determine if your lease negotiation process is too long. Outsourcing to regional and national firms gives away quality and control.

- Research to determine if the regional or national

firms your company has selected to represent its franchisees in lease negotiation also represent landlords in your franchisees' local markets. The fiduciary responsibility of the franchisor is to ensure exclusive representation and not expose their franchisees to commercial leasing firms who predominantly represent local landlords. These pre-existing relationships can be a disadvantage to your franchisee. Assigning your franchisee to an exclusive tenant representative protects their best interest in site selection and lease negotiation. Justifying the use of a dual representation firm to gain access to "pocket listings" is short sighted. These vacancies are equally available to an exclusive tenant representation firm.

- Evaluate the level of training your company has provided your strategic partner on unit-level economics, build-out terms, free rent, tenant improvement allowance, common area maintenance, taxes and insurance/NNN, personal guarantee limitations, and early termination clauses. It is essential that this representative is highly experienced on a master level to negotiate on the following: by rural, medium, metro, and major metro market sizes; types of ownership (local,

regional and institutional); and is able to adapt to the negotiation styles of junior and senior leasing agents.

STEP 3: Legal Review

Legal review is typically the step in the lease negotiation process where flexibility is either gained or lost. A corporate signature, limited personal guarantee and an early termination clause are essential terms to be carefully negotiated into each lease. Common area maintenance fees and taxes and insurance/NNN should be closely examined and negotiated on a line-item basis. However, franchisees will often overlook the importance of these items because they are led to believe by leasing agents that they are non-negotiable and strictly prorated costs passed on to tenants from the landlord. Franchisors will suggest to franchisees to hire any attorney to review their lease. As part of your legal review process, it is imperative to select a real estate attorney who is highly experienced and specialized in commercial lease review and franchisee communications. This will expedite the process with the highest quality and flexibility within the final lease terms at legal rates prenegotiated on your franchisees behalf. Here are

two recommendations:

- Develop a legal checklist of terms to be negotiated in each lease that protects the franchisor, franchisee, funding, and equipment vendors. Some franchisors will request a franchisor addendum attached to each proposed lease, which protects the franchisor, franchisee, banks and leasing companies.

- Protect your franchisees from picking and choosing local non-real estate attorneys who are unfamiliar with your brand to review landlord leases. This exposes your franchisee legally and financially to accept unfavorable landlord terms. An expensive legal bill with a protracted eight-week process can bring unnecessary legal gridlock.

To achieve the highest quality locations for your franchisees, your ultimate goal is to locate a strategic partner who will act as your exclusive tenant representation firm, and who will provide these three steps of quality lease negotiation. ■

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