

Salon / Spa Tenants ... Beware of Landlords with 13-Inch Rulers!

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As The Lease Coach, representing salon / spa tenants with leasing matters since 1993, we have found that some landlords are over-charging wellness facility owners for more square footage than the tenant actually has. Are you paying too much?

This is a common oversight in the commercial leasing field. Salon / spa tenants frequently trust the reported square footage of their leased premises. However, whether this figure was accidentally reported by the landlord or reported by a distant property owner who has never even seen the site, the amount of reported square footage can easily be wrong. The end result is that salon / spa tenants needlessly pay an increased rent, based on their incorrect square footage ... isn't it better to keep this money in your own pocket than pay it to your landlord?

To explain further ... Dale was having dinner one evening with the Chief Operating Officer of a large chain store organization. She shared that her company had recently moved into a new 4,400 square foot office. She went on to explain how spacious, beautiful and comfortable the office was. When Dale asked her if she had ever verified the square footage, she said "no". Why was this necessary? After all, this was the total area stated on her Lease Agreement. It took Dale several weeks to convince her to let him measure the space to determine if she was actually getting the 4,400 square feet that the landlord was charging her for.

Finally, she agreed. When we completed measuring the premises, the area was **800 square feet short**. In the real estate industry, we refer to this as "phantom space" where the tenant is paying for more space than exists. And, in this case, this Chief Operating Officer was paying over \$50,000 more (for her entire lease term) than she needed to for space she didn't have. We approached the landlord and corrected the problem – both for the past and the future. The tenant was reimbursed for her previous overpayments and continued to pay a lower adjusted rate.

Even the smallest amount of phantom space can grow to be quite large as rental rates and Common Area Maintenance (CAM) charges increase over time. As an example, we found that one previous client had a discrepancy of only 27 square feet. While this doesn't sound like much, this specific unit was located in a prime downtown shopping mall with high rent. When this came to our attention, it was seven years into the tenant's

lease term and the landlord had collected \$20,000 more than was rightfully due. Again, this came to a satisfactory conclusion with the tenant being reimbursed.

Yet another issue for salon / spa tenants to consider is how phantom space can **repeatedly** affect them. Understand that every tenant pays two rents – the base rent (which is negotiable) as well as the Common Area Maintenance (CAM) charges. CAM costs cover charges on property upkeep which benefits all tenants (eg: trash removal, property taxes and building maintenance) and are charged proportionately. Therefore, if a tenant occupies 1800 square feet, then he/she is responsible for the CAM charges on that area as well. If that tenant has been wrongfully paying for phantom space, he/she will also wrongfully pay too much for CAM charges.

Such square footage discrepancies are very common for business-owners (specifically, those leasing retail and office space). In our experience, many discrepancies are negligent, not necessarily fraudulent. This is a small consolation as the tenant remains overcharged. When the landlord is receiving rent on 107% of a building, it stands to reason that the landlord should have questioned how he/she could get more than 100% of rent from that building.

If you have been taking the landlord's word for the measurement of your business premises, you may be overpaying substantially on one, or more, of your locations. You may be presented with a "measurement certification". Don't be fooled. Many of the locations where we have found discrepancies on were "verified" as accurate, but, in fact, were measured incorrectly. Sometimes, the discrepancies are only 30 – 40 square feet; however, these can also be hundreds of square feet off – especially if the leased space is significant in size.

As you can see, phantom space is a simple concept and can be simply avoided. No one can ascertain the exact size of an area by naked eye alone. Nor, should a salon / spa tenant always trust what is stated on his/her Lease Agreement. Space measurement can provide peace-of-mind and can save you thousands of dollars ... as a salon / spa tenant, isn't this worth looking into?

For a copy of our free CD, *Leasing Do's & Don'ts for Commercial Tenants*, please e-mail your request to DaleWillerton@TheLeaseCoach.com.

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question? Need help with your new lease or renewal? Call 1-800-738-9202, e-mail DaleWillerton@TheLeaseCoach.com or visit www.TheLeaseCoach.com.