

## **How to Negotiate a Lease Renewal Rent Reduction for Day Spa Tenants**

*By: Dale Willerton and Jeff Grandfield – The Lease Coach*

**Get organized and do your homework.** Beginning the lease renewal process should start nine – 12 months in advance for day spa tenants leasing commercial space. In most cases, you should not need to exercise your Lease Renewal Option Clause provided there has been a dialogue with your landlord and it has been established that the landlord wants you to stay for another term. Research your landlord on-line to learn more about him. Sizing up your opponent for the lease renewal process in advance and learning about him/her will be invaluable. Remember that a lot can change at a property since you signed your first lease.

**Prepare for the Battle.** When The Lease Coach begins to negotiate a lease renewal for a tenant, our first step is to review the lease document which was signed five or 10 years ago. You may have provided a personal guarantee, letter of credit, deposit, etc. and these terms can be renegotiated during the lease renewal process. If you simply exercise your lease renewal option clause, often the rental rate will go up and the tenant will forego the opportunity to negotiate on other important terms.

If a rent reduction on a lease renewal is justified either by a change in market rents for the area or a decline in sales revenues for the tenant you should be prepared to show Profit and Loss statements. We also like to show the landlord industry articles, trends, or other supporting information about your industry and how it is doing in the marketplace.

**Talk to Other Tenants in your Building.** Valuable information can be gathered by talking with your neighbouring tenants. If other tenants are not planning to renew their lease, thereby creating more vacant space in the property, you will have more leverage. If another tenant has renewed his/her lease, the rental rate he/she agreed to pay will likely factor into the rental rate the landlord expects you to pay.

**Create Competition for your Tenancy.** So many commercial tenants go straight to their landlord regarding their lease renewal. Resist handing over your lease renewal to your landlord on a silver platter. At The Lease Coach, we find alternative locations and solicit lease proposals from other landlords as a means of making your existing landlord re-earn your tenancy.

**Approach Your Landlord and Your Property Manager.** Confirm your landlord contact and make sure you are negotiating with the right person. You may have entered into the lease agreement negotiating with the landlord's commercial real estate agent or in-house representative; however, most lease renewal agreements are negotiated with a property manager who you may or may not have a good, bad or otherwise relationship with.

**Get the Landlord's Lease Renewal Proposal.** We don't believe in negotiating on the first date. We prefer to discuss and dialogue the lease renewal with the property manager and invite a renewal proposal. This puts us in a position to counter-offer and negotiate on behalf of the commercial tenant we are working for. Most of the negotiating process will take place verbally – but only after a written lease renewal proposal or document has been provided by the landlord.

**Submit the Counter Offer to Your Landlord.** Multiple counteroffers from both parties are part of the lease renewal process. If you try to slam-dunk the lease renewal too quickly your attempts for a rent reduction will probably fail. We recently negotiated a lease renewal for a law firm tenant who was pleasantly surprised how effective this strategy was. We deliberately slowed down the process and renegotiated every single term in the formal lease agreement that needed to be revisited.

**Negotiate, Negotiate, Negotiate.** Negotiate to win. Most commercial tenants are not negotiating to win at all ... they are negotiating not to lose. Would you watch your favourite sports team simply playing to tie? The landlord and/or the landlord's representatives are negotiating to win and you must do so as well. That might mean getting creative and thinking of different ways that this deal might work. While we are negotiating, we will physically reveal the other offers which have come to us from other locations. Even if it is a more expensive deal, remember, that if you leave, the landlord gets a vacant property. It is extremely expensive for a landlord to replace an existing tenant. By the time a landlord pays real estate commissions (which could be \$40 - \$50,000), changes the look of the unit, puts in tenant allowance money and so on, it gets very costly (especially if the unit sits vacant for months).

If the landlord is giving lease inducements (e.g. free rent and/or tenant allowances) to attract new tenants moving in, we believe that the landlord should offer those same incentives to you to entice you to stay. You are the repeat customer. You have the track record of paying rent.

Then, we start counter offering. A good boxing match doesn't go two rounds; it goes eight - 12 rounds. Remember, this is not an event ... this is a process. Some of the best deals we got for commercial tenants took four to six months. Even if you don't have that much time left on your lease, usually you can hold over without paying extensive penalties. It is important to compromise at times. When we counter offer, we will often throw in a few red herrings – things that we don't really care about and can readily give away.

Negotiate and ask for more than you expect to get. We remember getting one tenant 12 months of free rent on a five-year lease term. When the tenant asked us how we did this, we explained that I had asked for 18 months free rent. Then, you will conclude the lease renewal process by signing the Lease Renewal Document or, if it doesn't work out, you still have time left to relocate. Ideally, you have done all of this in six months and given yourself a cushion. Often, we negotiate lease renewals for tenants up to 24 months in advance and get rent reductions as well.

You don't have to wait until the end of your lease term and if your landlord is stalling you, this generally means that he's got a nasty surprise waiting for you.

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

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