

## **Is Bigger Really Better? Leasing the Right Size and Shape of Salon/spa Space**

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So often, salon/spa tenants come to us stating that they are not making any money because their rent is too high. Sometimes, this is a true statement but, more often than not, the salon/spa tenant has simply leased too many square feet.

We remember consulting to a client leasing 8,000 square feet of space who couldn't afford to pay the rent. When we checked with neighbouring tenants it turned out our client was actually paying less per square foot than anyone else. It wasn't the *rent per square foot* that was killing his business but the amount of area he had been talked into leasing by the landlord's leasing representative. We see this scenario far too often ... leasing representatives and real estate agents, typically, receive a commission from the landlord for signed lease deals (the incentive increases with a tenant signing for a longer term, agreeing to pay a higher rent or leasing more space); however, the unknowing tenant often signs the lease agreement and becomes legally bound to the terms. In this case, by negotiating for our client to surrender 3,000 square feet of space back to the landlord the rent decreased by \$45,000 per year and the business returned to being viable. Don't learn your lesson this way; it's too expensive.

Occasionally, we deal with the reverse of this scenario. A tenant told us his space was too small. If we could expand the business he could see many more customers. We negotiated for this tenant to lease the adjacent space (which meant relocating the neighbouring tenant) and he achieved his goal. Landlords, generally, prefer to work with a tenant who wants to expand versus one who needs to downsize.

Since most landlords charge rent on a square footage basis, it makes good sense to scrutinize your size requirements carefully. Additionally, in most cases, you will be paying operating costs or CAM (common area maintenance) fees based on a square footage basis too. It has been our experience that the main reason salon/spa tenants end up leasing the wrong amount of square footage is due to *availability* ... or lack thereof. If you need about 1,800 square feet for your salon/spa but the only two spaces remaining available for lease are smaller and larger you will have a dilemma. A smaller space often has less *frontage* as well. This gives you less storefront exposure, which is critical for both retail operations and other types of businesses.

When choosing between locations that are modestly too big or too small, salon/spa tenants should almost always decide which space is in the better location. With adjacent and very comparable units, we would normally advise the tenant to be more conservative and lease the smaller location. Salon/spa tenants who tell us their location is too small are usually profiting but want to expand to increase their sales. Whereas salon/spa tenants who tell us their location is too big often want to downsize to reduce rent payments as a means of improving their bottom line.

Consider also the functional *shape* of the premises for your salon/spa. In one situation, the landlord was expanding his strip mall claiming that only one CRU (commercial retail unit) was left. Unfortunately, this unit housed a large utility room in the back – making that area unusable for almost any tenant. Since the expansion portion of the project was only in the construction phase, we suspected the landlord still had time to move other newly-interested tenants around and suggested to the tenant we walk away from the deal as a negotiating strategy. As expected, within a few days the landlord reconsidered his position and predictably came up with a much better location for the tenant.

*Phantom Space* is one of our favourite topics. This is where the lease agreement states the tenant has “x” number of square feet, but when the area is measured the real square footage is much less. Since tenants are paying rent by the square foot, landlords can benefit greatly (even if unintentionally or accidentally) by leasing out more than 100% of the building. An unscrupulous landlord could be taking advantage of his/her tenants or this might simply be a mistake but either way it costs the tenant money. Don’t be like most tenants who take the landlord’s word for it; have your space professionally measured.

In one case, we measured a client’s premise and discovered that, instead of the reported 4,400 square feet, the tenant’s space only contained 3,600 square feet. The landlord had purchased the building a few years ago and never questioned the previous landlord’s measurements. We not only got the tenant a refund for previous months she had overpaid but also a \$1000/month rent reduction for the remainder of the Term.

Much commercial space is measured incorrectly. In most instances, a substantial incorrect measurement can be defined as a discrepancy of 5% or more. In actuality, we’ve discovered that nine out of 10 measurement discrepancies will favor the landlord. Having your commercial space professionally measured by an independent expert will provide peace-of-mind and is highly recommended.

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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