

Spa Tenants – Negotiating Renewal Clauses and How Best to Exercise Them

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As we explain in our new book, *Negotiating Commercial Leases & Renewals For Dummies* (Wiley, 2013), the renewal-option clause in a lease is there for the sole benefit of the spa tenant. Essentially, its purpose is to ensure that you are allowed to lease your space for another term, as long as you meet the predetermined conditions listed in the lease agreement. Not all landlords automatically include the renewal-option periods or terms in their offer to lease or formal lease agreement. It is your responsibility as a spa tenant to request, insist on, or negotiate for renewal-option rights. In some cases, there will actually be multiple renewal-option terms running consecutively.

But just because the lease-renewal clause is there for your benefit doesn't mean you have to exercise it. The Lease Coach recently spoke with a tenant who had been in the same location for over 25 years. He was mistakenly under the impression that if he wanted to renew his lease, he had to exercise the renewal-option clause. This is false in most cases. Approximately 98 percent of the successful lease-renewal agreements that The Lease Coach negotiates for tenants *don't* include exercising the renewal-option clause at all. That is because 98 percent of landlords want to keep paying tenants in their property.

With this being said, you can negotiate a lease-renewal agreement without exercising the renewal-option clause. Property managers and landlords may often tell you (incorrectly) that you *must* exercise the renewal-option clause. That is a trap because they know that if you fall for it and pull the renewal-option trigger, they don't have to risk losing you as a tenant and won't have to give you any inducements. It is critically important that you understand that once you exercise the renewal-option clause, you cannot rescind that agreement or change your mind. If the landlord plans or tries to double your rent, you're trapped.

Lease Renewal Inducements to Negotiate if You Don't Exercise the Option

Renegotiating your base rental rate: Obviously, your focus should be on negotiating the lowest rental rate on your lease renewal. Notice that we didn't say the goal was to negotiate a fair rent, market rent or an affordable rent. We negotiated a 70 percent rent reduction on one of our tenant client's lease renewals and the client was stupefied. Beware, many lease renewal options will say that in the event you exercise your option, rents cannot go down if markets are dictating lower rents may be in order.

Tenant allowance: If you have been in business in a specific location for many years, the premises may need refreshing – perhaps a fresh coat of paint or new floor covering. Sometimes it makes sense to make internal changes with new partition walls or simply jazz up the waiting room. If you plan to make leasehold improvements or renovations to your premises, then it makes sense to negotiate for a tenant allowance from the landlord. After all, the landlord probably has to give a tenant allowance to a new tenant, so he might as well give it you – a known equity. Remember, the landlord pays a tenant allowance for money you have actually

spent, if you put it where you promised to invest it. Keep your receipts and don't look at a tenant allowance as a way to finance purchases outside your spa.

Free Rent: In addition to a large lease-renewal tenant allowance, we recall getting one of our clients three months of free base rent (he would continue to pay operating expenses). This tenant was planning on doing a reasonably large renovation, meaning the business would be closed for some time – what better reason to also negotiate for free rent? Asking for free rent if you're going to be closed for renovations falls into the category of *you won't get it unless you ask*.

Creating your miscellaneous lease-renewal wish list: Do you need more signage, parking or storage? Do you need the landlord to finally fill in the parking lot potholes? When one of our clients sent us a picture of his location (including the building exterior), we noticed graffiti all over the side of building. We included graffiti removal as landlord work to be completed.

We hope that reading this has opened your eyes to mistakes you may have made on your first lease deal. Now is your chance to have clauses modified and corrected to eliminate personal guarantees, get deposits refunded and fix whatever else you missed when you signed your first lease.

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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