

Lease Renewing Do's & Don'ts for Salon / Spa Tenants

By: Dale Willerton and Jeff Grandfield – The Lease Coach

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In leasing, tenants don't get what they deserve – they get what they negotiate! These are the first words tenants see on the Powerpoint when they attend one of our commercial leasing seminars. Since 1993, we have been helping salon / spa tenants and other commercial tenants learn the *Do's & Don'ts of Negotiating Commercial Leases and Renewals*. Salon / spa tenants must be wary and not agree too quickly. Here are a few tips to keep in mind:

DO's

Do create competition for your tenancy. Negotiate on more than one location simultaneously – especially with lease renewals. Even if you don't want to move, create options so you can play one landlord against another. Share with each landlord that you are receiving proposals on other sites. Remember, the tenant is the customer and the landlord is the seller. The Lease Coach makes the landlord earn your tenancy.

Do start the planning and site selection process well in-advance. For existing salons / spas and lease renewals, we recommend that you start at least 12 months ahead. This allows for ample time for completing paperwork, searching for alternate sites (if necessary) and accounting for Murphy's Law (anything that can go wrong will go wrong ...). If you can't secure a good deal within the first few months, you can still exercise your option to renew or start the relocation process.

Do pay attention to overholding penalties. Please read this carefully. Most lease agreements contain an overholding clause. This is the portion of a lease agreement stating the basic rental rate adjustment should the tenant remain an active tenant without a lease renewal. Should the tenant remain leasing in the property on a month-to-month basis, basic rent can increase by 150 – 200%. Be especially aware of this at renewal time to avoid being penalized. Ask your landlord to waive this increase during protracted renewal negotiations so that you will not be penalized. Check this clause in your lease right now!

Do keep your success quiet. One of the primary reasons why your landlord will raise your rent for the lease renewal period is due to your success. If you have been profiting in a particular location, you will not likely want to move even with a rent increase. Some realtors and landlords will take advantage of salon/spa tenants knowing how expensive it can be to move and set up a new salon.

Do your homework and talk to other tenants. For lease renewals, talk with other tenants in the building who have recently renewed leases. Use the direct approach. Ask them how these renegotiations went and what the landlord was willing to agree to in terms of rental rates and further tenant incentives.

Do negotiate for lease renewal incentives. For some reason, salon/spa tenants neglect, or are simply fearful of negotiating for lease renewal incentives. If your lease is expiring, ask yourself what inducements would the landlord give to a new salon/spa tenant just coming into the property. Examples of such inducements would include free rent and tenant allowances. If these were there for the offering to a new salon/spa tenant, then why wouldn't an established salon/spa tenant – with a proven track record – get the same (or more) consideration?

Do walk away from a bad deal. We are optimistic at-heart; however, in business, you must look at pessimistic projections. Years of frustration in a slow salon can be avoided if only more salon/spa owners had walked away from poor locations and bad lease deals. Be careful, take your time and get some help from a Lease Consultant before signing a lease renewal agreement ... this could save you a lot of money and heartache.

Do consider reducing your square footage. Many salon / spa tenants who hire The Lease Coach to negotiate a rental reduction are suffering from occupying too much square feet. For some salons, a reduction in the leased area at renewal time could well be in order. Another option is for you to not renew your present lease and move to smaller premises. With a proper space plan, some salon / spa tenants could reduce their total leased area. With some modest inconvenience, lower rent could easily justify your move.

Do change the day the rent is due. For many small or medium-sized salon / spa tenants, the monthly rent represents a large portion of their overhead. Paying the rent on the first of the month can be a hardship as other expenses – including payroll, loan payments and equipment leases (on furniture and computers) – also come due that day. During renegotiations, you can often request and get permission to pay your rent on the 10th of the month or even later. Ask your landlord ... just what have you got to lose?

DON'Ts

Don't have false optimism. When salon / spa owners tell us their business isn't doing very well, but they want to renew their lease anyway, this is false optimism. Unless you change location or something else about the way you do business, you should not realistically expect your next five years to be better than your first five years. While it can be difficult, frightening, time-intensive and expensive to consider moving after you have been in one location for a long time, frequently, this is absolutely necessary. Salon / spa tenants we have consulted to have routinely reported that relocating was well worth it, once they got settled in a new location.

Don't accept an inappropriate lease length. For salon / spa tenants, a 5-year lease term is often the norm. When renewing, do not automatically sign for that same or similar time frame without considering your own personal and business future. Are you planning to relocate? Are you planning to sell your

salon? Are you planning to retire? Don't get locked into a lease renewal term that does not meet your needs ... agree to only what works best for you.

Don't settle for your same rental payment. Achieving a rent reduction on your lease renewal is a very real possibility. If your landlord is leasing space to new tenants at less than what you are currently paying, a rent reduction for you should be a given. If your current rental rate is artificially high because of your last tenant allowance, a rent reduction on your renewal term could also be in order. Do your homework and talk with other tenants who have recently renewed to see how much they are paying.

Don't accept the first offer. Once your landlord has made the first offer or proposal regarding your lease renewal, the real negotiations begin. Don't be too eager to accept that first offer, even if it seems reasonable. With patience and good communication, you can almost negotiate any first offer, which may be nothing more than a smokescreen anyway.

Don't allow the landlord to retain your deposit. If you have paid the landlord a hefty deposit on the property, don't forget to ask for this back upon your lease renewal date. You have, after all, proven yourself as a responsible tenant over your initial term. Why should your landlord keep this money?

Don't give post-dated cheques. One of the main jobs for a property manager is to collect the rent from tenants. Naturally, property managers will prefer to have post-dated rent cheques already in-hand. For the salon / spa tenant, however, you may not have the rent money until the third day of the month. Paying a few days late is considerably better than bouncing a cheque. Alternatively, there may be a recurring problem with the air conditioner or the snow hasn't been removed this week from the parking lot. By not providing post-dated cheques, you retain some control.

Don't disregard your Operating Costs. Having your lease and operating costs audited are simple and effective way to keep your landlord and property manager both honest and accountable. Frequently, salon / spa tenants pay much more than they need to because of padded or miscalculated operating costs. Often, it can be advantageous for groups of tenants sharing the same property to unify for an operating cost audit. Ask your Lease Consultant for more details.

Don't exercise options. Even though you have a renewal option, you may not want to exercise it – especially if the renewal term automatically increases or can't decrease. If you are certain that your landlord wants you to stay and market rates (the “going rate” in your neighbourhood) have softened, you may want to negotiate from scratch.

These are only a few of the Do's and Don'ts that will help you when it comes to renewing your commercial lease for your own salon. Remember, ultimately, that your success will depend on your location and the deal you make.

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

Dale Willerton and Jeff Grandfield - The Lease Coach are Commercial Lease Consultants who work exclusively for tenants. Dale and Jeff are professional speakers and co-authors of Negotiating Commercial Leases & Renewals For Dummies (Wiley, 2013). Got a leasing question? Need help with your new lease or renewal? Call 1-800-738-9202, e-mail DaleWillerton@TheLeaseCoach.com or visit www.TheLeaseCoach.com.