

Leasing new space for your business seems simple. Hardly any different than buying a car. Oh, wait. The last car you bought on impulse turned out to be a lemon, you paid too much and it cost you a ton to repair. Here are some tips that will help you avoid making a similar mistake when it's time to lease your business location.

Start Your Search Early

Start your search at least six months before you need the space for your growing (or down-sizing) retail or manufacturing operation. It can be to your advantage to check out the available options even if you are an existing business in an existing location. You owe it to yourself to determine what is available and you may decide it makes sense to sell your downtown space to the guy who wants to turn it into apartments and move out to a strip mall on the edge of town. The sooner you start looking, the more likely you are to find a suitable space, negotiate a lease agreement, perform the tenant improvements and get moved in an orderly fashion.

Malia Radford, President of Radford & Co., a Bellevue, Washington commercial property management company, suggests beginning your search by using public information. Your city and county will have demographic and zoning information. There's no sense getting excited about that gardening center for sale near a busy rural intersection if the zoning prohibits a business like yours. The Chamber of Commerce is another great source of information about suitable business locations. Your bank may have a small business division devoted to working with customers like you.

How Much Space

Are you a full-service archery pro shop that requires space for indoor lanes, or a four-season sports store that needs room for bait tanks and canoe displays? Those businesses will likely need more space than an archery and blackpowder dealer who can get by with a single practice lane for bow set-ups and basic archery



By David Paul Williams

Business Break

Negotiating a Lease

instruction.

This is a good time to consider future expansion. Maybe you've always wanted to set up a fly-fishing department, or feel your trade area needs a source for quality camping and hiking gear. It may be beneficial to take on more space now and sublet it to another business until you need it, especially if that business is a complementary one to your own.

Don't forget to run the numbers. Create a realistic budget that includes the cost of space, any improvements you'll be making out of your own pocket, store furnishings, realistic utility costs and some allowance for inflation. Once you've got the budget set, stick to it as you start your search. Nothing can take the shine off a new location like realizing the sales increase you were counting on hasn't been enough to cover your additional expenses.

Do you want a stand alone building where you are the sole tenant? That may give you more options as far as signage and outdoor displays. Or do you see yourself in a strip mall or maybe in a full service mall where there is plenty of parking? Does the full service mall have separate access for each business? If not, are your customers going to be comfortable carrying bows inside the mall to get to you? The answers here will eliminate unsuitable locations and narrow your search.

Let's say you have narrowed your search and identified a few suitable locations. Now is the time to do field

research. View each location as if you are your own customer. How easy is road access? What about parking? Is the building clean? Is the lighting adequate? Would you want to shop at that location? Would you be proud to have your business at that location? If you answer no to any of these questions, keep looking.

Hire Agent or Fly Solo

Are you experienced in real estate leasing? Do you understand the difference between a triple net and absolute net lease? Do you know that if your heating or air-conditioning system dies, most commercial leases make it your responsibility to repair or replace? If not, then you should have someone on your side who has the answers. Malia Radford says first-time lessees typically "don't even know the questions they should ask" when looking for a commercial space. She recommends hiring a professional to assist you. Sure, it will likely cost you some money out of pocket but a professional may allow you to avoid making a costly mistake. Once you learn the ropes and become familiar with lease clauses, you may choose to hire an agent to do the research for you or you may opt to find space on your own.

Every landlord wants the same thing: Financially stable tenants who pay rent on time. They will need proof of financial stability which means the better your business appears on paper, the more likely you are to obtain favorable lease terms.

Put together a properly filled out business financial statement. Be prepared to show business and personal tax returns. If your business entity is a corporation or limited liability company, expect to sign a personal guarantee backing up the lease. Presenting a package which includes a business plan will help you get the best deal.

Doing the Deal

Every landlord has a "standard" lease. Changes to the landlord's lease are easier to negotiate than trying to convince the landlord to adopt your lease version.

Malia Radford says, "Never sign a lease until you understand every clause in that lease." Memorize her words and make them your mantra. All too often a business owner signs a lease because he wants to get in the space before peak season and fails to read and understand the lease. When the furnace fails in the middle of winter and he has to shell out \$10,000 for a new one because that is what the lease says right there in black and white, he only has his impulsiveness to blame.

There are three way to protect yourself. First, spend the time necessary to educate yourself. Leasing Space for Your Small Business by Janet Portman and Fred S. Steingold is an easy to read book, filled with helpful information. Read it even if you hire an agent and/or real estate attorney to represent you. Here's why: The less time your attorney has

to spend educating you on basic lease terms, the less money you spend on doing the deal.

Second, hire a commercial real estate agent who can help you find a suitable space, deal with the landlord and advise you on real estate trends in your market. For example, your agent should be able to tell you the current market rate for retail space, the general reputation of a business location and landlord and more. A real estate agent is not however, a substitute for a real estate attorney. The agent's job is to help you find a space, the attorney's job is to protect your interests.

So third, hire a real estate attorney. In my practice, I determine my client's level of real estate expertise and tailor my advice accordingly. If my client demonstrates an understanding of basic lease clauses, then we spend our time reviewing the landlord's "standard lease" and suggesting changes that make the lease more favorable to my client. I always advise my clients that every lease clause is negotiable, with the caution that the tradeoffs necessary to obtain concessions in one area may trigger unpalatable changes in other areas. In any event, an experienced lawyer's advice can pay for itself with each problem foreseen and avoided.

Staying Where You Are

After checking the market and running the numbers, you decide to renew your current lease. Should you simply sign the new lease offered?

You could, but why not ask for some concessions from the landlord that will put the sparkle back into your space? Maria Radford confirms that landlords are generally willing as a condition of renewing a lease to spend substantial money in reconditioning and refurbishing a space. She notes it simply makes sense for the landlord to spend money to keep a tenant since the cost of keeping the tenant can be less than the cost of acquiring a new tenant.

What's reasonable to ask for? Your real estate agent can give you current market trends, but certainly you should expect things such as repainting, rekeying the locks if you've had high employee turnover, perhaps even new carpet. Make a wish list, present it to the landlord and see what happens.

Leasing your business location really is a simple matter. You can avoid making bad decisions by planning ahead, making your company attractive to a landlord, educating yourself about the market and hiring qualified professionals to assist. It'll be as sweet as that new car smell when you drive a well-researched deal off the showroom.

Editor's Note: David Williams, of Bellevue, Washington, has resolved legal issues for small businesses and their owners since 1979. He can be reached at The Williams Lawfirm, P.O. Box 1455, Bellevue, WA 98009. On the web you'll find him at DPWLaw@earthlink.net or you can call (425)990-8800. ←

Choose Your Weapon



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