PLAN2PROFIT

A GUIDE HOW TO

LEASE THE RIGHT SPACE

VOLUME 2

HAFFHOUR HANDBOOK

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Welcome!

We have all heard that location is everything and I am one that agrees with it – to a point. Sure, we'd all love to have our business on Rodeo Drive and pay $1000 per month for 2000 sq. ft.; however, realistically speaking that just isn't going to happen. Instead, you have to find the best location that your financial forecast says you can afford.

In the next 29 minutes, we will give you what we think are the most important factors that will ensure that your business is set up in its optimal location.

Let's get going. As always, we will present this Handbook in steps and ask that you finish one before moving to the next. We will not use a specific business type as an example; rather will deal with business in general. It may be that you can set up your business at home. If you are in the service business then location has little to do with the business' success. Does it really matter if a plumber has a storefront? Probably not.

What is a great location? - One that you can afford and one that will allow you to carry on your business easily.

Let's get started.

Step #1. Do you need a good location?

You have to determine early on in the process if location is a real factor in your business' success. If you are a restaurant it may be. If you are a landscaping company, then maybe not. If you are an event planning business maybe you can work from the comfort of your home.

If you decide that you can operate your business from your home then be prepared for the inevitable. If you have kids and pets and friends and family, you will be interrupted regularly. This is okay if you can justify the interruptions by saving $1700 per month that it would cost you for an office downtown. If you are going to set up shop in your home, make sure that you do it right:

- Set yourself up in a true 'office' environment with all the proper bells and whistles of a real office.
- Set down the rules so everyone knows that when your door is closed you cannot be disturbed.
- Use your cell phone as your business line and not your home phone as it is confusing for the caller.
- Make arrangements with one of those outside office companies to have your mail sent to them as PO Box 45 rather than 15 Apple Lane. Again, it makes you look more professional.

If you are opening a landscaping company, then as long as you have a place to store and service your equipment, it doesn't really matter where it is in relation to downtown or even your clients.

However, if you feel location is vital to your business success then it is important that you spend time finding what you feel is the best spot for you and your business.

You have to look at things like:

- Parking
- Delivery Access

- Size

There are numerous other factors that come into play and they include whether the city is planning to rip up the street for the next two years and whether your business neighbor appeals to a less than favorable clientele. You have to do your research.

Step #2. How much can you afford?

Many business owners put the cart before the horse and rent a space before doing the work to find out what they can afford. They do this because they think they are going to be in business and don't want to pass up on 'such a deal'.

→ Don't make such a major decision without taking the time to prove your concept before you commit to anything.

→ And don't sign "An offer to Lease" either thinking that it is not binding, because it is!

→ To figure out what you need go back to your financial forecast and look at your revenue and bottom line. What rent does it say you can afford. $2500? $2750? If that's what it says you can afford then that is exactly what you can afford and do not waiver.

Do not overpay and you'll be okay.

There can be an exception to this rule and that is if a great spot opens up that not only costs you more but also allows you to generate more in revenue. That is risky though. What if? It is better to stay with your original plan and if things go well, then you can expand or move if need be.

Solicit the services of a real estate agent to help you find your space. You are a customer so why not get people working for you. Also, put the word out that you are in the market for space and let landlords know that you are going to be a 'player' in the not too distant future.

Step #3. Negotiate

If you find a spot that you think fits the bill, then do not run and sign a lease right away. Have a meeting with the landlord so you can let him know that you are not 'married' to his space but would like to negotiate a rate in the event that you choose to proceed with a formal agreement.

You should do your homework in advance of your meeting to find out EVERYTHING you can about the landlord.

- ? Is he in trouble?
- ? Is he leveraged to the hilt with the bank?
- ? Is he a good guy or a jerk?

You should also ask for all utility bills so you know what you can expect to be paying going forward.

On the topic of leverage, you have to understand that banks lend money on rental properties based on the quality of the leases held by the landlord. In other words, the landlord needs to have good leases at good rates. Knowing that, you can expect to have to pay the going rate on a lease but the landlord can then offer you incentives like helping with capital improvements or delaying your first payment for a few months.

The capital improvement offer is what he will hold until the last moment. He could maybe replace the ceiling tiles or add a second bathroom or replace front windows in exchange for you signing a good lease.

Watch the length of term and the CAM – Common Area Maintenance. Rather than signing a 5-year lease, sign a lease for 3 years with two, 3-year options.

And CAM. This is where you'll get caught if you don't ask the right question. As a lessee, you have to pay for all common area maintenance - Landscaping, roof repair etc. Usually this is a pre-determined square footage charge added to your rent.

Sometimes $20 a sq. ft. can climb to $27 a sq. ft. in a hurry. Watch it!

Until you sign the lease, you are in control. Relinquish that power begrudgingly and only when you know you are ready to do so.

Step #4. Capital Improvements

As I stated in the above step, you may get your landlord to participate in the improvement of the space, but most of the work required to transform the space from what it is now to what you want it to be will be your responsibility.

Before you sign the lease, have your contractor – and you better have one – give you a price on what the capital improvements are going to cost. Look at your budget and make sure that you can cover it. If the costs are going to run over budget then you may have to re-think the location. A lot of entrepreneurs get caught at this point. They so desperately want to open that they throw caution to the wind and spend money that was originally earmarked for working capital into construction and hope that operational profit will cover the shortfall.

Never spend money you don't have!

If your contractor gives you the thumbs up on the space and you can fit the costs into your capital budget go and re-visit your equipment budget. Are you going to need anything extra? Is the loading dock in the back really adequate or are you going to have to replace it?

Look at whether you are going to need permits to proceed with the work and how long is it going to take to get those approvals before you can start work. Nothing is worse than negotiating to have 3 months free rent than be stuck awaiting approvals for 3 months.

Ensure that your contractor is well organized. You want to have a schedule for regular meetings, so you can stay on top of the timetable for completion. You

are the General Contractor and don't forget that. Nothing is approved unless you sign off.

Step #5. Permits

Do your homework to see if you can do what you want to do.

Before signing a lease or hiring people to start to tear out existing fixtures make sure that you have met all the requirements as laid out by the city, town, or district. Every level of Government loves to get in your pocket so do your homework.

- Can you operate what you want to operate in the space you are looking at renting?
- Do you need to address parking?
- Can you start working on your capital improvements without ALL the approvals? (Sometimes that can happen so check it out)
- Does Town Council have to pass a special variance to allow you to open?

Holy cow!

It is best to get to know all the important players in the planning department and licensing department. You are going to have to spend a fair amount of time, so make them comfortable with you – they are going to be customers one day soon. And get to know the Health department people as well while you are at it.

If you play your cards right and your contractor does as well, the whole building process can be quite painless. If you don't follow protocol, expect to hear from the powers that be and remember that they talk to each other; so you'll probably catch the interest of all other officials.

Step # 6. Be tough

Now that you are ready to start construction make sure that you don't get caught up in the excitement of the whole process. Everybody and his brother is going to be suggesting that you do this instead of that and it is going to be really tempting to listen and agree to build a palace rather than a house.

- ✓ You know your budget and know what your new business can afford so stay on course.

If there is going to be a change that you absolutely have to have then go back to your budget and see where you can cut back in another area. Maybe you can lease your POS machines rather than purchasing them. Maybe you can rent a piece of equipment you were looking at purchasing for the first six months.

Never go over Budget.

Be tough on contractors who miss deadlines. Offer incentives to contractors who meet them and let the others know that you are serious about not missing deadlines. You'll get their attention if you show that you are involved and really care.

Don't accept shoddy or incomplete work. You can hold back payments on sub-contractors who do not fulfill their contracts to the letter. It is easier to get things fixed when a contractor is still on site than to try and get him to come back to the job site later on. Also, it is easier to identify deficiencies while the business is not open, so act swiftly to get your work done to standard.

Make sure you know how all things works before you sign off.

- ? Is the electrical panel clearly marked?
- ? Where is the water shut-off valve?

? How do you silence the burglar alarm in the event you trigger it mistakenly? Is the hot water tank re-set button easy to access or do you have to crawl over everything to get at it?

Be a demon because they won't be there in a while to help you.

Copy everything down and put it in a binder that is readily available to everyone. That book will be a part of all training going forward. You don't want to be dragged back to work after taking your first afternoon off in three months because a breaker tripped.

Step #7. Physical Plant Management

Sometimes it is easier to build a facility than it is to maintain it. The reason is simple. When you are in start-up mode everything is new. After a few days, weeks, and months, your location can start to look a little tired. It is essential that if you see yourself being in business for the long haul that you keep your business location looking sharp.

Outside:

1. Make sure that your sign always looks fresh.
2. Change burned out light bulbs.
3. Always keep areas free of garbage and cigarette butts and the like.
4. Have windows cleaned regularly.

Guest Areas:

1. Make sure washrooms are always 'in order'.
2. Don't let scuffs on walls remain.
3. Fix any issues immediately.

4. Change burned out light bulbs.

Back Areas:

1. Ensure all warehousing and storage areas remain organized and accessible.
2. Keep staff washrooms and common areas as clean as customer areas.
3. Keep all mechanical areas free from clutter and accessible.
4. Have garbage areas in order.
5. Recycle as best you can.

The bottom line is that you have to run a clean ship so take time to inspect your physical plant daily. If your space is well maintained, it doesn't matter how old it is. Fix what is broken immediately.
Have a plan to always upgrade your facility. There should be money set aside each year to improve your physical plant. Customers recognize when you spend money and appreciate the effort. Think about it. If you go into a shop day after day and spend your good money and don't see any of your cash going back into improvements, you feel slighted. Right? I do.

Step #8. Should you buy a location?

There are two schools of thought here.

1. One is that you should try and control your location for the long haul by getting into the business of owning and operating a building.
2. The second is that if you are going into business, you should concentrate on one business and not confuse the issue by having two businesses; and mark my words you would then be running two businesses.

You would want to separate the two ventures so one business would be renting from the other.

I suggest that you stick to one or the other. If you have the money down the road you may want to use it to expand into a second unit or look into franchising. Concentrate on one business concept at a time.

So there you have it.

You now know how to handle the location part of your business courtesy of your taking the time to follow the steps in:

The Haffh🕐Ur Handbook

On

How to Lease the Right Space

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