
Are you a start up?

Do you dream of escaping the cubicle rat-race? Do you have a great idea to open a new business in a retail space?

There are a number of things to consider when doing this, and the process may seem intimidating. Here's where I can help.

Unlike renting an apartment—where the landlord's only concern is “do you have good credit, and will you pay rent on time?”—retail property owners judge potential tenants by that all-important factor and more. Sure, they need to know that you have excellent credit and can pay rent when it's due, but that's just a piece of the puzzle.

Here are the 3 primary factors that a retail property owner will need to get comfortable with:

FINANCES

It's not simply about having a few months' security deposit to post. Landlords need to be assured that you've thought through all of your numbers, have realistic assumptions in place, and go into a long-term lease relationship on solid ground. They want to know that you've thought about and accounted for at least these items:

- 1st and last month's rent payment
- Cost to build out the space
- Initial inventory or product costs
- Store signage (always the tenant's responsibility)
- Marketing expenses, i.e. “getting the word out”, during the early days
- Working capital, i.e. dollars to fund those months where the business is losing money

You may have a “moneybags” partner willing to finance your new business, but that's never enough for a savvy landlord. Unless that partner is Donald Trump or Oprah, you'll also need to address...

BUSINESS EXPERIENCE

Do you have experience in the type of business you want to open? That's the best situation you can present to a landlord. If you've been working in a hair salon for the past 10 years, and you want to pursue your version of the American Dream, then you're sitting in a good position. But suppose you don't? Try and align yourself with a partner who does, someone you can learn the business from. Or consider purchasing a franchise, which usually offers proven systems for being successful.



CONCEPT/BUSINESS TYPE

The most successful retail environments have a mix of uses that are compatible and feed off each other. You may think it's strange if you call a retail property owner or their brokers and hear a bunch of questions about the type of business you want to open. It's not! The sharpest landlords want to know as much as they can about your business, and most importantly for them, if it fits well with their existing mix of businesses.

Where's the Plan?

It assumes you have a plan, which you've done or are in the process of doing the hard work. The parts that involve creating a business plan, which serves as a template to setting up your business and preparing it for prosperity. According to SCORE, "The real value of creating a business plan is not in having the finished product in hand; rather, the value lies in the process of researching and thinking about your business in a systematic way. The act of planning helps you to think things through thoroughly, study and research if you are not sure of the facts, and look at your ideas critically. It takes time now, but avoids costly, perhaps disastrous, mistakes later."

This doesn't mean that your plan has to be nice and tidy and complete before you speak with landlords or their representatives. However, by the time you call someone about their retail space, you need to have thought through and have answers for basic questions, such as:

- How would I describe the business I want to start?
- What are my projected annual sales?
- What will the total of my start-up costs be, and what are the individual components that make this up?
- What are my various operating expenses (salaries, rent, cost of products, insurance, etc.)?
- How will I fund my start-up costs? Will it be through a combination of cash saved and a loan? What is the status of my loan process?
- When will my new business be profitable?

If you want to be taken seriously by your new landlord, you must be able to thoroughly answer questions like this. This process is an interview, since start-up businesses are thought of as "high-risk" by commercial property owners. Let them know that you've done your homework, and can confidently express yourself about your big plans for the next great business.

Retail Definitions

There are a bunch of terms and lingo used in the retail real estate business. Here's a guide to help clear up some of the more confusing ones:

BASE RENT

Retail leases are usually always Triple Net, meaning the tenant pays a Base Rent monthly—this is the number the landlord's representative will quote you. This does not include the Triple Net expenses, which you must also include with your monthly rent check.

CAM

Or "Common Area Maintenance", these are the costs to maintain and operate a retail property. Things like lighting in the parking lot or garage, snow removal, landscaping, and removing trash from public areas. This is one of the Triple Net figures.

LEASE

This is the contract that governs the landlord/tenant relationship. Expect it to be much fatter than any apartment lease you might have signed in the past, as the landlord's attorneys try to account for issues too numerous to mention here.

PROPERTY INSURANCE

This is the estimate of the landlord's annual insurance premium, and the tenant must pay its share. What is its share? Typically the total annual insurance premium is divided by the total number of square feet in the property, and a dollar figure per square foot is determined. The tenant's share would then be this figure multiplied by the Square Feet leased. This is one of the Triple Net figures.

REAL ESTATE TAXES

This is the estimate of the landlord's annual real estate taxes, and the tenant must pay its share. What is its share? Typically the total annual real estate taxes are divided by the total number of square feet in the property, and a dollar figure per square foot is determined. The tenant's share would then be this figure multiplied by the Square Feet leased. This is one of the Triple Net figures.

RENT PER SQUARE FOOT

Base Rent is always quoted on a per square foot basis, and the number given (i.e. \$32.00 per square foot) is an annual number. This doesn't mean, however, that you pay your rent annually, as you'll always be required to pay monthly. It's simply the custom, and you need to multiply the Rent Per Square Foot by the Square Feet leased, then divide by 12 to get your monthly rent.



SQUARE FEET

This reflects the size of the space you will lease. Commercial spaces are measured in square footage. The Lease will provide that you pay rent based on the total square footage of the leased space. The landlord's reps will usually have this measurement on the plans they provide you.

SUBLEASE

Or "sublet", it means the section of the Lease that may permit you to lease your space to a 3rd party, if you've elected to stop operating your business yourself. As a start-up business, don't expect much flexibility from a landlord in this section. In other words, you probably won't be allowed to sublease without stringent approval rights from the landlord.

TRIPLE NET (NNN)

When you speak to landlord reps, they will quote you an asking rent and refer to it as "triple net". This simply means that the rent they quoted you is the Base Rent and does not include estimates for real estate taxes, property insurance and common area maintenance (CAM).