10 Steps to Find the Right Location, Location, Location

Architects, contractors, landlords and lawyers are all part of the team that can save franchisees lots of time, anguish and money.

By Scott Simcik, CFE

For some first-time franchisees, the initial costs associated with the real estate of their new business presents a financial challenge, especially to working capital. By eliminating such risks as site selection, financial negotiations, legal review, architecture, and general construction, experienced real estate professionals ease the path for new franchise owners eager to launch their dream. Here are 10 key points to consider:

Step 1
SITE SEARCH AND SELECTION

Location quality, reduction of start-up costs, and profitable rent-to-sales ratios represent capital return on investment. To ensure the highest ROI, it is important that a franchisee compare its top three locations, the projected annual revenue of each location, the approximate start-up costs and net operating income to decide which location will yield the fastest return on capital and the highest annual income.

Step 2
LANDLORD CAPITAL IMPROVEMENTS

The condition of property is a baseline agreement determined during a detailed interior walkthrough with a site survey checklist. One of three conditions will exist: a "cold dark shell," in which the landlord invests in capital improvements to bring it up to a rentable "vanilla shell" at its sole cost; a pre-existing space a landlord demolishes and restores back to a vanilla shell at its sole cost; or a vanilla shell – a landlord delivering a space as a complete white box up to code and ready for occupancy.

Properly defining the condition of property as a baseline of negotiation, and knowing what to say (or not say) on a walkthrough with the landlord's listing agent, can lower costs on landlord capital improvements, sometimes up to $100,000.

> "Verbal negotiations between the landlord's agent and the franchisee's agent represent soft and hard capital savings opportunities."

Step 3
FINANCIAL NEGOTIATIONS

Verbal negotiations between the landlord's agent and the franchisee's agent represent soft and hard capital savings opportunities: lease term, capital improvement, buildout time, rent abatement, discounted market rent, reduced annual increases, among many others. These capital savings depend on the experience of the senior negotiator. Combined, they can amount to as much as $150,000. These capital savings correlate directly with the franchisee's agent's experience.

Step 4
LETTER OF INTENT PREPARATION

Preparing a comprehensive letter of intent will prevent competition through well-drafted exclusive language, signage and protection of the resale value of the business through pre-negotiated rates and transferable option periods. It will also permit contingencies in the event that licenses prevent issuance of a certificate of occupancy. Proper legal definitions of tenant and guarantor reduce risk. The tangible and intangible savings, while difficult to calculate, have major impacts on revenue, competition, licensing, and personal risk reduction.

Step 5
LEASE CONTRACT

Legal review must provide the highest-quality contract review, providing a franchisee with clarifications, questions and concerns through a well-written comment letter in addition to redlining and identifying lower-level items within the lease. This legal review must be conducted within three working days. The attorneys for the landlord and franchisee must conduct a transparent conference call, inviting the franchisee to hear the interaction and problem-solving skills of both attorneys regarding the lease.

This transparent legal review protocol can save two months of exchanging redlined contracts, escalating and polarizing differences while increasing the franchisee's legal bill. This protocol can be conducted within five, 14 or, at a maximum, 30 working days.

Step 6
ARCHITECT SOURCING

Architects represent the transition point to preliminary understandings to secure use and construction permits within the local jurisdictions. Sourcing, interviewing, and negotiating a service agreement with the right architect and engineer can save as much as eight weeks in delays and $5,000 to $7,000 in additional architectural and municipal costs.

Step 7
FLOOR PLANS

"As-built" drawings provided by the landlord will allow an architect to draw a preliminary test-fit drawing. Without complete construction documents, a franchisee will receive a wide range of inaccurate cost estimates from general contractors.

A detailed architectural drawing can prevent up to 40 percent in higher cost estimates. General contractors must increase cost estimates when franchisees do not provide detailed technical drawings. The chance of price increasing throughout the job rises, resulting in major disputes on the job. A $1,000 investment in detailed test-fit drawings, while partial in nature, will save a substantial amount of capital when comparing four cost estimates provided by contractors. A franchisee may also save time and capital in a jurisdiction that may approve a construction permit from a partial drawing without a final set of construction documents.

Step 8
PERMITS AND LICENSES

Architects have experience at the municipal, county, and state level in reviewing the appropriate website for special, conditional use, health and safety, and construction permits. Such information posted on city websites requires deeper research because changes might not be updated. Varying examiner opinions, combined with inexperienced staff members within

(continued on page 64)

(continued from page 63)

an architectural firm can cause plans to be submitted incorrectly and sent back to a franchisee, causing delays. A site observation report should be conducted on all aspects of the space before any plans are drawn. A "see and prevent" communication and checklist protocol can save up to six weeks and excess architectural and city fees.

Step 9
COST ESTIMATES

General contractor sourcing: licensed, bonded, and insured, in accordance with landlord tenant improvement allowance (TIA) reimbursement provisions, who have solid references. General contractors must be willing to participate in a competitive cost-estimating program to submit cost estimates within seven to 10 working days on a franchisee's cost estimate worksheet. This allows each general contractor an equal opportunity to "win" the contract.

A franchisee can save a substantial amount of capital, if cost estimates are compared on an "apples-to-apples" basis to remove the hidden costs and marketing tactics of smaller, self-performing general contractors, mid-sized and large general contractors. Franchisees must avoid the mistake of hiring on a lowest-price criterion.

Step 10
NEGOTIATING BUILDOUT COSTS

Negotiating a general contractor contract starts with being able to decipher the general conditions, supervisory costs, what is included in overhead costs, material markups, labor rates and markup, material quality, profit markup, and more. A franchisee must negotiate a range of contractual elements to avoid liens from the contractors or disputes from the tenant. Reviewing this contract can save up to eight weeks in job delays and up to $20,000 of additional costs.

> "A franchisee must negotiate a range of contractual elements to avoid liens from the contractors or disputes from the tenant."

Scott Simcik, CFE, is President of FGP Commercial Leasing. He has worked with more than 1,000 franchisees. Find out more about FGP at franchise.org/fgp-commercial-leasing-supplier-0.