Do You Have The Right Temperament To Secure The Right Location?

Don't get too excited or overconfident—it's costly!

By Scott Simcik, CFE

Congratulations on your exciting journey to become a successful first-time franchisee and entrepreneur! Your enthusiasm and confidence are the foundational pillars of an exciting financial future, with one exception to the rule: beginning the real estate search process.

When the emotions of enthusiasm, eagerness or overconfidence are **misaligned** with the real estate site search and financial negotiations behaviors and processes, there is **trouble** on the immediate horizon, and it is critical that you protect yourself from the harm of these dangerously biased emotions. *Mistakes occur as a result of not knowing what you do not know, and these are the same mistakes that hurt you the most, and must be avoided at all costs!*

All location and financial mistakes will occur before the real estate negotiation process begins. Additionally, after you sign your lease, each of your preconstruction processes, city permits, architectural drawings and general contractor cost estimates, if well executed, will prevent major financial overages and delays before you even lift a hammer. Emotions and inexperience, combined with uncommon knowledge of commercial real estate, cause first-time franchisees to make bad decisions.

Excitement and overconfidence are overpowering emotions, propelling your enthusiasm to secure a location as quickly as possible. While this seems like a formula for success as a first-time franchisee, it's a recipe for varying degrees of trouble, leading to a dangerous financial outcome. The following four mistakes must be avoided so that you can secure the highest quality location, reduce start-up costs and negotiate the lowest monthly rent.

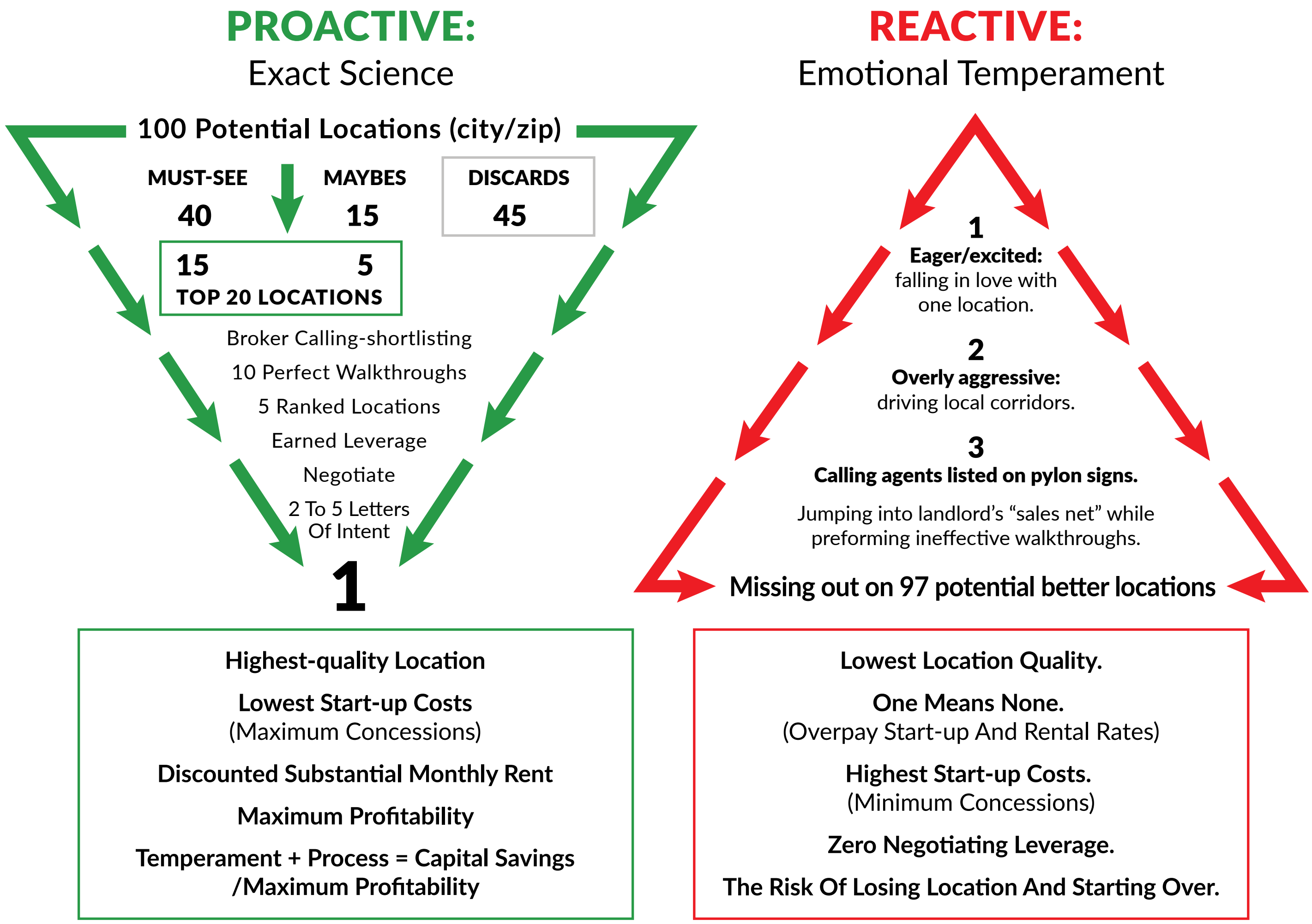
MISTAKE #1

Getting "married" to your favorite space

*Once you feel you **must** have a particular location, you lose all of your financial leverage, and you will be taken advantage of, increasing your start-up costs and monthly rent.*

Driving around the local community in and out of shopping centers and falling in love with three locations reactively without the proactive opportunity to see the other 97% available in the market, including off market and pocket listings, is the most common mistake. These emotions become increasingly stubborn, and you become fixated on securing one of these three locations regardless of whether they meet the franchisor location or economic criteria, or are vetted for use and availability. You have allowed your biased emotions to deny yourself a broader opportunity of location choices, shortlisting and walkthroughs, which could easily result in a much better location with lower start-up costs and monthly rent.

One means none, and guarantees that you will pay in excess of market rent and also pay for the landlord capital improvements. There is no location or financial leverage to improve your economics. More importantly, the risk of losing one location will delay securing a location by another 90 days, forcing you to restart the entire site search process.



MISTAKE #2

Representing yourself

Realize you're a "newbie" and formalize a relationship with a tenant representative. For every dollar you think you will save, you will give away ten times that in start-up costs because you don't know how and what to negotiate while minimizing the non-financial risks.

We don't do our own surgery when we need an operation, and we don't represent ourselves in court when we have a legal problem. Commercial real estate leasing is just as complicated. You need an experienced agent who knows the franchisor's brand on your side. Your eagerness overcomes you, and the temptation to call the landlord's agent listed on the pylon sign causes you to make the second biggest mistake in commercial real estate.

Whether you are excited or aggressive, you jump directly into the landlord's "sales net" without proper representation or strategy. Your overeager behavior revealed your inflated desire and intentions. This is referred to as a direct inquiry landlords use to troll for inexperienced tenants: "**Space Available for Lease**" with pylon signs on the front of their properties. Once the landlord's agent realizes you are inexperienced, emotional, aggressive and/or unrepresented, you will lose up to 50% of your potential start-up and monthly savings opportunities. You will be quoted local market rates and be told what the landlord will and will not perform and pay. It's too late, as you have been quoted by the landlord's agent, and they have control of their sales process. You will always pay over market rate and forfeit capital savings.

NEVER call an agents directly listed on a pylon sign, as the money and commission you think you're saving by representing yourself is instead considered a major windfall of financial savings for the landlord that could have substantially lowered your costs of opening costs and monthly rent. The commission from a landlord paid to their listing agent, who then splits 50% with your cooperating sales agent, can save you ten times more than what was paid, if you have the best financial negotiator.

MISTAKE #3

Not treating the choice of the right tenant representative (agent) as the monumental business decision that it is

You need an expert in your corner, not your realtor, friend, uncle or the guy next door. There are hundreds of thousands of dollars at stake.

Engaging a friend or family member who practices residential real estate puts you at significant risk, and it's *your* money, not *theirs*. Commercial real estate is a completely different segment of the real estate industry in the same way a family divorce attorney is a different specialty from a criminal defense attorney. Experience in assessing conditions of property—cold, warm, gray, vanilla shell and second generation of inline spaces—has a huge impact on your start-up costs.

It is critical to understand the delineation of landlord capital expenditures and tenant improvements, and the relationship to the most aggressive asking base rental rates. Additionally, knowing the technical Letter of Intent aspects of ADA, buildout, asking rent, common area maintenance, permit, signage, HVAC, etc. all impact start-up costs and monthly rent sustainability.

MISTAKE #4

Not understanding the dangers of using a local agent

A local agent's loyalty is to the landlord, not you. They won't fight aggressively for you on rent and start-up costs, and they won't show you all the spaces in your area that might be right for you.

There is a lack of understanding of how and why local brokers have a negative financial impact on first-time franchisees through fiduciary (legal) obligations to protect the financial interests of the local landlord, before any obligation to you as a franchisee. A local affiliate office of a national firm (e.g., CBRE, NAI, Colliers, etc.) has a legal listing agreement for its independent sales agents within their office to represent the landlord in leasing their space and protecting their financial interests.

As a franchisee, you believe a local broker knows your market, so, on this basis alone, you engage this sales agent within an affiliate office. What is NOT being said hurts you the most, and this is that the landlord's listing agent is showing you his/her property listings legally required by their firm through its listing agreement to protect the landlord's financial interest, yet there is a face-to-face implication that they can help you. When a local agent says, "I know the landlord," this means they have done many transactions before yours, and will do many more after yours. This agent's legal obligation and their personal income offers unconditional loyalty to the landlord. This represents a conflict of interest, and the loyalty is to protect the landlord's market rate and the norms of what they will and won't pay to perform.

You are stuck with a "fox protecting the hen house" to your financial disadvantage. It is a rule of thumb, and the opposite of what you might think. However, when a local sales agent tips you off that they know the landlord, this means you are at a financial disadvantage before any negotiation occurs.

To add insult to injury, the lack of transparency runs much deeper. Each sales agent within the local affiliate office sources and fights for their own landlord listings up and down the retail corridor they service, as evidenced by many of the same names on pylon signs. Unfortunately, your sales agent may have a couple listings, yet sales agents within their office may have much better location listings, and your agent has no obligation to tell you about these potential locations. They are independent sales agents protecting their own listings. Yet, you think you are working with a reputable national firm with affiliate offices to help you secure a location.

It's is always to your financial advantage to appoint a professional outside of your local market who has no inside relationships. You will save substantially more capital with offers much more aggressive than market rate. Local brokers must present soft offers. Avoid the term "landlord capital Improvements." Otherwise, they or their firm will lose the landlord contract to lease space.

Franchisees have the right to select their own locations and make their own decisions, even if they are making a mistake. ***However, never make permanent decisions based on temporary feelings.***

Scott Simcik, CFE, is President of FGP Commercial Leasing. A licensed Real Estate Broker with more than 30 years of franchise real estate experience, Scott has partnered with over 1,000 first-time and multi-unit franchisees.

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