

By Camille Hoheb

## Bringing Down the House

Get a new lease on life—and business—by renegotiating your current rental contract.

HAS AN INCREASE IN RENT KICKED IN AND, BY DOING so, kicked your spa's profits to the curb? No one likes writing that monthly check to the landlord. But as a business owner, there's simply no way around it.

However, many owners begin to feel the crunch when that monthly amount starts rising. And as the cost of living continues to skyrocket—thanks to a slow economy and a steep jump in gas and food prices—an increase in rent can feel like a double-whammy. So what's a business owner to do?

"The lease is our highest monthly expense and lowering it would be a huge help," says Scean Ellis, owner of Peponi Nail & Skin Care Lounge (peponi pampering.com) in Venice, California. The spa

opened 18 months ago and has yet to reach profitability. Add in an economic slump, and owners such as Ellis are left wondering what they can do to cut costs.

While many small-business owners are frantically searching for strategies to offset rising rent and other increasing expenses, they may be overlooking one obvious option: renegotiating their current lease agreement. If rent is an owner's biggest expense, why not attempt to lower it? Landlords are often willing to make accommodations for merchants who draw consumers to their shopping center. For instance, Ellis created a series of promotions to generate new and repeat business, which should give her a leg up when meeting with her landlord.

But don't expect him to knock down the price just because you called. You're a business owner dealing with another business owner, so be professional and be prepared. Having a plan can make all the difference. Below is a three-step guide to get you started.

**1. Make nice with your landlord.** Leases of 3, 5 and 10 years are a considerable commitment in time, money and energy. Therefore, cultivating a positive relationship with your landlord from the start makes good business sense.

Setting the foundation for future interactions can be as easy as finding a common interest. Carolyn Yaggie Heinen began by chatting with hers about a book they both liked. "I have a terrific relationship with my landlord and have developed a good feel for approaching him," says the owner of Michelle Kenric Hair Studio & Spa (michellekenric.com) in Sartell, Minnesota. "He has compassion and belief in his tenants, helps us with marketing ideas, goes above and beyond our requests, and follows through on every phone call." As a result of this win-win relationship, Heinen was able to remodel and expand her first location, and open a second in 2004.

Industry experts recommend relating to a landlord owner-to-owner. "Don't be afraid to ask for





### When to Consider Subleasing

If renegotiations aren't working out, or you've decided you need out of the lease, consider subletting as another viable option. A lease typically includes a provision of a sublease—if it's allowable and under what conditions. If a lease already has this provision, think about using it as an opportunity to come to an amicable resolution with your landlord.

Although it doesn't release the tenant from financial obligations, a sublease may relieve some of the financial burden. "Be sure it's a compatible use and doesn't violate restrictions. Be prepared to pay an assignment or sublease fee, and ensure that the subtenant has solid financials ahead of time," says Daniel P. Harris, vice president of the retail division of Henry S. Miller Commercial in Dallas. "Don't be greedy and try to collect more rent than you're paying. Or, at the very least, be prepared to forward half or all of the additional rent to the landlord."

help or try to renegotiate," says Felicia Brown, a spa consultant (spalutions.com) and former spa owner. "Landlords are business professionals. They understand the cycles and changes in retailing. If you've been a good tenant, there's a good chance they'll want to work with you."

Brown was pleasantly surprised when she called to voice her rent concerns. "I told my landlord I had every intention of paying him for the current month and future months as soon as possible," she says. "He listened to my story without criticism, asked a few questions ... and offered a payment plan to help me get back on track. Then, the most amazing thing happened: He set up an employee benefit program for spa services. The total almost exactly matched my rent. I'm eternally grateful to him."

Of course, not every landlord is going to be as supportive or generous. But it does demonstrate the power of developing a strong business relationship and open communication. Your business future may be in this person's hands, so ingratiate yourself, engage in dialogue and view your landlord as a business partner who may be able to smooth out some of the bumps in the road to success.

Landlords can be ideal advisors and advocates that share marketing expertise and business acumen. And when they do lend a helping hand, Brown reminds spa owners to make it count. "When someone makes an effort to help you, do everything in your power to show them that it was the right decision," she says. "Be willing to do whatever it takes to bring your business back to where it needs to be."

**2. Make your case.** If you don't know where to begin or what you want, how can you ask for it? Knowing what's reasonable to request and having a goal can make a world of difference when it comes

### From One Spa to Two: How a Rise in Rent Became an Opportunity to Expand

When Julie Bach, owner of Skin Deep spas (myskindeepspa.com) in Colorado, saw her rent go up a whopping 30% in two years, she began researching ways to lower her overhead. By evaluating her client base, Bach realized her spa had two distinct demographics. So she terminated her current lease and created two new, separate locations.

Bach defrays costs by leasing space to hairstylists in one of the locations. It makes her monthly rent roughly the same for two spas as she'd been paying for one. Additionally, while Skin Deep in Avon, Colorado, focuses on hair, waxing and tanning, the new sister spa in Eagle Ranch, Colorado, is exclusively skincare-oriented, creating opportunities for cross-referral.

"Eagle Ranch is a new area," Bach says. "It's untapped and will surpass the older spa in net income within the year, thanks to reduced expenditures, premium clients and a focused strategy."

## In Their Own Words: Advice from Spa Owners



"If landlords like you, they'll be more apt to work with you. It doesn't pay to be contentious or argumentative. Consider giving your landlord or their representatives a complimentary spa service to ingratiate yourself."

—Susan Barbaglia, owner, *Skin Deep Day Spa* in New Providence, New Jersey



"Landlords were willing to work with me because I'm determined, professional and driven. I had a well-respected group of clients and business advisors. I was clear and upfront with them about the problems rather than hiding them. And I asked for help."

—Felicia Brown, spa consultant/owner, *Spalutions!*

time to approach your landlord. Start the process by making a list of concerns and consulting with peers in the industry. "I renegotiated my lease with my landlord twice," says Briana Borten, owner of The DragonTree ([thedragontree.com](http://thedragontree.com)), a holistic day spa in Portland, Oregon. "The first time, I developed a comfort level by asking others how they did it and what their experience was. This helped me understand the process and identify what I was going to ask for. The second time, I was more comfortable because I'd been successful before."

Tap into trusted business advisors such as your accountant or attorney. Both are important resources when it comes to weighing legal and financial decisions. "I'd never consider signing anything legally binding without the review of an attorney," says Dani Kirkland, a senior retail associate with CBRE in Seattle. "It's important to know your rights. It also takes the pressure off the spa owner and may provide some semblance of detachment from a potentially stressful situation."

**“Most landlords will work with a tenant who comes prepared with their P&L statement and marketing plan, rather than lose them.”**

Another option is to contact an association similar to SCORE (score.org). It's a not-for-profit organization affiliated with the Small Business Administration that offers free,

confidential consultations with retired executives and business owners.

Just don't be tempted to ask the original tenant broker for help. That's a big no-no, according to



Daniel P. Harris, vice president of the retail division of Henry S. Miller Commercial in Dallas. “Involving a broker for renegotiating lower rent may only make matters worse,” he says. “It may be looked upon unfavorably by the landlord.”

Once you've organized your thoughts about what you'd like to accomplish during renegotiations, make sure you can provide the information your landlord will need to make a favorable decision. Profit and loss statements are one tool used to evaluate merchant viability, according to Harris, and they're critical to lease negotiations. “The most important thing a lessee must do,” he says, “is present a detailed P&L statement to the landlord showing their situation.”

Bring a marketing plan as well. Spas, like many other small businesses, often pull back on marketing activities when sales and profits dip. But it's a crucial time to put muscle and money into it. So be prepared to share a realistic, well thought-out and executable plan. “Most landlords will work with a tenant who comes prepared with their P&L statement and marketing plan, rather than lose them,” Harris says.

**3. Make the approach.** Now that you've consulted with peers and professionals, identified your needs and desires, know your numbers and have a realistic marketing plan in place, it's time to meet the landlord. Have a professional presentation in hand

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**“A proposal to the landlord should demonstrate that it's more profitable to maintain the current tenant—even at lower rents—than find a new tenant.”**

(and additional copies for him), and a win-win frame of mind.

Like anything in life, it's best for everyone involved to open communication before things start getting out of hand. “It's always better to address a potential problem before it becomes a major one,” Kirkland suggests. “Landlords generally want their tenants to be successful because it's best for the overall project.” So make the appointment as soon as possible, but give yourself enough time to pull together a solid case. Then, approach your landlord openly and honestly.

This approach worked well for Heinen. “I explained what was happening with spa volume and shared staffing numbers. I also explained why they were the way and they were and what I was going to do to fix it,” she says. “I asked if he would tack on three months to the end of my lease. He asked a few questions and told me that, since we'd been in touch regularly over the past four years, that was a poor option. Instead he abated my rent for those three months and wished me well. Here we are six months later, staff growing, management and leadership in place, and thank you notes sent out. I'm very grateful.”

Keep in mind, a landlord usually doesn't want to lose a tenant. Expenses to re-rent the space—such as marketing, commissions, tenant improvements, down time, the impact on the balance of the shopping center and the removal of the tenant—can be costly. Use this to your advantage by bringing practical options to the table. “A proposal to the landlord should demonstrate that it's more profitable to maintain the current tenant—even at lower rents—than find a new tenant,” Kirkland says. Temporary rent reductions, a freeze on escalations and late penalty

fees, or reconfiguring the lease to a percentage-rent arrangement are all reasonable requests, according to Harris. Negotiate the details and find out what you can do to best

accommodate both parties. •

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