



# location, location, location.

LOCATING YOUR BUSINESS IN THE RIGHT SPOT CAN BE AN IMPORTANT PART OF ITS SUCCESS. BUT WHAT DO YOU LOOK FOR BEFORE YOU NEGOTIATE AND SIGN THAT LEASE? WE'VE GOT IT COVERED. **BY CAMILLE HOHEB**

# starting your own massage practice is a simultaneously exciting and daunting experience.

Understandably, finding a good location falls outside the realm of expertise and comfort zone of most massage therapists, as well as most entrepreneurs and businesspeople.

This article is designed especially with the massage therapist in mind and will give you an overview on site selection, including a “how-to” guide on defining your own site criteria and thoughtful considerations for selecting an office or spa space, as well as providing a snapshot of some of the more challenging aspects of finding a site and negotiating the lease.

## how landlords make their decision

Landlords entertain several factors when evaluating a potential tenant and prefer proven business concepts, deep pockets, brand recognition and national retailers. They also are interested in the look and feel of a build-out and the image of the prospective business, which will either increase or decrease their financial investment. Net-worth and business acumen can translate into better terms on the lease. In some cases, a landlord may decide a business is not a good fit for the real estate location because they are seeking to achieve “the highest and best use” of their property. They may prefer high-volume restaurants to massage services or would prefer not to assume any risk on a new business. Don’t take it personally—it’s not about you, your chosen profession or your new business.

## a location primer

Massage therapy is a touch-based business so the look, feel and placement of the physical space are critical factors to its success. Creating an appropriate environment starts with a great location. This also includes the surrounding area and adjacencies surrounding a spa or office location. Neighboring businesses will either add to or detract from your customer’s experience and, therefore, your business potential.

Detractors can be silent but apparent, like pungent aromas from nearby food purveyors and adjacent nail salons. Background noise such as street traffic, loud conversations or the din of dishes can be equally counterproductive to a soothing massage. Perhaps there are neighboring businesses that don’t quite match the image you are diligently working to create. When considering a location, take a good look around. There is usually more than meets the eye.

It’s something Felicia Brown—who’s licensed both as a massage therapist and real estate broker and now owns her own consulting agency called “Spalutions!” that specializes in the healing arts—understands. Her first business boomed, despite staircase-only access, an eccentric landlord who smoked across the hall, and mil-

dew smell from previous water damage to the building. But she chose the setting since there was no need for visibility and signage—hers was a direct referral business model. Brown also didn't have a need for a receptionist because the practice was not designed for walk-ins.

However, eventually she outgrew the space and needed to move into a larger office location. She expanded the business to include nail and skin care services, and relocated to a 2,400-square-foot retail location.

“As we experienced growth and change in the company, I realized that moving to a retail location was key to our survival,” says Brown. “The new space was about the same money each month as the previous space but had much better visibility and traffic flow, better parking and great signage and an easy-going landlord.” Brown eventually negotiated additional space with her landlord and the spa tripled to 6,000 square feet.

As Brown's experience illustrates, when building a successful massage therapy practice, securing the right location is the first step toward creating a safe, comfortable and accessible space for your clients, employees and business. Consumers—especially new ones—look for access, convenience and customer service when making decisions on where to spend their money. The location is a critical component to practice development and successful marketing.

### starting your search

When Laurie Pratt, LMT, owner of Serenity Day Spa in Augusta, Georgia, started looking for space for her business, picking the perfect area was her main criterion.

“Location is the number one thing they teach you in marketing,” says Pratt. It took her seven months to find the right spot, but it was well worth the effort. “I have a good location at the corner of two main streets, a lot of visibility, close to upper-class neighborhoods and two miles from a major interstate, and close to the state border giving access to customers who live in South Carolina, but work in Georgia.”

When selecting your first site, Brown recommends speaking with your regular clients to find out what's most important to them. She also adds that many times, new businesses focus on the cost rather than the convenience or curb appeal that is important to many clients. Working through such details will help you define the approximate size of your location, preferred trade area and budget ranges for the lease and build-out costs.

## questions to ask before you start

### WHAT'S YOUR PLAN?

Starting with a well-crafted business plan is critical because it gives a direction to your massage practice by defining objectives, start-up costs, space allocation, staffing and marketing activities. For example: How many rooms will you need? How many American with Disabilities Act- (ADA) compliant bathrooms? Will you be offering other additional services? What about offices, break rooms and storage? Will there be a need for a retail area to sell products? Will linens be outsourced or will there be on-site laundry facilities?

### WHO'S YOUR CUSTOMER?

Identifying your customer is exactly where site selection begins. Once you know your target customer and understand your business referral patterns, you can identify the key factors for evaluating a retail or office location. These factors include the type of property (specialty, lifestyle or neighborhood center, mixed-use project, professional office space, etc.), parking, signage visibility, general accessibility of the location, and the monthly cost of the lease. Evaluate the site for possible competition as well as complementary businesses.

### OFFICE OR SPA LOCATION?

Is your goal to operate and manage your practice in a spa environment or in an office complex? These are two distinct business models affecting where you locate, how the space is designed, the hours of operation and how customers are cultivated.

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These steps should be completed before searching for a location.

Site selection has many twists and turns and emotional ups and downs. Think long-term during site selection and have reasonable expectations—this isn't a process you should rush. Your professional growth is not a race and having the patience to select a solid location to best position your future growth is worth the wait.

Although most new business owners want to think big, a flexible attitude may provide financial relief for containing monthly fixed costs. Keeping costs down in rent and build-out will better position you for success. Savings from a smaller space may be reflected in the security deposit, monthly rent, common-area maintenance charges and annual rent escalations. Keep in mind these dollar savings may seem nominal at first, but over time you'll be thankful for cash savings and lower monthly fixed expenses.

### **decoding the lease terms**

Once you find the perfect location, it's time to negotiate the lease. Pratt says that her biggest challenge came with understanding the legal verbiage in the lease. "There were hidden costs that were not very apparent to me the first, second or third time I read it," Pratt says.

It can be a daunting task for sure, but there are two keys steps in lease negotiation: 1) understand the numbers and the letter of intent (LOI) process (see sidebar on page 107) and 2) consult an attorney that specializes in real estate leases for small businesses.

When it comes to figuring the rental rate, make sure you know what is included in the monthly number. For example, in calculating monthly rent on a retail lease, it's important to include the triple net (NNN). These are costs the landlord usually will assess for each tenant to offset expenses associated with the operations of property, such as common area maintenance (known as CAM) for services like landscaping, snow removal and repairs. NNN also includes fixed expenses, such as taxes and insurance. There may be additional unanticipated expenses that are specific to local markets like required architectural services (for example, water sprinkler or energy calculations) or a code requirement for an additional Americans with Disabilities Act (ADA) bathroom.

These may seem like small bumps in the road, but they can erode a cash cushion very quickly, as Shane Steffins, LMT, discovered. He works part-time for another spa as he builds his own practice in Georgia—Relax-Dawon. "You wouldn't believe all the expenses you run into: fees, licenses, signs, printing, advertising, supplies and utility deposits," says Steffins. He advises having initial start-up money, and to not expect enough profit to live on for a while. He hopes that by keeping his overhead low, he will be able to transition full time to his own business soon.

### **negotiation basics**

But Brown—who has since sold her business and is now located in a retail/office building in Greensboro, North Carolina, where there's one massage room and an office for her consulting business—says when it comes to leases, much can be negotiated.

"People should not expect to get everything they want—it's a negotiation after all. But they'll never know if they don't ask," Brown says. "And you have a much greater advantage before the lease is signed. Your requests also will be taken more seriously with a longer lease term," she adds.

There are a few areas that can save you money if you know what to ask for. One is the tenant improvement (TI) allowance, which is a financial incentive from a landlord to a tenant to help offset the cost of preparing the space for the tenant's occupancy. There's no standard amount a landlord is expected to chip in. In fact, the TI allowance is at the discretion of the landlord and is typically reimbursed upon the completion of work.

The landlord's work will be spelled out in the lease, or may be included as an addendum commonly referred to as the "construction exhibit." The landlord's work is critical to the negotiation of your lease and should be carefully reviewed, as it provides an opportunity to negotiate credits toward construction costs. For example, a construction exhibit from the landlord might include the installation of a bathroom, but you may prefer to design the bathroom to your own specifications. Without negotiating a credit for this, you may inherit a feature that you'll want to improve later. That means you'll have to tear it out, replace it or accept a standard bathroom.

First determine if you can use any of the previous tenant's improvements and then, prior to lease negotiations, have a general contractor walk through the site to provide a rough estimate of the build-out cost. With a general cost in mind, you can determine whether the location is feasible or if the construction costs are beyond your budget. Obtaining a general estimate is an important step and should not be omitted because construction costs are expensive and continue to rise.

A broker can help you understand the terms. However, if you're representing yourself and working with a leasing agent—who is on the landlord's payroll—he or she may not spend a lot of time helping you understand the meaning of each clause. This is where a real estate attorney becomes an important business advisor.

If you're hesitant to spend money on an attorney, think of it this way: you wouldn't suggest that an attorney provide massage services, so why would you presume you could do a better job than a real estate attorney in reviewing your lease? Rent is one of the biggest expenses for a small business, and a lease can turn into a major problem if it's not carefully negotiated. The money invested in a real estate attorney is money well spent. In the end, it can provide significant cost savings in your lease.

Know that the negotiation is much more than just the economic terms and that each clause has an impact on your financial commitment. The TI allowance, the delivery of the space, rent commencement and security deposit all have a dollar value. A lease is a legal document and, therefore, you are responsible for anything enclosed within this binding contract.

"The most important thing to note is once the lease is signed, the terms are set," says Brown. ■

## what's an LOI?

The negotiation process begins with a letter of intent (LOI), which is a short document outlining the proposed basic economics and deal points. Although usually legally nonbinding, once both parties agree to the terms of the LOI, they are imported into the lease. This sets the foundation for negotiations. Typically there are several rounds of counter offers before going to the lease draft, usually followed by more counters on the lease prior to final approval and signatures. This is known as the lease execution.