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Earning a Master's degree in Healthcare Administration her obtaining a real estate Ms. Hoheb is one of the few industry professionals with such a diverse and valuable background.

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Real Estate RX

A prescription for healthy negotiations

By **CAMILLE E. HOHEB**



Rent is typically one of the biggest expenses of any small business and this holds true for any medspa start-up. Securing a location can be a headache but it can be deadly to your success if the site selection process is not well-managed including lease negotiations. The goal of this article is to share the knowledge and experience accrued over the last several years in working with 100+ clients nationwide since 2002.

Where We Left Off and Moving On

This article is designed to pick up where a previous article entitled "Do's and Don'ts of Finding a Medspa Retail Location" (published in the in the June 2006 Edition of MediCal Spas Review) left off. Whereas the previous article provided a basic overview of commercial real estate and site selection, "Real Estate RX" is aimed to provide additional information on three fronts.

1) a more thorough understanding of the role of the tenant rep broker 2) the reasons why it a single proprietor has difficulty finding and securing viable locations on their own 3) what are some of the more hidden terms to negotiate that will impact your bottom line

Using Your Time Wisely

One way to work smartly in real estate is to retain a seasoned "tenant rep" broker. The beauty of working with a retail tenant rep broker is that they have the expertise and experience to tackle site selection so that you will have the

time and energy to develop other areas of your medspa business. (A broker specializing in tenant representation, just like it sounds, is a real estate professional who has focused their career on finding appropriate sites for tenants such as national retailers, franchises and mom and pop businesses). Tenant rep brokers know the lay of the land, have built relationships with landlords and listing brokers, are knowledgeable about new business concepts, have their finger on the economic pulse of retailers that are thriving and those that aren't as well as having understanding of the market trends in terms of inventory, rental rates and local standards of negotiation.

What Do They Have That You Don't?

If you are not convinced that working with a broker will save you quite a bit of time and energy, consider what many entrepreneurs have discovered: listing brokers are far too busy to return calls of "prospectors". Many clients who had tried real estate on their own found it to be too arduous a task to obtain information on their own and that they are unable to get the "inside track" on new developments that are underway.

A Bit About Your Competition – and It isn't Necessarily Another Spa

Why is that? There are plenty of assignments that garner a better commission because of larger size requirements, inventory is low and the market demand is high. With national real estate trends pointing to low inventory in the

retail sector, the small proprietor has a lot of competition. They may often vie against national retailers for the same space and national retailers have deeper pockets and more resources including in-house department specializing in finding new store locations.

Putting Your Best Foot Forward

As mentioned previously, in most cases, there will be multiple entities attempting to secure the same space. In order to stand out in the crowd, be prepared to the best of your ability. You will want to have a business plan prepared, your financing lined up, a financial statement prepared for the landlord to review. A well-chosen broker will be your champion. He/She will have a solid understanding of your business in order to pitch your business to listing brokers and landlords intelligently and with confidence.

Maximize the Deal Points

Many times new entrepreneurs without prior commercial real estate experience make the mistake of looking only towards the economic deal points during negotiation. Good negotiation involves so much more than the obvious monthly rental rate.

When it comes to figuring out the rental rate, make sure you know what is included in the monthly figure. Many commercial leases are considered "net leases," which means the tenant is responsible for real estate taxes, insurance and operating expenses. Operating expenses may include things such as a cleaning service or maintenance of common areas. Each deal point has an economic ramification. The letter of intent (LOI) is the perfect time to flesh out some of the key economic terms.

10 Common Considerations that can Save Money.

- Starting with the basics – the size of the location - you will want to clarify the rentable vs. useable square footage. Without asking this question you may be under the wrong impression of the actual size of your location.
- How much in "tenant improvement dollars" are being

offered by landlords? This is an allowance for build-out such as fresh paint, new carpets and possibly more depending on the condition of the space delivered.

- How long a lease do you want and what kind of provision do you need for expansion? Do you need the right of first refusal for adjoining space in the building? What do you project your space need will be in 5, 10 or 15 years?
- What kind of provision does the lease offer if an anchor tenant leaves or if there is a significant number of vacancies?
- Find out what the HVAC (Heating, ventilation and air condition) arrangement is. In some cases, a medspa tenant may want to increase the HVAC system as some laser equipment can heat up a small room and the temperature in the room may overheat the laser unit requiring recalibration and loss of revenue during downtime.
- Another heating/cooling factor to think through is the how the HVAC affects the hours of operation. For example, in some mixed use spaces, a landlord may only have HVAC operating on the 2nd floor during normal office hours and on Saturday and if a medspa is planning on extended hours and weekend hours, this would be a point to know and negotiate upfront.
- Are you able to set your own hours of operation or does the lease have a requirement?
- Is there a marketing fee and if so, what does it include?
- What are the signage opportunities and is signage included in your monthly fee?
- Has the landlord agreed to an exclusivity agreement which prohibits a competing medspa or similar business to locate in your shopping center?

In a Nutshell

The process of site evaluation and selection is not the comparatively easy task it was years back when good sites were plentiful, land was relatively cheap, zoning and other restrictions were not too stifling.

Today it pays to be retaining professional expertise to optimize the opportunity to get into a site as quickly as possible with the best terms. ■