

How To Make Sure Your Tenants Pay Rent On Time

**ALSO KNOWN AS:
Managing Independent &
Franchise Merchants**

Retail Leasing & Management, Inc.

Licensed Real Estate Broker



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INTRODUCTION

In these tumultuous economic times where National Tenants have put the brakes on expansion and unemployment refuses to improve, Landlords spend more time working with Local and Regional prospects to fill vacancies. At the same time, more and more Professionals find themselves in a place where they can not find employment or enough income to pay bills so they decide to open up a store or restaurant and either cash in their nest egg or take out an equity line on their real property.

Throughout recorded time, there have been business cycles where Landlords focus on National Tenants and stay clear of Local Tenants. In today's business cycle, Nationals are doing fewer deals, and Landlords are forced to do more deals with Local and Regional Tenants.

This is a normal process in the leasing cycle as our market has been and always will move in up and down cycles. Dealing with Independent Merchants has its own set of issues and fully understanding what and who you are dealing with, along with their needs, will help you meet Your Objective – Collecting rent on time!

So imagine you are the Tenant. You put up your life's savings with little to no experience in business, selecting sites, the lease negotiation process or in the design, construction, or business licensing process. All of which take a considerable amount of time and resources.

Where do you start? Who do you trust? Who will help you and who will derail you?

Inexperienced Tenants need someone to take them by the hand and lead them through the process. Very few Tenants are fortunate enough to be represented by a Broker who has the ability to help them through the entire process.

If you are dealing with a potential Tenant that is not being represented, you will have to guide them through the process or risk them getting lost in the process, and ultimately late in opening and paying rent. Recognize that you (the Landlord) are the expert at getting a lease signed. Realize that the Tenant is not an expert at doing deals or the design/build process.

THE FOLLOWING STEPS ARE A FEW WAYS YOU CAN HELP INCREASE YOUR CHANCES OF GETTING YOUR TENANTS OPEN ON TIME.

STEP 1:

Once you have a Tenant that is interested in leasing space with you, explain the process to the Tenant, and what you expect. Be realistic with the time it will take to get to the point of executing a lease document. Educate the Tenant on what hurdles they will encounter from the time they sign the lease until they open for business (see steps below).

Be Realistic about free rent periods. If you think you can outsmart the Tenant, sign them up and then expect them to pay rent before they are ready to open you are just wasting time, and you will end up wasting a lot more time arguing over late rent later on.

In the past, some Landlords have been rigid about the amount of time given in free rent from possession. Tenants would be forced to pay rent prior to opening. This frequently contributes to the Tenants having to dip into their working capital and increases the chance they run out money and ultimately fail.

No one wins if the Tenant gets behind from the beginning of the process, as all delays tend to compound and create more delays in the process.

STEP 2:

Ask the Tenant who they plan on using for their architectural package and why? If you can educate your Tenant that they will save time and money if they choose an Architect that has either worked on your property or in the same Municipality as your property, this will increase the chances of smoothly obtaining a permit. The Tenant needs to understand that the Architect is part of a Design Team and that this team includes the Engineers and any Store Fixture Planners or Equipment Specialists.

Frequently, Tenants choose Architects that, either, lack the experience with the Tenant's type of store or restaurant, don't have relationships with the right Engineers for the use, or do not have any history working with your Municipality. When you know what the Municipality expects, you specify the Design accordingly. Most Tenants wrongly assume that the Architect that they retain is on their side and always acts in the Tenants best interest. This is incorrect! Architects charge a fee and then charge additional fees whenever they can (especially for Tenant directed changes). They won't tell the Tenant that the changes will delay the process; they just keep charging additional fees. This is a major reason for delays in securing a Building Permit.

If you can demonstrate a realistic timeline to the Tenant of how long each process takes, you will help the Tenant save time and money. Make sure they hire a Permit Expediter and make sure that if they do not have the time or ability to manage the process, they should retain a qualified Owner's Representative. Their will be a hard cost for an Owner's Rep. but the Owner's Rep. should be able to pay for his/her fees with cost savings to the Tenant.

Frequently, Local Merchants choose Designers, Architects & General Contractors based on who they are friends with, who they know, or who they think they can trust. This contributes to delays in the process if they lack the right experience.

STEP 3:

Ask the Tenant if they plan on using a Permit Expediter?

The permit process is usually the process that gets overlooked the most by the tenant. Unless the tenant has previously applied for permits, they rarely understand the sense of urgency required to manage this process. Make sure that the Design Team is committed to meeting the goal of timely processing when the Municipality directs changes to the construction documents.

STEP 4:

Ask your Tenant what is important to them in choosing a General Contractor? Does their GC specialize in the type of store or restaurant that the Tenant is planning to open? Has the GC built any stores or restaurants in the Municipality of the property?

Does the GC have a schedule for the construction? Is there a full time Superintendent lined up for the project? Does the Tenant plan on getting confirmation from the GC that all materials have been ordered for their project? Does the Tenant plan to visit the job site weekly, verify that the schedule is being maintained and/or be available to resolve construction issues?

If the tenant ends up being late, and they usually are, the Landlord will have to spend time negotiating a settlement or waiting for their rent. Either way, time is un-necessarily wasted.

Most Independent Merchants have a finite amount of money/credit available to them for working capital.

If the construction goes over budget or the Tenant is forced to pay rent prior to opening. This reduces the working capital and makes it exponentially more difficult to succeed. No one wins if the tenant is paying rent from working capital.

CONCLUSION:

In this environment of slow motion, foot dragging, reluctance to sign leases, and finger pointing, open communication between Landlord & Tenant is essential to ensure that the Tenant gets open on time & the Landlord gets their rent on time.

The Landlord's goal is to receive the rent on time and the Tenant's goal is to start ringing sales so that the rent gets paid out of proceeds, not reserves.

If the Landlord's Agent will take the extra steps to ensure that the Tenant does not get lost in the process, then the Tenant's chances for success and opening on time increases and thus insures that the Landlord collects rent on time.

At the end of the day, educating and managing the tenant will create "A Win – Win" situation for both parties.

About Retail Leasing & Management, Inc.

Retail Leasing & Management, founded in July of 1998, is a full service Real Estate Brokerage, focusing on Consulting with Independent and Franchise Merchants. Consulting includes site selection, lease negotiation, design, construction management, and tenant representation. Our focus has always been to work with Independent and Franchise Merchants.

Retail Leasing & Management, Inc. has a diverse team of Licensed Associates and Construction Project Managers. Our staff includes a Retail Franchise Consultant, a Third Party Lender, and an Insurance Specialist.

In addition to Real Estate Services for Landlord and/or Tenant, Retail Leasing & Management, Inc. offers an "Owner's Representation Service" for owners of restaurant and retail stores that need help with the Design and/or Construction Process.

About the Broker

Geoffrey P. Stevens has worked for Design and/or Construction companies for the better part of 16 years. Geoffrey has seen first hand how independent merchants ended up spending 20 – 30% more on construction costs while experiencing delays in excess of 4 weeks. Unlike the General Contractor, the Owner's Representative shares the same goal as the Landlord, getting Tenants open on time! Retaining an "Owner's Representative" consistently saves time and money. "If you are involved in the design/build process with regularity, you understand all the issues that cause delays and cost over runs. Understanding these issues leads to ways of avoiding them entirely."

Imagine, someone on the Tenant side (who knows what they are doing), holding the hand of the tenant from the time they begin the Design Process until Grand Opening. This is the goal of Retail Leasing & Management, Inc., ***The more time and money we can save the Tenant before they open for business, the better chance the Tenant has of succeeding and expanding in the future.***