



LEASE AGREEMENT



LEASE RENEWAL CONSIDERATIONS

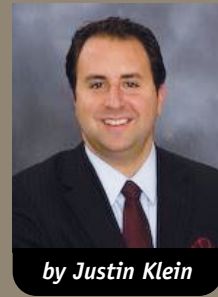
One of the most important things to remember when approaching a lease renewal is renegotiation of the existing terms. You don't want to fall victim to the idea that your only option, other than vacating the site, is exercising your option to renew and simply accepting the terms of the initial lease. This is the opportunity to leverage yourself in the renewal process, and the first step to set yourself up for success is making sure you're tracking the vital dates within the initial lease, such as the renewal period.

MARK YOUR CALENDARS

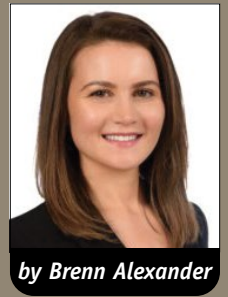
The most common time frame in a retail lease to exercise your option to renew is between six months to a year before the initial lease is set to expire. This date is important to note for three reasons:

1. You don't want to miss the opportunity to exercise this option if it's in your best interest.
2. You don't want this date to creep up on you leaving you scrambling to make a potentially uninformed last-minute decision. Keep in mind, going into this renewal process you should be looking at accepting your existing terms with the landlord as a fallback Plan B. In most instances, tenants only focus on renegotiation of rent, but if you simply renew your lease, all other terms of the lease may remain the same and may be unfavorable based on your knowledge and experience in the location during the initial lease term.
3. Staying ahead of the lease expiration date will allow you maximum opportunity to renegotiate your renewal. Making note and remembering this date will put you in the best position as negotiations progress and removes the leverage of a tightened timeline that the landlord may use against you. It allows you the time

to decide whether Plan B (exercising your option) is the best decision while allowing you time to consider if a potential relocation is economically prudent in the long term.



by Justin Klein



by Brenn Alexander

DO YOUR HOMEWORK

Now that you've marked your calendars and successfully entered renegotiation of your current lease terms, you'll want to make sure you've done your homework so you're not missing out on key considerations in the negotiation process. This should, at minimum, include: 1) research on comparable rates for retail spaces in your area; 2) whether the county, or more specifically, your city or town has recently or is currently going through a recession; and 3) the consumer price index, or inflation. All these factors have the potential of not only preventing rent payments and other expenses from rising, but you also have the opportunity to successfully negotiate a decrease in rent payments from the original lease term and leverage additional inducements (see below) from the landlord.

Additionally, look back over your time in the space thus far. Have there been any recurring issues with the property? Have subsequent renovations happened where you lost square footage to a neighboring property, either internally or externally? If you're renting your retail space per square foot, it is not uncommon for tenants to receive a smaller space than the lease specifies, especially if certain changes have been made over the course of your tenancy.

Now is the time to make note of these issues and bring them up in the renewal process.

Being aware of these factors will help you make an informed decision on the location of your franchise. As we all know, location matters, and that's especially true within the franchise industry. With this knowledge in your back pocket, you may decide a relocation is best for your business if the landlord will not seriously consider modifications that are necessary for the renewal option.

INDUCEMENTS ON RENEWALS

If you're discussing lease renewal, you're most likely already aware of the inducements that are common in a retail lease. The most common inducements in a retail lease are free rent for a certain period of time; a build-out or construction allowance for the tenant to improve the premises; and/or additional work performed by the landlord. Many people make the mistake of believing these inducements are only available during the first term of a retail lease, however, that's far from the case. When you're preparing to begin negotiations for your renewal, remember that these inducements are not off the table and should be heavily considered when discussing your renewal agreement options with the landlord.

Just as you would in the initial lease negotiation, make sure to always ask for more than you want. If you don't ask for something, you won't get it, especially at the renewal stage. Some landlords try to take the position that exercising your right to renew is your only option, but as we know, this is untrue. No one gets more than what they ask for, so be prepared for the landlord to make a counteroffer to your first proposal and for them to negotiate. This is all part of the process, and the landlord knows it well.

Be sure to keep in mind that the landlord would most likely be offering these inducements to any prospective tenants if you decided not to renew your lease. If you're not in default and have proven to be a good tenant who pays on time, use that to your advantage. The landlord would be taking a monetary risk on a different tenant without your payment history, so there is plenty of incentive for them to keep you (the paying tenant) in their space.

REMEMBER YOUR FRANCHISE AGREEMENT

You'll ideally want your lease renewal or any subsequent lease at another property to coincide with your franchise agreement termination date. This is an important puzzle piece that sometimes gets overlooked and later requires additional work between the franchisee and franchisor to realign the termination dates. Again, mark these dates in your calendar and keep a spreadsheet to make sure you stay ahead and prevent any unnecessary surprises.

Real estate negotiations can be overwhelming, especially for a franchisee who only negotiates a real estate lease every five to 10 years. Make sure to stay ahead of your renewal dates, always stay up to date on the current economic climate in your area, and most importantly, don't be afraid to negotiate. ⚙️

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