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CLASSPASS

Your Next Studio



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TIMELINE

1. What to Look For

2. Finding “The One”

3. Lease Negotiation

4. Your Vendors

5. Build Out

Timeline

I WANT TO LEASE ANOTHER STUDIO!

How long does the process of getting a new studio take?

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How long does the process of getting a new studio take?

3 to 12

months

TIMELINE:

What to Look For

1 - 30 days

Lease Negotiation

30 - 100 days

Build Out

30 - 180 days

15 - 30 days

Sourcing Applicable Vendors

30 - 120 days

Finding "The One"

30 - 180 days

**Working with
Applicable Vendors**

1 - 15 days

Move In

TIMELINE

What to Look For

Size, Layout and Location

- Learn from past experience.
 - What facilities does your current space have that you love?
 - What do you hate about it?
- What prompted looking for a new space?
 - Are you looking for more square footage? Multiple showers? Locational convenience for your clientele? Parking?



Cost

- Consult with an accountant to determine how much you can spend on:
 - Overall monthly cost
 - Upfront costs prior to moving in
- Determining the above will give you guidance on what sort of spaces you can search for with a broker.



Subleasing vs. Leasing and Term

- How long do you want to lock down a space for?
- If you are looking for a short term arrangement, you may consider subleasing or assigning to avoid extensive lease negotiation and up front build out costs.
- If you are comfortable with a longer term arrangement, understand what your annual cost will be for the term of the agreement



The Right Broker

- You are under no obligation to work with a broker until you sign a Letter of Engagement.
- Look for someone who has **expertise in your geographic area of interest and retail leasing** (bonus if they have experience in the fitness realm!)
- **Tenant Rep brokers** (who only represent tenants, not landlords) or **Full Service Firms** (who have represented both)?
- **Boutique or big firms?**



The Right Broker

- Your broker should do the heavy lifting. He/she should:
 - Source the spaces you are looking at.
 - Produce reports of comparable spaces on the market to affirm price points
 - Provide transparency into the REAL cost of taking on a particular lease, not just the price per square foot.
 - Provide you with appropriate legal, contractor-related or other resources as needed.



TIMELINE

Finding “The One”

Condition of Space

What kind of improvements need to be made?

- Adding/removing walls
- **Soundproofing** floors and/or walls
- **Lighting** improvements
- **HVAC and temperature control**
installation or improvements
- **Electrical** installation or improvements
- **Plumbing** installation or improvements
- **Painting and accentuating**
improvements

Explore the Building and Block

- Get a first hand idea from other tenants about their experience in the building.
- Do they like the landlord and building manager?
- Is the space noisy? Are there temperature issues?
- Are there any unworkable issues in the immediate area?

Cost

What is Rent Actually Comprised of?

PSF (price per square foot per year): Don't veer too far from the comparable rate in the area!

Rent may or may not be comprised of any combination of **maintenance, real estate taxes, insurance and utilities.**

Regardless of whether your lease includes the above additional costs or not, **the landlord may elect to include annual escalations.**

What is Not Part of Rent?

Security Deposit: Your our landlord will ask anywhere from 1 month to a year's worth of rent as security, which can be held as a Letter of Credit. This is a one time amount and is paid before your commencement.

Free Rent: To incentivize you to lease, the landlord may offer to pay one or several of the first month's rental fees to offset your upfront costs.

As a reminder, rent may or may not be comprised of any combination of **maintenance, real estate taxes, insurance and utilities.**

What are other up front costs?

- **Cost of improvements**
 - The landlord may pay and oversee your improvements, which will likely come in the form of **Free Rent**
 - Regardless, you should put aside money for expected outside vendors to help with the previously mentioned improvements.
 - Understand whether or not the building requires **union labor**
- **Legal fees** (for lease review)
- **Moving costs**
- **Cost of furniture and fixtures**

Timing

Calculating Your Commencement Date

- **Improvements will not begin until the lease is signed**
- If you're making major improvements—
 - Plan for **a minimum of 90 days from lease signing**
 - Engineering and Architectural plans likely need to be submitted to the city
 - **Materials may have a long lead time**, which can delay the improvement process

TIMELINE

Lease Negotiation

YES, I FOUND THE PERFECT SPACE!

Now, how do I get the best deal possible?

Letter of Intent

Prior to actually reviewing a lease, your broker will negotiate on your behalf with the landlord to agree on:
Lease Term, Commencement Date, Rental Rate, Security Deposit, Free Rent (if applicable).

The LOI may also address **Rent Escalations, Tenant Improvements, Subleasing Rights and Signage Rights.**

The Lease, Sublease or Assignment

Your real estate lawyer will help you navigate and understand the legalese of the lease.

Focus On: What You Get Besides the Space

Landlord's Work: In the case that the landlord is performing improvements on your behalf, make sure that this work is clearly outlined. Also make sure that a timeline is devised for move in, and that the landlord will provide you appropriate notice when the space is completed.

Maintenance and upkeep: Confirm that any maintenance is clearly outlined in the lease.

Utilities: Confirm which utilities, if any, the landlord is responsible for.

Focus On: What Rights You Have

Landlord's Liability: Understand how much liability insurance the landlord carries. Understand whether or not the landlord will take responsibility for issues that may occur in common areas (eg - injury to a client in the lobby due to wet floors) and seek for them to take as much responsibility in these spaces as they can.

Default: A default occurs when the landlord perceives the tenant to have violated the lease in some manner, or visa versa. Make sure the conditions for YOU defaulting are as narrow as possible, and make sure that the events that cause the landlord's defaults are in your favor.

Occupancy Limits: Make sure that there are as few restrictions as possible on the number of people you can have inhabiting the space.

Focus On: What Rights You Have

Sublease and Assignment: You will likely want to establish broad sublease and assignment clauses, which will allow you an “out” in the case that you are not able to fully utilize the space or grow out of it too quickly.

Permitted Use: Make sure that your lease concretely outlines your ability to utilize the space manner consistent with your class offerings.

Alterations: Your lease will be accompanied by an exhibit listing the expected alterations you will make to the space prior to move in. You also want to have as broad of an agreement as possible about **future alterations**, so that you do not need approval for every adjustment to the space.

Focus On: Insurance

The lease will indicate what amount of insurance both you and the building need to maintain. Generally, you'll need:

General Liability insurance: protects against personal injury, death and/or property damage in or about the Premises

- Minimum of \$1 million per occurrence and \$2 million in the aggregate

Builder's Risk Coverage: The lease will stipulate the minimum insurance requirements your vendors need to uphold whilst performing improvements and alterations, which can include **Workers Comp** and Business **Interruption Insurance**

Separate from the lease, you should look into **Professional Liability Insurance and Workers Compensation** (depending on your state of operation)

TIMELINE

Your Vendors

What Vendors Do You Actually Need?

You Need A General Contractor If...

- **You're doing much of anything! A GC organizes (and sources) many of the subcontractors that you may need. Examples:**
 - Building walls or breaking them down
 - Painting or wallpapering
 - Flooring installation
 - Soundproofing
 - Installing custom furniture fixtures

The **GC** often also assists with keeping architects, engineers and others apprised of progress.

You Need an Architect if...

- **You're doing anything more than superficial, non-structural renovations:**
- You're building or removing any walls or that might be structural
- You're making big changes to the layout of a space
- You're adding or removing plumbing
- You're installing a new HVAC system

An architect will design a series of plans to submit to the city, which will then be the basis of your General Contractor (and his subcontractors') work.

You Need an Engineer if...

- **You're doing anything more than superficial, non-structural renovations:**
- You're making big changes to the layout of a space that will affect the airflow, sprinklering, points of entry and exit, or high-voltage electrical
- You're adding or removing plumbing
- You're installing a new HVAC system

An engineer will build off of the architect's designs and create technical drawings, which will also be the basis of your General Contractor (and his subcontractors') work.

Other Contractor Types

- **IT Consultant:** If you want to install a robust wifi or fiber internet environment
- **A/V Consultant:** If you are setting up an elaborate A/V system with multiple microphones, speakers and/or video capabilities.

The below are sometimes sourced by GCs, and sometimes you must find them independently:

- **Electrician:** If you need electrical sockets in the floor, additional in the wall
- **Low Voltage Electrician:** If you need USB plugs, hardwired data ports installed throughout the space

Finding the Right Vendor

Where Do I Find a Vendor?

- Once you determine what kind of vendor you need—
- **Ask the landlord:** While it may seem counterintuitive to work with someone who the landlord works with, they will often already know the building rules and property manager, and more seamlessly hit the ground running
- **Ask your friend:** It's good to be able to trust someone!
- **Consult AngiesList:** If you're having trouble sourcing a recommendation or want to verify a prospective vendor's accreditations, look them up on AngiesList.



What Should They Provide Me With?

- Before enlisting a vendor for their services, he/she should provide you with:
- **In-person walk through:** Meet your vendor in person to review your needs and expectations
- **Written estimate of cost and timeline:** Their estimate should include the cost of labor, services and material costs. They should also give you an idea of how long their work will take
- **Evidence of adequate insurance**



What is the payment structure like?

- Payment structure can vary from vendor to vendor. **Make sure your contract clearly states when payments are due.**
- **Avoid paying more than 50% of the estimate up front, and strive for closer to 25%.**
- To save on cost, **you may opt to purchase certain materials directly from suppliers** - but remember that you are responsible for keeping track of these materials, which can be arduous.



TIMELINE

Build Out

**How Do I Make Sure They Stay
on Budget and on Time?**

Get Them Early!

- The sooner you get your vendors on board, the more likely it is they'll have ample time to get organized. As soon as you know you'll need a specific vendor, get quotes and lock one down.
- Make sure you are as clear as possible about your expectations of them - so you don't see increased costs down the line.
- Make sure you get a firm timeline from your vendor for the duration of their work. Though their work might get bumped back based on other vendor's, they should hold true to the time spent.



Keep Communication Open

- Building out a space with multiple vendors must happen in a **specific sequence** - architects and engineers come first, the contractor handles much in between, and the A/V comes last. It's important that they all know when they need to be involved.
- Request weekly (or twice weekly) **progress reports**
- **Set expectations** about how you expect contractors to communicate with each other and you
- **Plan a regular progress update meeting** (in person, if possible) between all stakeholders



What If They Go Over Budget / Overtime?

- Vendors will typically cite issues “out of their control” for increased costs or delayed timelines— things like you not being clear about your needs, or other vendors unduly holding up their part of the work.
- **Hold them accountable** - cite the original contract you put in place, the discussions that you’ve had with them individually and the ones you’ve had in your weekly meetings. So you’re prepared, **make sure to document all verbal conversations with follow up emails!**



In Summary..

Find a broker and a real estate lawyer that
you trust.



Be realistic about your cost! Know your upfront costs, escalations and additional costs (maintenance, real estate tax and insurance) as well as your recurring rental fees.



Keep your vendors in the loop on each other by conducting regular meetings and encouraging open communication.



Thank you!