

Leasing Tips For Your Next Entertainment Site

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As veteran facility operators of this industry know, the process of acquiring a parcel of land or leasing an existing building in the ideal location at the right price can be an exhausting affair. In this world of infinite consumer variety, in-home advertising, and deep-pocket competitors, an entertainment business needs every advantage it can find. Yet no matter what the size of the marketing budget or creativity generated by the theming professionals, most businesses that depend upon consumer traffic can't afford to skimp on the selection of a physical location. We've all heard the phrase "location, location, location" when assessing real estate opportunities, and for the most part, most folks agree that physical location is paramount in achieving high degrees of success within entertainment center venues. So why then do we routinely find entertainment centers placed in out-of-the-way parts of town or within Class "B" or "C" strip centers? Sometimes it's a function of price, other times a function of municipal approvals, and once in a while a result of the proprietor's existing real estate holdings. Are these good or bad choices? To properly assess them, the Lessee must understand and "weigh" the differences between lease offerings, some of which are described below:

Lease Pricing: Lease pricing has a tendency to drive much of the decision making process for most businesses today. Within any given metropolitan area, lease rates can vary from \$3.50 per square foot to well beyond \$50.00 per square foot. A typical scenario in a town or city might show a variance in lease costs from a low of \$8.00 per foot up to \$20.00 per foot, with common area maintenance charges, real estate tax allocations, and insurance allocations added to this figure. "CAM" as it is commonly termed, tends to range between \$0.75 and \$2.50 per foot, and is variable based upon actual expenses incurred by the landlord. Essentially, ten different buildings may have ten completely different lease structures, from which a knowledgeable lessee must sift through carefully.

What's included in the lease price? Many times, it might be beneficial to pay a slightly higher price per square foot in exchange for specific improvements to the site. These improvements might include new restroom facilities (positioned as needed), custom lighting, and/or unique entranceways. Other possibilities include enhancements to the electrical power grid, floor and wall coverings, and signage. The result of such an exchange is reduced upfront expenses for the tenant, which preserves cash flows during the time in which you'll need it most - opening day!

Facility Condition: What is the age and condition of the premises, including its heating and air conditioning systems, restrooms (if any), and facade? Will the building require a makeover, and if so, at whose expense? It might be enticing to transform a building into the style commensurate with your entertainment concept, but do remember that the structure is leased, with attached improvements considered part of the realty (and therefore fall under the landlord's ownership). Every dollar that must be spent to revitalize a facility is a dollar that cannot be allocated toward profit generating attractions. And in some cases, a "light" rehab can turn into more than you've bargained for. From my perspective, try to find a structure that is in the best condition possible; this will simplify the development process greatly and allow you to maintain a more predictable development timetable.

"Entertainment Friendly": Many times our firm receives telephone calls from project developers that are three quarters of the way through the leasing process, only to find that the intended use of the structure does not meet the standards adopted by the municipality. This can occur as a result of traditional zoning regulations, parking dilemmas, noise restrictions, or even safety considerations. It's important to assess the likelihood of municipal approvals for a selected site as early in the review process as possible. The most attractive lease contract in the world can't overcome a zoning restriction, and for this reason alone, your first conversation should be with the municipal approval authority. Once there's a reasonably clear indicator that no use restrictions exist (or that specific variances need to be obtained), you're in a better position to negotiate an effective lease agreement.

What constitutes "entertainment friendly"? For starters, the existing zoning status will include retail, commercial, and/or perhaps industrial uses. You'll also need to concern yourself with adjoining real estate parcels, particularly those tracts zoned residential in nature. Residential zones are generally supported more strongly by municipalities, which look to protect the quality of life for its residents. With this in mind, noise and light emissions will be carefully studied by municipal officials in an effort to limit their negative impact on residents and/or their property values. Variance and appeal processes can be long, exhaustive, and EXPENSIVE. Where possible, avoid this conflict unless your hired professionals estimate a better than 50% chance that variances will be granted.

Location: By far the most critical element, the selection of an effective operating location can make the difference between becoming the hot spot within a region or its 'best kept secret'. It comes as no surprise that premium locations carry premium

price tags. But price alone should not be the only component by which site selection is based. Consider that a premium site may have five times the roadway traffic of a standard site. Will this convert to five times more business? Possibly not, but what it can do is provide the much needed visibility and accessibility necessary to insure the project's success. Essentially, a premium site may cost more and reduce overall operating profits, but at least there will be profits to reduce!

An effective site selection process may also fend off future competitors. Let's say you've chosen the prime retail hub of a community as your targeted operating site. This is a location that probably contains a significant number of consumer retail offerings and is identified as "the place to go" within the region. An incoming competitor must now make a determination as to whether it wishes to compete head-on, which in most cases will simply split the market (rather than command it), or choose alternate space in a non-premium area. More than likely, this competitor will head for greener pastures - essentially, a completely different retail hub where it can control the market.

One Final Word...

Leasing commercial real estate is a big commitment for any business, but the risks can be minimized by doing some homework in advance. It's imperative that you research the historical market trends and also learn as much as you can about potential landlords. After all, for the next five or ten years, you'll depend upon each other for support and follow-through. Also, be sure to have a skilled real estate attorney review the lease documents to protect the rights of your business as well as yourself. You'll be glad did.

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