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Sierra Business Bulletin

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BUSINESS

Are You Using the Vocabulary of Success?

When it comes to opening doors, closing sales, and clinching negotiations, certain words and expressions are significantly more effective than others. Top executives and salespeople choose their words and phrases carefully to overcome resistance and persuade listeners.

For example, it's well known that people like hearing their own names. Influencers also understand that people don't like getting long answers to simple questions. Long answers evoke uncertainty and suggest that the speaker is hedging or fibbing.

On the other hand, phrases like *definitely, certainly*, or *we can do that* sound authoritative and trustworthy. *Imagine* is another effective word that prompts listeners to conceptualize a good opportunity or a positive outcome. Certain rhetorical questions have also been shown to help advance a discussion or sales process toward conclusion. These include the questions "*Does that make sense*?" and "*Is that fair?*"

On the other hand, data analysis indicates that certain expressions turn people off. *Absolutely* and *perfect* are overused terms that impair a speaker's credibility. *However* is a waffler's word. Listeners lose confidence and interest when they hear it. *Payment*: No one likes to pay; say *amount* instead. The term *contract* has negative connotations for many people. Substitute a more neutral word, like *agreement*. *Implement* and *implementation* suggest things are going to get complicated. Just say *begin* or *get started*.

Ultimately, using simple, clear, and effective words and phrases—and avoiding bombast—is the best way to convince people of your position or the virtues of your products and services.

How to Win Big in Today's Economy

The altered economic landscape presents innovative and nimble businesses with opportunities to thrive.

Find out how by requesting my free report "How to Win Big in Today's Economy" by emailing me at loans@sierracommercialcap.com

REAL ESTATE

Understanding Cap Rates for Commercial Investment

Capitalization rates, or cap rates, are one of many tools that investors can use to compare properties.

The cap rate is an important figure in the mathematical formula used to determine the rate of return on a specific property that is purchased outright. This isn't the same as the rate of return on an investment that is financed.

By dividing the net operating income (NOI) by the current market value, we arrive at the rate of capitalization. For example, if Property A has a net operating income of $100,000, and the current market value of the property is $1,800,000, then the cap rate = 5.5%.

This would represent the percentage return an investor would receive for a full cash deal on that property. This is a simplified formula, and many investors include estimates of operating expenses and vacancy rates in order to give themselves a more detailed financial picture of the potential investment.

Although useful when comparing similar properties, the cap rate alone shouldn't be used as the deciding factor when evaluating a property.

A higher cap rate usually indicates that there is an assumption of greater levels of risk for that investment. Each investor must closely adhere to his or her own investment principles when selecting a property.

The cap rate can also be useful in tracking investment performance over time. For an investment to remain profitable, the NOI needs to increase at a rate that is greater than or equal to the increase in the property value. If the cap rate declines, it may be best to sell.

REAL ESTATE

Top Three Things to Consider When Negotiating a Retail Lease

Opening a retail outlet is an ambitious, competitive, and costly endeavor.

The capital outlay includes branding, hiring employees, installing fixtures, purchasing stock, and finding that ideal space to showcase your business.

With these expenses in mind, it's easy to see why many retail entrepreneurs start out leasing the space for their business to minimize their initial capital outlay.

If you're in this group of leasing entrepreneurs, it's important to gain a good understanding of your options before entering an agreement.

Keep in mind that negotiating a commercial lease can be a complex process that can seem overwhelming.

However, careful consideration of the following three areas will help you as you go through the process of lease negotiations.

Learn the types of leases available. First and foremost, you must understand the type of lease you are signing. It is important to know the differences between lease types, as there are pros and cons to each.

With gross leases, you typically pay a single amount to the landlord, which covers the base rent plus utilities, property taxes, insurance, maintenance, and expenses for common areas.

There are two commonly used types of gross leases, known as gross rent leases and modified gross leases. Net leases, on the other hand, can often result in a lower rent payment to the landlord.

However, these leases make the tenant responsible for fluctuating incidental costs such as utilities, maintenance, and, in some instances, lease operating costs.

The three main types of net leases are known as net lease, double net lease, and triple net lease.

A third type of lease is known as a percentage rent lease. This type is common in malls and other multi-tenant properties.

With a percentage rent lease, you pay the landlord a base rent plus an agreed-upon percentage of your gross sales.

Carefully consider the lease term. Tenants can often obtain a more favorable base rent rate with a longer lease term.

However, if you are a start-up, it may not be feasible to sign a multiyear lease, because the needs of your retail business may change sooner than anticipated.

You may be able to increase your negotiating position by asking for renewal terms with set rent increases, favorable termination penalties, and subleasing options up front.

Define responsibilities of the tenant and landlord. Regardless of which type of lease you and the landlord agree upon, the lease agreement should clearly define the responsibilities of each party.

Landlords may offer tenants incentives in the form of modifications to the space to attract the best tenants in a highly competitive market.

It will be important to clearly outline who is responsible for the maintenance of those modifications during the lease term, and who is responsible for removal of any modifications upon termination of the lease.

Furthermore, retail spaces tend to be in multi-unit buildings with common areas both inside and outside the building envelope.

Which party is responsible for the maintenance of those common areas, and when, should be clearly outlined in the agreement during the negotiation process.

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