

RESTRUCTURING LEASES IN A CHANGING MARKET

As Provincial Governments gradually re-start the economy across Canada, there are certain operational and safety standards that will impact the restaurant & retail services world.

- Social Gatherings
- Social Distancing
- Cleanliness
- Online ordering
- Curbside pick ups
- Direct delivery
- Cashless transactions

The economic world has changed, and commercial landlords must expect an adjustment period of least one (1) year before establishing new guidelines. This will require an open sharing of information to better understand the economic models of its commercial tenants.

The Franchise Industry has already banded together, and several established brands have taken similar approaches with its landlords – whether they hold the head lease, or the licensee does.

The survival of the franchisee is of paramount importance to the FRANCHISOR and LANDLORDS alike. Weak Tenants will use Covid-19 as an excuse not to reopen. Others will argue a decrease in revenue -- while landlords will take a wait and see approach?

Independent franchise operators have limited financial resources to ride out this storm and at NFI we believe the best approach is to be proactive, contacting the landlords and establishing your opening position NOW before it's too late.

Since mid-March, NFI has made it a priority to communicate with the CFA, CFIB, ICSC, the Retail Council of Canada, Retail Insider and the legal and insurance communities to stay abreast of the latest programs and most recent trends, including but not limited to business interruption and force majeure clauses contained in commercial leases and insurance policies.

COMMERCIAL LEASES

Currently Federal Programs have been introduced to stem the damage and allow small businesses to survive (to fight another day). Rent Relief has been slow in coming and presents a short-term problem for franchisees to meet their financial obligations. Being asked to pay rent in April, May and June with little or no revenue while covering other fixed expenses has already impacted small businesses.

Maintaining an open relationship with your Landlords will enable you to restructure commercial leases moving forward – protecting your royalty stream and assist in cost-cutting measures at the Head Office, and regionally.

There are many factors to be considered before a negotiation can commence:

- Lease Term
- Lease Renewals
- GROC (as a percentage of gross revenue)
- Principal Use and the effects of COVID-19 may have - short and long term
- Sophistication in explaining the franchisee's business model
- Being able to relay a franchisee's financial statement to the Landlord
- Deferrals versus abatement – allowing the Tenant to survive and repay
- Relaying what the Franchisor has already done to support its system
- Contributions made by its lenders and main suppliers
- The intricacies of Government loan programs and wage subsidies available to the franchisees – short term and long term

Most times the best result will come based on past RELATIONSHIPS and being able to relay the Franchisor's message and its individual franchisee's situation.

This is our arena and one that we can provide professional representation to our Franchisors and better understand the plight of the individual franchisee, as everyone's situation will differ.

The best results will be achieved “negotiating in good faith” through a sophisticated third party -- who becomes part of your TEAM, battling to protect your royalty stream and the profitability of the franchisee.

The long-term handling of COVID-19 will determine how quickly your system will stabilize. Results and fair dealings will be relayed to new investors conducting their due diligence and when your system has stabilized, your proactive support of your franchisees will allow you to GROW again.

Contact Network Franchising International to handle this task for you.