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FIVE LEASING STRATEGIES HEALTH CARE PROVIDERS CAN LEARN FROM STARBUCKS

Health care providers can learn a thing or two from Starbucks. Similar to Starbucks, health care providers are creditworthy and desirable tenants and should leverage that desirability to negotiate better leases. These five strategies have helped make Starbucks a leader is the retail world, and health care providers would do well to implement the same approaches in their own leasing arrangements.

1) Flexibility in lease term. Starbucks isn't afraid to commit as long as that commitment has a safety valve. For new locations, the company is willing to sign a lease with a term of 10 years. However, Starbucks frequently negotiates an early termination option for new locations. The option to terminate may arise as early as year 3 of the initial term and is often tied to certain sales metrics for the location. In order to exercise the option, Starbucks agrees to provide reasonable notice and payment of a termination fee. While the option to terminate isn't ideal for landlords, they are willing to take the risk for the prospect of having a creditworthy tenant like Starbucks. Landlords also recognize that having a tenant like Starbucks increases the value of other space within the shopping center, as prospective tenants like the foot traffic generated by the coffee company.

2) Favorable financial terms. Starbucks has been known to use its bargaining power to negotiate favorable financial terms in its leases. In many cases, Starbucks will negotiate the rental rate for the initial term and for renewal terms at the time of lease execution. This approach allows Starbucks to lock in its rental rate on the front end of a lease transaction when it presumably has the most bargaining power. Along the same lines, the company will often avoid annual rental rate increases. Instead, Starbucks tends to prefer rental rate increases every 3 or 5 years. Finally, the company has been known to cap operating expenses that can be charged for common area expenses to a fixed amount.

3) Excellent location. While it may seem like there is a Starbucks on every corner, the company puts a significant amount of thought into selecting its locations. Starbucks contracts with a location analytics company to help analyze maps and retail locations. The company assesses data such as population density, average incomes and traffic patterns to determine target areas for new stores. In addition to data collection, Starbucks empowers local and regional teams to give input on location, store design and other issues to ensure a local touch.

4) Online landlord interface. Starbucks isn't about wasting anyone's time. To avoid a long wait in landlord communications, Starbucks has streamlined basic lease processes with an online platform. The "Landlord Support Center" makes it easy and quick for a landlord to find templates and contact information, make requests for SNDAs and estoppels and set up direct deposits for rental payments. In fact, Starbucks only pays its rent via direct deposit – no cash (which can be harder to track) or written checks (which can take additional time to route through a large organization). Through the Landlord Support Center, Starbucks is happy to assist its landlords and their lenders with requests for estoppel certificates and subordination agreements, subject to Starbucks' normal operating procedures. In some cases, a request will only be processed if the landlord or its lender pays a processing fee, in which case the request will be processed within a defined but realistic time period. If the landlord or its lender is in a rush, surge pricing applies – Starbucks will process the request within a shorter time period for an increased processing fee.

5) Standard lease provisions. Starbucks knows its value and uses that to leverage the terms of the lease. When Starbucks enters into a leasing arrangement, it will insist upon using its standard form of lease. Starbucks has developed a suite of template lease documents for free-standing buildings, multi-tenant shopping centers and other common leasing scenarios. The company's standard lease forms often include a variety of protective provisions that benefit Starbucks. For example, to ward off competitors, Starbucks frequently negotiates an "exclusive use" covenant that prevents the landlord from leasing to other coffee shops. To ensure that the shopping center or location remains highly desirable, Starbucks has also been known to prohibit landlords from leasing space to a long list of unsavory or undesirable tenants like adult entertainment establishments.

To discuss ways your health system can implement one or more of the above strategies or if you have other questions, please contact:

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