

8 Essential Real Estate Questions To Ask Potential Franchisors



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There are many reasons why entrepreneurs may want to buy a franchise. Making a brand successful is a tremendous amount of work in today's world. Competition for consumer dollars is fierce. It can be challenging to elevate a brand and achieve profits. These profits will stem from a well-thought-out and strategic business plan.

The beauty of buying into a franchise is that the brand is already proven. Also, franchisees can benefit from the franchisor's assistance in navigating the business's challenges. As for specific profits, each franchisor should disclose sales and estimated earnings in their Franchisor

Disclosure Document, often referred to as an FDD.

Before buying a franchise, here are eight essential questions to ask.

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Does the franchisor have a dedicated in-house real estate department?

If a franchisor has paid corporate staff whose sole purpose is to assist their franchisees with the real estate process, then the franchisor gets a star in my book. The franchisee will typically have a real estate broker represent them in selecting a site and negotiating the deal. However, the in-house real estate manager is vital to assisting the franchisee's broker. The in-house real estate manager will provide the franchisee's broker with detailed site criteria tailored to the franchised branding requirements.

How do the real estate department and support staff size compare to the franchise sales department?

Of course, franchisors need a sales department to sell franchises and grow their brand. Nevertheless, it is a good idea for a potential franchisee to know the size of the franchisor's sales department. It might be a red flag if a company has an extensive sales department and little support staff for the franchisees.

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Does the franchisor have a real estate approval process?

The majority of franchisors will need to approve a franchisee's location. The approval process always needs to happen before a franchisee signs a lease. If the franchisor does not have a method of approving the site where the franchisee's business will be, then the franchisee should be concerned. Not having an approval process could mean that the franchisor is in a hurry to open locations and does not have the quality of the sites as a top priority.

Does the franchisor have a letter of intent template?

The letter of intent is the framework for the lease. Most of the main deal points for the lease are in the letter of intent. These include base rent, additional charges, rent increases, lease length, options, tenant improvement allowance, landlord delivery, free rent and the rent commencement date. Additionally, in the letter of intent are the tenant's use clause and the franchisor's recommendation on necessary exclusives. The tenant must let the landlord know what use they will lease the space for, and the franchisor should provide this use language. The franchisor should also spell out exactly what they want regarding an exclusive. Exclusives protect the tenant from a landlord leasing to a competing tenant of the same use.

Does the franchisor have a landlord's work letter?

The landlord's work letter defines the conditions for delivery of the premises. Specifics to utility requirements (electric, water, & gas), heating, ventilation, and air conditioning

(HVAC), number of restrooms, flooring, and ceiling are just a few of the items covered in the landlord's work letter. If the franchisor provides their franchisee with a landlord's work letter, it will show experience.

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Could the franchisor provide a map outlining the franchisee's territory?

When buying a franchise territory, the franchisee will want to know specifics of where they will be able to open their business. If the franchisor does not provide a map showing this exact area, I recommend asking for one.

Additionally, ask the franchisor how many other franchisees have purchased territories in the area. It would help if the franchisee also asked the franchisor what protection is offered to prevent another franchisee from opening adjacent to their territory. Finally, ask specifically how close another franchisee can open to an existing store. Sometimes I see franchises expand too quickly, which can hurt profitability.

Once a franchise agreement is signed, how long does the franchisee have to find a location?

There are two viewpoints to this question. The franchisor wants people to refrain from buying up territories and not opening stores. The franchisee only wants to open a store if the desired real estate is available in their territory. The franchisee needs to understand if there are consequences and what those consequences are if they purchase a region and do not open the store(s) they agreed to in their franchise

agreement.

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After purchasing a territory, can a franchisee trade territory?

This one depends on how many franchisees the franchisor has. Most of the time, I see franchisors work with their franchisees if the franchise wants to trade territories. For example, the franchisee could wish to change territories due to a lack of quality real estate, or they may need to move their residence. It is advantageous for a franchisee to find out before signing a franchisee agreement about the possibility of changing territories.

Purchasing a franchise is a decision that should require much thought. I also recommend potential franchisees speak to many existing and ex-franchise owners of the brand in question. The more questions asked in advance, the better-equipped one will be to run a successful business.

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