AVOIDING PITFALLS IN YOUR NEXT OFFICE LEASE NEGOTIATION

Over 80% of healthcare practices lease their office space. The location and impression their office makes on patients is a huge determining factor in patient referrals and return visits, especially in a competitive market. Additionally, the cost of rent is typically a practice’s second-highest expense after payroll. For these reasons, it is imperative that practices achieve the best possible terms during new lease and renewal negotiations in order to maximize profitability.

There are three common pitfalls many practices fall into when negotiating on their office space.

Lack of market knowledge

To achieve the best possible terms, you must be familiar with all options that exist in your area. This market knowledge includes available vacancies, recently completed transactions, and future spaces that may be coming available soon. This is critical information that a local commercial real estate professional can provide to you at no charge. It would be extremely difficult for a healthcare provider, an attorney, or an out-of-town “lease negotiator” to know this information as it is not public record, and many available spaces are not listed on online databases. Knowing about other properties that may be more appealing or offer better value will help you find the best space and ensure you are not over-paying.
**Unawareness of less-common business points in a lease**

Most healthcare professionals are familiar with the rental rate, length of term, and build out allowance provided by the landlord. Beyond these, there are many other important concessions available such as free or reduced rent periods, the right to transfer the lease to another practice owner in the future, options to renew the lease after the original term expires, death and disability termination options, exclusive uses and more. There are also landlord-friendly clauses such as relocation provisions, unusual expense pass-throughs, and electrical or mechanical requirements designed for general, non-healthcare users that can impair a practice’s ability to operate.

**Failing to create a strong posture**

The key to an effective negotiation posture is making the landlord understand that you have multiple options on the table and are willing to pursue those options. One of the first questions a landlord will ask its broker is whether the tenant has professional representation. If the answer is no, they will ask if the tenant appears to know the market and is educated on the business points they are seeking. In a renewal situation, they will ask if the tenant is seriously willing to leave. If the landlord and its broker sense any weakness in the posture created by the tenant, they will not offer terms that are truly competitive to the tenant. Many landlords also see it as a weakness if a consultant or out-of-state attorney is handling the negotiation for the tenant because there is no local market knowledge. The same is true when tenants attempt to represent themselves. It is also crucial to the posture to begin the negotiations at the proper time—ideally one year before the current lease expires. If there is insufficient time to plan and build-out a space, then the landlord will know the tenant’s options are limited, weakening the posture.

Strong posture causes the negotiation to be more favorable than merely bartering with a landlord. Leveraging a local real estate professional’s expertise and then dictating favorable terms to a landlord yields consistently more favorable terms to a tenant than simply asking for a price, and then asking for a lower price, etc. Strong posture is not about bluffing or threatening. Having multiple legitimate options and a credible willingness to choose the other property creates an environment where landlords compete to attract or retain quality tenants, and ensures they get competitive terms. Expert representation by a real estate professional is available at no cost to tenants, because their services are paid for by the landlord or seller as part of the listing agreement with the landlord’s broker.

The current commercial real estate market has fully recovered and it is more important than ever to be prepared during lease negotiations. Avoiding these pitfalls will help tenants achieve more favorable terms for their practice and their bottom line.

*Carr Healthcare Realty is the nation’s leading provider of commercial real estate services for healthcare tenants and buyers. Every year, thousands of medical, dental, veterinary and other healthcare practices trust Carr Healthcare Realty to achieve the most favorable terms on their lease and purchase negotiations. Carr Healthcare Realty’s team of experts assist with start-ups, lease renewals, expansions, relocations, additional offices, purchases, and practice transitions. Healthcare practices choose Carr to save them a substantial amount of time and money, while ensuring their interests are always first.*