

#### So When Should You Renew Your Lease?

This entire situation could have been avoided if the physicians had dealt with their lease renewal well in advance. I like to think of a lease renewal not as a physical act of executing a lease extension agreement but rather a process which every dentist/doctor who has a tenant lease should follow when they're approximately *eighteen months prior to expiry*.

The first part of the process requires a correct review of the existing lease document to first determine the *critical dates*: when does the lease expire, is there an option to renew and what is the deadline date.

#### Internal Considerations

This should be followed by a review of the existing lease document to determine the *tenant's risks to the landlord*, which may be numerous, as well as ascertain what benefits you would like to have in any *future extended lease term*. For example, when do the healthcare practitioners plan to retire? How should the new lease term and structure be designed to facilitate the retirement of members of a group practice who want to retire at very different times?

#### External Considerations

This should then be followed by a thorough *review of the relocation opportunities* which may be available to the practice should a relocation be required. It's important to understand and recognize that unless you signed a lifetime lease, the possibility of a relocation will at some day be upon you and it's best to be prepared for that eventuality prior to opening negotiations with the landlord or exercising any options to extend the lease. Other external considerations are the cost of relocation and new equipment.

Once you have reviewed the internal and external considerations surrounding your existing lease, you are in a much better position to correctly open negotiations with the landlord well in advance of when you have to decide whether you should be exercising an option to extend your lease.

***The key is to think about your renewal well in advance to gain the benefits of leverage during the lease negotiation with the landlord.***



## Leasing Tips for Doctors

## The Dangers of Waiting Too Long to Renew

by Jeremy D. Behar

## Still Have Questions?

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# Leasing Tips for Doctors

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### Medical/Dental Lease Documents: What To Look For

Renewing a tenant lease is one of the most important matters physicians and dentists need to handle in the business of practicing medicine. In working with literally thousands of physicians and dentists over the years, a lot of people have asked me, "What is the biggest mistake healthcare professionals make when dealing with their lease renewal?"

The answer is both simple and extremely complex at the same time. It's **simple** because *the biggest mistake is waiting for the last minute* to deal with the lease renewal.

It's **complex** because not many doctors and dentists know what they should be thinking about when the lease rolls over. Last fall, shortly after my seminar presentations to physicians in the Toronto area on this subject, I received a phone call from a young physician who had recently joined a family practice with five other doctors. He wanted to discuss the group's current leasing situation as they were not sure what they ought to be doing next. I asked to review a copy of their current tenant lease document.

### Uphill Renewal Leasing

Due to my past experience as a landlord, I knew this was going to be an uphill renewal negotiation. Almost immediately upon making first contact with the group's landlord, my suspicions were proven correct. The landlord knew that the group had few relocation options in the area and the lease had nearly expired, and therefore demanded a significant increase in rent. The landlord was also unwilling to make changes to address the risks we had identified in the existing lease document.

I decided that the best strategy for the group was to convince the landlord to give us a short term extension. The landlord responded by declining our request for an extension and providing us with a vacant possession letter demanding the return of the space at the end of term unless we agreed to their renewal terms.

Upon meeting with the group of physicians to explain their predicament and the landlord's responses to my request, it was fair to say the room was filled with anxiety. They knew their relocation options were minimal and they were unable to afford the demanded rent increases.

#### Dealing with a Difficult Landlord

Having seen this landlord stonewalling strategy many times in the past, I knew the best way to proceed was not to waste any time with the existing landlord. We needed to develop immediate relocation options to gain some leverage. By sourcing options to relocate, even if they were unrealistic, I hoped to gain enough leverage to break down the stonewalling strategy of the landlord.

I contacted the head of our site selection department at Cirrus Consulting Group and asked for a review of the group's existing premises to identify every possible relocation opportunity within a specified geographic region.



***"The landlord knew the group had few relocation options and demanded a rent increase."***

We discovered a location in a new strip-type shopping centre just up the street from their existing practice; however, the asking rents in this mall were even higher than that which their existing landlord was proposing! The good news? The new space we found was about 1,000 square feet more than our physicians needed.

#### Thinking Creatively About Leasing Options Can Pay Off

This gave us the option of dividing the new location into two units, one for the physicians and the other to be used by a pharmacy which would clearly benefit from being next to a group of six family physicians. They indicated that they would pay a higher amount than the new landlord's asking rent, which meant the landlord could justify giving the doctors a lower rent, as the difference would be made up by the pharmacy.

Now all we had to do was to put a deal together with the landlord and have the landlord put a deal together with the pharmacy. I reviewed and negotiated the governing lease documents to ensure that the physicians wouldn't end up in a similar situation in a few years. Then we had to develop construction drawings, get contractor quotes and actually build the space out, all of which ordinarily take between four and eight months. We only had about five weeks remaining.

#### The Power of Leverage

We decided to proceed with papering a proposal with the new landlord to give me the leverage I needed with their existing landlord, but an interesting thing happened. The group of physicians actually *preferred the new location* over their existing one and wanted to make every effort to relocate.

They wanted to extend their current lease just long enough to relocate without interrupting their operations. With the situation changing so dramatically, in such a short period of time, the outlook was uncertain. Would our clients be out on the street for three months while they built up their new practice?

Would the landlord in their existing location be prepared to negotiate because the physicians were prepared to move? How was I to extend their existing lease if their existing landlord knew they were going to be leaving in any event?

I decided to advise their existing landlord that we would be vacating the premises in accordance with their vacant possession request letter, and await the landlord's response. The landlord called me and wanted to know how he could get things back on track. My response was that I would be willing to go back to the physicians and inquire whether they would be prepared to stay, but only with a short term extension on their existing lease in hand. The landlord extended the lease for an additional 90 days at their current rental rate. This gave us sufficient time to clear our deal and relocate to the new premises.

I continued to negotiate with the existing landlord to see what type of deal could be brought to fruition under the likelihood of the relocation. The end result was astonishing: the existing landlord agreed to not only back off on demands for increased rent and make changes to the lease document to satisfy our concerns, but to also *pay for a renovation of the existing premises as well as reduce their rent by some twenty percent*.

However, the physicians were set on relocating to the new premises and did so with no down time whatsoever, a very happy ending to what could have been a disaster.

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