

Renewing Your Lease: Important things to know

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Leases and lease renewals are not typically conducted on a level playing field. After all, the landlord is in the real estate business and most doctors are not. By planning ahead and having professional representation, it is possible to negotiate a lower lease rate and receive a substantial tenant improvement allowance and free rent.

How does the lease renewal process work?

An important clause found in a standard lease is the renewal option. This allows you to extend your lease for a predetermined amount of time (often three, five or ten years) by giving your landlord advance written notice. Renewal options include terms for specific lease rates, concessions such as free rent and tenant improvement allowance, and whether a new base year for operating expenses will be granted. Whether or not a renewal clause exists in the original lease, all of these terms are negotiable and play a large role in the financial structure of a lease renewal.

Renewal negotiations are most effective when conducted in the proper timeframe, by having multiple viable relocation options, and creating a strong posture to maintain the upper hand.

When should the process begin?

As a rule of thumb, you should begin to consider the renewal process 12 – 18 months in advance of your lease's expiration. This is recommended so that you can compare all relocation options in the market before your current lease options expire. Tenants who miss their lease options incur more risk. Landlords view this as an opportunity to push rents higher as the window of opportunity to relocate closes. If tenants holdover (stay in the space after the lease expires), they often see penalties of 150 – 200% of their last month's rent and can also incur damages if they holdover without permission. The bottom line is that if there is not ample time to relocate if necessary, the landlord has a strong upper hand.

What type of cost savings can be achieved through a successful renewal?

If properly negotiated, you can achieve significant rent savings, a build out allowance, free rent and other concessions. It is very common to start a lease renewal term at a lower lease rate than what you are currently paying. In many markets, landlords are offering aggressive concessions and more attractive lease terms to good tenants to keep their buildings leased and avoid vacancies. The amount of overall savings will depend on the availability of competitive vacancies, the efficiencies of the buildings, and your market knowledge and ability to negotiate business points.

What are some common mistakes practices make during the process?

One of the most common mistakes practices make is negotiating without the help of a commercial real estate professional, specifically one who specializes in representing healthcare providers. Some believe they can save money by not using an agent; but to benefit in real estate, leverage is the key to posture. Landlords are in the real estate business and negotiate with professional guidance. Selecting an expert to represent you provides the leverage needed to receive the best possible lease terms. Further, landlords are typically responsible for paying commissions so professional representation is available to you at no out of pocket cost.

Another mistake practices make when entering into a lease renewal negotiation is not being familiar with their current lease terms and risk exposure. Prior to contacting the landlord about a lease renewal, you should be well aware of your current lease terms including every option and deadline. Most leases contain options that must be exercised within a specific time period, typically six to twelve months prior to the lease's expiration. If you allow this period to pass, you risk losing all rights outlined in the option, which can cause the negotiations to begin at a disadvantage.

How do I calculate what I am currently paying per square foot?

Knowing what you are already paying per square foot is especially important if you are thinking about renewing your lease. What you are paying now versus what buildings are leasing for in your immediate area can be vastly different, especially if your lease has had automatic escalations in the rate over the term of the lease. The way to calculate your price per square foot is to multiply your monthly rent by 12 months and divide it by your square footage. Keep in mind that NNN or CAM charges (operating expenses for the property) are also calculated the same manner.

Summary

Successfully negotiating a lease renewal is more than bartering, bluffing, or asking for a good deal. Landlords and their professional representatives are in the full-time business of maximizing their profits, even if it means taking advantage of uninformed tenants. You can level the playing field by engaging your own professional representation, gaining competitive market knowledge, and by having multiple options for your office space. When done properly, a well-negotiated lease renewal can have a dramatic impact on your practice's profitability.

Carr Healthcare Realty is the nation's leading provider of commercial real estate services for healthcare tenants and buyers. Every year, hundreds of medical, dental, veterinary, and other healthcare practices trust Carr Healthcare Realty to help them achieve the most favorable terms on their lease and purchase negotiations. By not representing landlords or sellers, Carr Healthcare Realty is able to strongly advocate for healthcare providers and avoid conflicts of interest while saving their clients hundreds of thousands of dollars. Carr Healthcare Realty's team of experts can assist with all types of real estate transactions, including lease renewals, expansions, relocations, startup offices, purchases, and practice transitions.