

# *Do You Know What's in Your* **Dental Office Lease?**

*Hidden clauses could be putting your business at risk, costing you hundreds of thousands of dollars and many headaches over the course of your career.*





# LEASING

## Lease Negotiations: What to Look For at Every Stage of Your Career

Whether you're opening a new practice, thinking about retiring or fall somewhere in between, there are plenty of clauses landlords can weave into leases that fatten their pocketbooks. Cirrus Consulting Group can identify these clauses and ensure you don't fall victim to them.

Signing a dental office lease can be a multimillion-dollar financial commitment. It's essentially the largest check you'll ever sign—which is why it's critical to understand exactly what you're committing to. Unfortunately, many dentists don't. Landlords craft leases to maximize the values of their properties, and surreptitious clauses are often sprinkled throughout with one purpose: to bring in more money for the landlord without any additional work.

If you don't know how to spot these clauses, which most dentists don't, you may end up signing a contract that will negatively impact your financial future and your ability to grow your business. For example, you might agree to significant rate increases over time or to give the landlord half the proceeds of your eventual practice sale, and you won't know it until it's time for the landlord to collect. Then, it's too late. To begin with, dentists tend to have some of the worst lease rates. Why? "Many try to negotiate with the landlords themselves or have their brokers, who get paid based on the lease outcome, help finalize the deal," said Eric Pook, President of Cirrus Consulting Group, a company that has specialized in dental lease negotiations for nearly 30 years. Dentists also get attached to locations.

Often, instead of having the lease reviewed by an expert, they sign as soon as possible to lock down the space. Doing so without negotiation can be a costly mistake. "Every part of your lease is negotiable, every time you're up at the plate," Pook said. "Just because the landlord says it's a standard lease and it's the same for everybody, it's not. We've seen thousands of leases and have yet to see two that are identical."



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Eric Pook, President, Cirrus Consulting Group

Cirrus Consulting Group can negotiate a more favorable lease no matter where you are in your career. It's critical to have an expert on your side whether you're opening a start-up, renewing an existing lease, adding more practices, or transitioning to retirement. The experts at Cirrus can obtain better rental rates and terms, as well as spot the dangerous clauses that are detrimental to your business. They'll work directly with the landlord to do it—saving you thousands of dollars and freeing you of the stress that comes with these negotiations.

### LEASE LESSONS BY THE NUMBERS

#### 85% of dentists

Have a lease that can prevent them from selling their practice

#### 54% of dentists

Across North America are overpaying in rent

#### \$480 million + =

Amount of money Cirrus has saved dentists in rent since 1994

## Navigating the Lease

Let's take a closer look at how the Cirrus team can help you through various scenarios, and the clauses they'll look for and work to remove during negotiations.

### 1 Scenario No. 1: Opening a Start-Up

Many young dentists are so eager to open their first practice that they don't thoroughly review their lease before signing. That's great news for their landlords, because these dentists may unwittingly agree to years of rent hikes and various other unfavorable clauses that line the landlords' pockets while damaging the dentists' business before the first patient even steps inside.

To protect yourself, it's critical to first carefully review the Letter of Intent (LOI) provided by the prospective landlord. This document is a short form of the lease, outlining key terms such as rental rates, commencement date, options to renew, and tenant improvement allowances. A professional dental office lease negotiator can spot dangerous clauses in this document and work to keep them out of the final agreement. The lease you'll receive is a more extensive contract that also should be reviewed by an expert.

Beyond agreeing to unfavorable clauses, there are many traps young dentists fall into during lease negotiations. One of the biggest is signing in their own name. "That is the very worst way to sign a lease; rather, the best way is to use a corporate entity so you're helping to protect yourself or your family's assets," Pook said.

Another important component to consider is the lease term. Dentists are often prone to signing a short-term lease to give them flexibility to move, but statistically, dentists don't relocate that often. Landlords will pursue short-term leases because every renewal gives them the opportunity to raise the rent. Long-term leases of 10 years or more are best for your business.

It's also critical to get as many options to extend the lease as possible. Without options, you're leaving yourself exposed and making the practice less valuable when it's time to sell. Look at the lease through the eyes of the buyer—the longer the term, the more predictability and continuity of revenue.

**Having your lease professionally reviewed is the best way to avoid pitfalls. Here are some factors to consider:**

- Do the rental rates and annual increases align with what others are paying in the area?
- Does the lease allow you to hire an associate or sell your practice?



- Is there a relocation clause that gives the landlord the right to relocate you at your expense?
- Does the landlord have termination rights to kick you out of the building at any time?
- Does the lease contain death and disability protection in the event you can't work, or will your family/estate be financially responsible?
- Do you have exclusivity, protecting you from competitors moving into the building?
- Do you have the freedom to expand your services?

Many of the clauses weaved into your lease give your landlord control over your business. The experts at Cirrus will negotiate a lease that provides the freedom you need to run a successful business, while also saving you a significant amount of money in rent and other fees.

*"After hiring Cirrus to negotiate my lease, I can honestly say that this was one of the best things I did before starting my practice. Their level of customer service is unparalleled, and they were able to get me more than I asked for in free rent and other items."*

— Dr. Adam A.





# LEASING

## 2 Scenario No. 2: Acquiring a Practice

When a dental practice changes ownership, so does the lease agreement. But just like with the start-up lease, these documents can be filled with clauses that cost you significant amounts of money and make it difficult to grow your practice. During the acquisition process, it's critical to think about practice goals. Do you have plans to add services, hire an associate, or add operatories? Certain clauses can prevent you from doing all three.

Keep in mind making renovations often requires an allowance from the landlord, which must be negotiated into the lease. Other clauses can require you to leave expensive equipment behind once your lease expires or to remove any upgrades made, leading to thousands of dollars in demo and construction costs. This might seem overwhelming, but it doesn't have to be. Once you're ready to acquire a practice, the team at Cirrus can review the existing lease and negotiate better rental rates and nix or improve the clauses that damage your business.

*"Cirrus knows how to get 'the dream lease.' I ended up with a lease that was better than the selling doctor's, who had been there 38 years! The peace of mind I have knowing there is nothing the landlord can do to compromise my practice for 20 years is priceless." — Dr. Nancy V.*

## 3 Scenario No. 3: Relocating

If you've decided to move to a new location, it's important to analyze the terms of your current lease for restrictions. You'll need to determine if there's hidden language that dictates how you vacate the premises. For example, you might have to give a certain amount of notice before leaving, or restore the current space to its original shell at your own expense. If it's in the lease, you must meet the requirements, which is why it's important to negotiate in the beginning. Once you choose a location, you'll receive another LOI that outlines items like options to renew and length of term. The team at Cirrus can review for all those hidden clauses that can be detrimental to your practice.

*"My 10+5+5-year contract is set up beautifully for a new partner to come in and purchase when I decide the time is right, and I have plenty of options, myself. Every detail is taken care of. I cannot stress enough how important good counsel is to our profession." — Dr. Jessica B.*

## THE DEATH AND DISABILITY CLAUSE

If this clause isn't in your lease, your family/estate may have to assume the responsibilities, costs, and liabilities in your lease in the event of your death or inability to work. It's like an insurance policy but won't cost you a penny, and is the exit strategy your family needs if something happens to you.

## 4 Scenario No. 4: Expanding or Renovating

Has your business grown so much that you're ready to expand your current office into an adjacent space? That's great, but there could be lease provisions that limit your ability to do so.

For example, the right of first refusal for expansion clause gives you the ability to grow when the opportunity arises. If the landlord does agree, however, you'll be presented with a new lease that will need expert review.

In most cases, the landlord will want you to sign two lease agreements. This makes it more difficult for you to negotiate your renewals and end your time as a tenant. Cirrus has worked with landlords to combine both spaces into one contract, without the various clauses that can cost you hundreds of thousands of dollars and hurt your business. They also can work in language that allows you to add services or to sublease out the space to a specialist.

## 5 Scenario No. 5: Lease Renewal

By the time your lease comes up for renewal, you'll likely be in a much different place than you were when you initially signed. You might be thinking about adding an associate, for example, or have plans to add locations. And as a young dentist, you may not have thought about your exit strategy, so there could be clauses that are detrimental to a successful practice sale.

Whatever your situation as you approach the end of your term, it's important to think about your new goals as you negotiate your lease renewal. But don't wait for the last minute. Pook suggests starting negotiations at least two years before the term expires. The closer it gets to the end of your term, the less leverage you have to negotiate.

If you have options, to renew, you typically must send your intent to renew in writing by a specific date, and if

you don't follow the instructions exactly, your remaining 5-year options can become null and void. "Suddenly the landlord has you where they want you; you have no options," Pook said. "The landlord can completely change the lease and leave the doctor in a bad situation."

If you're within that 2-year window, it's time to contact Cirrus. An expert will review your lease, talk with you about your goals, and create a negotiation treatment plan.

*"Cirrus saved me the stress of negotiating my lease, plus saved me hundreds of dollars in future lease mistakes. You have no idea what risks are hiding in your lease agreement until you have a professional look over your lease." — Dr. Sam Thatcher*

## 6 Scenario No. 6: Transitioning

Beyond things like equipment and patient attrition, one key factor that plays into your practice's value is your lease. Less-than-favorable lease terms devalue the practice, while problematic assignments allow landlords to involve themselves in practice sales. Such assignments could give them the right to deny a sale or only allow the sale to happen if certain considerations are met. One of the greatest concerns? Asking for not only a portion of the sale price, but up to half of it.

The surrender of premises clause is another one that's costly, as it requires you to return the space back to its original shell once you vacate.

"If you talk to top practice transition brokers," Pook said, "they'll tell you the No. 1 reason a practice sale fails at the 11th hour is the lease."

With a well-written lease, you can avoid all these costly situations, making your transition to retirement as stress-free as possible.



*"I tried to sell my dental practice, and each time my landlord found a way to say no and scared away my buyers. So, at 74 years of age, I was forced to relocate my practice just to facilitate the sale. I hired Cirrus Consulting Group to handle my relocation for me. Eric and Cameron were exceptional resources and took care of everything for me. They relocated my practice to a much better space and got the new landlord to cover 100% of my build-out costs. Plus, they negotiated an incredible LOI to dramatically improve the rent and other financial terms. They also helped deal with my current landlord and depart the location without paying any demolition expenses." — Dr. Omera N.*

## 7 Scenario No. 7: Owner Occupied

Even if you own your space, you need a properly structured lease separating the corporation that owns the building from the entity that owns your practice.

The lease agreement can be a valuable asset or a detriment. When you're ready to sell, prospective buyers will want to know

they have a flexible long-term lease that allows them to grow. A strong lease will set your office up for sale down the line.

### Have Someone in Your Corner

Signing the lease for your dental office space is a huge financial commitment. If you're not careful, you could cost yourself hundreds of thousands of dollars over the course of your career, and lose the freedom to operate your practice as you see fit. Many dentists don't realize how much power the landlord can gain through hidden clauses, which is why it's critical to have an expert review the contract, identify traps and negotiate on your behalf.

The team at Cirrus will spend as much time negotiating with the landlord as necessary to ensure you get a favorable lease. You won't have to interact with the landlord at all, making the process less stressful and allowing you to focus on your patients and your business.

"This is all we do," Pook said. "And ultimately, we can guarantee what we negotiate will be far better than if the doctor did it on their own."