



FLEXIBILITY in Leasing MEDICAL OFFICE SPACE

By Elize Pruske, CCIM

WHILE MANY AMERICANS remain ill at ease with how health care reform and Medicare funding will impact their ability to access affordable care, physicians in particular are unsure of what lies ahead for them in the business of practicing medicine. With this backdrop of uncertainty, many physicians are taking a look at their current and future medical office needs and finding that leasing

provides them with the most flexibility in this current environment.

In order to prepare for ambiguity in any market, it is essential to negotiate a medical office lease with built in options to help manage potential changes in one's business or practice. In order to take advantage of the flexibility that leasing medical office space provides, it is helpful to consider some of the creative ways a lease can be structured. Whether you are locked into a lease with years remaining or have a lease that is expiring within the next year, it is never too early to start considering options.

Know Your Needs and Communicate Them

Prior to approaching a landlord, it is critical to have a well thought out plan of specific short- and long-term needs. This plan should include, but not be limited to, office size, layout, timing and length of commitment, as well as special and

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changing needs relative to your practice — as in, is your practice growing or shrinking? Are demographics or hospital relationships changing in your market, and might they impact your long-term plans? All of these things can impact your office needs now and in the future.

Once you have determined what is best suited for your circumstances, it is essential to communicate those needs to the landlord at the onset. It is equally important to continue an open dialogue during negotiations, and it is in your best interest to have an open mind along with the ability to be flexible.

What Are Your Options?

With any lease transaction, there are a variety of deal points and a wide range of options that can be negotiated. It is, therefore, significant to know and understand some of the basic parameters and options that may be available.

While short-term (one- to three- year)

leases give ultimate flexibility, they may come at a premium or slightly higher rental rate structure with minimal or no tenant improvement allowance, while long-term (five- to 10-year) leases often offer a more favorable or slightly lower rental rate structure with a generous tenant improvement allowance and flexibility for other rental concessions.

If you are considering taking advantage of the current market rates by locking into a long-term lease, it is prudent to consider negotiating any special provisions or options pertinent to your practice needs. A few options for consideration may include expansion options; right of first refusal; termination options; purchase options; assignment and subletting; exclusivity provisions, parking, signage and after hours access; and heating, ventilating and air conditioning.

Even if you are currently locked into a lease for a few more years, it may be worth exploring with your landlord the

option of extending the term of your lease now. You can potentially take advantage of the current market rates, reconfigure or adjust the square footage of your space requirement and negotiate needed tenant improvements. You don't have to wait until your lease expires to get what you know you want or need now.

One thing known: As the largest industry in the United States, the delivery and financing of health care is exceedingly complex and ever changing. Physicians who prepare themselves for that change through the flexibility that a lease can provide will be better off than those who don't.

Elize Pruske, CCIM, is Vice President of Leasing and Development of Cambridge Healthcare Properties. Cambridge is a Texas-based real estate firm specializing exclusively in the nationwide development, acquisition, ownership and management of highly integrated, state-of-the-art medical facilities. ■

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