

2 Young, New Grads Do a Startup

A husband-wife dental team learn the ups and downs of lease negotiations

adstartup

Member Since: 10/07/13
Posts: 1 and 4 of 84

We're sure several people are wondering: Why would two new grads do a startup? We are a husband-and-wife team, graduated in 2015 with a combined \$720,000 in student loans. We've moved around the country and have worked at six different offices, between the two of us, since graduating. We've seen corporate, Medicaid, community clinic and private practice models. We've been high producers, barely having a minute to catch our breath in between patients, and low producers, with nothing to do all day.

After experiencing multiple offices and a failed trial partnership, then looking for practices to buy, we decided to do a startup. We tried moving to a more rural, "less desirable" location and hated it, so we're going to do a startup close to where we want to live.

We wanted to document our process and share with others our successes and failures. (We're sure there will be plenty of both.) We by no means have it all figured out, but this is our story.

Demographics:

After our long demographic search, we landed on one area that has what we believe to be solid demographics. It's a nice area that we can see ourselves living in comfortably and is close to family (which is very important to us). A few details:

- Growing suburban area of a major city
- Three-mile radius: 40,000 people, three dentists, mean family income of \$90,000.
- Three dentists within that three-mile radius have mediocre websites, very few Google reviews, standard Monday–Thursday 8 a.m.–5 p.m. hours, and bad locations with little to no visibility.

We would be in one of the most visible buildings on the road, close to the busiest intersection in the area, with a traffic count of almost 70,000. (Later we found out it's one of the top five busiest intersections in the city.) We ordered a single-site demographics report from Dentagraphics (\$349) to confirm our location and make sure there's nothing that we missed.

Once we open, my wife will continue working as an associate part time until she's busy enough to work at our practice full time. I will continue to associate full time. We plan on her being the primary doctor in our practice and refer very little out. The plan is for a one-stop shop, PPO office.

This seems overwhelming and is a huge decision. We're set on this building for few reasons:

1. There aren't any other options in our target area.
2. Great visibility from the busiest road in the area.

So, we have a couple of questions we'd love to get some input on.

- Is 2,600 square feet at around \$22 per square foot per year a reasonable starting place?
- Lease negotiation: I know there are some lease negotiators on Dentaltown who have some great insight. I'd love to get some input on using someone like George Vaill, or an attorney, or both, as opposed to using just a local real estate guy to negotiate, followed by an attorney reviewing the lease. ■

6/4/2017

George Vaill

Member Since: 10/31/03
Post: 10 of 84

"No other options in our target area" is not a good reason to settle for a location. Be patient. Things change in the market every day. Great visibility from the busiest road in the area is terrific!

Have you secured a detailed, written declaration of all the landlord's rental terms? What does your long-term plan call for? Know that from Day One, you'll be paying full occupancy charges for the entire space: heat/A.C., electricity, insurance, cleaning, maintenance, repair, common area maintenance, real estate taxes, fire and casualty insurance, etc.

It sounds like you are negotiating in bits and pieces. It all has to be negotiated—all of the elements together at the same time, in writing! You don't have the complete economic picture yet (rent increases, rent inclusions and exclusions, amount of net charges, exact delivery condition of the space, amount of free rent, length of initial lease term, etc.) so it's impossible to know if 2,600 square feet at around \$22 per square foot per year is a reasonable starting place.

Regarding lease negotiation: An attorney doesn't just review the lease. He or she negotiates every inch of it! ■

6/4/2017

I'm curious about something: After what you two have gone through in the past two years, and knowing now what you know, would you two have done a startup right after graduation or not? ■

6/5/2017

We both learned a lot over the past two years, and I think we'll be more successful because of our experience in so many different offices. Got to learn from different people and learn a lot of what to do and more of what not to do. Doing a startup with at least one year of experience

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has other advantages, including easier financing and better terms on business loans. I think it's great that some people go out and do it, but for the average person I don't see the advantage of starting up or buying straight out of school.

{6/5/2017}

As for the lease negotiation, the landlord has been slow to respond, and doesn't seem to know what he is doing. For instance, he quoted CAM, tax, and insurance charges should be around \$2-\$3 per square foot, which seems way off. The building will be completed and ready to go in July, so I would think he would be eager to start getting some leases signed. He currently has four out of six 1,300-square-foot spaces available. We plan on getting the two on the corner with the best visibility. I've always heard the whole lease negotiation process can take a while, and it seems like it is going to take some time for us. ■

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George Vaill

Member Since: 10/31/03
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Know that unless the landlord can look to the operating expenses in another similar property that he operates in the market, his CAM numbers will simply be an estimate, made either by him or by his agent. You may have to do some research of your own to see what kind of numbers you find in the market for similarly operated properties.

Whatever the first-year number is, it's going to be an estimate. You'll pay your prorated share of the estimated expenses for the first year and then, at the end of the year, there will be a reconciliation comparing the actual expenses to the amount that you paid, with an adjustment for any underpayment or overpayment. Then the landlord will project a new estimate for the next year and you'll pay your prorated share of that newly estimated amount. Repeat, repeat, repeat. ■

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That is really good to know. Thank you for the information and all the insights you've provided so far!

He is also quoting a very low amount for TI: \$20,000 total for 2,600 square feet. From what I have seen, that's pretty low. I was looking into the landlord and it looks like he has experience with residential real estate in the past, but very little experience with commercial real estate. I am concerned he might be difficult to deal with. Other than that, we love the building and location! We visited it again and got pictures, and it really is exactly what we were looking for.

We got our Dentagraphics site report back this week. Dentagraphics has been great to work with. The report was very thorough, and basically confirmed what we had already found.

The conclusion of the report said the level of competition in the area is highly favorable, with all three scales offering over 4,000:1. Also, there is good population density and demand for care, with a high average income) These were the biggest three things we were excited about, and this report confirmed our findings.

What is your experience with leasing from an inexperienced landlord? Is it best to avoid it? We really want this space, but if the landlord is going to continue causing us problems, it might not be worth it. ■

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George Vaill

Member Since: 10/31/03
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Here are a few miscellaneous thoughts, in no particular order:

1. Just because a landlord is inexperienced, that doesn't necessarily mean that he or she will be difficult to deal with, cause problems or be a lousy landlord.
2. The landlord with whom you sign the lease today may not be the landlord tomorrow.
3. The difficulties in dealing with inexperienced landlords include such things as:
 - They often don't understand the lease concepts, the terminology, the common

practices or why tenants need assurance of certain things to protect the intended business.

- They often wish to do everything themselves, without professional guidance, in an effort to save money.
 - Many older, inexperienced landlords come from the old school, where things were done on a handshake. And they are insulted when pressed to agree contractually to guarantee certain things to the tenant.
 - They often fail to develop a realistic understanding of how they wish to operate their property; thus, their property operating philosophy doesn't well correspond with their duties and obligations or with the reality of running a commercial property.
 - They often don't know that many tenants will seek substantial economic assistance with getting the space built out, and they often have little cash available to make such a contribution.
4. I wouldn't say that it's best to "avoid" working with an inexperienced landlord. If the property is a home run in all other regards, it may well be worth putting in the effort to try to establish lease terms that can secure your long-term occupancy. The first bullet point above is usually the greatest impediment.
5. Finally, know that, no matter how nice or not nice, or how experienced or inexperienced the landlord may be, the lease must be done properly and thoroughly to protect your investment. Signing a multiyear lease will have a life-altering impact. Do not let your desire to get into this space that you "really want" cloud your vision! A crappy lease for a home-run location might easily result in your being tagged out at home plate after you have rounded all the bases. ■

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We plan on getting an attorney to review our lease to make sure we are protected in every way possible. He is responsive. It just takes him a long time to respond, and we are probably being impatient. Either way, we're willing to deal with a less than ideal landlord for an excellent location. ■

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Looking for more startup advice? Townies have plenty online!

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No matter what you've got questions about—negotiating a better lease, which equipment to buy or how to attract patients to your new practice—you'll find the answers on Dentaltown's message boards. To read the rest of this thread, head to dentaltown.com and search the message boards for "2 young new grads"—this conversation will be the first result. (Or browse the forum categories about thousands of other topics for answers to questions you didn't know you had!)