

Negotiating a Lease Renewal for Your Dental Practice

by Jeff Grandfield and Dale Willerton

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Course description

This course details different avenues dentists can take when approaching their commercial lease renewal. If you agree to the same terms and conditions as you initially did with your landlord, you may miss out on numerous benefits.

Abstract

There are numerous challenges you must overcome to ensure a better—and fairer—commercial lease renewal. To be successful, you must plan in advance, consider all other options to move, and be vocal about what you want or need from the commercial landlord.

Learning objectives

After reading this article, the participant should be able to:

- Understand why it can be so important to shop around for alternative sites to move a practice.
- Realize the amount of advance time required when approaching a commercial lease renewal.
- Understand why one should not automatically exercise a renewal option.
- Recognize why it can be so important to talk to neighboring tenants in the same property.
- Choose and negotiate for a more appropriate lease length.



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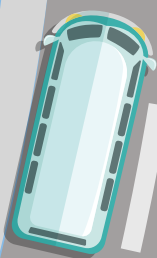
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Negotiating a lease renewal

Whether you are leasing a commercial space in a strip mall, office building or a stand-alone building for a practice, you will eventually have to face a lease renewal negotiation with a landlord. Starting with the end goal in mind and planning far enough in advance will make this process much easier.

Most landlords push for a rent increase during a dental tenant's lease renewal. This is normal and something you should anticipate. The landlord can also increase the rent by any amount he/she chooses. Much can transpire between when you moved in and when you need to negotiate a lease renewal in a 10-year lease term. Negotiating a lease renewal is not an overnight process! This can take some time and involves a number of items to consider.



1. Create competition for your tenancy.

Negotiate on multiple locations simultaneously—especially with lease renewals. Even if you don't want to move or cannot justify a relocation, you don't have to let your landlord know that and hand over your renewal on a silver platter. Create options and play one landlord against another. Let each landlord know you are receiving other proposals. In addition to making your landlord re-earn your tenancy, these efforts will help you understand the current market conditions. Additionally, this often creates a bidding war between landlords, with you winning in the end!

2. Start the planning and site selection process well in advance.

Existing dental tenants should begin planning 12–15 months in advance. This allows ample time for negotiating, completing paperwork, searching for alternate sites (if necessary) and accounting for Murphy's law.

3. Avoid automatically exercising options.

Even if you have a renewal option, you may not want to exercise it—especially if the renewal term's rental rate automatically increases or can't decrease. If you're certain that your landlord wants you to stay and market rates (the going rate in the neighborhood) have softened, you may want to negotiate the renewal from scratch. In addition, if you exercise a renewal option, this will prevent you from negotiating on other terms of the lease other than the rental rate, such as tenant allowances, free rent, removal of personal guaranties and further renewal rights. Starting the negotiations at least three months before your deadline to exercise your option will allow you to use your option as a safety net in the event that you believe that your landlord may not want to retain your tenancy.

DISCLOSURE:

The authors declare that they are paid as consultants or lecturers to health care professionals or commercial entities, representing approximately 75 clients per year.

4. Keep success quiet.

Landlords often try to raise the rent because of a dental tenant's success. If you're doing well in a particular location, you likely won't want to move, even with a substantial rental increase. Some agents and landlords may try to take advantage of tenants, knowing how expensive it can be to move and set up a new dental practice.

5. Talk to other tenants.

For lease renewals, talk with other tenants in the building who have recently renewed leases. Ask how these renegotiations went and what the landlord was willing to agree to in terms of rental rates and further tenant incentives. You may find out that they have plans to expand, downsize or leave the property, which may affect your future decisions.

6. Negotiate for lease renewal incentives.

For some reason, dental tenants neglect—or are simply fearful of—negotiating for lease renewal incentives. If your lease is expiring, you should ask yourself what inducements, like free rent or tenant allowances, the landlord would give to a new tenant just coming into the property.

7. Avoid being too optimistic.

If your practice isn't faring well but you want to renew the lease anyway, this is false optimism. Unless you change locations or something about the way you practice, you should not realistically expect the next five years to be better than the past five or 10 years. Moving can be difficult, frightening, time-intensive and expensive; however, sometimes this is absolutely necessary.



8. Determine your appropriate lease length.

For new practices, an initial lease term is typically 10 years. However, when renewing a lease, you shouldn't automatically sign for the same or a similar time frame without considering your own future. You may sell your practice or retire. You may require a longer term or further renewal options to facilitate a sale of your practice. On the other hand, you may want a shorter term to allow for retirement without a sale of your practice, or to allow for a sale of your goodwill and patients that does not include the physical location. Consider what is right for you.

9. Avoid settling for the same rental payment.

Achieving a rent reduction on a lease renewal is a very real possibility. If the landlord is leasing space to new tenants at less than what you're currently paying, a rent reduction should be achievable. If your current rental rate is artificially high because of your last tenant allowance, a rent reduction on the renewal term could also be in order. Again, you should talk with other tenants who have recently renewed or moved in to see how much they are paying.

10. Negotiate to get your deposit back.

If you've paid the landlord a deposit, you should ask for this back upon the lease renewal date. As a tenant who has paid rent for 10-plus years, you will have proven your tenancy. Why should the landlord keep your money?

11. Remember your operating costs.

Having the lease or operating costs analyzed is an effective way to keep the landlord and property manager accountable. Dental tenants often pay inflated common area maintenance because of padded or miscalculated operating costs. Often, it can be advantageous for groups of tenants sharing the same property to unify for an operating cost analysis.

Conclusion

Although it can be, negotiating your lease renewal does not have to be a difficult process. Even with multiple avenues of approach, by keeping these tips in mind you can renew your lease with ease.

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1. **How should you approach your landlord regarding your renewal?**
 - A. Search for alternative site options before contacting your landlord.
 - B. Contact your landlord to tell him that you want to stay and have no intention of moving.
 - C. Ask your landlord if he wants to renew you and for a proposal for you to review.
 - D. Both A and C.
2. **How far in advance should dental tenants begin planning and selecting sites for their lease renewals?**
 - A. Three months.
 - B. Six months.
 - C. Nine months.
 - D. 12–15 months.
3. **Besides the rental rate, what else can a dental tenant negotiate for with a lease renewal?**
 - A. Tenant allowances.
 - B. Free rent.
 - C. Further renewal rights.
 - D. All of the above.
4. **True or false: You should share news of your practice's success with the landlord.**
 - A. True.
 - B. False.
5. **Why is talking with neighboring tenants before your commercial lease renewal a good strategy?**
 - A. It will give you a nice break from your workday.
 - B. You may learn what they are paying for commercial rent.
 - C. They can tell you if they plan to expand, downsize or leave the property, which may impact your decisions.
 - D. Both B and C.
6. **True or false: A dental tenant should renew a commercial lease if things aren't going well.**
 - A. True.
 - B. False.
7. **What is the appropriate lease renewal length?**
 - A. Two years.
 - B. Five years.
 - C. 10 years.
 - D. It depends on your personal and practice's current situation or future.
8. **When is the ideal and reasonable time for a landlord to return your damage deposit?**
 - A. Never—the landlord always keeps the deposit.
 - B. Within 10 days of your lease expiration.
 - C. Upon the expiration of your current term and signing of a renewal option.
9. **Which could be reasons that you may be in line for a rent *reduction* on your renewal?**
 - A. Market rates have decreased.
 - B. You negotiated a large tenant allowance into your initial lease term.
 - C. You have a new landlord.
 - D. Both A and B.
10. **What is the average rental increase that landlords typically charge dental tenants renewing their leases?**
 - A. 10 percent of the current rental rate.
 - B. 15 percent of the current rental rate.
 - C. 25 percent of the current rental rate.
 - D. Whatever amount the landlord chooses.

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