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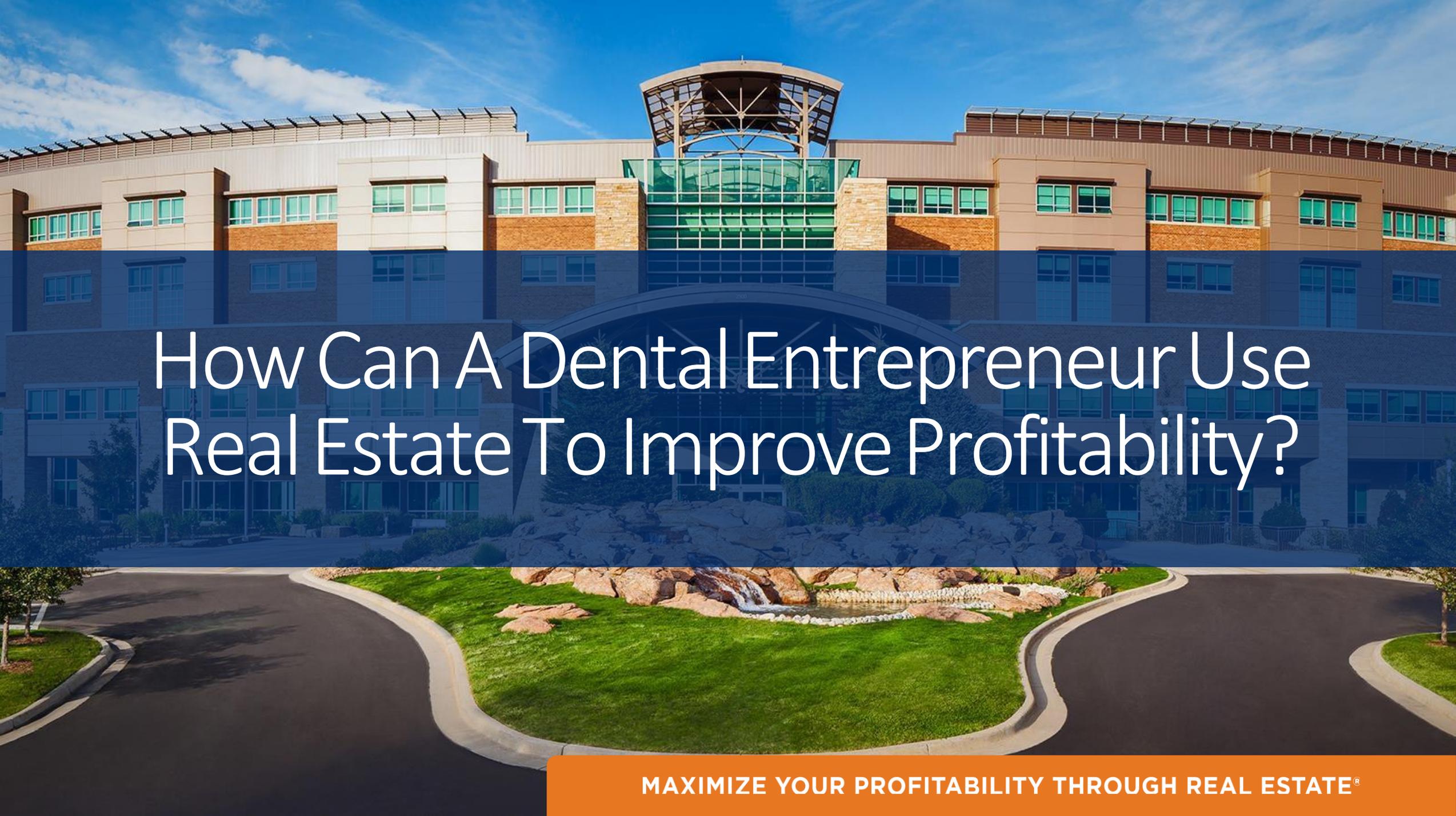
# Maximizing Your Profitability Through Real Estate<sup>®</sup> (And Avoid Costly Mistakes)

MAXIMIZE YOUR PROFITABILITY THROUGH REAL ESTATE<sup>®</sup>



At the end of this presentation, you will be able to:

- Recognize the importance of real estate to your practice success
- Understand tangible strategies to maximize your practice's profitability through real estate
- Realize the value of specialized representation
- Learn how to avoid costly pitfalls and common mistakes dentists make during negotiations
- Provide a solid game plan for success in real estate



# How Can A Dental Entrepreneur Use Real Estate To Improve Profitability?

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# Transaction Opportunities

- Start-Ups
- Relocations
- Expansions\*
- Purchases
- Additional Offices
- Lease Renewals\*
- Practice Transitions

\*These transactions are the most common but are also the transaction where buyers or tenants are most often unrepresented.



# The Importance of Real Estate to Your Practice

## Second-Highest Expense

- Your office rent is typically the second-highest expense after payroll
- After years of lease escalations and market fluctuations, most offices are significantly overpaying for their lease
- You typically only get one chance every 5-10 years to reduce this expense.

# The Importance of Real Estate to Your Practice

## Negotiations

- A properly or poorly negotiated lease can benefit or cost a practice tens to hundreds of thousands of dollars over a ten-year period
- Tenant vs. Landlord focus
- Any savings on real estate are a net savings to the practice



# The Importance of Real Estate to Your Practice (cont.)

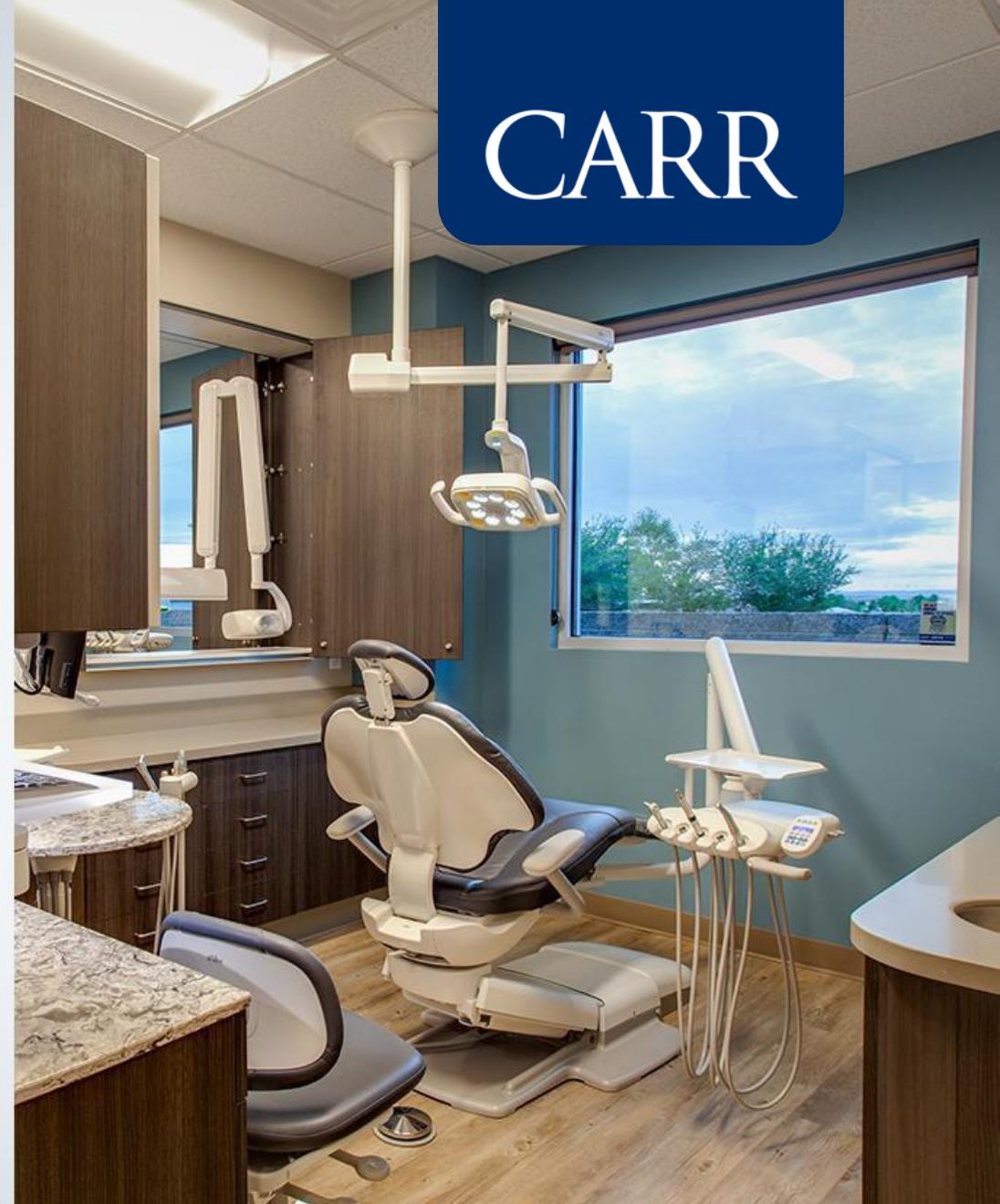
- A poorly negotiated lease may cost you \$150-\$200k over 10yr term (Base Rent, TIA, Free Rent, etc.)
- When you bill a dollar, you don't keep a dollar...you need to pay expenses
- Dentists typically see a 30% - 40% profit margin
- A mistake of this magnitude equates to increasing production an extra \$600-\$700k over a 10 yr. term just to break even
- Strategic lease negotiations can have an exponential impact on your profitability



# Who Should Be On Your Real Estate Team?

- Dental Commercial Real Estate Consultant
- Lender
- Architect
- Attorney
- Equipment Specialist
- CPA
- Insurance Specialist
- Practice Consultant/Financial Advisor

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# First Impressions

Your brand is being established before your patients ever meet you.

- What is *your* impression of your office space?
- What are *your patient's* impressions of your office space?
- These are the top four reasons a patient returns to a practice:
  1. Facility
  2. Front Desk Staff
  3. Support Staff
  4. Doctor

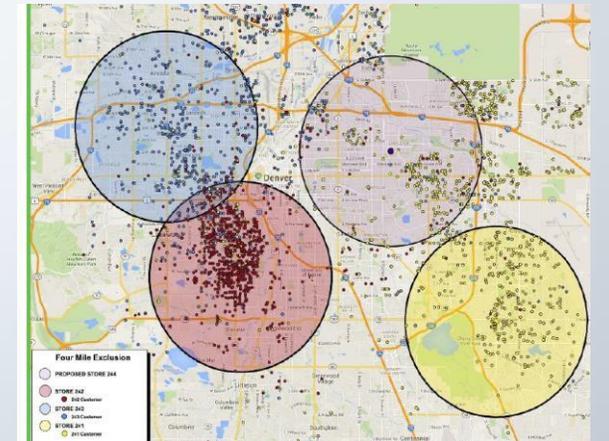




# First Impressions

## Real Estate Considerations

- Location
  - Demographics, access, parking, signage, etc.
- Appeal of building
- Quality of interior space
- Neighboring tenants
- Feel of the space



# Theme

Your office space impacts every aspect of your practice:

- Patient Experience
- Staff Experience
- Overhead
- Clinical Approach
- Profitability



A modern dental office interior featuring a curved reception desk with a glass front and a waiting area with several yellow and grey armchairs. The ceiling has a grid of recessed lighting. The text "Leverage Your Opportunity Through Representation" is overlaid in white on a blue background.

# Leverage Your Opportunity Through Representation

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# Commercial Real Estate Overview

- Commercial Property Types
  - Office | Retail | MOB | Hospital Campus
- Pros/Cons for Each:
  - Signage
  - Exposure
  - Access
  - Parking
  - Amenities
  - Costs
  - Natural light/windows
  - Synergy with other tenants

# OFFICE SPACE

## Pros:

- Cost
- Natural Light/windows
- Parking

## Cons:

- Exposure/Visibility
- Signage
- Parking/access



## RETAIL SPACE

### Pros:

- Exposure/visibility (signage)
- Increased traffic
- Parking/access

### Cons:

- Cost
- Synergy with other tenants
- Natural light/windows



# Medical Office Space

## Pros:

- Synergy with other tenants
- Natural light/windows
- Amenities/building quality

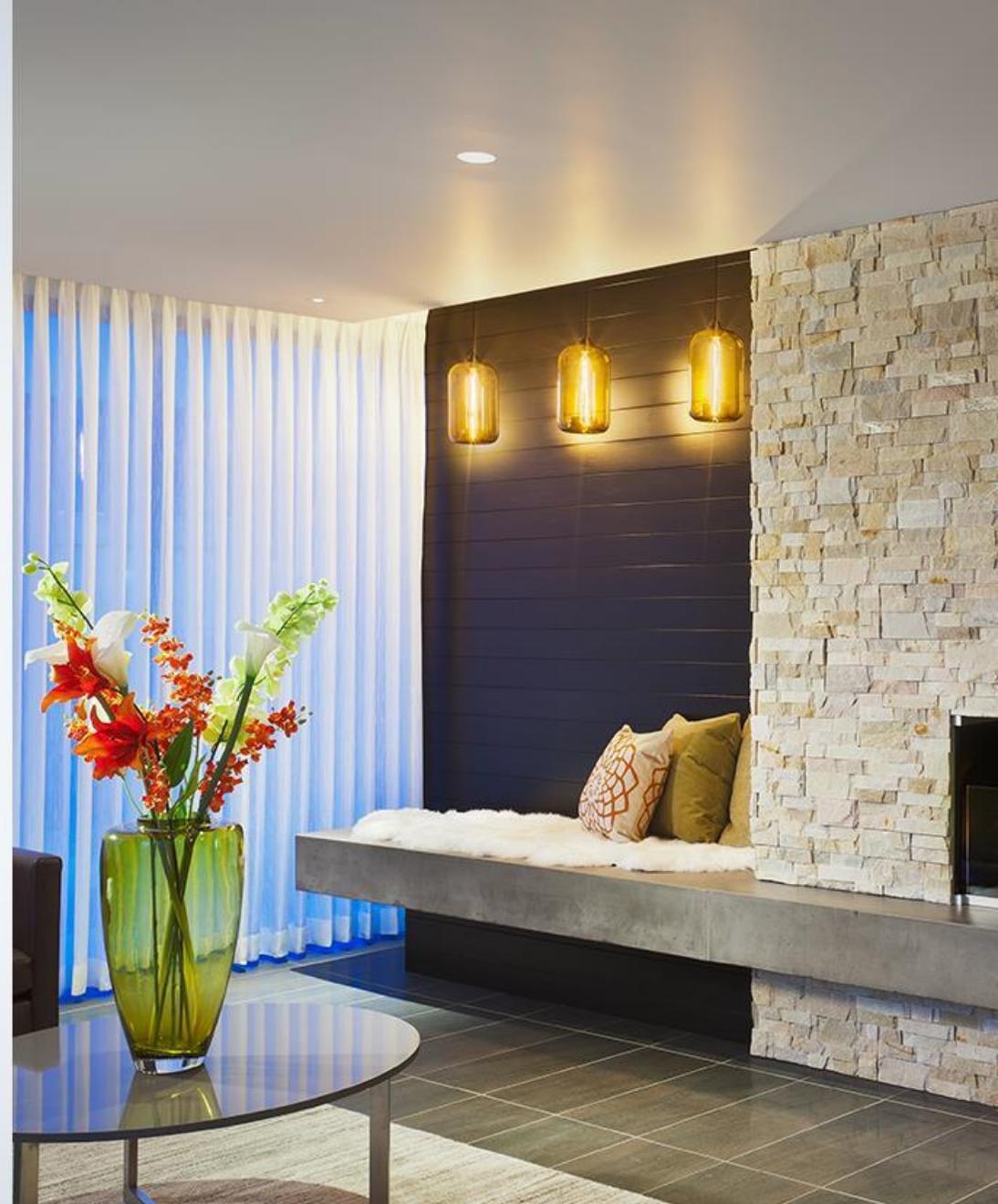
## Cons:

- Signage
- Cost
- Exposure



# Representation is Essential

- 1.) Professional landlords still have expert representation
- 2.) Yet many healthcare buyers and tenants take a DIY approach

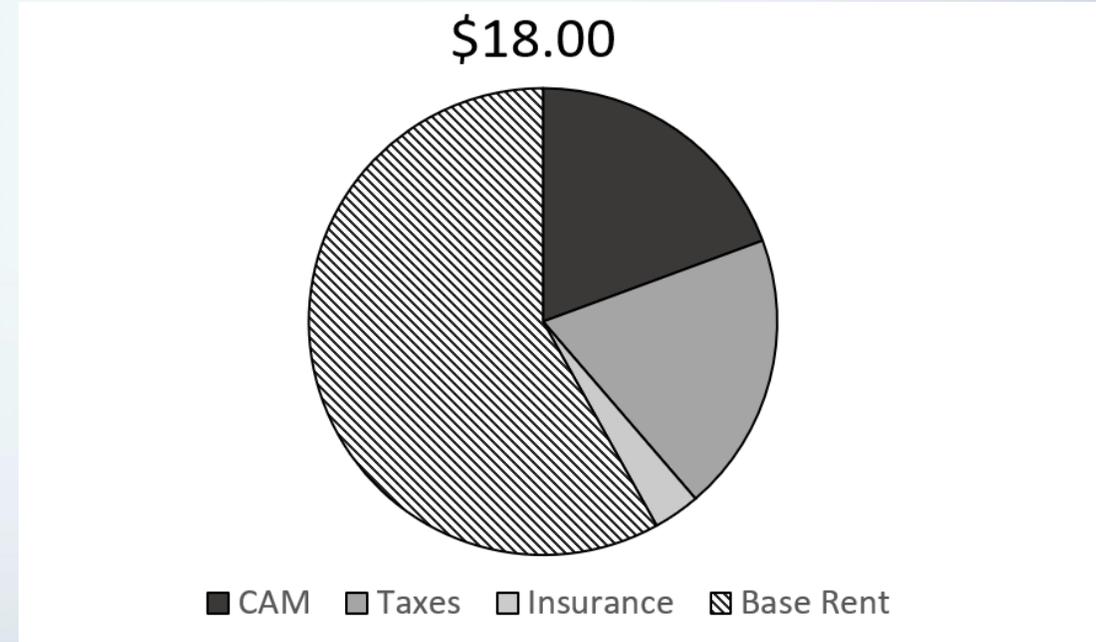
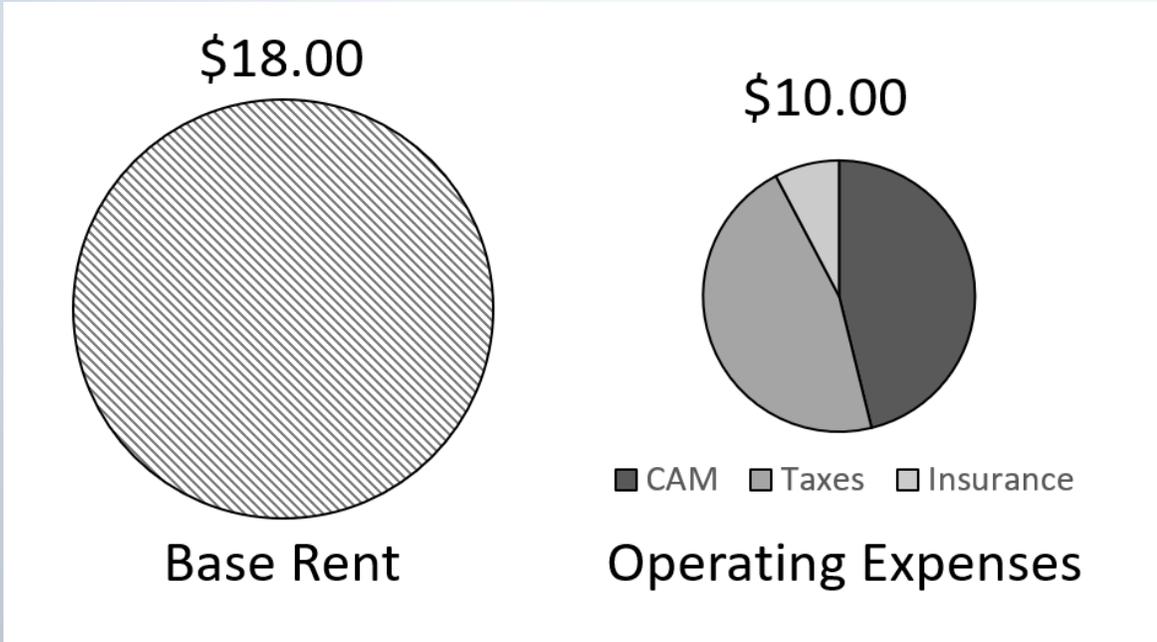


# THE DIY APPROACH

- Who is the person on the other end of the line?
- What does \$18/SF mean?
- Difference between Office and Retail space?
- What does “up to xxx SF” mean?



# Let's Talk About The Stop Sign



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A close-up photograph of a man with short, dark hair and a light beard, wearing a dark suit jacket, a white shirt, and a dark tie. He has a slightly furrowed brow and a neutral, somewhat perplexed expression. The background is dark and out of focus. At the bottom of the image, there is a yellow text overlay.

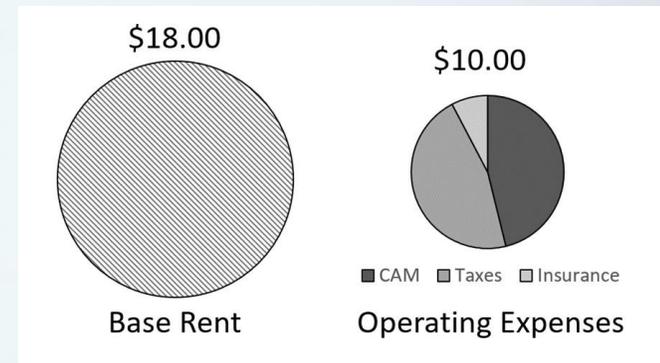
**I'M VERY CONFUSED RIGHT NOW**

# DIFFERENT TYPES OF LEASES:

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## NNN LEASE:

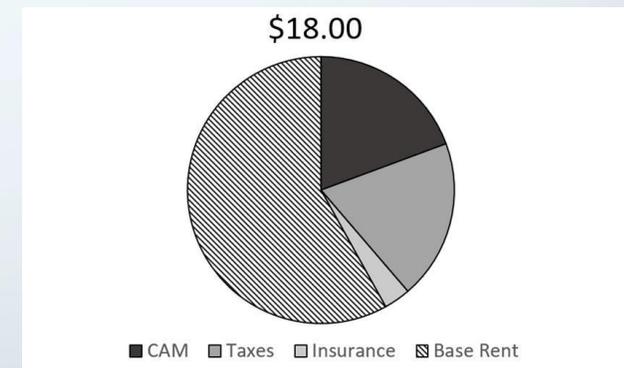
- Tenant pays certain costs associated with operating a property- in addition to base rent.
- Each “N” or “NET” stands for:
  - Property Taxes
  - Insurance
  - Operating Expenses (Common Area Maintenance)
- Most common lease type



# DIFFERENT TYPES OF LEASES:

## FULL SERVICE (GROSS):

- A lease that has one, all-inclusive rental rate that includes both the base lease rate and the operating expenses (property taxes, insurance and common area maintenance) combined into one number for the first year's lease rate (Gross).
- An important aspect of a Full Service lease is to understand if the utilities and janitorial are included in the lease rate or if they are billed separately to the tenant, and how any increases in operating expenses will be “passed through” to the tenant.
- Becoming less common, even in office buildings



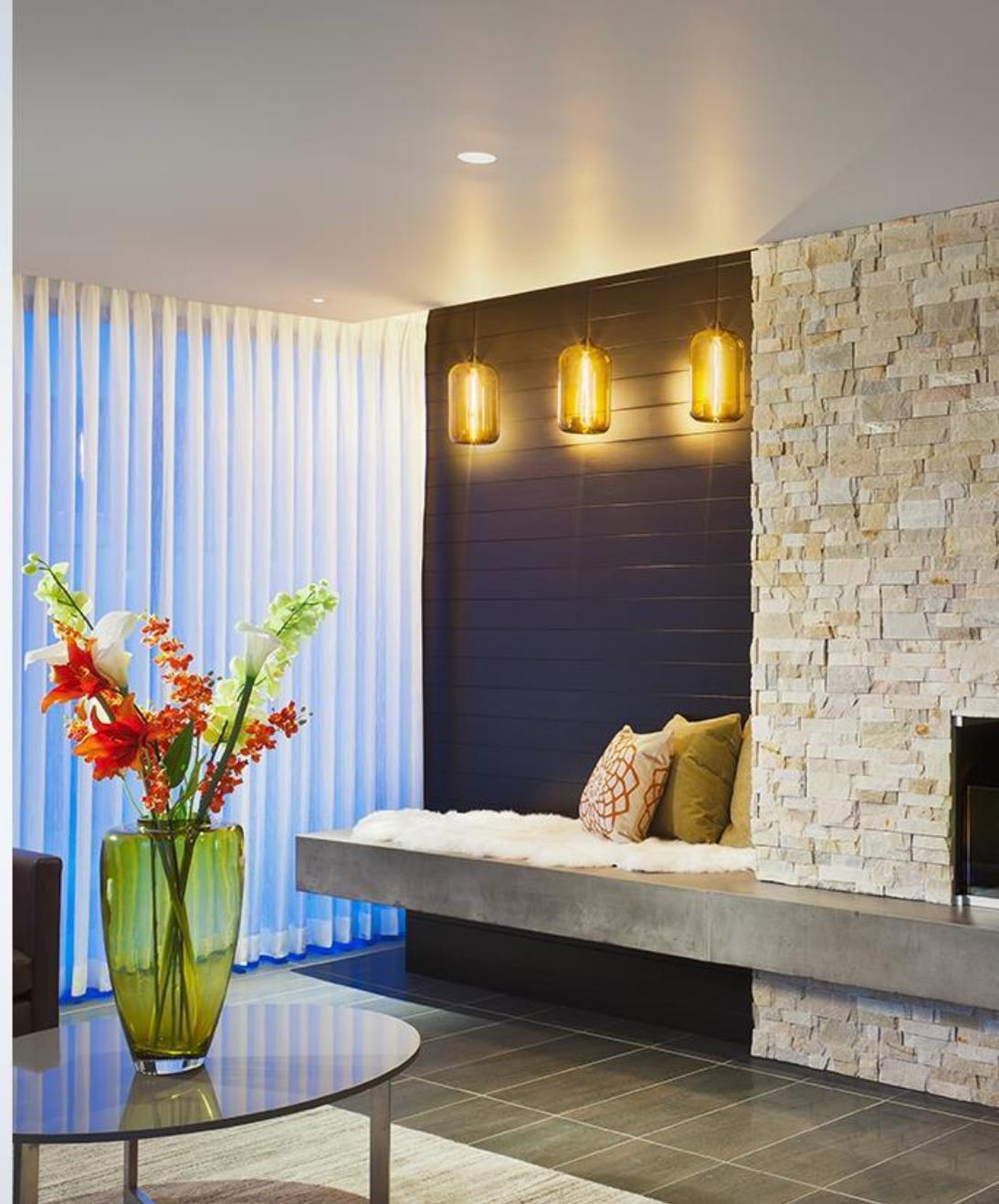
# Representation is Essential

- 1.) Professional landlords still have expert representation
- 2.) SO: just exactly who IS this friendly person on the other end of the line?!?
  - The expert representative
  - Worked on 100's/1000's of transactions
  - Fiduciary ONLY to the landlord



# Representation is Essential

- 1.) Professional landlords still have expert representation
- 2.) Yet many healthcare buyers and tenants take a DIY approach
- 3.) Know the parties to a transaction
- 4.) Commissions are paid by the landlord or seller



A photograph of a modern, multi-story building with a brick upper section and a glass lower section. The building is illuminated from within, and the sky is a deep blue. In the foreground, there is a stone wall and some landscaping. The overall scene is a professional and modern setting.

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# IMPORTANT REAL ESTATE CONSIDERATIONS

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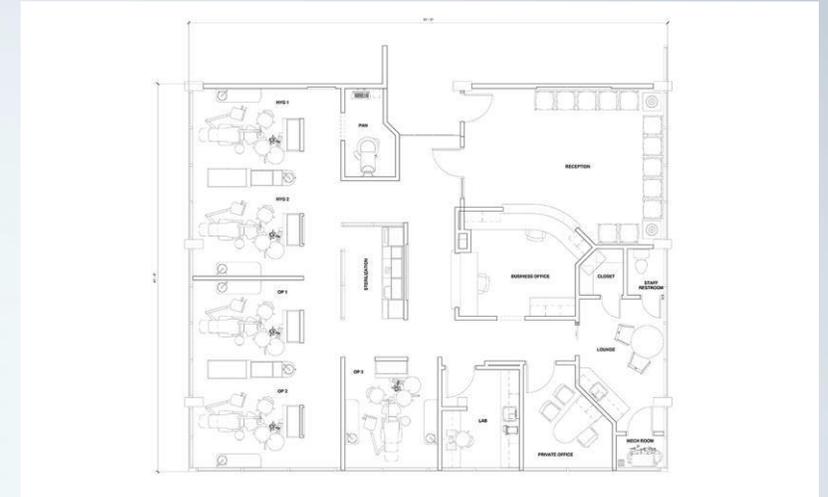
# How Much Space Do I Need?

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## IT DEPENDS!

- How many operatories are needed now/in the future? \*
- What type of space (office, retail)
  - USF vs. RSF
- What features are needed (consult, private office, # of bathrooms, pan/ceph, etc.)
- Type of dental use/specialty
- HOW MUCH CAN I AFFORD?
- Rule of Thumb: 400-500sf/Operatory
- Importance of a dental specific Architect/Equipment Specialist

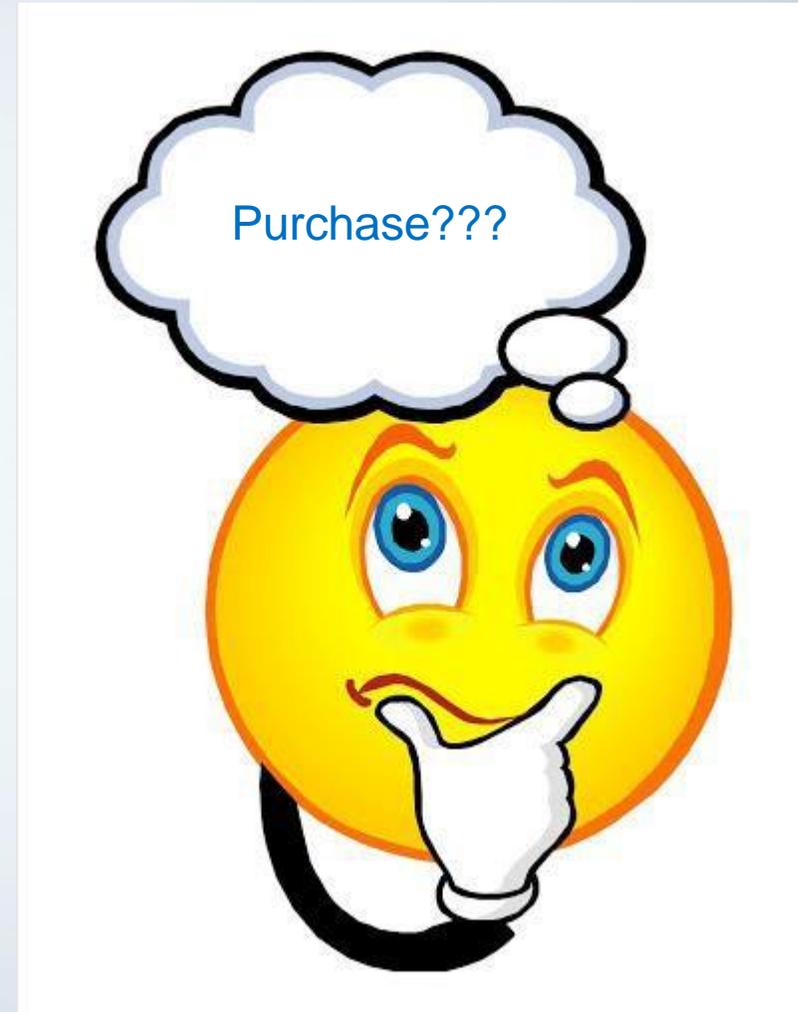
\*(Answer: 1 more Op than you think you need)



## Should I Purchase Or Lease?

### PURCHASE:

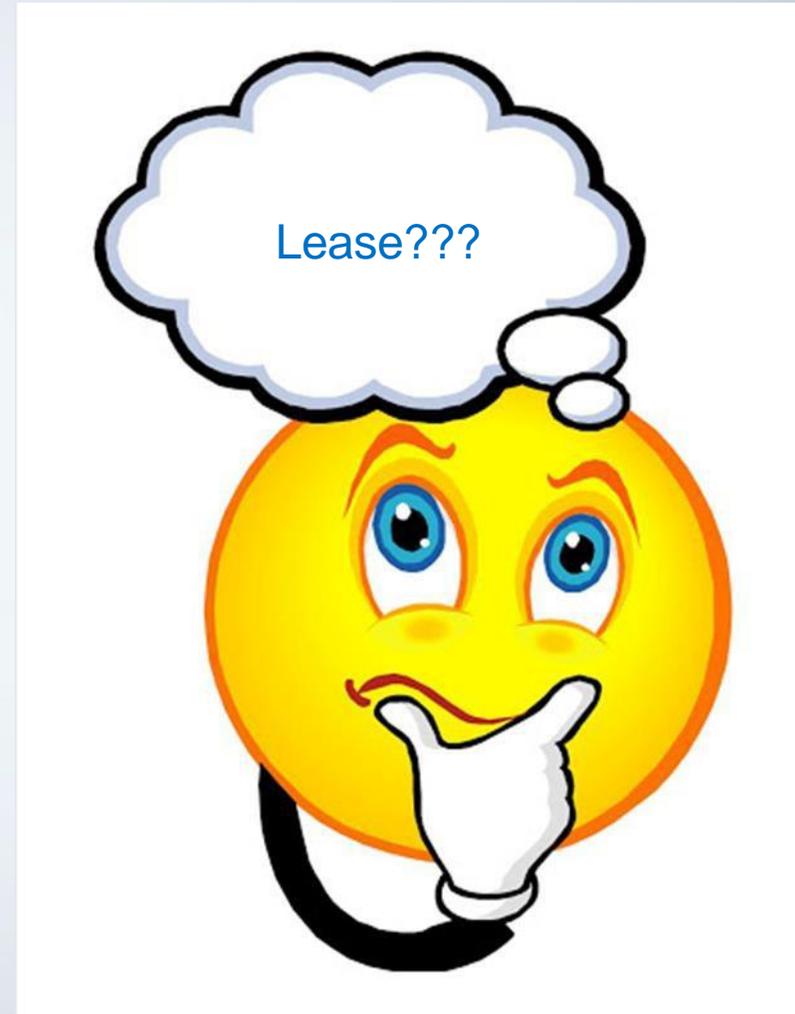
- Pay down principal
- Long-term flexibility
- Being your own landlord
- Potential tax benefits- consult with a qualified dental CPA
- Option for tenant income



## Should I Purchase Or Lease?

### LEASE:

- Tenant improvement allowance from landlord
- Not paying rent during buildout
- Flexibility to move/expand
- Landlord pays for/handles many headaches



# Should I Purchase Or Lease?

## Considerations:

- Current market conditions/options
- Lender participation
- Practice acquisition?
- Long term goals
- Importance of working with an experienced dental specific lender

# Commercial Real Estate Overview (Cont.)

## Current Market Conditions

- The market is adjusting to the impact of COVID-19
- The true impact may not be realized for quite a while
- Despite this adjustment, some areas are still experiencing near-record high lease rates
- Online shopping, co-working, and teleworking have also changed the landscape of commercial real estate





# Commercial Real Estate Overview (Cont.)

## Landlord Motivations

- Higher lease rates lead to higher property valuations
- They are willing to give significant concessions to desirable tenants
- Healthcare tenants are an extremely attractive use, particularly in the current environment

A modern dental office with large windows, a dental chair, and various equipment. The room is bright and clean, with a white dental chair and a sink. A large window in the background shows a view of a city. The text "Negotiations & The Importance Of Creating Strong Posture" is overlaid on the image in white font.

# Negotiations & The Importance Of Creating Strong Posture

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# *Everything* is Negotiable: Lease

- Lease Rate
- Term
- Renewal Options
- Annual Escalations
- Buildout Period
- Tenant Improvement Allowance (TI)
- Free Rent
- Signage, Parking, Exclusivity, HVAC, etc.
- Details of LOI terms
- Importance of Qualified Real Estate Attorney



## *Everything is Negotiable:*

### Purchase/Ground Up Construction

- Purchase Price
- Earnest Money
- Due Diligence Period
- Contingency Items (Appraisal, Inspection, Survey, etc.)
- Purchase Agreement Legal Language
- Importance of Qualified Real Estate Attorney



## Negotiation Strategy

Appropriate timeframe for search

- New Lease: 9-12 months
- Building Purchase: 12-18 months
- Renewal: 12/24 months
- Land Purchase: 18-24 months
- Practice Acquisition: 30-60 days

# Negotiation Strategy

Correct posture is key.

- Understand what is really at stake.
- Landlords want the highest Base Rate and least concessions. You can't fault them.
- Would you take more \$\$ for your home?
- What is a fair market rate?
- If you ask a landlord: “As much as the Tenant will pay”





# Negotiation Strategy

Whoever has the most viable options wins:

- Having multiple legitimate options on the table creates posture and warrants competitive terms
- Never get married to one location
- Always be willing to walk away
- Force LL's to compete and win your business

# Questions a Landlord Asks Their Broker

- Does the tenant have a broker?
- If so, does the broker know the market?
- Do they have other viable options?
- In a renewal or startup situation: “Are they willing to move, or are they willing to walk?”
- What’s the most we can get them to pay?



# Common Misconceptions

- Hiring an agent will cost me money
- Not hiring an agent can save me money
- My attorney can handle my real estate negotiation
- All commercial real estate agents are the same
- My residential agent can help me



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## Common Mistakes

- Believing the landlord or seller will simply offer their best terms
- Allowing the landlord or seller to initiate negotiations
- Determining market value by asking what neighbors are paying
- Relying on advice from patients, friends or colleagues



## Closing

- Hire professional representation
- Ensure your agent has no conflicts of interest
- Give yourself enough time
- Create a strong posture
- Understand the market and your top options
- Make sure your agent has a solid game plan to deliver results

# Questions



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You can also visit our website at [CARR.US](https://CARR.US) for materials to help you prepare for your next real estate transaction

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