

# REAL ESTATE: THE SECOND-HIGHEST EXPENSE IN YOUR PRACTICE



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**W**hen it comes to managing expenses in your practice, there are dozens of categories to evaluate: equipment, technology, loan costs, interest rates, marketing, sundries, and so on.

Many practice owners are quick to shop-out what they believe are the most obvious expenses, but few understand the impact of one of the largest expenses and how it can be dramatically reduced to increase profitability. The highest expense for most practices is payroll, followed by real estate. Real estate encompasses your monthly rent or mortgage payments, along with the property's operating expenses, maintenance fees, utilities, and janitorial costs.

## **ONLY ONE OF THE TOP TWO EXPENSES IS REALLY NEGOTIABLE**

If you consider these top two expenses, payroll and real estate, only one of them is really negotiable. With payroll, you can either pay people their value or they usually find another job that will. You may decide you can cut staff, but if you need people, you need to pay them what they deserve or they will eventually leave.

## **REAL ESTATE IS 100% NEGOTIABLE**

Real estate, however, is 100% negotiable. You have the choice of leasing or owning, as well as being in an office building, retail center, a stand-alone building, or large medical complex with many other providers. You can choose the size of

your space, the design, and the landlord you want to work with—or to be your own landlord. And if you do own, you get to decide whether to buy an existing building, an office condo, or to develop your own building from the ground-up.

With this many choices to evaluate, and understanding each one affects the final economic outcome, why is it so many practices fail to capitalize on their real estate opportunities?

## **NEGOTIATING LEASE TERMS**

When negotiating the economic terms of a lease, you get to have a say in the length of the lease, the desired concessions including build-out period, tenant improvement allowance, free rent, lease rates, annual rate increases, and many other provisions.

## **REAL ESTATE OPTIONS ARE INCREDIBLE OPPORTUNITIES**

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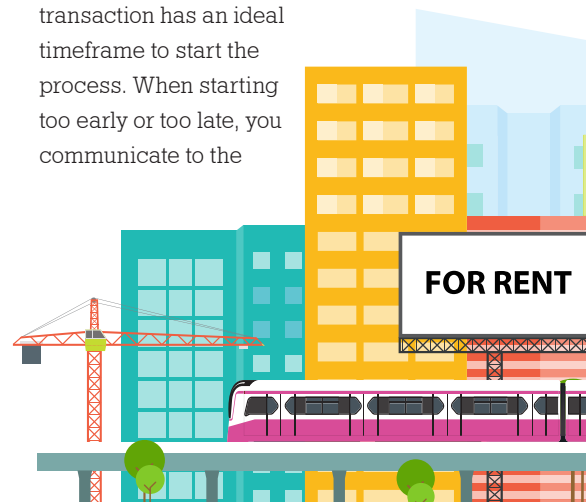
economic outcome, why is it so many practices fail to capitalize on their real estate opportunities? The short answer is, most practice owners and administrators simply don't have the knowledge and expertise in commercial real estate to understand how to make the most of these opportunities. They view real estate as a necessary evil instead of an incredible opportunity to improve profitability, reduce expenses, and improve the quality of their patients' experience. When the correct approach is taken, you may actually look forward to it instead of dreading your real estate negotiation.

## **THREE WAYS TO MAKE THE MOST OF YOUR REAL ESTATE TRANSACTIONS**

Let's look at three key ideas that will help you make the most of your next real estate transaction.

### **1. TIMING**

Every type of transaction has an ideal timeframe to start the process. When starting too early or too late, you communicate to the



landlord or seller you don't really know what you're doing. When that message is communicated, it hurts your ability to receive the best possible terms. For example, don't wait for your landlord to approach you on a lease renewal negotiation. Start by consulting with a professional so you can understand the ideal timeframe to start your transaction; come up with a specific game plan for what you want to achieve; and then approach your landlord with renewal terms.

**2. REPRESENTATION**

Landlords and sellers prey on unrepresented tenants who don't really know the market or what their options are. If the tenant is a Fortune 500 company, the landlord will likely approach its staff with a high level of respect, expecting they either have a real estate broker hired to represent them or have a team of internal professionals who are well equipped to handle the transaction.

In contrast, when a landlord or seller starts speaking with a tenant who isn't represented, and who probably doesn't know the market as well as the landlord, that tenant is not going to get the same level of respect through the process. This is because the landlord senses an opportunity to take advantage of a small

tenant who is not an expert; doesn't have a full complement of real estate knowledge and skills; and who doesn't have adequate representation.

When you understand commissions are paid in commercial real estate just like they are in residential real estate—they are set aside in advance for two parties, not just one—then you understand there aren't any savings by not having a broker. And if there aren't any savings by not having a broker, then showing up without one only further detracts from your credibility.

**3. LEVERAGE AND POSTURE**

It is nearly impossible to emerge victorious from a negotiation without leverage and posture, which are created by having multiple options in the market. If you limit yourself to one property, you are at the mercy of that owner. Since most landlords and sellers negotiate

professionally, it is easy for them to know when you don't have other viable options.

Simply telling a landlord you have a proposal from another landlord won't give you a strong enough posture. Most landlords look at unrepresented tenants and assume they do not know the market, do not understand all their options, and are not really serious about making the landlord compete for their business. Leverage and posture are created when you have the right timing, professional representation, an understanding of all your available options, and a detailed game plan of what you want to accomplish in order to capitalize on the market.

These three key ideas are the first of many factors that allow healthcare tenants and buyers to reduce their second highest expense which dramatically impacts profitability and cash flow. **B**



*Carr Healthcare Realty ([www.carrhr.com](http://www.carrhr.com)) is the nation's leading provider of commercial real estate services for healthcare tenants and buyers. Every year, hundreds of medical, dental, veterinary, dental, and other healthcare practices trust Carr Healthcare Realty to help them achieve the most favorable terms on their lease and purchase negotiations. By not representing landlords or sellers, Carr Healthcare Realty is able to strongly advocate for healthcare providers and avoid conflicts of interest while saving their clients hundreds of thousands of dollars. Carr Healthcare Realty's team of experts can assist with all types of real estate transactions, including lease renewals, expansions, relocations, startup offices, purchases, and practice transitions. Seattle Broker Nate Tuttle can be reached at 206.790.9821 or [nate.tuttle@carrhr.com](mailto:nate.tuttle@carrhr.com).*