

Leasing Checklist

By Scott Somers, NCARB, President ARCH-101
www.arch-101.com ssomers@arch-101.com

Before You Start

Your office is the single highest revenue-generating tool your practice will ever have. Office-related expenses will also be the second highest costs your practice will ever have; second only to employee compensation. Take the time to thoughtfully and purposefully determine the needs of your practice before determining whether you will lease or build. Without doing so, you are gambling on a successful result while taking great personal and professional risks.

We have all heard the axiom quote of Lewis Carroll, *"If you don't know where you are going, any road will get you there"*. Before you decide on office space, take the time to plan, and educate yourself on what you should be planning for.

The orthodontic profession is very rewarding. For some, simply locating their practice in an area with little competition is enough to default into having a decent practice and comfortable lifestyle. But this is not a recipe for success. Do not blindly approach the location, design, and construction of your office or simply follow a colleague's advice. Starting and operating a thriving practice involves work and planning. It also requires anticipating future needs. Over time, personal needs will change, patient demographics may change, the profession will evolve (remember the offices of the 70's and 80's?), technology will change; and sparked competition may present new challenges. Plan for your current needs while anticipating your needs in the future.

Also, consider that established practices have much different needs than start-ups; and there is not a single approach that works for

everyone. Do not start looking or planning for space until you have completed a business plan and/or strategic business plan. The more you plan, the better your chances for success.

Business Planning

All businesses have numerous components, from marketing to HR to finance, etc. Your office will be but a single component in a larger business plan. Make sure the type and design of your office aligns to compliment the other goals in your business. It is nearly impossible to design and plan an office that meets the goals of a business if no goals have been identified. Your business plan will highlight the reasons why you locate your office in a certain place, require a certain number of treatment chairs (i.e. Can the number of treatment chairs support your revenue goals?), decide to lease instead of own, etc. Without a plan, it is impossible to meet expectations. This can ultimately prove to be a very costly venture, filled with missed opportunities.

"It takes as much energy to wish as it does to plan".

-Eleanor Roosevelt

Start planning by defining your business and personal goals; short-term and long-term. Include your accountant, spouse, lender, staff, attorney, and personal financial advisor. **Your practice will be a tool you use to help support the goals of your personal life (where to live, when to retire, income desired, children, etc.).**

A business plan is a written description of your business' operations. It identifies models, missions, and objectives and

describes how those objectives are met (staffing, marketing, location, financial, management, etc.). It is a detailed plan.

*A **strategic business plan** identifies the steps and strategies used to meet the objectives of the business. It can focus on the entire business or specific areas (marketing, demographics, patient base, services offered, etc.). You may even end up multiple plans, depending on your approach.*

Reasons Why Your Office is so Important to Your Practice

- It visually and contextually defines the quality of your services
- A thoughtful design can best ensure the highest levels of operational efficiency.
- It creates flexibility for future needs as your practice evolves.
- It can be one of the best marketing tools you will ever have (word-of-mouth, “coolness factor”, street and pedestrian presence, signage, image, etc.).
- It can help attract and maintain the best employees.
- It can be used as a component for wealth generation (building or condo ownership).
- It can create tax advantages.
- It can help increase the value of your practice and help attract future buyers.
- It can be a component or a feature component of a larger, practice-wide marketing effort (continuity of office design, letterhead, website, brochures, invoices, etc.).

- It can be used to limit or grow your patient base.

Your Business Plan Defines Your Office Type

- Main office
- Satellite office
- Collaborative office
- First office
- Long or short-term office
- Personal wealth building tool (ownership)

Pre-Leasing Scheduling

Plan well in advance. Remember that the leasing process can take some time. It may take months to identify a building that meets your needs and expectations. After that, it can take weeks or months for lease negotiations to be finalized. Planning and design can take roughly 2-4 months; permitting and bidding can take 2 weeks to several months; and construction can take 2 - 4 months, even longer. If the suite you want to lease is in an older building that requires demolition, make sure your schedule includes this. If hazardous materials are encountered in an existing building, removal could add even more time to a project schedule.

Once a building lease has been executed, the design, permitting, bidding, and construction process normally takes roughly 6-8 months to complete, but be mindful that every situation is unique. In extreme cases, the process could take well over a year to complete.

Out-of-Pocket Costs of Leasing

Many people misjudge the initial costs associated with leasing or renting. It may be high or low, depending on your expectations. In some cases, initial costs to lease can be as much or more than the costs to finance a new building. Make sure you have listed your expenses and review them with your

accountant and lender. The following are typical out-of-pocket expenses associated with leasing; including, but are not limited to:

- First and last month's rent.
- Security deposit.
- Utility deposits.
- Professional design costs for tenant improvements (architect, interior design, and engineering).
- Building permits.
- Construction costs. These can be substantial depending on whether or not your lease has a tenant improvement or build-out allowance.
- Taxes.
- Attorney costs.
- Accounting costs.
- Costs of financing (if financing construction).
- Costs associated with IT, A/V, security, etc.
- Costs for new furniture, artwork, and equipment.
- Costs associated with new dental equipment.
- Moving.
- Others...

The Leasing Checklist

The following is an action checklist after making the decision to lease.

Step 1: Determining Needs

1. Size; square foot requirements.
2. Location.
3. Project budget (include a budget for your construction, lease, and equipment/furnishings).

4. Desired length of lease.
5. Parking needs for patients and staff.
6. Ease of building access (from parking lot and within the building; elevators, stairs, etc.)
7. Class of office space desired? Class A, Class B, etc.? (BOMA – Building Owners and Managers Association - has definitions for these. “Class A” buildings are usually the most prestigious with state of the art amenities, highest standards, etc.).
8. Type of building (strip mall, medical/office building, stand-alone building, etc.)
9. Street or building signage.
10. Types of services or utilities you need (internet availability, electrical and mechanical services, natural gas, etc.).
11. Storage.

Step 2: Planning

1. Start looking for an experienced orthodontic architect or interior designer to assist assessing your needs.
2. Costs; calculate total costs and out-of-pocket expenses. Review costs with accountant and lender.

Plan a schedule; determine your anticipated move-in date. Plan for contingencies, and plan well in advance.

Step 3: Searching for Office Space.

1. Hire an independent leasing agent (one who represents your best interests).
2. If possible, seek office space that has north-facing windows (for your treatment area).

3. Try to find a lease space that has the shape of an open rectangle or square. Oddly configured space can usually be planned around, but they tend to be less efficient and present fewer design opportunities.
4. Make sure you have an experienced orthodontic architect or designer review the floor plan to determine the feasibility of a potential space before signing any lease.
5. Look for buildings with good visibility and signage from the street.
6. Look for buildings that aesthetically represent the quality your patients will expect from your services. An old building with outdated finishes and in poor condition may not be the best choice.
7. Make sure your location has good patient access (from freeways, main thoroughfares, etc.).
8. Look for buildings that have good physical accessibility (street, parking lot, entrance).
9. Take advantage of offices that are close in proximity to your main patient base (schools, landmarks, densely populated family neighborhoods, etc.). Keep in mind that if your office is too far away from your targeted patient base, you may lose patients to competitors. Some patients are willing to travel some distance but others are very sensitive to driving any distance. You may be surprised how many patients believe that more than a 3-5 mile drive is a burden.

Step 4: Compare your Selections.

1. Review overall building conditions. Is the building old requiring demolition? If so, have hazardous materials been identified?
2. Does the building have appropriate handicap accessible features (ADA accessible)?
3. Will the owner allow your business type in the building?
4. Is the building in an area zoned for medical/dental offices?
5. Amenities (shared conference rooms, restrooms, storage, Wi-Fi, etc.)
6. Parking.
7. Ease of access (from parking lot to your suite).
8. Appeal (to you and your patients).
9. Location.
10. How well does each building/lease space address your design and/or planning criteria?
11. If you have not yet hired an experienced orthodontic planner to review the feasibility and opportunities of your selection from a planning perspective, do so now.
12. Ask the realtor if they can provide you with a CAD floor plan of the space to give to your architect.
13. Identify a number of possibilities and narrow to a select few.

Step 5: Review Costs of Lease

1. It is important to keep in mind that most lease terms are negotiable. Your leasing agent and attorney can help you.

2. Compare lease rates and all associated costs. They can include, but are not limited to:
 - a. Base lease rate (cost per square foot per year, per month, lump sum or other) for your office suite.
 - b. Lease term (length of lease). When does the lease rate start (after construction, during or before?).
 - c. Common area factor lease rate, if any. These factors add square footage to your base lease for such areas or rooms that are shared by the entire building such as main hallways, elevators, conference rooms, restrooms, entry lobbies, storage rooms, maintenance closets, mechanical rooms, etc.). Some buildings may not have common areas, such as strip malls.
 - d. CAM (common area maintenance) fees, if any. There is not an industry-wide accepted definition of what costs are included in CAM fees so make sure you ask (janitorial, elevator servicing, window cleaning, and others). What fees are included in CAM fees? How do they change? What fees/costs are excluded?
 - e. Utilities. What utilities service the building? Who pays for them and how are they calculated? Are any of them common? If so, how are they metered? Check with the local utility companies to review past utility bill costs for the suite you are interested in.
 - f. Who pays janitorial costs? If included in lease, what type of service do they provide? Is it for the entire building or just the common areas? Can you have your own janitorial service?
 - g. Who pays property taxes? If you have to pay, how are they calculated?
 - h. Identify if there are there any fees for parking?
 - i. Tenant build-out (construction) costs. Does the landlord offer a partial or complete allowance for the design and construction of your suite (usually reserved for longer-term leases)? Is there an option to have a higher lease rate in exchange for the landlord covering construction costs? If so, what are the terms? These terms can be flexible. Negotiate your needs with the landlord.
 - j. If demolition is required in your space, who pays for it? Who pays for identifying hazardous materials and removal, if required?
 - k. Is high speed data provided to the building? Who pays?
 - l. Is Wi-Fi service provided throughout the building? If so, is there a fee?
 - m. Who pays for telephone service?
 - n. How are the costs for building upgrades charged (new roof, ADA upgrades, common area remodels, new building HVAC replacement, etc.)?
 - o. How are all lease rates calculated the first year, second year, and so on throughout the term of your lease? Do rates and costs escalate? If so, how often? How are they calculated?
 - p. How are future lease rates determined if you want to extend

- the term of your lease? Pre-define these rates if you think it may be long-term.
- q. Will you have to personally guarantee the lease? Will your business have to guarantee the lease? This clause is important as it can cost thousands if you need to break your lease and you cannot sub-let or the landlord cannot find a new tenant. Fully understand what happens if you have to break the lease (or the landlord has to break it).
 - r. Who coordinates and pays for building services such as landscaping, snow removal, grass cutting, etc.?
 - s. What types of repairs are expected to be coordinated and/or paid for by the tenant versus the landlord?
 - t. Is a security deposit required? First and/or last month's rent required?
 - u. Who pays for trash? Do you get a dedicated dumpster or trash cans? How often do they pick-up?
 - v. Are some lease terms and/or costs deferred the first year and start following years? If so, identify them and their associated costs.
 - w. Have the landlord disclose any and all other costs not listed above. What other tenant-related costs are excluded?
 - x. What incentives can the landlord offer?
2. Are there common spaces shared by all tenants (restrooms, conference rooms, break rooms, hallways, storage, etc.)
 3. Are there shared amenities in the building (Wi-Fi, storage, conference rooms, toilets, etc.)?
 4. What times of days (and night) will you have access to your suite?
 5. Who are your neighbors? Are they compatible with your practice (clientele, noise, hours of operations, etc.)?
 6. Is parking included with your lease? Are you offered dedicated and/or signed parking? If so, is the cost of this included in your lease rate? If an extra, how much?
 7. If on-site parking is not included with your lease, identify where parking is available for staff and patients.
 8. Can you hire your own professionals to design your suite? This is important especially if the landlord forces you to use their designers/architects. If they are not experienced in orthodontic design, you may ultimately have to pay for 2 design professionals. Negotiate using your own professionals.
 9. Is there central heating/cooling or is it dedicated for your suite?
 10. What type of heating and cooling systems service the building? How are they controlled? Where is the access for your suite?
 11. Are there restrictions to the times or days the construction of you suite can take place?
 12. Is there a security system for the building? If not, how is the building secured?

Step 6: Review Building Amenities/Conditions

1. Assess the overall condition of the building and property.

Step 7: Review Other Lease Terms and Conditions

1. What are the responsibilities of the landlord versus tenant?
2. What are the terms if you need to break your lease? Can you sublet? Is there a penalty for breaking the lease?
3. What are the terms and lease rates if you want to expand your office in the future? Can you get first right of refusal on adjacent building space?
4. How are the terms of your lease calculated if you decide to extend your lease?
5. Are there building standards (colors, materials, window coverings, entry door design, etc.) that limit the design of your suite?
6. Can you use your own contractor to build your suite? This is important if you want experienced contractors and/or competitive bidding for your construction.
7. What types of tenant insurance are required? Make sure your coverage meets your needs. Review options with your insurer.
8. What are the opportunities for exterior signage? Interior signage? What are the costs associated with these?
9. How is the area (square footage) calculated for your suite? What about common area factor and other spaces? Make sure this is clearly defined (BOMA is standard – Building Owners and Managers Association). If you are leasing by the square foot, be sure the square footage in your lease is calculated to your satisfaction. It is often worth paying an architect to verify the exact size of your space prior to signing a lease. This service often pays for itself. Dimensions indicated on floor plans the landlord gives tenants are not always verified or accurate. (Example: If you pay to lease 3,000 square feet and the calculation is off by only 5%, you will pay thousands more over the term of your lease. In the above example, the 150 square feet equates to \$15,000 over a 5-year lease at a \$20 per square foot lease rate).
10. Is your type of business permitted in the building or neighborhood? In most instances, it is. An example where it might not be allowed is a house converted to an office.
11. What happens to your lease if the building is sold during your tenancy?
12. Are there other ways can the landlord can increase your rent during your tenancy?
13. What if you cannot physically use the building or your suite for any reason outside of your control (flood, gas leak, fire, etc.)? Does the landlord assume any responsibility? If so, what are the terms? Whose insurance is responsible for covering losses and down-time? Make sure you are covered.
14. What happens if the building is foreclosed upon during your tenancy?
15. Hire an attorney to review the lease.
16. Negotiate hard for the things you want; the things you want control over. Remember, ALL lease terms are negotiable.
17. Exclusivity clauses. These prevent the landlord from leasing other spaces in the building to your competitors.
18. Co-tenancy clauses. These clauses can help you re-define your lease if a main

anchor tenant that attracted you to the building leaves and is not replaced by the landlord.

19. Is the wall that separates the office sound-proofed from other parts of the building? Is this important to you?
20. Does the landlord have a CAD floor plan they can provide your architect? If so, verify that it is accurate.
21. Is the building fire sprinkled? Check with your insurance company to see if leasing in a building with fire sprinklers is discounted.

Step 8: Select Your Lease Space and Start Negotiating

1. Hire a real estate attorney to review your lease BEFORE signing. Make sure you fully understand the conditions prior to signing.
2. Make sure the building and suite serves the needs of your practice.
3. Coordinate anticipated move-in dates. Plan for contingencies.
4. Review initial lease costs (including design and construction) and down payments with your accountant and lender.
5. Execute your lease.
6. Gather the required insurances.

Step 9: Design

1. Re-review your projects goals and schedule. Confirm your anticipated move-in date. The proper design and documentation of a lease space should take 2-4 months.
2. Define what professional services you will need for a building permit. Normally for a tenant improvement

project, you will need an architect, mechanical engineer, and electrical engineer. If you do not know what services you will need, verify them with your architect as they typically coordinate all professional design services as part of their service and review all permitting requirements.

3. Hire an experienced orthodontic architect or designer. Are they an architect or interior designer? If an interior designer, how will the stamps receive an architect's stamp, if required by the code reviewing agencies? Select a firm that best naturally aligns with your personal and professional goals. Cost of services is a distant fourth in importance to experience, trust, and a good working relationship.
4. Decide how you will construct your project. Will you competitively bid it to a number of contractors? Will you pre-select one contractor you trust to build it? The approach to the design of your project as well as the project schedule, contracts, and professional services required for a permit and construction hinge around this approach. If you do not know, ask your architect to assist in determining what would be best in order to meet your goals.
5. Define and document the needs and wants for your office (architects call this "programming"). Define the flow of how you want to work; how many treatment chairs you will have, the layout of you Sterile Room, Lab, Imaging, etc. Account for all of your equipment so your architect can appropriately account for it in your design. Use a dental supplier if you

need to. Identify and communicate to your architect/designer the criteria you will use to judge the success of your completed project before you start design.

Step 10: Permitting & Bidding

1. The architect and/or contractor typically coordinate applying for building permits. This process normally takes between 2-6 weeks for most tenant improvement projects. Check with your local building department and ask how long they anticipate it will take.
2. Pay for your permits.
3. It is recommended that you get at least 3 bids from general contractors. If you pre-select a contractor, have them provide 3 bids for all of the work to the sub-contractors. Review the sub-contractor list with your contractor. They should select the most reputable firms which offer the most reasonable prices. Simply taking a low cost bidder is a recipe for disaster; including the possibility of having to pay higher costs in the end than you would have had you initially selected the highest cost, most reputable bidder.
4. It is highly recommended that you use a contractor experienced in commercial orthodontic, dental and/or medical work. It is not recommended that you use your home builder or the services of a patient.

Step 11: Construction

1. Make sure your contractor is experienced, licensed and insured.

2. Sign a construction agreement. Make sure the responsibilities of all parties are clearly defined. Review the agreement with your architect and attorney. Make sure your best interests are represented. Be wary of a contractor who wants to use their personalized contract versus one from the AGC (Associated General Contractors) or AIA (American Institute of Architects).
3. It is highly recommended that you use your architect to monitor the construction of your project. If you are unfamiliar with commercial construction, there is no way for most people to know what their contractor is doing. They should be expected to provide everything that the architect noted on the construction documents.
4. During construction, make sure you have procured your equipment and furniture. Plan for your moving day in advance.
5. You may be in charge of coordinating phones, IT, security systems, and A/V systems. Many times, this work is provided by the tenant and needs to be coordinated with the contractor during construction.
6. Coordinate the installation of your office and dental equipment with the contractor. Verify which equipment you are responsible for installing, which equipment your contractor is installing, and which equipment is to be installed by your dental supplier.
7. Close-out the construction of your project. Have the architect make a final inspection and list all items that require correction.

8. Ensure that everything works and meets your expectations.
9. Obtain a certificate of occupancy from the building department.

Step 12: Move-In

1. Coordinate the services of a mover well in advance of your move-in date. Allow ample time to set up your practice after construction has been completed. Usually, 2 weeks is ample time, if properly planned. It can be done over a long weekend.
2. Coordinate the installation of your artwork, furniture, and equipment.

Final Advice

The keys to a successful project are:

- Completing thorough pre-project planning, including a business or strategic business plan.
- Defining, documenting, and communicating what objectives must be met to achieve your personal definition of what a successful project is.
- Starting the leasing process well in advance. You can never start too soon.
- Working with an independent leasing agent who represents your interests and not those of the landlord.
- Finding a good building, with appropriate amenities, in a good location, with a good lease.
- Defining a thorough and realistic project budget with contingencies.

- Hiring experienced orthodontic design professionals that represent your best interests.
- Hiring an experienced and trusted contractor who communicates well and understands your goals.
- Using your own professionals (architect, interior designer, etc.); not the landlord's.
- Having the architect involved with the oversight of construction. An architect cannot be held accountable for their design when they have no voice in what the contractor ultimately builds. This would be similar to an orthodontic patient needing braces, yet not wanting to attend or pay for follow-up visits while expecting perfect results in the end.

The value of your project will not be found in the cost, but in how it ultimately addressed your criteria for success. After completion, if you believe it was a success, you will have a very effective and efficient business tool.