5 Key Considerations
For Physician Leases

Common Issues To Understand When Leasing Medical Office Space

by Michael Honeycutt

1 Align Strategies

Historically, many physicians sought to be located around the hospital campus. While certain groups/specialties will always maintain a presence on the hospital campus, the rising emphasis on consumerism and convenient access to care—and subsequent growth of ambulatory service delivery—is causing many providers to consider how an evolving service-delivery strategy will alter their future real estate strategy. When strategically aligned, real estate is a powerful tool to unlock market share and growth potential.

2 Evaluate Alternatives

“Apples and oranges” is often an appropriate way to describe the comparison of lease alternatives. Triple-net, gross, base year, usable or rentable square footage, common area, tenant improvements and escalations are just a few of the common terms and concepts found in lease proposals. However, each landlord and each building are unique. Understanding which party funds up-front capital costs, how rent is charged over the term, and who is responsible for operating and maintenance costs can substantially impact the overall cost of occupancy as well as affect whether the parties are in compliance with the applicable laws and regulations, as discussed in #5 “Know the Rules”.

3 Protect Flexibility

Flexibility is often cited as one of the main reasons groups elect to lease their real estate rather than purchase. If protecting flexibility is an important part of the practice strategy, then be sure to understand the key provisions that impact end of term options. Renewal options, automatic renewals, notice provisions, and holdover clauses are all key considerations. Once the terms are initially negotiated, the corresponding timelines must also be proactively tracked to ensure the protection of these rights.

4 Engage Professionals

Even seemingly straightforward transactions can present challenges and pitfalls. From an experienced broker to help evaluate lease options and negotiate the terms, to a well-versed architect that understands healthcare trends and best practices, to a seasoned project manager to coordinate all the moving pieces, prospective tenants can realize significant value from engaging the right professionals to successfully carry out a real estate initiative.

5 Know the Rules

Last, but certainly not least, many physician leases are subject to federal Stark and Anti-Kickback regulations. Understanding the proper way to structure a transaction to comply with concepts such as fair market value and commercial reasonableness is critically important to avoid potential violations and strict government penalties. Parties entering into a lease where a Stark relationship may exist are advised to seek an independent, third-party valuation to validate the transaction terms.