

Long Term Facility Requirements: What's Your Plan?

By

George Vaill

Doctor Blue in Tulsa had a terrific retirement plan. He'd had a small, but very successful boutique practice for many years and was very happy with what he had put aside. He felt safe in the knowledge that his financial future was secure. The plan earmarked funds for college tuitions and for supporting the level of lifestyle that he and his family had come to enjoy. And as an added bonus for all of his hard work over the years, he had even been able to set aside extra funds to build that fishing lodge on the lake that he had dreamed about his whole career.

Unfortunately, what he had not counted on was losing his lease, being forced to move, and having to invest hundreds of thousands of dollars to construct a new dental facility elsewhere. He had not made any provision in his financial plan for that eventuality. So, to his great disappointment, that fishing lodge on the lake was sacrificed to fund the new facility – all with only about 4 years remaining before his retirement. In spite of all of his years of hard work and scrupulous planning, his fishing dreams went up in smoke.

Could Dr. Blue have avoided this sudden and most drastic change in fortunes? The simple answer is “yes”. If he had set aside and regularly funded a reserve to cover any potential, major facility renovation or relocation, he might well have been able to pay for such a contingency without totally gutting his retirement portfolio.

Developing a long-term plan for your practice commonly entails reviewing such issues as clinical methodology, personnel management and facility utilization. Frequently, however, dentists who lease their office space often fail to consider long-term occupancy requirements: (i) how long the facility they currently occupy will efficiently accommodate their practice growth plan; (ii) what changes in that occupancy may be forced by an expiring lease or may be required in order to achieve desired practice growth; and, (iii) what capital investment may be necessary - and should be budgeted - to fund changes that may be required in conjunction with a facility expansion, renovation or a planned or forced relocation. Any long term planning that does not include such considerations accompanied by a budget contingency for facility capitalization is incomplete. Such a lack of anticipation and planning may well result in an interruption of your occupancy (and, thus, your practice) accompanied by an unplanned expenditure for facility replacement that significantly alters your financial model: a rude surprise indeed!

Unless consciously negotiated with specific time frames in mind, office leases rarely provide the kind of flexibility that allows you to come and go at will in response to your growth plan. Therefore, it is paramount that you review your lease carefully to understand fully what occupancy rights (and obligations) you have and how they may affect your ability to carry out that plan in the years to come. Given the number of years you wish to work, the practice size you envision and the projected demographic basis required to support your plan, some questions to answer are:

1. How large a facility (and how much parking) will you require five years out? - 10 years out? 20 years out?
2. Will your existing facility meet those needs over the long haul or will you likely require a facility change?
3. Does your lease contain terms that guaranty, obligate you to, or limit long term occupancy?
4. Does your lease contain renewal options of sufficient number and length with prenegotiated terms offering transition increment opportunities that coincide with planned growth steps?
5. When is the ideal time to renegotiate term length and renewal options in order to best position yourself for uninterrupted occupancy - or for premature termination?

If you are uncertain about your occupancy rights and obligations, a dental office lease professional can help you interpret your lease and provide expert guidance that will prove invaluable. Once you have answered these questions and determined how well your current facility and your lease provisions do or do not support your projected needs, you will be in a far better position to plan accordingly and reduce the likelihood of that rude surprise.