

NATIONAL REALTY

How to Reduce Your Urgent Care Real Estate Costs

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If you lease or own real estate, consider the following questions:

- Am I paying the correct rent?
- Do I have vacant land to sell or lease?
- Am I sure the total area in the lease is measured correctly?
- Are the terms that were negotiated being administered correctly?
- Are my real estate taxes higher than the market?
- Would my landlord lower the cost of the current lease?

All of these questions have money-saving answers. The current economy has presented business owners with a considerable number of financial challenges-challenges that force entrepreneurs to look for new and creative ways to reduce overhead. An in-depth analysis of your real estate holdings or lease agreement could provide several opportunities to find capital, or reduce your current rental obligations.

Verify Your Space Measurements

Typically, the rent you pay is calculated by multiplying the annual or monthly per square-foot price by the number of square feet in the unit. Over the years, floor plans get changed and as a result, incorrect dimensions may be used to calculate your space. To properly measure your space, you need to determine which type of space measurement to use. A rule of thumb: use outside dimensions on exterior walls, and half of the width between units on interior walls.

Single-tenant building: If you occupy an entire building, your measurement would be an outside wall measurement. For example, if the length of your building is 100 feet from outside wall to outside wall and 60 feet of depth from outside wall to outside wall, your total area is 6,000 square feet.

Single-story building: If you are a tenant in a single-story multi-tenant building with your own entrance and bathrooms, the calculation would be based on a length measurement that would include half of the wall thickness on each side of the space, and a depth measurement that would be from outside of the front of the space to the outside of the back wall of the space.

For example, if your length is 80 feet from interior-wall surface to interior-wall surface, you would then add half of the wall thickness on each side of your space. One half of the space between a wall is typically 6 inches. If you add the 80-foot length to the 6 inches on each side, your total length will measure 81 feet. If your depth was 80 feet from the outside of the wall on the front and the outside of the wall on the back and your length is 81 feet, your total area would be 6,480 square feet.

Multi-story building: If you are a tenant in a building that is multi-level and has common hallways and bathrooms, your measurement would be similar to a single-story building, but there is an additional space that is added to your base-unit area, called "common area."

Each tenant is allocated a percentage of the bathrooms, hallways and building services areas. This will add typically 10 percent to 15 percent of additional space to your base-unit area calculation. This is also the type of building that will have the most errors in calculating the total rental area.

Consider this: If your space is miscalculated by just 100 square feet and your total rent is \$35 per square foot, you would be paying additional rent of \$3,500 per year, plus any rent tax that your local community may impose.

Audit Additional Changes

Additional charges are referred to by many names, such as pass-thrus, common-area maintenance (CAM), operating charges, etc. These charges represent the cost to operate the building, including but not limited to taxes, insurance, landscaping, snow removal, maintenance, and a fee for property management.

Typically, the owner of the building will estimate the cost to operate the building over the year. This annual estimated cost will be multiplied by the tenant's share of the building, also known as pro-rata share. The pro-rata share is calculated by dividing the tenant's leased area by the total area in the building. At the end of the year, the owner will total his actual costs and compare that to the amount that was estimated. If the estimate was low, then the tenant is sent a bill for the difference. If the estimate was too high, then the landlord will typically credit the additional charges paid by the tenant to the rent due to make up the difference.

Audits of pass-thru charges billed by the landlord uncover mistakes like math errors, charges that should have been limited, or charges that should not be paid by the tenants.

Math errors: Usually, math errors range from simple addition to the inaccurate calculation of a tenant's pro-rata share. The pro-rata share is calculated by dividing the tenant's area by the total area in the building. For example, if a tenant occupies 4,000 square feet and the total building is 40,000 square feet, then the tenant's pro-rata share is 10 percent, which means they would pay 10 percent of all operating costs.

Check to make sure that the owner is using the same building area each time an invoice is submitted. A reduction in the total area will increase the tenant's pro-rata share. For example, the same 4,000-square-foot space divided by a total building area of 38,000 square feet would increase the pro-rata share to 10.53 percent.

Charge limitations: During the lease negotiations, the landlord and tenant may have agreed to limit the amount of certain charges in the lease. Over a period of time, the lease may be administrated by an individual who may not review the lease prior to billing, and the tenant may be charged more than the limitation allows. A limit would be an agreement that assures the tenant that his additional rent charges will not increase by more than a fixed percentage.

So, if the lease indicates that the amount of additional rent shall be no more than a 4% annual increase and actual increase was 6%, the landlord should only charge a 4% increase and the landlord shall pay the difference. This is not always the case, and as such you could end up being charged the full increase in expenses.

There may also be a clause that limits increase in the base rent. This typically involves a calculation using a specific index like the consumer price index (CPI). Tenants should always review these charges to make sure that the math is correct and that the correct index was used as agreed to in the lease agreement.

Incorrect charges: Leases that provide the landlord with the right to charge additional rent will have a clause that details the charges that are the responsibility of the landlord or tenant. This clause will have language that illustrates how much will be charged for management fees, staff, and capital expenditures. An example of a capital expenditure would be a new roof or parking lot.

These types of improvements have an extended-use full life and should not be fully charged in the year that they are installed. The lease should indicate how these charges are to be paid by the tenant, or what percentage they are obligated to pay. Utilities are also regularly miscalculated. Utilities should be reviewed annually to make sure that total utility cost is adjusted for any direct payments by tenants for after-hour service.

Offer Your Landlord an Early Renewal

Tenants have a great deal of leverage with a landlord. A vacant building or unit can have tremendous impact on the value of the real estate, not to mention the costs associated with finding a new tenant. If the unit is vacant, a landlord will bear the cost of paying the mortgage and operating costs with a reduced (or lack of) rental income.

The landlord may have to offer free rent, provide improvements to the space as an inducement to find a new tenant, and cover other transactional costs that become an immediate out-of-pocket expense for the landlord. Therefore, many landlords may be willing to lower the rent immediately in exchange for a commitment to occupy the space for a longer period of time. In today's market, the value of commercial real estate has a direct correlation to the amount of time remaining on the lease. Your willingness to extend the lease term will be of direct benefit to the landlord and he may be willing to reduce the rental rate in exchange for increased term. This may be of even more benefit if the landlord is preparing to sell the property.

Contest Taxes

Of all the costs associated with the operation of real estate, property taxes are always one of the largest costs. Factors including increased vacancy, contraction by commercial lenders, and oversupply coupled with reduced growth, may have negatively impacted the value of the property. Most municipalities offer property owners the opportunity to make a case illustrating why the taxable value should be reduced.

This process will typically require that an application for reduction be submitted by a specific date. After submission, the property owner and their appraiser (or other professional) will present market comparables demonstrating the reduction in value to the Board of Revisions.

After hearing any counter claims, the board members will render a decision in several months. If you are successful, the county will lower the tax value and refund any overpayments made during the contesting period. When a landlord contests and wins, it is his obligation to reimburse the tenant.

Sublease Space

Tenants are usually permitted to sublease some or all of their space. In some cases, space can be rented at a higher value and the tenant may be entitled to the potential profits. So, if a tenant leased 6,000 square feet at \$35 per square foot and was able to find a user that would be willing to lease 2,000 square feet of the total 6,000 square feet, the tenant would reduce their cost by \$70,000. Landlords will typically require that they consent to any sub-tenants and the current tenant would have to pay any of the costs to prepare the space for the new tenant, but this could still provide a considerable reduction in costs.

Sell or Lease Additional Land

Owner occupants of real estate should evaluate their site to determine if there is enough vacant land to sell or lease to another user. There may be enough room for a cell tower, billboard or ATM banking center. This is found money with little or no effort by the property owner. If the site has additional acreage, the property owner may be able to split off a portion of the site and sell the land at current market values. The property owner may also consider a build-to-suit building where he would retain ownership and rent the building to another user.

Whether you choose to do this on your own or with the aid of a professional, such as an attorney, architect or realtor, time spent annually reviewing the terms of your lease and analyzing general market conditions could result in considerable cost savings to you and your company.

NEXT STEP

Do you have an Urgent Care Real Estate question? Call Mike Zelnik at **(614) 309-3288** or email him at mike@nationalucrealty.com. To learn more about National UC Realty, please visit **www.nationalucr.com**.