

INDUSTRY PERSPECTIVES: LEASE RENEWALS FOR URGENT CARES - HOW TENANTS AND LEASE TERMS IMPACT POTENTIAL PROPERTY VALUE

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In an “[Industry Perspective](#)” in 2018, we discussed a few concepts behind real estate ownership and valuation (ex. examining physical property based on comparable market sales of like-kind assets vs. capitalizing cash-flows a property generates as an investment). Each method, when used in the appropriate context, can help property owners and/or tenants make strategic business decisions to reach financial objectives. While the initial “Industry Perspective” was focused on helping urgent care groups determine if buying or leasing property was *best* for their business-model, some of the same principles can be used to aid existing urgent cares and owners plan for the next phase: Negotiating Renewals.

As a Tenant, the rent paid to a landlord or owner represents a value. By using Capitalization Rates (CAP Rates), the market is able to assess the potential rate of return and/or risk each tenancy represents through the value received via their rent payments. Not only do the tenant’s perceived ability to pay rent (tenant’s credit) and the tenant’s use (business or service type) impact the CAP Rate, the Term of the tenant’s lease also impacts the potential capitalized value. Traditionally, the longer the term, the higher the value.

Due to the cost and specificity associated with the build-out and construction of urgent care facilities, many retail medical providers seek longer term leases (relative to other traditional retail tenants). In addition to the initial length of the lease, most urgent care groups are able to secure “renewal options” that provide the right, but not the obligation, to renew the Lease at previously specified terms. Many urgent care operators do not consider the value their tenancy creates for the landlord, and that with each year that passes, the overall value of the landlord’s asset is diminished (because the remaining firm-term of the lease is reduced). Typically, renewal options that may exist, almost exclusively benefit the tenant and cannot necessarily be relied upon by the landlord when they are calculating the value of each tenancy.

Instead of waiting until the last minute or ‘required notice period’, many tenants have elected to approach property owners two to three years in advance in an effort to re-negotiate some of their deal-terms. The deficiency in value (created by the shrunken lease term), the prospect of having to re-market/re-lease/pay broker’s and attorney’s fees, and the potential for a gap in rental receivables if the current tenant does not renew, are all factors that should be considered.

In summary, while “options to renew” may provide future security for the tenant, understanding the dynamics of lease capitalization can arm the tenant with knowledge of how to re-negotiate key terms in the future. As retail markets continue to shift globally, urgent cares and other medical providers have grown in popularity with investors. Because urgent care represents a ‘desirable tenant’ with growing awareness on the investment market, now is a great time to re-examine your current lease and future objectives!

National UC Realty (NUCR) specializes in Site Selection for Urgent Care Centers nationally and has completed over 400 Urgent Care transactions. By utilizing a proprietary, in-depth Urgent Care site scoring algorithm that analyzes demographics, psychographics, medical competition and other key metrics we’re able to increase confidence and decrease the time required to identify prime locations. Working with us is like having the nation’s best in-house Urgent Care site selection staff, without any of the overhead!

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