



CLIENT SUCCESS STORY

Renegotiating an Existing Lease for \$1 Million in Savings

THE CHALLENGE

A group of savvy Florida doctors decided to turn their office expense into an investment. They signed a lease for a significant portion of a new building they would occupy, and simultaneously became partners with the developer – confident that as owners they were getting a good deal. Months later, the doctors realized that the expert developer had loaded their lease with above-market costs. HCREA helped the doctors escape this trap.

The doctors' lease made them liable for capital costs, used real estate taxes as a profit center, limited the doctors' ability to make changes in their partnership structure, used common alterations as a landlord profit center, made the doctors responsible for costs of complying with the landlord's legal obligations, and loaded the doctors with high costs to refurbish the landlord's space at the end of the term.

THE SOLUTION

Tenants committed to a long-term lease usually have little leverage to improve provisions like these. But, a well-advised tenant can use incremental growth to secure outsized benefits. When the practice group planned to expand by about 25%, we re-opened the original lease and negotiated significant improvements.

- Redefined real estate taxes to eliminate inappropriate charges and to require the owner to distribute real estate tax refunds to the tenant
- Revised the lease to allow more types of tenants to occupy the space and to improve the doctors' ability to sell their practice or exit the lease
- Eliminated the landlord's mark-up on tenant alterations and gave the doctors the right to use their own contractors
- Increased the services the landlord was required to provide to meet market standards
- Eliminated landlord perks and overhead costs from building operating expenses
- Imposed specific repair and maintenance obligations on the landlord
- Eliminated above-standard costs from the doctors' renewal options.

THE RESULTS

HCREA's negotiations with the developer resulted in improved financial and operational lease terms -- saving \$1.5 million over the balance of the lease term, and providing the practice with greater flexibility and more leverage in its role as a tenant

HEALTHCARE REAL ESTATE ADVISORS
295 Madison Avenue, Suite 1714, New York, NY 10017 • Tel.212.684.2044
Fax 212.684.4403 • www.hcreadvisors.com

beyond any applicable grace or cure period; and provided, further, that in the event of such termination, the Tenant shall have repaired the damage caused by such removal, and promptly restored the Premises to its original order and condition, normal wear and tear, damage by casualty or accident and repairs for which Tenant is not responsible, excepted. Any such trade fixture not removed prior to such termination shall become the property of Landlord. Trade fixtures, except as lights and air conditioning heating and plumbing equipment, whether or not installed by Tenant, shall not be removable at the expiration or earlier termination of the Lease, or at the expiration any removal or extension thereof, and shall become the property of Landlord. If the same trade fixtures would leave any wall or floor indentations or other non-standard improvement finishes, then the obligation of Tenant to restore the Premises (as a condition of removal of any trade fixtures) includes the obligation to allocate any such indentations or other non-standard improvement finishes and paint or otherwise finish the applicable areas in the same manner surrounding areas, such that, in the reasonable judgment of Landlord, Landlord shall not be required to incur any expense to make the Premises ready for a successor tenant or relative of the Premises from which trade fixtures have been removed.

17. ASSIGNING, MORTGAGING, SUBLETTING

Tenant shall not directly or indirectly assign, create a security interest in, mortgage, or encumber any legal or equitable interest in the Lease, in whole or in part, or the whole or any part of the Premises, or permit the use of the whole or any part hereof license or concessionaire or any person without first obtaining the written consent of Landlord which consent shall not be unreasonably withheld, conditioned or delayed. Landlord shall events respond to Tenant's request, in writing within 10 days after receipt or Tenant's request shall be deemed granted if Landlord denies Tenant's request for a sublease or assignment if provide a detailed statement of the reasons for such denial. Landlord may deny a sublease assignment only if (i) the proposed use is inconsistent with the certificate of occupancy of the Premises or the Project, or (ii) the proposed sublease or assignment is of a character not in keeping with the Project. In no event may Landlord seek a share of sublease or assignment profits, or to stipulate the economic terms on which a transaction may proceed as a condition granting approval of any sublease or assignment. In the event that such assignment, subleasing, or granting of a concession is consented to, Tenant shall nevertheless remain liable the performance of all the provisions of the Lease. Any transfer, sale, pledge, or disposition, in any single transaction or cumulatively during the term of the Lease or any re or extension thereof, of a legal or an equitable interest in as much as fifty percent (50%) shares or assets of Tenant shall be deemed an assignment of the Lease, and prohibited without the express written consent of Landlord as provided above, provided that no such consent shall apply to transfers of shares effected through the over-the-counter market or through recognized stock exchange.

If Tenant plans or proposes any specific assignment or subletting to any parties, Tenant shall first submit in writing to Landlord (a) the name and address of the proposed assignee or subtenant, (b) a statement of the rent, additional rent and a description of the other material of the proposed transaction, (c) reasonably satisfactory information as to the nature, business, of the proposed assignee or subtenant, and as to the nature of its proposed use, space,

Tenant, without obtaining the consent of Landlord that upon at least thirty (30) days written notice to Landlord, shall have the right, from time to time, to assign its interest in it