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Opening a new office

The dentist's personal frontier

B. Casey Crafton, DDS, MS, JD; Alexander H. Lofft, MBA

Opening one's own business is a dream shared by many people. Autonomy, control, self-reliance, personal satisfaction and financial stability are some common reasons for doing so. To many, it is a personal pioneering experience and involves a certain romantic appeal. Certainly, the ability to reap the rewards of one's own hard work and industriousness is attractive. Of course, it also carries with it a measure of risk. Fortunately, many have embarked on—and succeeded—in similar personal journeys. By following these well-worn paths, dental practitioners can tread a long way, maximizing their stride while minimizing their risk.

Our goal is to encourage the dental practitioner to build a real estate transition team as part of the process of opening a business (or modifying an existing business). In addition, we seek to provide some insight into commercial real estate, a practical framework for identifying and securing new office space, as well as some answers to frequently asked questions regarding the physical space of the dental practice.

BEGINNING THE PROCESS

Time frames. Once you have decided to open or move your practice, setting expectations—including reasonable timetables—will help focus your efforts and instill self-confidence. Expect the process of identifying, securing and modifying a space suitable for your operations to take at least six months. If you intend to purchase the space (such as an office condominium or a small building), add an additional four to eight months, depending on the options

ABSTRACT

Background. The purpose of this article is to assist the dental practitioner by providing insight into commercial real estate and a framework for identifying and securing new office space, as well as by addressing concerns about the physical space of a dental practice.

Conclusions. In the process of identifying and securing new office space, the dental practitioner can maximize efficiency and minimize risk by assembling a team of professionals to assist him or her. This team should be composed of an accountant and an attorney, as well as a dental equipment/design specialist and a commercial real estate professional.

Practice Implications. The professional team will provide invaluable assistance to the dentist, enabling him or her to avoid major financial, legal, logistic and real estate-related pitfalls inherent in establishing or moving a dental practice.

Key Words. Dental office construction; commercial real estate; real estate professional; design specialist.

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available. To purchase land and build on your own space, add yet an additional six months.

Based on our experience in a wide variety of markets and market conditions, we believe that these time frames are typical for establishing a wide variety of specialized facilities. While market conditions may affect this time frame to a certain extent, accelerating the process much more may exact premiums for service and materials and also may lead to mistakes or omissions in due diligence, planning, procurement and execution of goals.

Specialized features. Part of the reason for this protracted time frame is that while many dentists' offices are located in typical buildings, today's modern dental offices, unlike ordinary business offices, require significantly more plumbing, electricity, computer networking and medically related waste management systems. Space planning requires greater attention to detail and longer construction times to install specialized features with more demanding tolerances (and possibly that require specialists to install them). At the same time, equipment lead times will conspire to draw out the time before practitioners can commence operations in the new facility.

Indeed, beyond specific market conditions, the physical and operational demands on a building are significant enough that many landlords do not allow medically related operations in their buildings. Those who do probably have prepared their buildings to handle such operations, but these costs must be absorbed in the rent. Therefore, for the economics to make sense to both parties, the longer the commitment to the space, the longer the period during which such costs can be amortized, and the lower each month's rent payment will be. We provide the above information merely to temper expectations in timing, costs and the number of available options.

ESTABLISHING GOALS AND THE TEAM

The dentist's time and efforts can be maximized by clarifying his or her goals and then by connecting with some key professionals for assistance. If you are moving an office, you should commit to paper the intended reasons for the

move: is the rent increasing, are patients having trouble getting to you, are you looking for more (or less) space or do you simply want to inject the inspiration of change and newness into your practice?

Identify objectives. Write down your objectives in establishing a new office. Do you want a leading-edge, high-tech office or a low-key office; ease of parking; proximity to your home and/or service amenities (such as dry cleaning, banking, day care); and/or nearness to other medical professionals and medical support services? Only then should you consider defining how you want the space to look.

Isolating and ranking reasons and objectives will help you focus your efforts and communicate objectives more easily to staff members, patients, colleagues and the professionals you hire to help find and secure the new space. Although the variety of reasons and objectives is unique to each professional, there will be many similarities among practitioners in this area. You can learn a lot about what makes an office successful (or challenged)

from professional peers and from the people who have a stake in your decision. In any case, the more you discuss ideas, the more you can refine the list and the clearer your path should become. Gathering your reasons and objectives on paper will enable you to articulate them to the team.

Assemble a team. Once you have established the rationale and goals, you can assemble a team to assist in the transition. Your team should include these professionals:

- an accountant;
- a dental equipment/design specialist (a full-service dental supply company can provide these services);
- a commercial real estate professional;
- an attorney (make sure that he or she or one of his or her colleagues has experience in commercial property leasing or sales; if not, obtain a referral).

Before you take the time to investigate a move, make certain that the practice can support the transition. If you are just starting a practice, discuss your options with a knowledgeable accountant. Ask around and find out how many dental clients the accountant works with. Contact them and ask if they are satisfied. Do you need a

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full-service accountant or are you looking for someone off of whom you can bounce ideas? This will impose some upfront costs, but will save a tremendous amount of time. Make certain that the accountant really understands what you are trying to accomplish. Once you have his or her input regarding the financial and tax-related aspects of supporting the business, you can contact the dental supply company.

THE EQUIPMENT/DESIGN SPECIALIST

The search process starts with preliminary discussions with an equipment specialist (typically found via word-of-mouth referrals).

He or she should be familiar with the area you are looking at and should be able to provide you with answers to many fundamental questions relating to office size, configuration and equipment needs. Make certain that the person you select is attentive to your needs and can help keep the process rolling.

You will be spending a great deal of time with the equipment specialist, so be sure your personalities are compatible.

Once you have come up with a rough idea about office size, it is time to locate a suitable space. A safe assumption regarding size is to allow between 400 and 500 square feet for each proposed operator. This allows for all of the ancillary space required for the day-to-day functioning of a dental practice. In other words, if you want a five-chair practice, then concentrate on finding a space that is in the 2,000- to 2,500-square-foot range. Remember, though, that this is simply a rough guide.

COMMERCIAL REAL ESTATE AND BROKERS

Why should dentists engage a commercial real estate professional? There are several reasons.

Let the owners pay. In most instances, the services of a commercial broker cost the dentist nothing. As in most residential real estate transactions, the seller or landlord pays a commission to the brokers involved in assembling the transaction; this includes the broker who represents the landlord and the tenant's representative. This construct is what keeps the real estate market fluid and allows for the efficient matching of the tenant/buyer to suitable available space.

Landlords budget for administrative costs and brokerage fees to market and lease space. With

all these costs accounted for, dentists can be sure that the landlord will be well-represented through all phases of leasing or a sale. Obviously, the broker who represents the landlord must answer to the landlord.

The benefit to you of the ubiquitous seller-compensation method is that a broker representing you will not have an allegiance to a particular landlord and will be able to achieve similar rental fees among comparable buildings. This makes the broker dispassionate about any particular building, thereby enabling him or her to deliver services that are in your best interests.

Beyond the basic motivations that result from this economic structure, the tenant's representative also is motivated to deliver outstanding services to you in hopes of building an enduring relationship, whereby you send him or her referrals and return for future services yourself.

A better way to gather information. Commercial brokers know or can access easily an abundance of information to accelerate your

search efforts and quickly cut through the clutter. Commercial listing subscriptions, broker networks, a roster of online resources and personal knowledge of regions, neighborhoods, specific buildings and owners provide them with the ability to help match your requirements and desires to what is available. As a result, you can spend more time analyzing detailed information and less time chasing after the basics. Furthermore, good brokers are adept with leasing documents, real estate finances, construction terms and negotiations in general. Dentists should expect them to become advisers—not merely tour guides—to get the most benefit from the relationship. Talk through the written objectives with the broker and refine them, then let him or her gather the relevant information needed to assess options. Remember, your time is most valuable when it is spent running the dental practice.

Caveat emptor (buyer beware). Most people have limited experience in real estate, such as having rented an apartment or bought a house or condominium. Typically, people rely on residential real estate agents to help match their requirements and desires with the best available inventory, and then to work through the requisite forms in pursuit of a transaction. On the other hand, some more experienced buyers may go it

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alone and rely on their experience and perhaps their heightened knowledge of an area, a unique situation or both.

In both instances, extensive consumer protection laws and the documents that represent buyers in a residential real estate transaction provide a certain piece of mind regarding disclosure of material information. The documents also provide a good transaction outline so that the buyer and seller can avoid misunderstandings or mistakes in the transfer of assets.

By contrast, the commercial sector is a much wilder frontier. Absent such specific forms or guidelines, owners position themselves in a transaction specifically to protect their own interests. Caveat emptor, or “buyer beware,” is the conceptual approach here, and it is based on the assumption that anyone savvy enough to engage in business can gather and assess information regarding the worthiness of an asset (be it a vehicle, a share of stock or a piece of land) and negotiate for himself or herself. It is imperative to “know what you don’t know”—that is, to recognize where your own experience and knowledge taper off and how to strengthen your hand with regard to the many outside resources available to you.

A team for the dentist’s interests. A knowledgeable broker and an experienced real estate attorney can help you find appropriate spaces, negotiate advantageous business terms and protect your interests when dealing with the minutiae of leasing or sales documents. Furthermore, they can insulate you from the pressure of making a rushed decision or disclosing information you would rather hold close, two risks likely encountered if you chose to communicate directly with the owner (or, more likely, the owner’s representatives).

We need to stress that none of this is meant to imply that landlords are malicious or difficult to deal with (although we have met some who are). Rather, owners take positions that protect themselves, with regard to both the general business terms (such as escalation clauses, triple-net leases) they put forth to the marketplace and the specific business and legal terms they present in their documents.

As a renter or buyer, you need to recognize your best interests. In the marketplace, this

means that you should find out what office space is available in general and what is happening in and near the search area, as well as obtain information specific to particular properties. With regard to specific properties, it is equally important to understand what is and what is not written in the documents governing a lease or sale. This is where the efforts of the broker and attorney can make the biggest difference in your risk profile (including such variables as age, number of children, current debt). Furthermore, they will help you understand the obligations, responsibilities and risks you and the owner are exchanging in the transfer of rights (via leasehold or sale) to a property.

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MORE PROPERTY BASICS

When actually starting to screen properties, you will be exposed to the oddities that prevail in the commercial real estate world. Almost everything is measured according to square foot, but not all square feet are created equal. Moreover, pricing by the square foot might

include a variety of material costs, thereby complicating the process of comparing one property with another.

Comparing properties. To understand this point, imagine driving down a busy avenue that you think would make a great location for your practice. You see signs announcing space for lease in a nice, single-story street-front building with good parking alongside, and later you see similar signs for an attractive multistory property. You call the owner’s representative for more information and are told that the space in the single-story building is \$12 per square foot on an annual “triple-net” basis (that is, taxes, utilities and insurance are not included in the rent). The owner’s representative for the multistory building quotes a price of \$18 per square foot on an annual “full-service” basis.

Calculating costs. From an economic perspective, it seems like an easy choice to head straight for the single-story building, because you might assume that it is less expensive. You call a trusted tenant’s representative to tell him or her of your great luck and ask if there is a catch. He or she calls back to say that the aggregate operating expenses for the single-story property are approximately \$7.50 per square foot per year and points out that in a triple-net scenario, the tenant

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pays for these expenses in addition to the base rent. Conversely, these extra expenses are included as part of the full-service rent of the multistory property; hence, on a square-footage basis, the multistory property is less expensive by more than 8 percent (\$1.50 per square foot per year for a 3,500-square-foot office is \$5,250 in additional rent for missing this subtle difference in how rents are articulated).

However, you decide to explore these two properties a little further because both still are attractive. You call the building owners to obtain floor plans for each to test their fit to your office layout schematic. The owner of the single-story building has 10,000 square feet available, but he or she is willing to rent a smaller portion to suit your needs, which turns out to be about 5,000 square feet. The available space in the multistory building is a bit awkward, because it wraps around a stairwell, so accommodating your plan would require 5,500 square feet. You multiply the cost per square foot by the total square footage and discover that the extra 500 square feet in the multistory building actually makes the overall cost \$2,500 higher per year than the cost of the single-story building.

Next, imagine making comparisons across eight or 10 candidate spaces. Add to that several distinct qualitative differences that go beyond economic considerations, and you have a lot of information to gather and assess. A good brokerage agent should be able to use economic models to help project and illustrate relative costs, so that you are in the strongest possible position to assess the likely economic impact and weigh it against more subjective considerations (such as image, location, amenities) to arrive at a few solid options from which to choose.

THE EQUIPMENT/DESIGN SPECIALIST REVISITED

Once you get through the maze associated with finding a space, it is time to develop preliminary

space plans, which are more specific than the initial equipment sketch. Again, you should use the dental equipment/design specialist for this task. Most supply companies will provide dentists with initial design services at little or no cost. Once you decide on a plan, these specialists will tailor it specifically to your needs and help you transition into the construction phase. In most cases, you will not be able to obtain the appropriate construction permits based solely on the plans provided by the dental supply company. However, the architect and mechanical engineer with whom you contract will be able to obtain these permits. The costs associated with the design phase generally are absorbed into the cost of the equipment. Practitioners should be certain with regard to how the particular specialist (or the supply house) would like to proceed in this matter.

CONCLUSIONS

By identifying the reasons and requirements for establishing a new dental office, dentists will begin to see how certain property options may or may not work. More importantly, they will be better able to convey their objectives to peers who can offer helpful anecdotal information; to colleagues and patients who have a stake in the decisions; and to hired professionals on whom they rely to protect their interests and add muscle to their efforts. The core team will coach dentists through key decision points, by gathering and distilling critical market and property information so that practitioners can achieve optimal results. A team approach also will increase significantly the efficiency of practitioners' efforts. ■