THE DEMOLITION HAMMER HITS, ONCE AGAIN, AND HARD!

Image is for conceptual purposes only and does not depict an actual property.

A demolition clause in a retail lease can take $500,000 off the value of a dental practice on twelve months' notice. Here is what happened when ROI Corporation tried to help buy one out.

Picture this: A lovely dental practice, perfectly located in a remarkably busy, sprawling, suburban retail plaza.

Big-name anchor tenants that draw thousands of people each day.

The plaza features all the usual clothing and sports brands, two banks, a well-known drive-through coffee shop, and a wide variety of food options.

Daily vehicle traffic in and out of the sprawling asphalt jungle of a parking lot is estimated at 6,000 cars.

And then there is our client.

The only dental office in the plaza.

The practice was built out from scratch less than 20 years ago.

The lease contained the dreaded demolition clause from day one, when the plaza was brand new.

If you have never had one explained: a demolition clause lets the landlord end your lease on notice so they can redevelop the site. Your production, your patient count and twenty years of goodwill are all irrelevant to it.

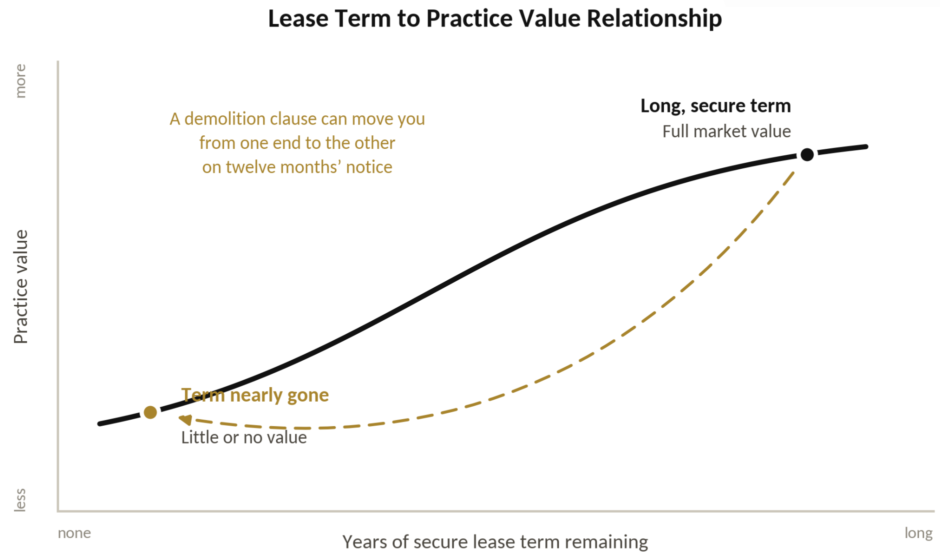
It seems absurd and patently unfair, but the landlord will neither postpone nor remove it.

They proposed an additional 10-year renewal term, but they will not remove the clause giving them the right to evict the dentist on 12 months' notice.

Therefore, we approached a banker and laid out a case: the plaza is not that old, the area continues to grow, and there are plenty of other national-brand tenants with better lease terms, including the bank itself.

But the bank said no.

This 12-month hanging guillotine could decrease the value of this business by at least $500,000 if the practice must be relocated on 12 months' notice.



The two move together. Every year of secure term you lose takes value with it, and a demolition clause can take the term away on twelve months' notice.

The owner is nearing the end of their logical career as a practice owner. They are depressed and, quite frankly, suffer from stress and anxiety over the situation.

WHAT WENT WRONG

Then, one of those commercial lease negotiation companies was hired.

They upset the landlord and made things worse.

After feeling rejected and defeated, he asked if ROI Corporation could help preserve the practice value.

You may remember the article about cupcakes. (Call Me Cupcake).

Timothy sent cupcakes to this property manager, and she politely told me that it was not going to get us anywhere.

So, Timothy escalated the offering to what ROI Corporation calls a **reverse landlord inducement**.

WHAT IS A REVERSE INDUCEMENT?

It means that we offered to pay the landlord a fee to defer the demolition clause.

If they agree to kick the clause down the road by at least 10 years, it will preserve the practice value and increase its salability.

THIS IS NOT NEW

More than 15 years ago, Robert walked a cheque into the head office of one of Canada's largest landlords to buy a client out of the very same problem. We will not name them. Let us just say the name would look at home over the gates of an old English university.

It also arrives in other forms. A landlord may propose a rent increase as the price of removing a clause or agree to remove one only if you accept other terms that you never wanted. The demand is the same. Only the wrapping changes.

It feels like paying a toll to use a road we already lease, but we did not know what else to do.

WHY THE LANDLORD DOES NOT CARE

This is an enormous company with hundreds of millions (probably billions) in real estate valuation.

They lease to thousands of businesses on various leases. They are thinking about their portfolio and the bigger picture.

One little dental office occupying 1,800 square feet does not have much, if any, influence.

If the dentist threatens to pack up and move, the landlord has other tenants waiting for prime space.

As of writing, the result of the reverse inducement offer is still unknown.

The offer of cash up front to revise the lease is sitting in someone's inbox and being ignored.

We will tell you how this one ends. If they accept, we will report the number. If they refuse, we will report that too, because you should know what these clauses actually cost.

TAKEAWAY

1. Find your lease this week and search for the words demolition, redevelopment, relocation, and termination. If any of them appear, you have something to deal with.
2. Check how much notice the clause gives you. Twelve months is common, and it is not enough time to relocate a practice without losing value.
3. Deal with it long before you intend to sell. A clause is far cheaper to defer when you are not under pressure and the landlord knows it.
4. If you hire a commercial lease consulting firm, hire people who are kind, patient, and peaceful.
5. Coming into the discussion with a landlord aggressively can damage the negotiating position and cause significant financial harm to the practice.
6. Be prepared that you may have to pay your landlord a sum of money to obtain better lease terms that will help you exit ownership with dignity.

Please email timothy@roicorp.com or robert@roicorp.com if you would like to have a private conversation about your lease.

Click HERE for a FREE copy of the 11th (and final) edition of Timothy's book, QUANTITIES ARE LOW, ACT FAST!

Written by: Timothy A Brown & Robert MacDonald
Broker of Record *Sales Representative*