

Negotiating the Lease Letter of Intent: Triumph and Heartache

Put down the pen! Before you sign the letter of intent for your dream office you need to re-examine what you are about to sign. Like the sirens of Greek mythology, the letter of intent is written to ensnare you before you know what is happening. In order to avoid the heartache and misery which will surely follow once you discover what you have signed, this article is a quick synopsis of the areas which you need to watch out for so that the potential heartache turns into triumph, allowing you to be on much better ground when you receive the actual lease.

1. **Term of the Lease/Options.** In the long run this may be the most important point you negotiate. The length of your lease, and the options that come with it, will either make your lease an asset or a liability. The longer the lease term (including options), the greater the chance of being able to eventually sell your veterinary practice to another veterinarian for a very favorable price. Without a long-term lease (at least 10-15 years with options), lenders will be extremely hesitant to loan money to potential buyers of your practice. Second, you must make any options you have assignable to a potential buyer. Options for a lease are almost always personal to the tenant, making them worthless to a potential buyer.
2. **Office Build-Out Time Frame.** Generally, when you are building out your office, the landlord will give you a period of time to build out your office prior to your rent starting. There are many complex issues you must be cognizant of prior to signing the letter of intent. First, try to get a strict timeline for landlord approval of architectural plans, drawings, etc. You will find these timetables in the work letter from your landlord. Without strict timetables your build-out period can be quickly eaten away by the landlord taking too much time to approve the various stages of your office build-out. Second, try to get at least 90 days to build out your office prior to having to pay rent and tie it to your actual possession date (the date you can enter into the premises). We suggest asking for 120 days with a proviso that if you open for business early, you will begin to pay rent on the date you open. Last, whoever your contractor is, require them to insert a definitive delivery date for your office. If they are not able to deliver within the allotted time, they should be responsible for your rent.
3. **Tenant Improvement Allowance.** Generally, landlords are willing to grant a certain dollar amount towards your tenant improvement costs. It is up to you to negotiate the amount, however, try to get the allocation tied to rentable square feet rather than usable square feet. The industry standard is to have allowances tied to usable square feet, a lesser amount, rather than rentable square feet.
4. **Type of Lease.** You need to find out what type of lease you will be signing. Is it a triple net? A gross lease? A modified gross lease? Depending upon the lease, your rent could be much higher than the quoted price per square foot you negotiated. Landlords are increasingly turning to triple net leases, which pass on

all costs of running and maintaining the property to you, the tenant. You can't change the form of the lease but you can be adequately prepared for hidden costs if you know of them ahead of time.

In our law firm, about 10% of our clients come to us prior to signing a letter of intent. Those 10% are the most satisfied with their lease because we help them control the lease from the letter of intent through the signing of the actual lease document. Remember, while generally non-binding on the parties, the letter of intent creates a psychological impact on the parties which generally precludes future negotiations on the points outlined in the letter of intent.

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