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Why You Should Consider Buying a Medical Office Condominium

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*Much of the conversation in **healthcare real estate** has focused on **medical office buildings**, **hospitals** and **property management**, but what about the needs of a smaller practice? The answer (**medical office condominiums**) might be simple.*

For a small medical or dental practice, an office's location, size, costs, benefits and future returns affect the degree of success the business can achieve there. Answering the following questions will clarify which attributes matter most, and whether to lease space or purchase an office condominium or building.

Will the practice expand? Whether growth expectations include taking on another practitioner or merely adding treatment rooms, consider the square footage required to realize those plans. Failure to plan for growth, should expansion become necessary, may require opening a second office or relocating to another property.

Going the ownership route, an office condominium should be large enough to accommodate anticipated expansion requirements. Space banking, or maintaining unused space in readiness for future growth, adds to the purchase price but is generally worth the investment. Many investors purchase multiple condominium units and lease out the unused space until it is required. The buyer may even purchase and lease out a larger building, ready for an eventual move to the larger space when expansion occurs.

In leased space, accommodating expansion is more complicated. Space banking is cost-prohibitive in leased space. If growth seems likely, negotiate for expansion options in the lease agreement. Understand that exercising an expansion option may involve moving to a larger suite, requiring the relocation of fixtures and equipment.

Have all costs been considered? Desirable locations are a limited commodity, and that is reflected in lease rates and purchase prices. Lease rates typically increase about 3 percent annually and adjust to market rents upon renewal, every three to five years. A tenant that doesn't renew will incur additional expenses in time and money to relocate, but few business plans account for these costs.

Office owners are subject to increases in property taxes, but enjoy predictable, stabilized occupancy costs in the form of mortgage payments, with less risk of having to relocate their practice.

What are the tax implications? Both leasing and buying real estate create tax shelter opportunities for business income, but the advantages are generally greater with ownership. Buying space for a medical or dental practice makes the owner a landlord, collecting rent from the business and thereby sheltering income generated from patient care. Building depreciation, in conjunction with operational expenses, mortgage payments and tenant improvement costs, add to this effect. It is best to consult a qualified, local tax consultant to identify the advantages and trade-offs of owning versus leasing.

Is there an equity-building strategy? ***Medical and dental professionals can no longer rely on the sale of their practices as a solid source of future income. If the professional exiting a practice owns the space, however, they may sell the property to the remaining partners or to a new practice. Alternatively, the owner may remain a landlord, continuing to collect rent as a monthly income stream.***

Investigating condominium ownership is worth the effort. Weighing its advantages against leased-space considerations, it may well be the best choice for a medical or dental practice.