

# COMMERCIAL REAL ESTATE IN AZ

## THE CURRENT BUSINESS CLIMATE

### Aaron Kuhl's experience in

Arizona real estate -- particularly medical and dental properties -- began at an early age. A native of Phoenix who attended Brophy High School, Kuhl often heard his physician father speak of negotiating lease and purchase transactions. After earning a degree in Urban Planning from the University of Arizona, Kuhl worked as a property manager and leasing agent where, he says, "I learned the landlord side of things." During his tenure, DC Ranch, an upscale community in North Scottsdale, was developed. "I was privileged to be in the right place at the right time. It was the opportunity of a lifetime."

From there, Kuhl started a property management division for a non-profit organization that not only took him on a journey through an entirely different socioeconomic spectrum, it sparked his passion for giving back. Last October, he completed his second mission trip to Tanzania where he helped to build homes for Masai women. He is also developing an off-road racing team that will raise funds for charitable organizations. He is President and Designated Broker for Medical Office Brokers, endorsed by AzDA Services, the Maricopa County Medical Society, and the

Arizona Osteopathic Medical Association as a preferred vendor for commercial real estate services.

### From your perspective, what is the current climate in commercial real estate in Arizona?

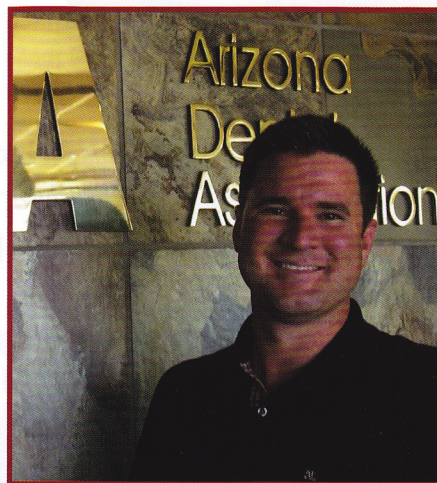
Over the next two or three years, I predict, we will see commercial real estate following the trend of residential with continued softening in the market. Tangibly, it means lower rental rates, more lease incentives such as free rent and higher tenant improvements, more flexibility on the part of landlords, and more leases with purchase options. Every day I receive more lease flyers from landlords. In

certain markets, we are seeing a twenty-five percent decrease in price. It's a great time for tenants and buyers. However, it is important to remember that this is cyclical. One year the landlord is in the driver's seat, the next year tenants are. The key is knowing when you are in that position, and knowing how to leverage it without damaging the relationship with the landlord.

### What is your number-one tip for leveraging the opportunity?

Ask a lot of questions. Additionally, work with a professional agent. This is such an unregulated industry. There are some seventy-thousand real estate agents in Arizona and a small percentage specialize in and understand a dentist's specific needs. There are vast differences between residential and commercial and your first question of an agent should be 'Do you know dentistry?'

My other number-one tip is remember that without an agent it will take time -- about four Saturdays of driving around, about a hundred phone calls, seventy-five of which won't be returned, and lots of time researching online -- and that is without



Aaron Kuhl

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the financial cost of subscribing to certain databases. You can either spend your time learning a whole new industry or you can ask for help.

## In your work with Arizona dentists, where are they locating?

Many are following the population to the suburbs, ideally locating in retail centers with a grocery anchor. I'm also seeing some who are struggling. Business is off due to the current economic situation and changing demographics.

In the central corridors or older areas, you will always have demographic shift. Neighborhoods that were 'the place to be' twenty years ago are no longer. As with most of life, change is constant.

## What are your best tips for choosing a location?

Walk-by traffic and visibility are important, it's a standard business model, but the downside is that it can be more expensive to be in a grocery-anchored center, sometimes fifty to a hundred percent more. Grocery anchor centers are lease-only and the upside is that you will typically find a more complete unit than the standard office condo shell, with substantial improvements already in place. Also, consider that grocery anchors are usually long and thin, which limits your options for natural lighting.

## What are some of the hidden snags one might encounter when looking for property?

Be sure to pay close attention to parking and visibility. How easy will it be for patients to find? Is there ample parking? Who are the other tenants? Will they be sharing the parking and could their customers cannibalize your spots?

It's also vitally important to get things in writing through a non-binding letter of intent. So many conversations occur. Get everything in writing.

## How can dentists be sure the practice evaluation he or she receives is fair and accurate?

A practice evaluation is the business side of it and the practice real estate evaluation is an assessment of the market value of their lease. You must have trust in whomever

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# BUSINESS CLIMATE CONTINUED

is doing your evaluation. There are many subjective aspects to it. Check references, obtain a client list, and look at their history. Past performance is the best predictor of future performance.

## **Does working with a professional agent mean that the dentist doesn't necessarily need legal representation?**

This question comes up a lot, and it should always be addressed up front. When I first meet with someone, we go over the inevitable legal contract and what the options are. I can review the contract for the doctor, I can coordinate with legal representation, or I can make a referral to a qualified legal representative. The decision is based on which option the doctor chooses based on comfort level, cost, and other considerations. Some legal contracts are long and drawn-out. It can be mind-numbing.

## **In your experience, what is the biggest mistake dentists make when negotiating a lease?**

They focus too much on rental rate -- or solely on rental rate -- when there are really up to a dozen components that all make up what would be considered a good deal. Most are economic. Others relate to options. Unlike residential which is regulated through federal protections, commercial can sometimes resemble the Wild West, the untamed frontier.

With start-up doctors in a purchase option, they may not necessarily have the money to burden themselves with property debt. You can get a five-year lease with an option to purchase after three. In this situation, the doctor has time to develop the practice, and then won't have to move.

## **In closing, why lease?**

As I mentioned earlier, the grocery center retail locations are never sold, so it could be about location. Second is capital. You may not have the downpayment. Be careful here. Banks will typically loan a dentist whatever they're asking for but it can be too much of a burden. In that case, the dentist may choose to build the practice gradually, grow it, and then think about moving. It all depends on your comfort level. The main reason dentists lease, though, is the flexibility it offers.

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**THE AZDA COUNCIL ON COMMUNICATIONS (DR. JERRY SPARKS, CHAIR) SUPPLIED QUESTIONS FOR THIS INTERVIEW.**

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