Leasing Medical Office Space: Key Provisions to Negotiate Before Signing

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A medical office lease can remain in place through years of growth, new providers, equipment investments, and even a future sale of the practice. Negotiating the right provisions at the outset can give physicians and practice owners considerably more flexibility as their practices evolve.

Medical office leases differ from traditional office leases in important ways. The physical space often requires specialized build-out, such as dedicated plumbing, enhanced electrical capacity, medical gas lines, exam room configurations, and ADA modifications, that a standard office would not require. Medical practices must also navigate regulatory and licensing requirements that affect how and where services are delivered. Because physicians and practice owners typically invest significant time and capital in customizing their space, it is important to carefully evaluate key lease provisions before signing.

Permitted Use

Medical practices change over time. A practice may add physicians, specialties, diagnostic services, therapy, laboratory services, or other ancillary offerings. A narrowly drafted use clause may require landlord consent for service expansions or assignments, so tenants should negotiate language that accommodates reasonable growth. Medical tenants should also consider exclusivity provisions that restrict competing practices in the same building, as well as any co-tenancy concerns that could affect patient privacy or regulatory compliance.

Assignment and a Future Practice Sale

Medical practices are frequently acquired, merged, or reorganized. A change in ownership typically triggers the lease assignment provisions. A lease requiring landlord approval of certain ownership changes can create an obstacle during a future transaction. Tenants should consider negotiating rights for transfers involving affiliates, changes in physician ownership, mergers, and qualified purchasers of the practice.

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Medical offices may require substantial investments beyond those found in a traditional office environment. Depending on the practice type, improvements may include specialized plumbing, electrical capacity, shielding, backup power, accessibility modifications, or the installation of expensive equipment. The lease should clearly allocate responsibility for construction, tenant improvement allowances, permitting, and delays. It should also address what happens to specialized improvements and equipment when the lease ends.

CAM and Operating Expenses

Common Area Maintenance (CAM) charges are the costs landlords incur to maintain shared areas of a property, such as lobbies, parking lots, and landscaping, and are typically passed through to tenants on a pro-rata basis. Unexpected operating expenses can materially change the economics of a long-term medical lease. Practices should understand what the landlord can include in CAM charges, seek appropriate exclusions and caps, and negotiate rights to review or audit expenses. Particular attention should be paid to capital expenditures and costs that primarily benefit other portions of the property.

Renewal and Expansion Rights

Relocating a medical practice can be disruptive and expensive. Patient relationships, referral networks, and specialized build-outs represent significant investments that are difficult to replicate. Renewal options can provide greater control over long-term occupancy. Tenants should consider negotiating how renewal rent will be calculated (fair market value versus fixed increases) and should ensure that the lease provides reasonable notice periods. Expansion rights, rights of first offer, or rights of first refusal may give a growing practice access to additional space without moving, though tenants should clarify whether these rights are subordinate to existing tenant rights elsewhere in the building.

Before Signing the Lease

A medical lease should support both the practice as it exists today and what it may become in the future. Experienced commercial real estate counsel can help physicians and practice owners identify potential restrictions, anticipate future transactions, and negotiate greater flexibility before committing to a long-term location.

For questions regarding a medical office lease or other commercial leasing matters, please contact Jessica McGinnis at jessica.mcginnis@lowndes-law.com.