Planning is Essential for Office Renovation, Construction of New Property

Do you and your staff seem to be short on space? Does your office have a tired look? Does the drabness of the office make you feel tired? Or do you just want your office to be more efficient and productive?

It may be time to consider expanding, remodeling, or moving.

Where Do You Begin?
This step-by-step resource can assist you in the design and construction of a more successful practice, regardless of how many years you have been in operation. You will need to select an experienced, knowledgeable team of professionals—individuals who take note of every detail—from efficiency and comfort to accessibility codes and esthetics. Depend on these professionals to guide you through the creation of architectural space plans, the placement of all rooms and equipment, and interactions with contractors and suppliers. The goal is that the newly created space will help you achieve your practice goals and maximize patient satisfaction.

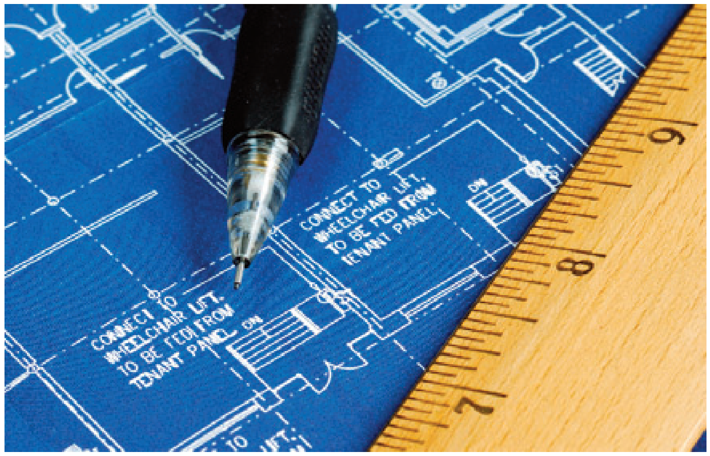
Information Gathering and Practice-Building Overview

A. *Create a Practice Plan*

- What is the mission statement for your practice?
- What is your practice philosophy?
  - o Clinical?
  - o Patient experience?
  - o Personal/professional?
- Pre-qualify for estimated line of credit and secure financing to cover initial expenses
- Develop or analyze your fee structure
- What are your growth aspirations?
- What are your financing objectives?
  - o Revenue?
  - o Expenses?
  - o Personal income?
  - o Retirement/transition planning?

B. *Is Your Current Facility Consistent with Your Business Goals?*

- Is there enough space to meet your growth objectives?
- Do you have the most optimal location?
- Is it ergonomically designed?
- Is your equipment state-of-the-art?



C. *Should You Buy, Build, or Renovate?*

- Can your current facility be updated to meet your needs?
  - o Will you be satisfied with the outcome?
  - o Is the space sufficient?
  - o What will it cost?
  - o What are the trade-offs?
  - o Will it ultimately meet the vision/mission of your practice?
- Are you better off buying an existing practice?
  - o Is existing or future referral flow in the area able to support your plan?
  - o Is the location satisfactory?
  - o Is the cost-to-value favorable?
- Should you build?
  - o Determine Return on Investment (ROI) based on current and estimated business.
  - o What are land and building costs in the area in which you are most interested?

Phase One — Getting Started (allow about 3 months)

A. *Selecting and Building a Solid Resource "TEAM"!*

- Finance specialist/consultant
- Realtor
- Equipment and technology specialists
- Lawyer
- CPA
- Office-design consultant/architect
- Practice management consultant

B. *Site Selection Criteria*

- Demographics
  - o Population
  - o Growth
  - o Age
  - o Income characteristics

- Competitive landscape as well as referral sources
  - o Regulatory issues
  - o Zoning
  - o Parking
  - o License requirements

C. *Build Site Plan*

- Architectural plan (outside of facility)
- Design plan (interior of facility)
- Layout
- Number of surgical suites/treatment rooms
- Number of recovery rooms
- Size of rooms
- Equipment selection
- Public, semiprivate, and private zones
- Lighting
- Function and ergonomics
- Integration and design
- Marketability
- Patient experience
- Expandable platform
- Budgeting
- Reputation of all vendors and suppliers plus warranties
- Installation and after-installation support
- Interior design (color, furnishings, flooring, accessories)

Our Top Considerations in the Interior Design Area

1. Large waiting area for patients
2. Ample consultation/exam rooms
3. Larger private treatment rooms required to accommodate up to 3–4 operators with plenty of cabinetry. Surgical rooms typically 12' x 12
4. Separate entrance and exit (post-surgery patients should not pass through reception area)
5. Large sterilization area located central to surgical rooms and a smaller lab area
6. Ideally, one recovery room per surgical room
7. Large central storage area for larger medical supplies and scrubs
8. Smooth curves that are pleasing to the eye will provide ease and comfort for patients

Phase Two — Design Process (allow about 3 months)

A. *Office Design Process*

- Organize all information into preliminary plan
- Work back and forth with revisions
- Troubleshoot flow issues and code compliance issues
- Finalize equipment orders and final speculations plans
- New construction

B. *Building design*

A new building from the ground up requires plot plans showing a main entrance, adjacent buildings, and setback requirements, as well as a description of the surrounding area and architectural setting with northerly orientation. This information should be available at the local building office.

Phase Three — Construction Process (allow about three 3 months for renovation or build-out of lease space and about 7-11 months for ground up construction)

A. *Bid Process*

- Select general contractor (GC) and award bid. GC determines subcontractors and project manager
- Establish construction schedule
- Apply for permits

B. *Construction Begins*

- Project manager (PM) meets with GC to manage trades and job changes
- PM coordinates layout of mechanical specifications for equipment and directs GC to instruct trades
- PM handles delivery of equipment to meet opening day deadline

Phase Four — Preparing to Open (allow about 1 month)

- Pre-marketing activities
- Installation of equipment
- Inventory buildup and management
- Opening day

Phase Five — After You Open and On-going

- Building Traffic
- Advertising
- Referrals
- Consulting options

Financing Options

There are many sources available for financing your project. In addition to your banker, you should consider the reputable industry finance companies that are very familiar with how your business operates. The finance companies usually require less paperwork than banks, lower documentation fees, provide 100% financing with no down payments, and have less restrictive covenants—both business and personal.

A. *What Can Be Financed or Leased for a Renovation?*

- Equipment, supplies, leasehold improvements, software and training, computers, working capital, cabinetry, and office furnishings
- Terms for repayment can range from as little as 12 months, up to as many as 120 months. The finance companies usually offer “deferred” or “step-up” plans that would enhance cash flow initially

B. *What Type of Financial Products are Available for Buying Land and Building?*

- Typically, you will find available “conventional” mortgages through local banks. These require 20% down payments, will have 5–7 year rate locks and are amortized over 15–20 years. There are also Small Business Administration (SBA) loans. Typically, these are written at 100% financing or 10% down payment and up to 25-year amortizations with a range of fixed and floating rate options. The “fees” or upfront costs for commitments, documentation, lien searches etc., may be slightly higher for the SBA products.

C. *Why Finance or Lease Equipment?*

- Use of the equipment is use of an asset
  - o *Fixed payments* - Monthly payments on a lease are fixed to the term. Bank loans tend to "float" with prime rate.
  - o *Simpler than bank loans* - Financing programs and procedures are specifically designed to take bureaucracy out of financing capital equipment for a business.
  - o *Flexibility* - Financing provides greater flexibility by making the most of lease structuring variables such as number and amount of advance payments and purchase options.
  - o *Conservation of capital* - Because of sizeable cash outlay involved in purchasing new equipment, many businesses lease or finance to conserve capital. If a business is in a position where they have alternative uses for money, leasing wins out in the "lease vs. buy" analysis.
  - o *Tax benefits* - Often doctors combine loans and leases in order to take full advantage of the tax benefits. A lessee can usually deduct a monthly lease payment as an operating expense.
  - o *State-of-the-art equipment* - Those who need equipment can acquire it on a per-month basis since the monthly payment precedent has usually already been established.
  - o *Additional lines of credit* - When equipment is bought with bank funds, credit lines are reduced for future business, and in many cases, personal requirements. When equipment is financed with a medical financing company, a doctor has established an additional source of funds.
  - o *Preserve existing cash flow* - The profit generated from the productivity of certain equipment is usually greater than the loan/lease payments. Doctors can use their existing cash flow to respond to new opportunities for their practices.

Tax Incentives

Equipment Acquisitions—Business owners who buy or finance "capital equipment"—medical equipment, practice-management systems and other tangible goods—probably prefer to deduct the cost in a single tax year, rather than a small amount over multiple years. Federal tax law allows you to do this, under tax code Section 179, but only within a certain dollar limit.

Leasehold Improvements—Tax legislation now allows for 15-year depreciation for commercial leasehold improvements. That is a big tax break if you plan to move or expand soon. Previously, leasehold improvements have been written off over 39 years. If you leased space in an office building and spent $100,000 improving it, you could deduct only a modest $2,564 ($100,000 divided by 39 yrs) from your taxes in the first year. Under the 15-year scenario, you could deduct more—$6,666 ($100,000 divided by 15) in the first year, making that larger expenditure more attractive. And, you'll recover your investment in about 1/3 the time it took under the previous law.

Please check with your accountant and/or tax advisors regarding how these tax laws might apply to you.

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