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SPEAKERS

Trisha Talbot, Liam Krahe

L Liam Krahe 00:00

You need to get the lease in place. You have to. It's a critical component. Again, it really adds to the valuation of the building as well. You know, it's, the net operating income is what dictates the, you know, the fair market value oftentimes, I mean, there's multiple ways to appraise building but when building a piece of real estate, but when you have a cash flowing asset, in this case, in a strong credit tenant with you know, a 15 year lease, that valuation is, you know, typically dictated on that purchase on the, on the net operating income coming in. So you're really just, you're doing yourself a disservice by not having it there.

T Trisha Talbot 00:41

This is the Providers, Properties and Performance podcast - the podcast that brings together leaders in healthcare and investment real estate to consider the possibilities in future at the intersection of practicing medicine, and healthcare real estate investment returns.

T Trisha Talbot 00:56

Welcome to the Providers, Properties and Performance podcast. I am your host Trisha Talbot. As a healthcare real estate adviser to providers and investors, the best solutions occur when the two collaborate together as partners in delivering better patient care. Providers can deliver care to their patients when and where they needed, and investors realize the returns to build and manage facilities. We explore changes in medicine and wellness, the future of healthcare and using real estate as a strategic and financial tool. In today's podcast interview, I discussed packaging a practice and property together for sale or purchase with Liam Krahe, an attorney at Cohen law firm, Cohen law firm specializes in representing dentists and dental specialties to either purchase or sell practices and the associated real estate. We discuss how these are valued, structured and some best practices. Thank you, as always for listening, and I hope you enjoy the interview. So Liam, welcome to the Providers, Properties and Performance podcast.

L Liam Krahe 01:57
Thank you for having me. I look forward to it.

T Trisha Talbot 01:59
So Cohen Law, you specialize in working with dentists and dental specialties. Is that correct?

L Liam Krahe 02:05
That is, yes.

T Trisha Talbot 02:06
So how did you guys start to focus just on that niche?

L Liam Krahe 02:09
Well, it was, it was really David Cohen, the founder of our firm who started it. I came along afterwards, you know, to add a real estate component to our firm. But David specializes in the, the M&A side and representing the dental, primarily dental, dental clients, but knowing and seeing the need for real estate and, you know, real estate specialist in this field, you know, he, he reached out and that's how we were connected.

T Trisha Talbot 02:40
Well, tell me a little bit about your background, as a real estate attorney, getting into this.

L Liam Krahe 02:44
Yeah, sure. So my background is primarily in real estate. You know, it was a, it was a bit of a transition from the dental into the dental space. But, you know, I think the principles and concepts all carry forward no matter the, you know, the type of the type of client, you know, in the real estate industry, it's pretty standardized, although there are some unique aspects of dental transaction work, certainly. But my background is primarily in real estate. And I started with a firm, a large firm in Miami, right out of law school, there where, you know, I attended the University of Miami for my LLM. And then started with the firm there practicing primarily in real estate doing leasing, representing national and international clients, and also in the acquisition and disposition of property. So all commercial based, and eventually, as I grew in my practice, there kind of led into a more focus on office leasing. So it kind of evolved, you know, in a lot of ways around that. Which then eventually led into doing, you know, several M&A deals with our firm on the other side of that with dental and medical clients, which then led into the, you know, the transition from our firm or that existing firm, to David's firm where I am now.

T Trisha Talbot 04:10

So what was David seeing in these transactions with regard to the real estate that made you want, made him want to bring you in?

L Liam Krahe 04:16

It was really the the environment of our firm - it's, it's an entrepreneurial environment. And I, you know, David's a dynamic guy and he, you know, has developed you know, a fantastic relationship with his clients and and you know, from, for me you know, growing in my legal, in the legal field, I just felt like it was a fantastic opportunity to try to, you know, kind of focus in on on certain areas of real estate and and you know, really master those and yet have a, you know, a great supporting cast. David, you know, David has a fantastic - where we have also several other lawyers that are in our firm that that are that are fantastic lawyers, and do a great job and so I think it was a just a great opportunity and a good time in my life to kind of make transition and, you know, I couldn't be happier. So things have been very, very good couple years.

T Trisha Talbot 05:10

Well, dentists, especially, and dental specialists, as well, but you know, they tend to be incredibly entrepreneurial. They, most of the time, they own their own properties, and they can be a combination of standalone or not. And then they always tend to be buying and selling practices a lot as well. So how do you help them put all of this together? Do you separate the real estate out? Or do you value the real estate at market rates? Like, how do you put all of these pieces together?

L Liam Krahe 05:41

Yeah, it's a great question. And it depends - it's really deal specific. But, you know, I think there is a practice component there. And obviously, we, you know, David handles that aspect of it. And then there's a real estate, whether it's a lease or an acquisition or disposition of the real estate, and even then there oftentimes is a lease, whether it be from practice entity to the, you know, acquiring real estate, real estate entity, it could be, you know, between single member LLC or PLCs. And so, there are a lot of dynamics there and a lot of moving parts. And it's, it's important, I think, to to understand the deal, and especially the broker that put it together, you know, we take a position where, you know, we have a tremendous amount of respect for, for the brokers that we work with, and it's really kind of putting their their deal, you know, kind of tried to finalize that deal for them, they put it together, they've done the legwork there, and it's really getting that to closing and bringing it to fruition. So, get to that point, I think, yeah, when we get an LOI or a term sheet, and we look at it, and there's, you know, a variety of things, and there's this little paragraph on real estate, you know, it's, it's oftentimes the primary focus is on on the practice. So it's, it's trying to educate the client on the, you know, on all the the the aspects of the real estate, and also the positives. And, you know, there's a lot of incentives to either owning and, or selling and releasing it. So just going through all those steps, I think is the

is the is really what it takes to get them up to speed and feel comfortable, because to your point, it is very entrepreneurial. There are a lot of opportunities, different areas, outside of just the dental space, but you know, they might not be doing it on a daily basis, you know, initially.

T Trisha Talbot 07:30

Right. So do you, do you represent both dentists that are buying practices with real estate, and then dentists that are selling their practice? And then they also occupy their space? Or own when they're building?

L Liam Krahe 07:41

Yeah, exactly. Yep, exactly. We do we represent both sides. Correct.

T Trisha Talbot 07:46

And so if you're, do the dentists that are selling their practice, and real estate, did they talk to you before they talk to a broker? Or do you usually get involved after the brokers involved? Because on the deals that I've seen, where the people sent that, to us that are buying the practice in the real estate together, the real estate is really undervalued.

L Liam Krahe 08:09

It is, it is and it's oftentimes, you know, an afterthought, you know, it's just something thrown in, and they don't understand, are they having not done this on a daily basis, they're just not familiar with the valuation of the real estate and how it's how that number is set. And, you know, how, where that piece of property sits in comparison to the others in that in that market? And, yeah, well, I guess your first question about how that deal is handled. For our, from us, we do have clients that will come to us initially, in the last questions and how the deal is structured valuation of the property, different deal terms, more material business terms, and we'll walk them through that and certainly help them and will advise them, obviously, those are, you know, those are business points that are negotiated between the parties. And we had obviously, you know, assist on the legal side as well. But there is a there is a, we certainly do have clients that take that path. And there's also, you know, from its put together from from a broker as well, so, and then at that point, those those business points are typically already pre negotiated. They can be obviously modified or changed, but it's usually the legwork there has already been done. Or, you know, at least to some extent. So, yeah, I think that that's the way you know, it typically it typically works good for us at least.

T Trisha Talbot 09:35

Well, if they do end up coming to you first and then you know, you're able to educate them on the value of their real estate. Are they typically surprised that, you know, they could make more money doing this a little bit different way?

L

Liam Krahe 09:47

Yeah, they certainly are. And, you know, it's, I think oftentimes it's a shock to many of them to realize, you know, the, you know, the untapped value that they have in some of these assets and real estate assets, the real property and how it's how it's priced, you know, its correlation to the rent that they're paying, or you know, that they're receiving, the net operating income really drives that cap rate in that cap rate analysis when you're trying to create a fair market value. So you know that going through that exercise of explaining that and getting them educated? Yes, I certainly think once they, once they learn it and understand it and feel comfortable with it, you know, they definitely see the opportunity there. And there certainly is.

T

Trisha Talbot 10:35

Have you ever seen anybody, like, literally separate the two where they have somebody buy the practice and not the real estate, and then they sell the real estate separately?

L

Liam Krahe 10:44

We have, we have certainly, and, you know, there's oftentimes deals where the practice needed to close or we have a real estate component that needs to close before, we're dealing with that right now, interest rates are a little crazy right now. So you have a lot of deals, going in different directions and term sheets are expiring, and you know, things are things are coming, coming to a head here, the next couple weeks, and people are racing, especially this week, I know that we're going to announce potentially a rate increase again. So it's pretty certain it's, it's coming. So everybody has been trying to navigate that water. It's a little different situation now than it was six months ago, certainly. And so it's again, it's yes, we do split them up, we have, you know, closed them separately, it's understood, you know, and that, that presents several legal issues and additional complexities, you know, interim leases, and so on, and so forth, that may need to be put in place to to accomplish that. But we, you know, our goal as a firm is to be as efficient as we can, and, you know, we pride ourselves on being fast, you know, we like to do things and get documents turned around as quickly as we can obviously, you know, with some limitations, you know, they need to be done correctly. And, but, but really, we pride ourselves on getting documents out very quickly. And in trying to solve those complex issues in advance, like anticipating, you know, those issues that may come up. So yeah, it certainly can be can be done, and it often is right now.

T

Trisha Talbot 12:23

Yeah, that's crazy. So what are the typical deal sizes for the real estate side for dentists? Are they you know, around - do you see many that are above 10,000 square feet? Are they kind of 10,000 square feet and below?

L

Liam Krahe 12:37

It depends, it really depends on the, on the client. We have, I mean, yeah, for single, you know, single tenant buildings, you know, where it will be self occupied or you'll have a sale leaseback

so to speak, you know, those range between 5000, 2500 to about 7500 square feet, we're seeing really. We've represented several clients, though, where they're buying a building that might have 10 tenants in it, or five tenants, and they just see the value there. And owning that and collecting the rent, receiving that additional net operating income, creating that business, that additional business and really capturing that value that you have, you know, and owning real estate and receiving the depreciation in other benefits, tax benefits of doing that, while operating a practice in the building, and operating out of there. So in those deals, obviously, the sizes of those buildings are much larger. And that process is a little bit longer. Due diligence takes a little bit, you know, there's there's a slightly longer due diligence period, you know, reviewing leases and inspecting the property and your lender, you know, the lender's a big component of that as well, you know, they often drive these deals. And so getting the correct financing and the correct rates, you know, we mentioned that before, it's important and so, you know, getting getting all those players in line and trying to organize that is often a challenge, but it certainly can be done and we, we try to, we try to do it as efficiently as possible.

T Trisha Talbot 14:17

So let me ask you this - I probably know that when they come to you and they're like, I'm trying to sell this building and you and you look at the rent roll, whether it's multi or single tenant, and they say I don't have, I don't have a lease for myself - how do you, how do you get them to understand and account for the lease expense in their lease, you know, when they've had none, or at least expense in their, in their financials when they've had no lease expense?

L Liam Krahe 14:52

Yeah, I mean, they, it's a difficult situation and David you know, as a master on the practice side and works with them in understanding, you know, the, the effect of not having that in the business from from a business perspective from you know from the PLC, it's usually a PLC I just using that as the example. But when I say PLC, I mean the practice entity operating the space that would be serving as the tenant. Yeah, I can't, I can't really say this enough, but you need, you need to get the lease in place, you have to, it's a critical component. Again, it really adds to the valuation of the building as well, you know, it's, the net operating income is what dictates the, you know, the fair market value, oftentimes, I mean, there's multiple ways to appraise a building, but when you're building a piece of real estate, but when you have a cash flowing asset, in this case, in a strong credit tenant with, you know, a 15 year lease, that valuation is, you know, typically dictated on that purchase, on the, on the net operating income coming in. So you're really just, you know, you're doing yourself a disservice by not having it there, assuming that you own the building, or, you know, that you're looking to purchase the building. You know, it's it's critical that you, you know, you evaluate the leases, you understand, you know, the strength of that of those tenants. And, you know, it's it's all part of the due diligence process. But yeah, it, having that lease in place is a critical, critical component of purchasing. Yeah.

T Trisha Talbot 16:26

It's not just dentists, it's all physician-owned real estate, you know?

L Liam Krahe 16:30
Yeah. Exactly.

T Trisha Talbot 16:30
You know, some do, some don't. And, but if you, if you are, if you're a tenant in your own building, you should have a lease in place.

L Liam Krahe 16:39
Yeah. I mean, you're, you're losing there's, there's tax benefits to I mean, you're losing the, you get a, obviously, the payment of rent is a business expense, and then, you know, you're so you're losing that opportunity to have as an expense paying that showing that reflecting that. In really, it's, I think, if only it would only hurt you to not have it, because I mean, you're occupying the space. So there has to be some accounting for that. And, you know, how are you going to reconcile that later? It's, you know, it's often a challenge, but we it's not, you know, not uncommon.

T Trisha Talbot 17:17
Well, and I'll do one more, and then we'll get into the Q&A to get to know you and get off this hard stuff. But, so operating expenses, so I love this, when they're like, well, the tenant pays all the operating expenses, but then you're like, Yeah, but there's property taxes and building insurance. Like, it's, I don't see it on your P&L. So who's paying it? And they're, they literally don't know, when you ask like, well, they think it's one way, but then when you look at their financials, and you're like, No, like this, this is, this is, this is actually how this is happening. But it doesn't matter. Because typically, you know, it ends up being a triple net lease, when they sign it to a new lease, like you as the tenant are going to want to know what it costs to operate the building, because you're going to have to actually pay all of it.

L Liam Krahe 18:00
Right, exactly.

T Trisha Talbot 18:01
It factors into your lease expense, and it comes off of your NOI for your practice.

L Liam Krahe 18:05
Exactly, exactly. Yeah, it's super, I mean, it's critical. And again, we're just kind of referring to a triple net and that case, yeah, I mean, one of the first questions I typically ask when

multiple net and that case, yeah. I mean, one of the first questions I typically ask when representing a tenant is, you know, I say to the landlord's counsel would be, you know, what are the current operating expenses? What are the, you know, do you have a copy of the taxes? Do you have a copy of the operating expenses, you know, what are these numbers, so we can, we can have an idea of what we're getting into? You know, when, when you're, when you're entering into a 15 year relationship with somebody and trying to understand, you know, what are my costs, what are these costs going to be, and you need to know those, and it's tough to, you know, oftentimes we'll deal with, with with clients that, you know, may not have had a lease in place. You're working with them to understand it, and you're trying to explain all the components of that and there are, you have your base rent, you have to establish that base rent, and it has to be true rent. It can't be, you know, this arbitrary number set.

L Liam Krahe 19:07

So, trying to look at market rent, trying to find, you know, what, what is what is market for that area, and then, you know, in factoring in the type of tenant, you know, it's a little different with with dental, I'm sure with medical, they're high net worth credit tenants, or long term leases, they're just priced a little bit differently, than retail or other type of, you know, other type leasing. So we're working through that aspect of it, and then adding in the next layer of operating expenses, explaining what those are explaining how they're passed through. And, and, you know, the, the calculation of those and what attended typically pays or what they shouldn't be paying and, yeah, it's it's certainly a challenge, but it's, you know, I enjoy doing that. And I think it's, you know, it's, it's once once they, you know, once our clients have understood it, and once we've broken it down for them. I think, you know, it kind of flows and things are working. Yeah, it just makes sense. At the end of the day, I think the hardest thing though -

T Trisha Talbot 20:09

Well you have to organize it for them.

L Liam Krahe 20:10

Exactly, right.

T Trisha Talbot 20:10

Once you organize it for them, they're happy, but when they're like, well, it doesn't - like when you're talking about when you ask them about their operating expenses and their responses, well, it doesn't matter, I pay my bills.

L Liam Krahe 20:20

Yeah, well, yeah, it you know, and that's what we do, we typically have to say, you know, look at this from like, if you're releasing a space in an office building, or you know, in a retail shopping center, pretend you don't own the building, and potentially you don't have an interest

in owning it. And, you know, you're, here's what you would be receiving, this is what you would be receiving every month, you're receiving an amount for base rent, or you would be paying an amount for base rent, and then you would have received, you know, typically it's done annually, you'll receive a, you know, a statement saying, this is what you're gonna owe, and then it's paid monthly, for operating expenses and taxes, and it's based on their pro rata share. If it's a single building, it'd be 100%.

L Liam Krahe 20:58

But it's, I think the hardest thing too, is setting the expectation, because that's probably the most heavily negotiated area of a lease -carving out certain operating expenses working to try to fix those costs for the tenant. It's a, it's a, it's a oftentimes difficult task, because landlords, you know, are set in their ways, and they, you know, they've understood what those costs are for them, and they don't typically like to change those. So, yeah, when it's, when it's a single building owned, you know, and it's basically sale leaseback themselves it's not so much of an issue, but it's, it gets a little bit more complicated when you're when you're leasing space in a commercial shopping center or an office building.

T Trisha Talbot 21:43

Right. Yeah, right. Right. And sometimes they get surprised, like, because then when you're talking about putting the lease rate and the lease and the operating expenses together, then you're like, no, both of these come off of the NOI. You know, these are -

L Liam Krahe 21:56

Yeah, exactly.

T Trisha Talbot 21:57

You know, then they start getting kind of, yeah, it's a learning experience for everybody.

L Liam Krahe 22:03

It is, it is. Yeah, it is, certainly.

T Trisha Talbot 22:06

Well, thanks. Do you think we've missed anything that you want to add before we get to the Q&A?

L Liam Krahe 22:10

No, I think we covered it. You know, I love to get into the details more with this stuff. You know, but yeah. It's a high level in really, it's so case by case, so specific. So deal specific. So, yeah, it's, it's tough, you know, to try to cover everything, but ya know.

T Trisha Talbot 22:31

I think we gave a good 50,000 square foot level.

L Liam Krahe 22:34

Yeah, absolutely.

T Trisha Talbot 22:36

All right. So time to get to know you a little bit. What was your first job?

L Liam Krahe 22:39

First job ever, or first job in the legal space?

T Trisha Talbot 22:42

Whatever, whatever you feel like sharing.

L Liam Krahe 22:45

So first job ever, I was a caddy for a good local golf course. Yeah. And I was in high school. And I did that in the summer. And it was great. It introduced me to a lot of really interesting people. You learn how to interact with people. You learn how to control, you know, see different types of emotions, control your emotions, and you know, there was an element of discipline there, and it was, it was, it was a great job. But yeah, that would be my first, first true job.

T Trisha Talbot 23:15

Do you play golf? Obviously.

L Liam Krahe 23:16

I do. Yeah, yes. Yeah.



T Trisha Talbot 23:18

So you probably got a lot of, what not to do while you're playing golf, too.

T Trisha Talbot 23:23

Exactly. It was an education on its own, and it was great. You know, it was, it, it certainly gave you like that perspective. But you also got to see, you know, I think other people were reacting to certain things. And you know, it was a good, it was a good learning experience. Certainly.

T Trisha Talbot 23:41

Well, I think probably what's also interesting is that people that are awesome golfers do, sometimes don't hit the very best shots, and then you know, problem solve out of that bad shot and so and even the best players.

L Liam Krahe 23:58

Golf is a very humbling game. It's, it's a very, I don't know, I played football, you know, my, in high school and in college, I played basketball, baseball in high school. And so I love, I love sports, but golf is its own, its own animal and, you know, you can be the most athletic person in the world. And, you know, you could play terribly one day and you know, you gotta come out and forget about it and on to the next day and keep keep going. It's a great game. It's a great game. I have a love and hate, I have a love hate relationship with it, as I assume most people do.

T Trisha Talbot 24:38

What else would you be doing for a living if you weren't an attorney?

L Liam Krahe 24:41

I would - honestly I'd probably be developing real estate. So, I would, it just it's such a cool industry. There's so many opportunities, so many different angles, so many different things you could do with it. And so you know, I just see a tremendous, I just see a whole separate side of it from the developer side. And I, I think it would be a cool, cool, cool thing to pursue in another life.

T Trisha Talbot 25:09

I think you still have some time in this life.

L Liam Krahe 25:12

Maybe, we'll see. I'm all in right now with the legal side, but we'll see maybe, yeah.

T Trisha Talbot 25:20

Well, developments need legal legal help as well.

L Liam Krahe 25:23

Certainly, yeah.

T Trisha Talbot 25:25

What or who are you reading or listening to right now for news, information or inspiration?

L Liam Krahe 25:29

So right now I'm reading - well, there's two. So the first one is Peter Lindemann. It's a, it's a quarter, it's his quarterly market analysis. It's called the Lindemann Letter. It's a great real estate journal and resource. Yeah. And he, he's a, he started the Wharton - he started the Wharton School there at Wharton, the real estate program there at Wharton. And he, you know, he, he's an economist for, provides market analysis and research and it's a fantastic, fantastic tool for a lot of real estate professionals that, you know, it's not just real estate and economics. There's some geopolitical elements to it as well. But you know, it's a fairly, fairly long publication. But it's, like I said, it's quarterly. And it's been a, it's been a great resource pool for me over the past couple years. So I read that regularly. Just came, the Summer Edition just came out this week. So that's why I am referring to that one. The other one is, it's a blog. It's JP Conklin. And it's, he also has a podcast called The Rate Guys. And they talk about interest rates, derivative swaps, and hedging. It's really financial rate, interest rate podcasts interest rate blog, discussing the current state of affairs, it's a great resource as well.

T Trisha Talbot 26:57

That's great. What is one thing you do every day for healthy self care?

L Liam Krahe 27:01

I work out, and I try to work out every day, in one way or the other, whether it be lifting or cardio, some element there. It's a good separation of my day. But to start my day, it's usually meditation and prayer.

T Trisha Talbot 27:15

Nice. And do you think leaders are born or trained?

me. And do you think leaders are born or trained?

L Liam Krahe 27:20

It's a great question. I know, this is a, you know, this has been studied time over time. I know, there's been so many things I don't - in my opinion, I certainly think people are born with leadership qualities, and have a, you know, an interest to drive it, push, push forward, and then to manage other people. I certainly think that, that, you know, there are people that just have that, in that they're born with that. But I do think that it is also learned, but I think there's an element of the learning in that you have to have that want to learn it. You have to have that drive to want to be there. And I just, that, that's something that's, you know, that's just in, I don't necessarily know if it's in everyone, but I, you know, some people may be more motivated than others. So yeah, I certainly think it's a little combination of both, but yeah.

T Trisha Talbot 28:12

Yeah, no, I like that. Well, thank you, Liam. This has been a great interview, and I really appreciate your time.

L Liam Krahe 28:18

Absolutely. Thank you so much for having me.

T Trisha Talbot 28:23

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