LEGAL LINGO

From Veterinarian to Landlord

These eight lease provisions can determine whether your real estate investment pays off or quietly costs you.

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A growing number of veterinarians are selling their practice, keeping the real estate, and becoming a landlord to the buyer. On paper, it's a clean transition. You monetize the business, keep the building, and replace clinical income with rental income. In reality, most of the risk hasn't disappeared; it has changed form and most likely lives inside the lease agreement.

Once you sell your practice, your income is tied to whether your tenant pays rent and takes care of your property. That means your lease operates as the asset you have in the business. If the lease is drafted loosely, you don't just have a "bad lease." You have a compromised investment.

If you're stepping into the landlord role, here are eight areas where the deal can go sideways.

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1 Triple Net Only Works if It's Actually Net

Most of these deals are structured as triple net. This means the tenant covers taxes, insurance, and operating costs. That's the theory. The problem is execution. If the lease doesn't state these obligations with sufficient clarity and specificity to be enforceable, costs can creep back to you. Examples of this can be found when taxes aren't properly reconciled, maintenance obligations are vague, and capital items get mislabeled as "landlord responsibility."

The goal is to eliminate ambiguity. Ambiguity is where problems arise, and subsequently, your return gets diluted.

2 The Parking Lot Problem

Every landlord says, "The tenant handles maintenance." Then the parking lot fails. Now the question becomes: Is that maintenance or replacement? If your lease doesn't answer that clearly, you're writing a check. The same issue shows up with HVAC systems, exterior areas, and other site infrastructure. This is where most landlord returns erode — not from big disputes, but from unclear drafting within the lease.

3 Environmental Risk

Most leases define "hazardous materials" by reference to environmental laws. That sounds right on the surface, but it's not entirely accurate. Routine veterinary waste, medical materials, pharmaceuticals, and sharps will not always fall cleanly into those definitions.

When something hazardous is mishandled, you're still the property owner and subject to possible exposure to a claim. A properly drafted lease should:

- Call out veterinary waste explicitly.
- Make the tenant fully responsible for waste handling, storage, and disposal.
- Prohibit any release that creates environmental risk.

4 The Exclusivity Trap

If you're selling to a corporate buyer, you should expect a request for exclusivity, which asks you not to lease or operate another veterinary facility within a certain radius — often 10 to 20 miles. In many leases, that restriction isn't tied to the lease term or the tenant operating at the property. This means if the tenant leaves, shuts down, or defaults, you could still be restricted from leasing your property to a veterinary user.

This problem has a simple fix: Ensure that the grant of exclusivity applies only during the lease term, and only while the tenant is actively operating on the premises.

One issue that trips up many landlords is the distinction between assignment to a true third party and a transfer to an affiliate.

5 Rent Is Only as Good as Your Enforcement Rights

Everyone focuses on the rent number. Fewer people focus on what happens if the tenant stops paying. Your lease should clearly define:

- What constitutes a default.
- How long the tenant has to cure the default.
- What remedies you have in the event of a default.

More importantly, if the tenant leaves, you need the ability to relet the space and recover any shortfall in rent. If those provisions are weak, your "guaranteed income" isn't guaranteed at all.

But don't stop there. Consider whether your lease includes an acceleration clause, meaning that upon default, you have the right to demand the full remaining rent due under the lease term, not just month-to-month recovery. Without acceleration, your only option may be to chase rent one month at a time through litigation while your tenant disappears or burns through its assets. Acceleration changes the math entirely. It gives you leverage in negotiations and real teeth in court.

If your buyer is a corporate entity, you should also require a personal guarantee from the principals or a parent company. Entities can be dissolved, restructured, or undercapitalized. If your tenant is an LLC with minimal assets, your lease is only as strong as the balance sheet behind it. A personal guarantee from the individual owners, or a guarantee from a creditworthy parent company, gives you someone to pursue if the entity defaults.

Finally, security deposits and letters of credit serve as enforcement backstops. A security deposit gives you immediate access to funds if the tenant defaults, without needing to go to court first. For larger deals or tenants with less established credit, a letter of credit from a reputable bank offers even stronger protection: It's essentially a bank's promise to pay you if the tenant doesn't. Either way, ensure the amount is meaningful. A single month's rent as a security deposit on a 10-year lease is a rounding error. You want enough to cover re-leasing costs, lost rent during the vacancy period, and any tenant damage to the property.

6 Assignment

Corporate buyers restructure. They sell divisions. They move assets between entities. Your lease should give you control over who your tenant becomes. That doesn't mean blocking reasonable assignments. It means having the ability to approve the replacement tenant and ensure that replacement tenant has the financial strength to perform.

In practice, approval rights should be specific enough to use. That means setting financial thresholds and minimum net worth or liquidity requirements, requiring audited financials from the proposed assignee, and establishing operating standards the new tenant must meet, such as maintaining the property as a veterinary facility. Vague "consent not to be unreasonably withheld" language without defined criteria invites disputes. The more concrete your standards, the easier it is to say no when the numbers don't work.

One issue that trips up many landlords is the distinction between an assignment to a true third party and a transfer to an affiliate. Corporate consolidators often move assets between related entities, parent companies, and sister LLCs, and many leases permit these affiliate transfers without landlord consent. An affiliate transfer can shift your lease from a well-capitalized parent to a shell entity with no real assets. If your lease allows affiliate transfers freely, ensure it requires that the transferee meet the same financial standards as the original tenant and that the original tenant or its guarantor remains liable on the lease.

7 Insurance

Landlords assume that because the lease says "tenant maintains insurance," they're protected. They're not, at least not automatically. Insurance provisions in a lease need to specify what's covered, how much coverage is required, and how the landlord benefits from the coverage.

At minimum, your lease should require the tenant to carry property damage coverage sufficient to rebuild or restore the premises if necessary. You also need commercial general liability insurance that names you as an additional insured. This means if someone gets hurt on the property, the tenant's policy responds on your behalf, not just theirs. Without that additional insured endorsement, you could be left defending a claim with your assets.

Beyond liability, consider requiring business interruption or loss of rents coverage. If a casualty shuts down the tenant's operations, rent may stop even though your mortgage doesn't. Loss of rents coverage ensures you continue receiving income while the property is being repaired or rebuilt.

8 Purchase Options

Many corporate buyers will ask for an option to purchase the real estate. Sometimes that makes sense. Sometimes it doesn't. If you include this option, you must understand how the price is set, when it can be exercised, and the result if ownership of the tenant changes. A loosely drafted option can take control of your exit timing out of your hands.

The Bottom Line

Keeping your real estate after selling your practice can be a smart move. But it only works if the lease is treated like the investment document it is. From your perspective as landlord, income should be predictable, responsibilities should be clear, and risk should sit with the party controlling the operations.

Deals break down in the details. If you get the details right, the transition from veterinarian to landlord works the way it's supposed to. TVB

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DON'T SKIP THIS

Be sure to require your tenant to provide certificates of insurance before the lease commences and annually thereafter, and ensure those certificates include a provision requiring the insurer to notify you before canceling or materially modifying the policy. Without that notice requirement, your tenant's coverage could lapse without you knowing. You'd find out only after a loss occurs, which is exactly the wrong time to discover you're unprotected.