

The Dental Transition

N E W S L E T T E R

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Why Dentists Should Embrace Real Estate Ownership

In the realm of dentistry, practitioners often focus on perfecting smiles and ensuring oral health. However, when it comes to securing their financial future, dentists must also consider strategic investments. One avenue that deserves serious attention is real estate ownership. While leasing may seem like the convenient choice and does offer some benefits, delving into property ownership can offer dentists a myriad of perks that far outweigh the simplicity of leasing.

A practice that includes Real Estate has the potential to increase appeal and stability.

1. Equity Building: Leasing means paying rent without accumulating any ownership stake in the property. Conversely, owning real estate allows dentists to build equity over time. Mortgage payments contribute toward ownership, gradually increasing the dentist's share in the property. As the mortgage decreases and property values

appreciate, the dentist's net worth grows substantially. As a rule of thumb, depending on the area, most property values double every 10 to 15 years.

2. Long-Term Financial Stability: Dentistry is a stable and lucrative profession, but financial stability shouldn't solely rely on patient flow. By investing in real estate, dentists create a potential future secondary income stream that can withstand fluctuations in the economy. When it comes time to retire, you could retain the property while selling the practice to become a landlord, and have residual income for years to come as part of your retirement plan. If being a landlord is not something you desire to do, you will have the ability to also sell the property with your practice. In fact, a practice that includes the sale of the property has shown to increase appeal and salability.

3. Control and Flexibility: Leasing puts dentists at the mercy of landlords who dictate terms, rent increases, property modifications, and lease assignment. On the other hand, owning real estate grants full control. Dentists can customize the space to suit their practice needs, without seeking landlord approval. Additionally, they have the flexibility to expand or remodel the property according to their vision, fostering practice growth and efficiency.

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www.ottenreydentalsales.com

E: Kim@ottenreydentalsales.com | Kim (314) 805-6257

Why Dentists Should Embrace Real Estate Ownership

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One major hurdle in the sale of a practice is getting the landlord to consent to a lease assignment or new lease terms.

4. Tax Advantages: Real estate ownership offers dentists a plethora of tax benefits. Mortgage interest, property taxes, depreciation, and maintenance expenses are all deductible, reducing the overall tax burden. Furthermore, owning commercial property opens doors to additional tax deductions, such as operating expenses and depreciation of improvements. These tax advantages can significantly enhance cash flow, and boost long-term wealth accumulation.

5. Hedge Against Inflation: Inflation erodes the value of currency over time, diminishing purchasing power. However, real estate serves as a hedge against inflation. Property values and rental income tend to increase with inflation, preserving the dentist's wealth, and ensuring financial security in the face of economic uncertainty.

6. Legacy Building: Beyond personal financial gain, owning real estate allows dentists to leave a lasting legacy. Property ownership provides a tangible asset that can be passed down to future generations, securing their family's financial future.

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7. Aggressive Landlords: Commercial landlords often earn a reputation for being aggressive in their dealings with tenants. Whether it's stringent lease terms, frequent rent increases, or assertive negotiation tactics, their behavior

can significantly impact businesses. The aggressive nature of commercial landlords is shaped by a combination of market dynamics, investment pressures, economic factors, and legal considerations. While landlords have the right to maximize returns on their investments, excessive aggression can have negative consequences for tenants and the broader commercial real estate market. Achieving a balance between landlord profitability and tenant satisfaction is essential for fostering a healthy and sustainable commercial real estate environment. Landlords will always make a business decision which could leave you at their mercy.

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8. Running the Numbers: To gain some perspective, consider this scenario: If your office lease costs \$4,000 monthly, that's \$48,000 annually. Over a 30-year period, you'd end up spending \$1,440,000 with nothing to show for it when you retire. Moreover, this calculation doesn't even factor in the typical 3% annual increase in your lease, which compounds overtime. As a result, it's highly probable that you'll have spent over \$2 million in total. In conclusion, while leasing may offer short-term convenience, the long-term benefits of real estate ownership far outweigh the simplicity of renting. Dentists who venture into property ownership secure their financial future, build equity, gain control, enjoy tax advantages, hedge against inflation, and leave a lasting legacy. Therefore, it's evident that for dentists looking to maximize their wealth and secure their future, owning real estate is not just a prudent choice but a strategic imperative.

10 Essential Steps to Ready Your Dental Practice for Sale

Whether retirement looms on the horizon or remains a distant dream, as a practice owner, it's prudent to contemplate the eventual transition of your practice. Life's twists and turns may necessitate expediting your plans, making early consideration crucial for seamless transitions. Your practice's value ultimately hinges on what someone is willing to pay for it and what a bank is willing to finance. To effectively market your practice, it's imperative to showcase its true worth from a buyer's perspective. Here are ten essential steps to prepare yourself and your practice for a successful sale:

*Present your practice in its best light
by decluttering, updating,
and refreshing the physical space.*

1. Consult with a Professional Practice Broker:

Establishing a relationship with a practice broker 3-5 years before you plan to transition is paramount. Together, assess your retirement timeline and financial needs to ensure a comfortable post-retirement lifestyle. Engaging in these preparatory steps will not only grant you valuable insight into your practice's current value but also shed light on the pivotal factors influencing its worth and attractiveness to potential buyers. Armed with this knowledge, you'll have ample time to craft a tailored transition plan that aligns with your unique requirements.

2. Focus on Results, Not Potential: Recognize that buyers prioritize current performance over past potential. Scaling back hours may diminish recent collections, impacting the practice's valuation. While easing into retirement is feasible, it may lower the sale price. Consider maintaining production levels by bringing in an associate, potentially paving the way for a future buyout.

3. Evaluate Practice Performance: Analyze your practice's state by examining trends in patient acquisition, treatment

uptake, and insurance reimbursements. Identify profitable plans and areas for improvement to optimize the practice's appeal to potential buyers.

4. Update Technology and Equipment: Early- and mid-career dentists seek practices equipped with modern technology. Consider investing in digital radiography and functional equipment to attract buyers and avoid post-purchase upgrades.

5. Determine Transition Preferences: Define your ideal transition scenario, whether gradual mentorship or a complete sale. Consult with family members to align preferences and consider post-retirement involvement in dentistry.

6. Address Real Estate Considerations: Decide whether to include your practice's real estate in the sale or if you'll retain ownership. Ensure favorable lease terms if renting, enhancing the practice's value for prospective buyers.

7. Organize Financial Records: Maintain meticulous financial records to facilitate evaluation by potential buyers and lenders. Work with an accountant to streamline documentation and ensure readiness for due diligence.

8. Review Fee Structures: Keep fee schedules current to reflect market standards, enhancing the practice's appeal, and positioning it favorably for prospective buyers.

9. Document Policies and Procedures: Document practice operations, including roles, responsibilities, and policies, to demonstrate efficiency and professionalism to buyers.

10. Enhance Curb Appeal: Present your practice in its best light by decluttering, updating, and refreshing the physical space. Impressions matter, and a well-maintained practice enhances buyer interest and willingness to pay a premium.

Regularly revisit these steps to maintain your practice's appeal and readiness for sale. Anticipate buyer inquiries, and prepare comprehensive responses to ensure a smooth and successful transition.



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402 Unity Crossing Ct. • St Peters, MO 63376



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What Our Clients Have To Say About Us Matters

"When I decided to buy a dental practice, I quickly learned that practice brokers represent the seller. As a buyer, that posed some challenges. Of all the brokers I worked with in St. Louis, Kim was the only one who managed to make me feel that she was actively trying to find a practice for me to buy. Not only did she help me find a practice I loved, but she still represented her seller well and was fair throughout the entire process. Because of her, I am now the owner of a great dental practice that I love and I truly believe she made that happen for me. Thanks Kim."

– Dr. Victoria Daugherty

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