



Rising Prices in the GTA

Why are the values of dental practices in the greater Toronto area (GTA) increasing? My associates and I are asked this question almost every day. Our answer is simple: there are far too many dentists in the GTA. This may be a direct result of the lifestyle choices of the dental graduates of the past 10 years.

If we examine the gender and ethnic profile of last year's University of Toronto dental graduates, we can easily see why many have chosen to stay in the GTA. Women make up just over 50 percent of the class, and 'visible' ethnic dentists (both those born and raised in Canada and those who emigrated here) make up the majority when gender is ignored. Do these dentists want to practise in rural Ontario, or in cities like Sudbury? The answer I get is "Absolutely not!" This is due, in part, to their desire to live closer to families, cultural centres and the many social attractions that larger cities provide. The current profile of dental students suggests that an even larger number of future graduates will remain in the GTA, compared with the past 10 years. This supports my theory that sale prices may continue to increase, and it seems to be the primary reason that rural and remote practice values are declining, in some instances, drastically. What a shame.

When you consider the large number of dentists immigrating to the GTA from all over the world (including the US), you can see why the supply of dentists is growing faster than the local population. Accordingly, the dentist-to-patient ratio is increasing each year. In the 1970s, this ratio was roughly one dentist to every 2,000 people for the GTA. As of 2007, the ratio will hit an all time high of roughly one dentist to 1,000. This is not favourable for dentists, because it is estimated that 30 to 40 percent of all people DO NOT seek regular dental care in any given year. Thus, the actual ratio may be



one dentist to 600 to 700 active patients. For the GTA dentist who has not established a patient base this is a significant and unfortunate reality.

However, this is good news for the dentist who owns an active patient base in the GTA, because the demand for these patients (known as “goodwill”) is very strong and it increases the value of each patient chart each year. In 2006, the value of an “active” patient in the GTA reached an all-time high — with prices exceeding \$500 per chart. Unfortunately for purchasers, I predict that values may rise even higher. For the owner, this is encouraging as it increases his or her assets and the proceeds of a practice sale.

Another effect of the increasing propensity to stay within the GTA is that patients seeking a new dentist are gaining the upper hand. As the ratio continues to evolve an inevitable result may be the discounting of dental fees, which could dramatically begin to lower the income of many GTA dentists. In fact, discounting of fees is already a common practice in the GTA — some may deny it, but it happens daily and it is an economic fact that it will continue. (While gathering data for our appraisals, many dentists admit that they are charging fees that are lower than the Fee Guide, usually in an effort to attract new patients. Most who do this are situated in the highly competitive markets of the GTA.) One reason that I wrote this particular column is that I was recently “accused” of inflating prices to earn higher commissions. While I can understand the view of this purchaser, it's a foolish accusation to presume that one appraiser such as myself is capable of the continuous manipulation of sale prices. Banks, accountants, lawyers and many dentists study the entire market on a regular basis. They are familiar with all brokers, the various appraisers and even the private sales — thus they have a complete view of the market place and they are watching. If you are unhappy with the current trend in pricing, look to your advisors for their opinion and talk to your colleagues (who are looking to buy the very same practices as you). It is inaccurate to suggest that the appraisers are responsible for high prices — it is buyers who drive market values.

Like it or not, if you are thinking of purchasing a dental practice in the GTA, you may have to pay higher and higher prices over the next three to five years. My advice is this: move outside the area, at least a one-hour drive by car, and you may find that you are warmly welcomed and busy from day one. Otherwise, be prepared to pay. Supply and demand remains the most powerful force in the economy. **OD**

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