



# Market Overview of 2006

2006 was another record year for dental practice sales. More practices sold this year than in any other single year and average sale prices also reached an all-time high. Will the trend continue in 2007?

I've been reporting on rising sale prices for several years and predicted, incorrectly, that market prices had peaked. Several factors and variables affect this marketplace, the key ones being "supply & demand". As mentioned in my previous articles, the GTA (an area now defined as a one-hour drive from Yonge Street and Highway 401) continues to show a very strong demand: there is an oversupply of dentists seeking to buy a practice, and an undersupply of dentists willing to sell. I do not foresee that there will be enough vendors who will emerge in the short-term (the next one to two years) to absorb this demand. Factor in the 125 to 150 new dentists who will graduate or emigrate to the GTA in this same period and there could be further increase in sale prices.

Average dentist incomes continue to increase as well. The typical Canadian dental practice with one dentist and a full-time hygienist grosses about \$600,000 per year.



While overheads are also rising, the net incomes of the average dentist have also risen proportionately. The average practice has adjusted cash flow, before non-essential expenses, of about 35 to 45 percent of gross. In the GTA, overheads are slightly higher due to rent and wages, but the dental IQ of the average GTA

patient also appears to be higher. This is reflected in a greater percentage of higher-fee procedures being completed, resulting in a higher gross income per year, per patient, when compared with national income averages. It is still a profitable venture to live and practise in the GTA.

Another interesting variable, observed in 2006, was the emergence of more assertive financing for purchasers. More financial institutions have recognized that a dental practice is an attractive, limited-risk lending proposition. This ample supply of favourable financing options tends


to stimulate sale prices. However, if the supply of readily available credit were to decrease, sale prices would likely decline.

Of notable mention is that we have managed to sell several practices in remote and rural areas of Ontario. The 'investor' dentist appears to have discovered the low overhead of these fabulous opportunities, while a select group of younger dentists finally saw the wisdom of moving at least one hour or more away from the GTA region. Our Senior Associate in Ottawa, Ann Wright, reports a coinciding increase in demand for the Ottawa region. Other sales transpired in Thunder Bay, Sudbury and Sault Ste. Marie, among other smaller communities. Perhaps the 'log-jam' has finally broken? If only more dentists would discover the many lifestyle benefits of practising in rural Canada, this would bring hope to those dentists in the outlying areas who are anxious to retire with dignity.

In 2006 I heard some incredible stories from those who bought or sold a practice privately. While the intentions were to save fees (commissions) and to avoid the competition of the marketplace, it appears as though the private sale also created some significant difficulties: unintentional withholding of valuable information and poor communications between the parties. It continues to amaze me that professionals are reluctant to hire other

professionals for this monumental exercise in their careers. Perhaps I have not done enough to educate the dental professional on the merits of the services a broker provides? We continue to find it odd that a dentist would attempt to sell his or her practice without the aid of a professional business broker but would not think of listing the principal residence for sale without the aid of a real estate agent. A business is a far more complex transaction.

For 2007, I am predicting that we will see more of the same as in 2006: too many buyers in the GTA and too few sellers. Those who will try to DIT (Do It Themselves) may save in the short term, but it may ultimately cost more in the long run. I am constantly monitoring the marketplace, private sales and those of our competitors, and I see another year of escalating prices.

It's a sellers' market, and this means more tough decisions for today's buyers. 

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