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## Practice Management

# Is it Time to Purchase a Dental Building?

The real estate market is hot! Prices may be peaking, especially in urban areas, but interest rates are remaining low — at least for now. So, is it time to buy a building to provide a 'home' for your dental practice? We think it is.

Our appraisal database reveals that building ownership was very popular, and was almost the norm until about the mid-1970s. Then, as interest rates began to rise in the early 1980s, leasing became the preferred choice. Because of this shift in demand, landlords soon found themselves with the upper hand. Fewer dentists could afford to purchase office properties and premise leases of the day ended up being structured very favourably towards the landlord's interests. Now, what's old seems to be new again — building ownership is becoming the preferred choice of many of our dentist clients.

Assuming that a suitable property or vacant land is available in your community, we would suggest that this may be one of the best times to purchase real estate. When the total costs are factored in, including interest payments, property taxes, insurance and repairs and maintenance, building ownership will usually result in lower total occupancy costs over the life span of a practice.

Even once the lost opportunity cost of the required down payment is calculated, ownership yields a higher return on investment when compared with renting and re-investing the difference. For the dentist who has \$1,825 per month to spend on occupancy, and based upon the ten assumptions listed, the following example (Figure 1) may help you determine whether owning is better than renting (This spreadsheet is available by e-mailing the authors, allowing you to insert your own numbers).

Not every dentist desires to be a tenant in his or her own building, and not all dentists can commit to the burden of another mortgage (after considering home and possibly vacation property debt). Other deterrents to building ownership stem from the fact that a dental office (especially in a renovated home) is generally a single use facility. At the time of a practice sale, there will be great expense to return the building to a state where it can be used as a home once again — if the new practice owner wishes to relocate, or in some situations, where a rural or

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**Figure 1.**  
Variables Affecting the Decision to Purchase a Building or Rent Space


<b>Total Cost to Purchase = (Sell building after 30 years)</b>	<b>\$465,870</b>	<b>vs.</b>	<b>\$473,591</b>	<b>= Total Cost of Renting (Invest the down payment amount)</b>
Property Cost (ignore all fees)	<b>\$400,000</b>		<b>5.75% (constant)</b>	Mortgage Int. Rate
Down Payment Required (35%)	<b>\$140,000</b>		<b>5% (compound)</b>	Investment Rate of Return
Ownership / Rental Period	<b>30 years</b>		<b>20 years</b>	Mortgage Amortization Period
Rental Increase (5 year terms)	<b>10% (each term)</b>		<b>\$1,825/month</b>	Rent / Mortgage Pmt. (incl. GST)
CPI increase per year	<b>1.5% (constant)</b>		<b>\$7,500/year</b>	Repairs / Insurance / Prop. Taxes

remote practice cannot be sold at all. Further, many retiring practice owners we speak with are generally not interested in remaining as landlords themselves, should the new practice owner not wish or be able to purchase the building as well as the practice.

Although many tax advantages are possible, we would suggest that practices which are located in adjuncts or wings of the dentist's private resi-

dence are less saleable than those located separately on other lots (or at least those that are amenable to subdivision). Lastly, leasing space allows one to free up capital for other purposes and provides for a larger expense write-off on an annual basis (as only mortgage interest and building depreciation is deductible).

We predict that the trend towards building ownership will continue to rise until such time when mortgage

interest rates climb to to seven percent or more, and resale values level off. Despite this prediction, be sure to weigh all the positives/negatives of ownership (the qualitative issues), check with your accountant, and do the 'math' (the quantitative issues) regarding your own situation. 

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