

Update on Practice Sales

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Thomas & Fees Practice Sales

A LITTLE HISTORY

Since I sold my dental practice in 1992 and became a Dental Practice Broker, the value of dental practices have had several ups and downs. The market hit bottom in 1997, when we saw many practices being sold for as low as 50% of one year's gross collections. Fortunately, 1998 saw a slight upturn which continued through 1999. This was primarily due to low interest rates and the emergence of several dental finance companies which made money available to dentists for practice acquisition. The low rates allowed the selling dentist to command a higher price for his practice since the Buyer's loan payments would be lower.

WHAT IS HAPPENING NOW?

This atmosphere has now reoccurred and has been present for the last several years. Interest rates have been fixed at an historic low rate for several years now and the Dental Lending institutions are plentiful.

SO WHAT DOES THIS MEAN FOR A SELLER?

This means Sellers can get more dollars for their practices now more than ever before. It is a great time to sell if you are ready (see my article on “Emotional Aspects of Selling a Dental Practice” to help determine if selling is right for you).

WHAT DOES IT MEAN FOR BUYERS?

The loans we have been getting for Buyers are 100% financing (no money down), fixed rates, equally amortized, no points, and very low fees to do the loan, usually \$650 or less.

WHAT'S IN THE FUTURE?

While this is great news for the Seller, there are rumblings that this trend may be ending.

The Fed has strongly hinted that rates will soon rise, perhaps even in the summer of 2015.

While 25 basis points (.25%) doesn't sound like much, it may have an adverse effect on loans if rates continue to rise after the initial bump. It has been our experience that the dental loan market reacts at a 60-90 day delay when rates go down, but when rates go up, the response is almost immediate. Depending on how much and how fast the rates rise may have an effect on prices of dental practices again. For example, a practice that sells for \$400,000 would have payments to the Buyer of approximately \$4,440 per month at current rates. If rates were to go up by just 0.5%, the same payment would get a loan for \$390,000. That is \$ 10,000 less money for the Seller.

WHAT ABOUT TAXES?

Another important consideration in selling your practice is that of keeping as much of the sales price as possible. . The Seller must consider the tax consequences to be paid upon the sale of the practice. In 2014, the federal Capital Gains tax rose from 15% to 20%. President Obama would like to raise it again, as well as the top income tax bracket. Hopefully the Republican Congress won't allow it to happen, but comprehensive tax reform will be discussed and no one, including Congress, knows what will happen. It is vitally important that the allocations of the purchase price be structured to best limit the taxes paid.

SO WHAT DOES ALL THIS MEAN?

Well, if you have no intention of selling in the near future, nothing. But if you are thinking of selling your practice soon, earlier may be better than later.