

Review your lease

For those looking to increase the goodwill value of their practice, **Lis Hughes** recommends taking a look at the terms of your lease

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For those practice owners looking to increase the goodwill value of their dental practice, start by looking at the terms of your lease. About 50% of dental practices in the UK operate from leasehold premises – meaning the building is owned by someone else, and a lease is granted for a set period of time.

When the time comes to sell, it is highly likely a buyer will need to arrange a bank loan to fund the purchase. This is fine, as upwards of 95% of sales require a bank loan to secure the purchase. However, the remaining term on your lease matters at this point as a buyer will only be able to get a bank loan over a term to match the remaining term of the practice lease. So, if your lease is for 15 years, but there are only five years remaining, a buyer will only be able to get a bank loan that will need to be repaid over five years. This could make your practice unaffordable for many, particularly as most buyers put down a 20% deposit and look to get a loan for the remaining 80%.

Take this as an example... if we assume a practice value of £1,000,000 with a buyer putting down a deposit of £200,000 and

getting a bank loan for £800,000. With only five years remaining on a lease, any bank loan will need to be repaid over five years, resulting in the annual repayments being about £173,000. However, if the lease was extended prior to sale to a term of 15 years, this would mean a bank loan is then repayable over 15 years not five, so in turn the annual loan repayment drops to about £67,000, making it much more affordable for many.

A word of caution

Be careful how you go about asking for your lease term to be extended, as some opportunistic landlords may seek a premium if they know this is to help you sell. We've seen payments up to £50,000 paid to landlords for a lease to be extended.

Making the request on the grounds of it will help you make longer term plans with the

added security of a longer lease has worked for many of our clients in the past, so it's well worth approaching it this way with your landlord.

It's also worth bearing in mind that your lease term will directly impact your goodwill value. For example, if your remaining lease term was only five years this could result in your goodwill value being discounted by up to 50% so it is affordable. A horrible situation that no practice owner wants to consider.

Planning your sale in good time will enable you to review your lease, and if necessary, extend the term if it is less than 10 years. This will ultimately add to the goodwill value to your dental practice. Planning is all about bringing the future into the here and now so you can do something positive about it. **D**

FOR MORE INFORMATION, call 0330 088 1156.

PRACTICE ONE - GREATER LONDON

Practice type: this practice occupies the ground floor of a converted residential property in a busy and popular part of north London. It is a two-surgery, fully private practice that is being sold to facilitate the retirement of the current principal. The practice has been established for more than 50 years and is being sold with a new 15-year lease in place.

Practice financials: the gross fee income from management information for the past 12 months is in the region of £180,000 and has been generated by the principal working three days a week and a hygienist working one day a week. The clinical team is supported by two part-time nurse/receptionists.

Price achieved: £275,000, in line with the asking price.

Agent's comments: this practice has never actively marketed its services and the principal is very aware there is a real opportunity to develop the private element even more, something that really appealed to the new owner who wants to focus on private work.

PRACTICE TWO - DORSET

Practice type: this practice occupies a previous substantial residential home that was converted into a dental practice 30 years ago. This is a three-surgery, mainly private practice being sold to facilitate the retirement of the current principal. The practice is being sold as freehold.

Practice financials: the gross fee income from the management information for the past 12 months is in the region of £450,000 and is 5% NHS-GDS contract, and 95% private of which 70% is part of a capitation scheme. The gross has been generated by the principal working three days a week, an associate working two days a week and two hygienists working a combined five days a week. The clinical team is supported by a full-time practice manager and one full-time nurse, and two part-time nurse/receptionists.

Price achieved: £1,120,000, which included the freehold.

Agent's comments: this practice has really benefited from additional footfall during lockdown and confirms the trend we have seen in regionally based practices rather than some city centres. The easing of lockdown and the encouragement of getting staff back into offices may alter this trend in the future.

PRACTICE THREE - WEST MIDLANDS

Practice type: this practice occupies a two-storey property, in the centre of a busy market town. It is very well presented. This is a three-surgery mixed practice that is being sold to facilitate the retirement of the current principal. The practice has been established for more than 30 years and is being sold as freehold.

Practice financials: the gross fee income from the management information for the past 12 months is in the region of £450,000 and 40% NHS-GDS with a UDA value of £28.50 per UDA and 60% private income. The gross has been generated by the principal working four days a week, two associates working a combined five days a week, and a hygienist working two days a week. The clinical team is supported by three part-time receptionists and three full-time dental nurses.

Price achieved: £700,000, which was higher than the asking price.

Agent's comments: we have consistently seen an appetite for dental practices purchases over the past 18 months and the interest in this practice confirmed this. The principal is staying on and was able to choose a buyer out of a pool of more than 10, all who offered on or above the asking price.

PRACTICE FOUR - GREATER LONDON

Practice type: this practice occupies the ground floor of a shop-fronted property, on a busy main road within walking distance of both tube and rail. It is a four surgery mainly NHS practice that is being sold to release the principal from business ownership, however, he would be happy to stay on post completion to enjoy clinical work. The practice has been established for more than 50 years and is being sold as leasehold with a new 20-year lease put in place earlier this year.

Practice financials: the gross fee income from the management information for the past 12 months is in the region of £750,000 and is 76% NHS-GDS with a UDA value of £25.50 per UDA and 34% private income. The gross has been generated by the principal working five days a week, two associates working a combined nine days a week, and a hygienist working two days a week. The clinical team is supported by a full-time practice manager, a full-time receptionist, and three full-time nurses.

Price achieved: £1,650,000, in excess of the asking price.

Agent's comments: this practice owner decided to release himself from the burden of practice ownership, in particular the employment and HR issues that arise on a regular basis. We encourage all practice owners to consider using a third party to assist with this and, while it comes at a cost, most owners agree it is well worth the investment!

