

Ask the Broker

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What about a practice in which the doctor also owns the real estate?

Great Question! My advise is

to speak with your accountant first on whether buying a building with your practice or selling the building with your practice makes financial sense. Generally, in the S.F. Bay area, we do not see too many practices where the doctor also owns the building. The vast majority of our practices are sold without real estate; which then just simply involves a landlord negotiation. Before I sold my practice and moved to California, my next dental career consideration was to partner up with several dentists to build our own building. In hindsight, I wish I would have considered owning my own real estate after 5 years of practice instead of waiting, especially since the practice was growing successfully.

Let's break down this discussion for Sellers who own their building and then for Buyers who have the opportunity to buy the real estate with the practice.

Sellers: Generally, we advise sellers to consider selling the building with the practice. ***Sometimes this opportunity is what may attract a serious buyer.*** While it sounds enticing to be collecting rent while sipping pina colodas on the beach, should the dentist move out of that "single-use" space, it can be very difficult to sell or rent that space out again. It sometimes works out best for both parties to consummate the real estate portion of the transaction a year or two after the practice sale. Again, after consulting your accountant, it may be best to sell the building in a different tax year than the practice transaction. If the buyer is adamant on purchasing the real estate at the same time as the practice purchase, it is generally better to sell the real estate and not risk owning an empty dental space in the future.

Buyers: Generally, it is better to own than to rent. Again, you must first consult with your accountant on the tax ramifications, as the rent is completely deductible. However, most of the time, the 20-25 yr loan on the real estate is less than the rent payment and remains constant while the rent payment usually increases 3% per year. It may seem "spooky" to purchase the real estate if you focus on the debt burden of your investment. However, an astute businessman realizes that rent is also a debt burden that will continue to increase. Owning the building gives you an opportunity for a return on your investment. Even if the property never increased in value, eventually it is a fully "paid for" asset that you can sell in the future. Worse case scenario: it is a forced savings account. Possible scenario: it doubles in value in the 20 years you own it.

Questions? E-mail wps@succeed.net

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