

Should I Also Purchase the Real Estate When I Buy My Practice? By Jason P. Wood, Esq.

This question is asked of our firm all the time and almost always the answer is: if it is available, buy it! There are many reasons why acquiring the real estate of the dental practice is the right decision for you, even though the debt threshold appears daunting. Here are some quick reasons as to why purchasing the real estate is oftentimes the smart financial decision for you and your family.

1. **You are Paying For it Anyway!**. Do not be afraid of this additional debt when you are buying a dental practice! Too many doctors forget that no matter what happens, when you buy a practice, you are going to be paying rent. The vast majority of the time, the purchase price of real estate closely mirrors the fair market rental rate of the area. What this means is your mortgage rate is usually slightly lower on a monthly basis than what you would be paying in rent. Even when you add up insurance, real estate taxes and common area maintenance fees your monthly payments will remain lower than what your rental payments would be. However, since the monthly mortgage rate remains a fixed rate, you end up paying less over time compared to the monthly rental rate a landlord would charge you as the (relatively) normal yearly increase for rent is around 3%. When you extrapolate this over your career, this is a rather large differential you are saving. More importantly the landlord you are paying is yourself!
2. **Seller As Landlord**. The only individual that actually has an economic incentive to terminate your lease is the former seller of the dental practice. Understand this does not happen often, but when it does it can destroy your career. We have seen dentists in their 40's, 50's and even 60's (!) sell their practices and later attempt to terminate the lease as a result of a breach in the lease (usually a late rental payment) and then take back the practice, run it for a few years and then sell the practice again. While most dentists would never dream of doing this, it is a unique risk that needs to be taken into account as opposed to non-dentist landlords.
3. **Financial Planning and Taxes**. When you own property, there are additional ways in which you can save on taxes which are not open to dentists that rent. This in turn, allows you to keep slightly more of each dollar you would earn compared to your "renting" peers. In addition, more creative financial planning can occur when you have more assets at your disposal.

Obviously due diligence on the dental practice and real estate remains a must to insure that what you are attempting to acquire is the "right" dental practice for you, however most of the time the answer should be "Yes!" when deciding whether to acquire the real estate along with the dental practice.

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