

Avoiding the pitfalls of practice sales and acquisitions

A spotlight on property...

When buying or selling a dental practice, there are many hoops to jump through and various potential pitfalls where a transaction can come unstuck. Being aware of the possible hurdles and adequately preparing to avoid or overcome them is important for a smooth process. Here, we consider the different areas regarding the property itself.

Lease

A short lease can prove problematic for the sale of a dental practice. The banks will generally lend money over a 10 to 20-year period, so buyers can only look to take on practices that have a lease extending to the length of time over which the loan is amortised. Where shorter leases exist on the property, a buyer would need to borrow money over a smaller timeframe, which makes passing the stress test much more difficult. As such, a short lease can limit the number of potential buyers for a practice and also reduce the goodwill value.

Defects and demise

When making the decision to lend money, banks will also look at the land registry documents. The bank may refuse funding until any discrepancies are resolved. Alternatively, the buyer might be required to take out specialist insurance to cover the value of the defect, should it become a problem in the future.

One possible problem regarding the

land registry may be that it doesn't explicitly cover the land used to access the property. For example, you may need to drive or walk up a road that is actually classified as a public thoroughfare, or is privately owned by a third party. This is actually quite common and difficult to deal with. In an ideal situation, the vendor would amend the land registry or adopt the land and provide evidence of a legal right to access the property. The buyer can otherwise insure against future problems – but both solutions could delay a transaction if not prepared for in advance.

Asbestos

The acquisition of a property will always require an asbestos survey. If there is any risk of the material being present, the vendor will need to deal with it prior to the sale. The wording used in the survey can influence a banks' decision to lend money, so using phrases like 'no visible asbestos' will be more widely accepted than 'there is a slight risk of asbestos'. These essentially mean the same thing, but banks are a lot more comfortable with the former phrasing.

EPC

An Energy Performance Certificate (EPC) is required when selling or renting any property. A law came in last year stating that leases can only be granted on residential and commercial properties being sold that have obtained an EPC rating of E or higher (with some exceptions for Listed Buildings). Anything below this renders the property unsellable

or unrentable and action must be taken to improve the rating. This could be anything from installing energy-saving light bulbs to much more substantial work. Where a third party landlord is involved, they aren't required to do anything to the property until their existing lease agreement ends, so it could be the vendor's responsibility to remedy any problems.

Freehold valuation

Valuations between vendors and buyers can often become disconnected and this can cause issues. If the vendor uses a local estate agent, who bases their estimates on neighbouring residential properties, this can come out a lot higher than the buyer's valuation. It's worth noting that commercial properties are typically valued a lot lower than residential. It is equally as important for vendors to be aware of the most pessimistic valuation for their property and the reasons for why the asking price could be slightly higher (which the banks will produce during their survey), in order to avoid underselling.

It is always better to work with a professional accredited by the Royal Institution of Chartered Surveyors for all property valuations, as this will be a requirement from the bank for lending.

Schedules of condition

Where the practice property is owned by a third party landlord, there will be stipulations within the existing lease that demand the premises be left in the same state of repair as when they moved in. This can become an issue for the buyer if the previous principal did not maintain the

building adequately. When the existing lease comes to an end, the new practice owner could foot the bill for any repairs or improvements the landlord requires.

To avoid problems, some buyers – especially corporates – will conduct a survey of the property condition and request that the vendor make good on any issues prior to transaction completion. It's important that these requests are fair to both parties, as some surveyors will pick up tiny details and it is not always reasonable to expect the vendor to make every improvement.

It's all in the prep

Many of these common pitfalls can be addressed by the vendor before a practice goes on the market. This is the best way to prevent any complications that could delay the process. Whether buying or selling, seeking the help and support of professionals with expert knowledge in these areas – such as our team at Dental Elite – can help to identify and solve potential problems early on.

For more information visit the website at www.dentalelite.co.uk, email info@dentalelite.co.uk or call 01788 545 900. ■

About the author

Luke Moore is one of the Founders and Directors of Dental Elite and has overseen well in excess of 750 practice sales and valuations. With over 11 years working in the dental industry, Luke has extensive knowledge in both dental practice transfers and recruitment and understands the complexities of NHS and Private practices.



June

12th
BDA seminar – The Profitable Practice
09:00 – 16:30

Crowne Plaza Birmingham City
Dental Care Professional: £95.00
Essential member: £145.00
Expert member: £145.00
Extra member: £145.00
Senior member: £145.00
Non member: £195.00
Student member: £145.00

<https://bda.org/events/seminars/the-profitable-practice-12-july-2019-birmingham>

13th
World Dental and Oral Health Congress 2019
London

08:00-17:00
Holiday Inn
Kensington High Street
WB 5SP London
United Kingdom
Starts at £158.84

<https://www.eventbrite.co.uk/e/world-dental-and-oral-health-congress-2019-london-tickets-5120019394?aff=sourceeventbrite>

15th & 16th
27th Global Summit Expo on Dental Science and Dental Practices

08:00-17:00
Venue will be informed to the Registered Participants – London
\$1,199 – \$2,700

<https://www.eventbrite.com/e/27th-global-summit-expo-on-dental-science-and-dental-practices-pg-0d0e160471551037?aff=sourceeventbrite>

19th
Transform Your Practice in 10 Days

08:30-17:00
Bicester
£916.89 – £3,773.59

<https://www.eventbrite.co.uk/e/transform-your-practice-in-10-days-july-2019-june-2020-tickets-5120020285?aff=sourceeventbrite>

26th
Introduction to Implants for Dental Nurses

09:00 – 16:30
Dental Rooms
1 Ridgway
London
SW19 4RS
£101.85

<https://www.eventbrite.co.uk/e/introduction-to-implants-for-dental-nurses-tickets-5120020285?aff=sourceeventbrite>

29th
Restore or not? Study club

18:30 – 20:30
Bradbury Dental Surgery
18 Bradbury Street
London
N16 8JN
£20
<https://www.eventbrite.co.uk/e/restore-or-not-study-club-tickets-52210114126?aff=sourceeventbrite>

August

3rd
Meet the Tutor Taster Workshop – Become a Dental Nurse

11:30-12:30
The Learning Lodge
55 Penhill Road
BN15 8HB Lancing
Free
<https://www.eventbrite.co.uk/e/meet-the-tutor-taster-workshop-become-a-dental-nurse-tickets-5187521543?lang=en-gb&look-in=55&aff=sourceeventbrite>