

HOW LONG DOES IT TAKE TO PAY BACK A DENTAL PRACTICE LOAN?



I started collaborating with my father when I was a teenager.

This was in the late '70s and early '80s when the average dental practice value was between \$100,000 and \$200,000. There was a wide range, but very few practices sold for much more.

Values began to climb in the mid-80s, and we started to see practices sell for \$300,000, \$400,000 and a few for more than \$500,000.

At the time, banks would give five-year financing to any dentist with a good credit rating. Everybody paid off their practice loans in five years or less. No stress, no hassles.

I started to wonder why doctors could get a 25-year amortization on a house, which is non-tax-deductible interest, when the banks demanded that they repay a tax-deductible business loan in five years resulting in high monthly payments?

I started challenging lending institutions by asking *“why don’t we extend the repayment period for the doctor’s business loan which has tax-deductible interest, and shorten the repayment period for their home loan, which has interest that isn’t tax-deductible?”*

That is remarkably simple logic.

If you have debt, you want it to be tax deductible, so a longer amortization period on a business loan and a shorter one on a residential mortgage makes good financial sense.



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Now, I am not going to suggest that I changed Canadian bank policy, but we were the first Appraiser to secure six and seven-year amortizations on practice loans, and not one single Canadian bank pushed back.

Not one.

Soon after I challenged the banks with 6 to 7-year amortizations I went to 8 years. Once again, I heard nothing but silence as they started agreeing to finance the practice loans over these longer terms.

Naturally, longer amortization periods mean smaller monthly payments and more free cash flow for the dentist.

Most young dentists desire higher free cash flow; they are NOT seeking high taxes and high monthly payments.

Practice values have grown significantly over the past couple of decades, and 12-year amortizations are now common, particularly for practices selling well above \$1,000,000.

I predict that one day we'll start seeing 15-year amortizations. I have already consulted with the strategists at some lenders. That day is just around the corner.

So how long should it take to repay the loan on a dental practice? The answer lies in how quickly you want to pay it back, but we know the Canadian banks are now giving you up to 12 years to do so. Pay off your house and student loans first – then attack the loan for your practice purchase.

The problem with these long-term amortizations is that premise leases rarely run on an unimpaired, unfettered basis, and the banks are realizing they cannot offer 10 or 12-year loans because landlords are sometimes only guaranteeing their leases for less than 10 years without a demolition clause.

Effectively, Canadian dentists became very spoiled with long amortizations but because of the Landemic™, lease terms are not as long as they used to be, meaning we will start seeing amortizations start to come back to where they were previously.

Eight years may once again become the new norm.

This will reduce practice values for upwards of half the dental practices in Canada.

Every time the industry moves in one direction, somebody moves the chess pieces in the other direction. This time, responsibility lies squarely on the landlords and the Landemic™, and the banks are poised to react by removing the privilege of long amortizations.

NEED TO CHAT?
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