

LATENT AND HIDDEN VALUE PART 2 – LEASEHOLD IMPROVEMENTS



We recently uncovered over \$250,000 in value that had been overlooked by a newcomer.

I visited a lovely veterinary practice not long ago.

Originally built as a horse barn, the building had been stripped to its bare superstructure, then rebuilt and expanded. The final design includes numerous private examination rooms, a large open-concept team workspace, a lab, a crate wall, a pharmacy, and surgical suites. Ample private spaces for doctors and staff. There are multiple washrooms (yes, I appreciate good facilities) as well as separate x-ray and dental treatment rooms.

What a facility! I estimate the leasehold replacement cost to be at least \$500,000.

A careless appraiser assigned a value to the leaseholds that was frankly insulting to the owner – who was understandably frustrated by the lack of recognition for what she had built.

He only looked at the balance sheet, never visiting the practice.

Your appraiser should be uncovering this hidden value, not you.

If you have read appraisals, you will have seen the various methods used to determine the value of interior improvements.

With current labour and material costs, replacement values have increased compared to 5 years ago.

Let's examine the simple method versus the detailed method.

Simple Method:

"1,500 square feet at a replacement cost of \$300 = \$450,000. Depreciated by 50% due to age and wear and tear. Market value = \$225,000."

Yes, it can be that simple. And this is exactly what I found in one appraisal.

Two lines of texts to describe an unbelievably valuable tangible asset.

This method is often employed by those who do not visit your office or fully understand construction methods and costs.

Do not accept the argument that value is based solely on cash flow (or the dreaded EBITDA) and that leaseholds don't matter.

That is the first sign of a lazy appraiser who does not want to invest the time.



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Now, let's look at the sophisticated method (I wonder who does such detailed work?):

LEASEHOLD IMPROVEMENTS AND FIXTURES (Units in place method)

Electrical

- 170 – electrical outlets
- 44 – wall switches
- 102 – ceiling fluorescent fixture(s)
- 26 – pot light(s) recessed
- 11 – wiring set(s) for ceiling mounted dental lights
- 9 – wiring set(s) for x-ray machine with remote timers, each with separate control, and separate circuits per x-ray head
- 4 – wiring set(s) for digital x-rays
- E – wiring for central air compressor(s)
- E – wiring for air dryer(s)
- 7 – wiring for central vacuum/suction pump(s)
- 24 – main breaker panel for suite with extra power service/feeder line
- 32 – music speaker(s) with volume controls
- 11 – telephone outlet(s)
- 11 – computer outlet(s)
- 8 – rough-in(s) for power to dental chairs
- 5 – rough-in(s) for power to delivery units
- 10 – miscellaneous wiring for fixtures
- 4 – exhaust fan(s)
- E – exit sign(s)
- E – emergency light(s)
- 1 – wiring for alarm system
- 1 – solenoid shut off switch

CURRENT REPLACEMENT COST: \$184,350

Yes, the above is the ROI method.

A moment of self-promotion, but it reflects the level of detail required.

This is how my dad taught me when I was fourteen. *“Count every plug, Timmy!”*

And this is just the electrical section. The general and architectural, plumbing, and interior design sections add another five to seven pages to each appraisal. And this is only for the leaseholds.

Watch our lighthearted video, [Count the Plugs](#), for a fun take on the details that make all the difference.

If you want to extract the true market value from the office you designed - and lost sleep over, while investing hundreds of unpaid hours supervising, and then finally opened with pride, then engage professionals who recognize and accurately assess the value of your leaseholds.

Not convinced?

Ask your banker.

Ask your dental dealer.

Ask your accountant to explain the line items on your balance sheet and why it is wrong when compared to actual, current market value.

Yes, a detailed leasehold inventory comes at a cost.

But all you need to do is engage a firm that does it properly.

The cost of a thorough appraisal can be a fraction of the value it uncovers.

TEXT me @ [\(416\) 520-7420](tel:4165207420) for a FREE estimate of the fair market value of your practice.

Subscribe to my newsletter: [Timothy's Newsletter](#)

Refer a friend and you will BOTH receive a **REVERSE Tariff** professional courtesy of up to \$1,500 each toward your ROI Appraisals. A total savings of \$3,000.

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Record



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