



Practice Sales Guide

Property Guide

Property Problems

Key Checks

- ✓ Check Your Lease is a Minimum of 10 Years in Length
- ✓ Check Your Lease Sits within the Landlords & Tenants Act 1954
- ✓ Ensure the EPC Rating of the Practice is at Least an 'E'
- ✓ Check the Lease Sits in the Right Entity
- ✓ For Freehold Valuations Only Use RICS Accredited Valuers
- ✓ Local Estate Agents' Values Will Not Stand up to Bank Scrutiny

Freeholds

Valuation

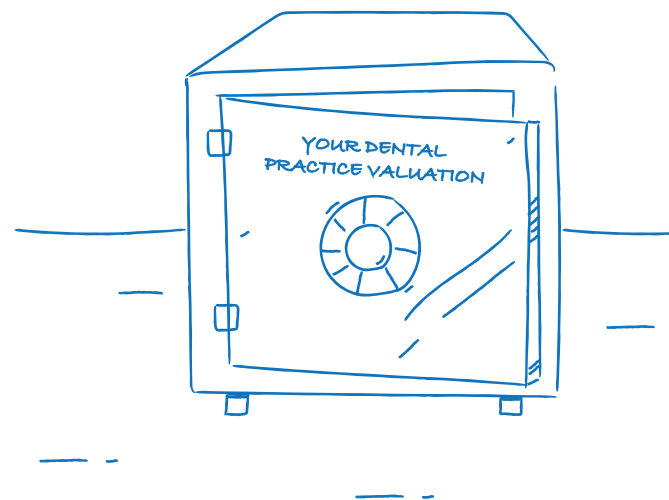
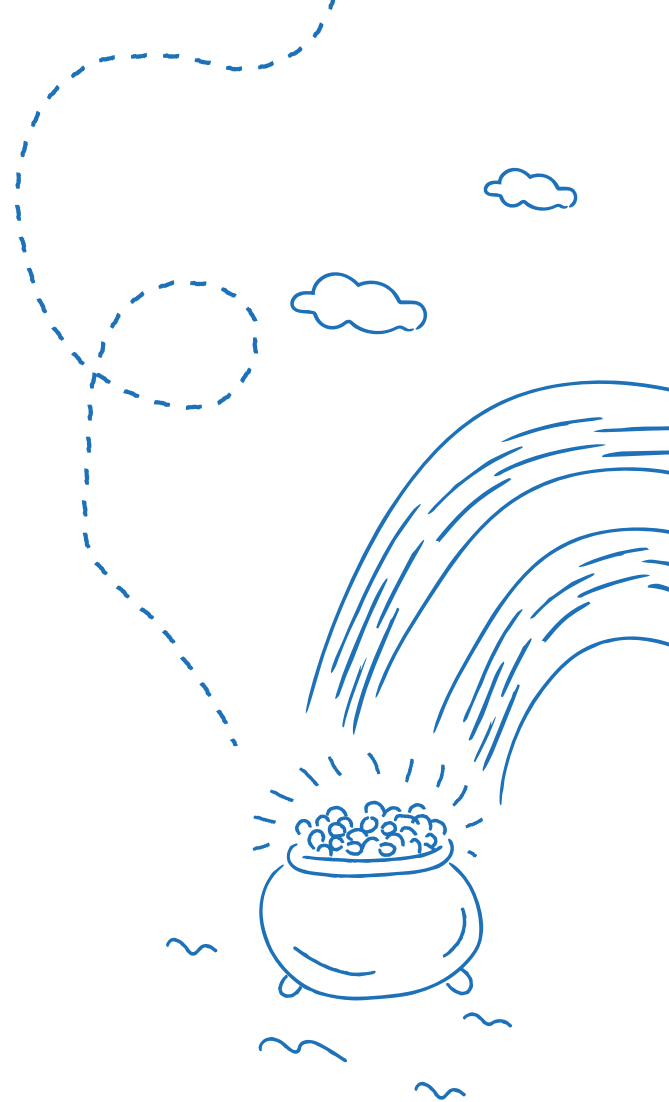
Freehold Valuation is undoubtedly one of the most common commercial disputes that can jeopardise dental practice sales and so it is always advisable to get a realistic idea of the building's value prior to marketing the practice for sale or certainly during the marketing process. If you do opt to sell the property and your purchaser is borrowing money from a bank (and often even if they are not) they will send a third party valuer to come and value the property either on their or the bank's behalf. Given that a lot of dental practices are in converted residential properties and not purpose-built there is often very limited comparable data available to valuers and accordingly valuations are often quite subjective and can be wildly different.

A lot of prospective vendors make the mistake of asking a local residential estate agent to come and assess the practice who often values the property as if it were residential which will almost certainly be inaccurate, so for the most reliable opinion on value you should seek an opinion only of a **RICS** and **Local** valuer who has both a local knowledge and access to considerable comparable data upon which their opinion can be based. The advantage of this is that if the valuation conducted by the purchaser comes in at a lower amount, then we have available to us a respected opinion from which we can counter.

The other aspect to this is that the business valuation will use an assumed rent, if this rent figure is considerably different then you could run the risk of under-valuing the business element because the rent figure was too high.

Title Defects / Inaccurate Demises

When lending money, often a bank will pay considerably more interest in the property than the overall business because more often the property is their security, so it will get picked up if there is an issue over rights of access or inconsistencies at Land Registry with the demise or a problem with the property's title. If you are aware of a potential issue, always consult your property solicitor in advance to remedy it or insure against it before it spooks your buyer!



Leaseholds

Short Leases

If a buyer is paying a considerable sum for your business, both they and their bank is going to want some form of assurance that they are not going to have to relocate the business after a few years as this would carry considerable expense and also a potential impairment to the goodwill value as dental practices are still footfall business albeit low-footfall businesses.

In light of this a buyer would normally require a minimum of a ten-year lease to be in situ at the point of completion and most will like even longer, sometimes up to twenty to twenty-five years. Without a long lease it is unlikely your practice will achieve a successful sale as even if your purchaser is prepared to take the risk, their bank might not or they would seek to amortise any loan offered over a shorter period to hedge their risk which may make the practice unaffordable for a lot of purchasers.

This is not to say that we never sell businesses with short leases as this does often occur but will impair the goodwill value as this has to be factored into the multiple of profit paid for the business as it would be deemed to be higher risk. This is something that is always a commercial decision as to whether to resolve it before or after placing your practice on the open market, as if your landlord gets wind that you are seeking to sell your business for a considerable sum they may insist on a substantial premium being paid to them to consider any form of lease extension before the lease is next up for renewal which could render you stuck for a few years unless you pay the amount demanded. We have seen sums of up to £100,000 being paid to landlords just to get them to play ball.

Contrastingly, if you do extend your lease to a longer term before selling the practice you may have to pay some additional stamp duty on this lease and it may also mean that when you sell the practice the lease you procured is just re-assigned to the new owners if you trade as a Sole Trader. The disadvantage of this is that you would enter into an Authorised Guarantee Agreement (AGA) until the expiration of the current lease which means that if your purchaser was to fail, the landlord could legally ask you for their unpaid rent. Whereas if you just got the landlord to agree a new longer lease with your purchaser they may do this by a surrender and re-grant which would get the Vendor 'off-the-hook' from the day of completion.

Top
Tip



For the most reliable opinion on value use a RICS and local valuer who has both a local knowledge and access to considerable comparable data upon which their opinion can be based. A local estate agent normally over-estimates.

A Lease Outside the Act

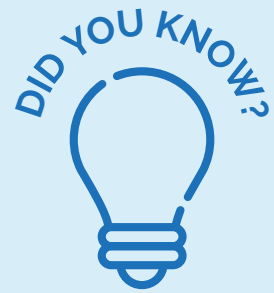
You might hear this question a lot when selling your practice, the question actually being posed is whether your lease is included within the Landlord & Tenants Act 1954. It is common that most dental practices' leases are included within the act as a matter of course as it offers the tenant some protection over the renewal of the lease when it comes to the end of its term both from a rent and terms perspective. Dental practices that are sold that sit outside the act can sometimes infringe the goodwill value slightly.

Third Party Landlords

As soon as a sale is agreed the landlord should be contacted as often this is the slowest element of any transaction as ultimately they have no vested interest in an expedient completion as their rent has to be paid regardless. It will also often be the case that they have a number of requirements in order to sanction a new lease or lease assignment including but not exclusive to:

- ▶ Specific References citing both the Rent and Lease Term regarding the proposed purchaser.
- ▶ Accounts for both the business being sold and for the proposed purchaser.
- ▶ A Rent Deposit which may require a new document be agreed and drafted.
- ▶ A Guarantor for whom references and accounts also have to be obtained.

You should also remember they will always instruct their own solicitor who only they will be able to dictate the pace of, so you will always want them ahead of the rest of the transaction to prevent any delay.



It's common that most dental practices' leases are included within the Landlord & Tenants Act 1954 as a matter of course.

“ In April 2018, the English & Welsh Governments introduced the Minimum Energy Efficiency Standard which prohibits the sale of non-domestic properties, granting of leases and extension of leases where the Energy Performance Rating on the Energy Performance Certificate (EPC) is below an E

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Either Tenure

Asbestos

Albeit you are certain there is no asbestos in your practice, it will be a bank requirement for someone independent and from a certified organisation to confirm the same and the requirement will not go away, so unfortunately it just has to be done. You should, however, pay attention to the wording of the report that follows the inspection as small differences in wording can be the difference between the bank's solicitors signing it off or making an issue of it.

EPC Below Threshold

On the 1st April 2018 the English & Welsh Governments introduced the Minimum Energy Efficiency Standard (MEES) which prohibits the sale of non-domestic properties granting of leases and extension of leases where the Energy Performance Rating on the Energy Performance Certificate (EPC) is below an E. Whilst technically a property owner's problem it doesn't yet apply to existing leases, so it may be difficult to convince your landlord to act upon the changes given that as it stands they may have no vested interest in doing so. Therefore, in a lot of cases the current business owner has been making improvements which could assist with raising the rating.

An EPC actually lasts for ten years and is relatively inexpensive to procure, so this is something worthwhile getting well ahead of selling a practice in order that if improvements are required these can be achieved well in advance of time and before they start delaying a sale. Sometimes the difference between an 'F' and an 'E' rating can be as simple as changing the lightbulbs. We would always advise that you or a respected manager is on site when this is conducted so you can ask for advice on improving the rating at the time.



“ My advice to future vendors would be to just use Dental Elite. The team will guide you through the entire process swiftly and with minimum fuss. ”



Dr. Jaswinder Bardha

Dilapidations / Schedules of Condition

It is almost always the case that when a lease is granted to a dental practice this is done on a Fully Repairing and Insuring (FRI) basis, so it is understandable that when a purchaser buys a practice they want to ensure they are also not being laden with a lot of repairing obligations that they will have to foot the bill for. Especially, if the property is leasehold and there is an obligation in the lease to return the property in the same condition that it was in at the point when the lease was initially granted.

Furthermore, if a lot of work is required this could have a bearing on the Freehold Valuation. However, vendors should also approach this with care as it's common that some of the more experienced purchasers send in surveyors to assess any repair obligations, who conclude considerably more work needs doing than in reality is probably necessary; so one should always ask for a copy of the reports provided to the purchasers prior to agreeing to any pre-completion works, as sometimes these reports are worded to say that there is a 'risk' of the work needing to be done in the next three to five years which should be a purchaser risk not a seller expense because at this point in time the work does not need doing.

Let's ensure your sale goes smoothly

Get in touch with our team today

How do I get the best deal for my practice?



- ▶ A free Practice Healthcheck provides a full report on value, likely deal terms and potential areas of improvement
- ▶ You might not need an agent to sell your practice but you will to get the best price

Top Tip



If you are aware of a potential issue, always consult your property solicitor in advance to remedy it or insure against it before it spooks your buyer.

We'll help you unlock the true value of your practice

Paul Wilkinson
Co-founder



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