



THE PROS AND CONS OF BUYING VS. LEASING DENTAL OFFICE SPACE

When establishing a practice, one of the many decisions you may face is whether to **buy commercial real estate**, or **lease** a dental office space. Read on to learn about the advantages and disadvantages to both.





CONSIDERATIONS OF BUYING COMMERCIAL REAL ESTATE

1. Property Ownership Pros and Cons

Buying a building or other commercial space provides flexibility over how to use the space, and the freedom to control the property, as you are, in essence, your own landlord. You also have the opportunity to build real estate equity.

On the other hand, buying commercial real estate comes with its own disadvantages and risks. First and foremost, buying a practice requires a large up-front financial investment. You will be taking on quite a lot of debt in the form of a mortgage, and of course there are risks associated with any real estate investment.

A dentist who purchases will also acquire a great deal more responsibility, and as a landlord/property manager, increased duties and obligations will take time and concentration away from the core business of dentistry.

2. The Separation of the Real Estate Investment and Your Practice

Acquiring a commercial property is expensive and comes with certain liabilities. It is recommended to keep your real estate investment and dental practice as separate business entities so that it's not "the dental practice" that is buying the real estate. This helps to maximize the value of each entity, and also separates the applicable responsibilities and liabilities. A properly structured dental office lease agreement should be created between the two businesses to provide further protection. This will be important should either be sold in the future.

3. Selling Complications in the Dental Office Lease

At the time of retirement or practice transition, a dentist who has purchased the property of their dental office either transitions into a landlord or sells the property. However, it is often quite difficult to sell the practice *and* the real estate property to one buyer.

In the case of a dentist who leases their office space, as long as "Assignment" provisions are well-structured in the office lease agreement before signing it, they should have the flexibility to sell their dental practice or transition out of it by transferring the practice to another dentist, risk and hassle-free.



CONSIDERATIONS OF LEASING DENTAL OFFICE SPACE

1. Location, Location, Location

Location is a critical factor to the success of a dental practice. In many cases, the best dental practice locations may not have purchase opportunities. Buying may require you to select from a less desirable or lower-trafficked area, and ultimately, a less profitable location. Leasing may therefore be the best option for the success of your dental practice.

2. The Flexibility to Relocate or Expand

Leasing dental office space gives you the flexibility to move, if need be. Although relocating a dental practice is expensive and not the most feasible route, there may be situations where it makes the most sense for your personal and professional goals. Perhaps the community/location has changed over the years and the demographic is no longer ideal for your practice. What if your business plans have changed, and you want to expand and require more operatories/treatment rooms? What about property depreciation and external influences that change over time?

Whatever the reasons may be, they were likely unknown to you at the time of signing your dental office lease agreement, making it critical that you fully understand the terms of your lease, and its hindrances. With leasing, you could have the flexibility to move based on changes to your practice goals and the terms in your dental office lease agreement.

3. Greater Working Capital

Buying real estate for your dental practice will tie up significant capital that could otherwise be used towards building out your practice, purchasing dental equipment, marketing, hiring/training staff, etc. Leasing a dental office space can alleviate the stress of some of these and other startup costs, allowing you to become profitable sooner. Consider whether investing in business development for your core business, the dental practice, will yield higher returns than investing in real estate.



EVALUATING BUYING VS. LEASING DENTAL OFFICE SPACE

When you review the **pros and cons of buying vs. leasing dental office space**, you must consider the stage of your dental career, your future business plans, the financial resources available to you, and your comfort level with risk. Commercial real estate investments are certainly an added complexity that will shift capital, time, energy, and other resources away from your core business practice. With everything considered, does buying truly make sense for your dental practice, or are you best served leasing a space and negotiating a dental office lease to maximize flexibility and business potential? By carefully reviewing all of the facts, you can make an educated decision on whether to buy or lease your dental office space.

Does buying truly make sense for your practice, or are you best served leasing office space?

If you have any questions about buying or leasing a dental office, contact Cirrus for a complimentary consultation by calling 1.800.459.3413, or emailing info@cirrusconsultinggroup.com.