JRA HEALTHCARE | REAL ESTATE & PRACTICE ADVISORY

Dental Market Report 2021

JRA is the Midwest market leader specializing in dental transitions and real estate, with successfully completing over hundreds of dental specific transactions.

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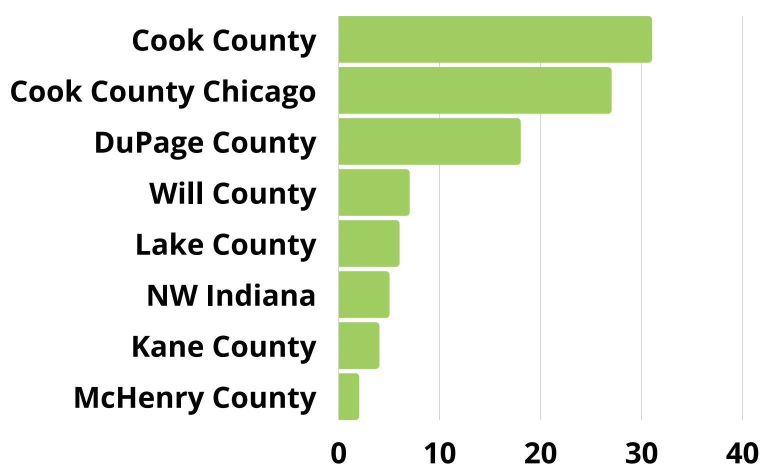
Local Market Conditions

Demand for dental practices remains strong. Practice financing remains vigorous due to historically low interest rates igniting buyer demand. Lenders continue to evaluate pre and post-COVID revenue trends which impact valuation.

As always, the dynamic Chicagoland area landscape is shifting rapidly. The Loop market has been leveled with many practices experiencing a 30-60% decrease in activity, due mainly to the lack of support staff in the office and patients working remotely. However, as workers return to work, these practices are expected to follow suit with most other thriving practices where the hiatus period was followed by a period of increased activity.

Locations of New Start-Up Offices:

*By County



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National Market Conditions

After withstanding the uncertainty of the pandemic in 2020, all signs indicate the dental market is back and boasting an above average growth rate of 8.0% nationwide compared to an historical 2.7%. Future growth is expected to normalize to historical levels and much of the added growth was due to pent up demand from 2020 shutdowns and limited work hours. Furthermore, according to the American Dental Association (ADA), cost barriers for receiving oral healthcare services have become less pronounced over a five-year period, spurring an increase in annual dentist visits to receive preventative care. As a result, industry revenue in Illinois is forecasted to grow an annualized 3.8%, slightly above national average.

Practice Valuations for the top performing practices are trending to record levels, while under performing practices are staying constant to historical levels. The aftermath of COVID had an influx of private practice clinicians expediting their exit strategies and reevaluating practice models. Furthermore, the appetite from DSOs to consolidate the dental industry through increased purchasing power and corporate structures has given dentists an unprecedented array of transition plans and increased practice values.

While the practice acquisition market remains ultra-competitive and the first choice of dentists look to enter practice ownership, the demand for a practice start-up still remains a viable and desirable path to success. Start-ups will remain viable due to the quality of care and attentiveness to patient needs that Corp/DSOs practices struggle to provide. Practice ownership rates have declined, with 85% of dentists owning their practice in 2005 compared to 76% in 2019. This decrease in ownership was more evident among dentists under 35, a drop from 49% in 2005 to 31% in 2019.

Current Practice Values

Depends on the multiple factors including: collections, profit margin, transition period, provider base, % hygiene, location, buildout and more.

Sellers with top performing practices have leverage, as there is a surplus of practice buyers of all shapes and sizes competing for the same practices with limited supply, multiple offers & bidding wars, which are commonplace with price levels reaching 80% up to 150% of annual collections. In addition, practices in this category also sell the quickest.

The average practice seller collecting 400K to 600K will have a longer marketing period and finding the perfect fit can take a couple months to one year. The condition of office, profit margin & practice philosophy's are all important factors and typically these practices sell in the 60% to 79% of 3 year weighted average of collections.

In reference to the chart below, practices collecting 400K or less have an unknown selling time frame and are much less predictable when it comes to sales price. Many practices in this category end up being mergers or chart sales depending upon the transition timeframe of the selling doctor if there isn't a buyer who will take the leasehold. These practices typically sell or merge for a price of 15% - 59% of 3 year weighted average of collections.

	Top	Average	Below
Collections	700k Plus	400k to 700k	400k or less
Transition Period	24 months or more	6-24 months	Less than 6 months
Provide Base	PPO / FFS	PPO / FFS	Medicaid, HMO
Hygeine	35% or Greater	25% to 35%	25% or Less
Sale Prices	**80% - 150%**	**79% - 60%**	**60% or less**

Real Estate Stats

	Retail	Office
Avg. Base Rent/Sq. Ft.	$25.42	$23.20
Avg. Size Office	2,377 Sq. Ft.	
TI Allowance	$48.00 / Sq. Ft. ($114,096)	
	Purchase	Lease
Purchase vs. Lease	15%	85%

2021 Takeaway

As always, political theater plays a part in economics, and many expect possible capital gain tax increases on this horizon. This makes 2022 an optimal time to act for doctors who have been considering selling their practice. It is never too early to begin a discussion with an experienced broker; as valuations, market movement and your personal goals are all considerations to be thoroughly examined before making your next move. **2022 has all of the signs of setting new historical peaks for practice values.**

Private buyer demand will remain high due to the low inventory of profitable practices on the market. Working with an experienced broker with strong vendor relationships, a good understanding of practice analytics and the ability to attract the right type of doctor will be one of the most important decisions to make when buying or selling a practice.