



MONEY

DENTAL SERVICE ORGANIZATIONS

Chip Fichtner

CHIP FICHTNER is the founder of Large Practice Sales, which specializes in invisible DSO transactions for large practices of all specialties. The company has completed more than \$500 million in transactions in the last 12 months.

Increase the value of your practice real estate with an IDSO partner

DENTIST-OCCUPIED REAL ESTATE IS VALUABLE. When doctors own their practice real estate and partner with an invisible dental support organization (IDSO), the value of their real estate can increase substantially. Dental practices have large investments in tenant improvements which historically decrease the risk of defaults, either on leases or practice real estate loans. It is much harder to move a dental practice than an office or retail occupant!

When the tenant in a doctor-owned building becomes a AAA tenant, like an IDSO, dozens of real estate investors become eager to buy what has now become an investment-grade property, not a dental practice. Many real estate investment trusts (REITs) and other investors seeking safe, high-yield passive income are eagerly bidding on dental practice real estate with national tenants, like IDSOs.

In 2023, thousands of doctors will partner with IDSOs in all 50 states. Although IDSOs have been active for over 30 years, the trend is accelerating. The rapid growth of IDSO partnerships is due in part to record-high practice values and the growing number of doctors of all ages eager for support in a challenging environment. Lower costs and higher reimbursement rates are just some of the benefits of IDSO partnership.

In an IDSO partnership, doctors sell 51% to 90% of the value of their practice for cash at today's low tax rates. They retain ownership in the balance and continue to lead their practice with their team, brand, strategy, and full autonomy for years or decades.

The IDSO partner provides resources and support to enable the practice to grow bigger, faster, more profitably. In the last year, many LPS clients entering

into IDSO partnerships have been doctors in their 30s. Many young doctors are attracted to IDSO partnership to gain more time with their families. With an IDSO partner responsible for payroll, benefits/administration, compliance, credentialing, tax, legal, and vendor and payor negotiations, doctors are empowered to focus on patient care, team building, and growth—not admin headaches.

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Dentists of all ages are eager to monetize a part of their practice for cash at today's low tax rates to eliminate debt and provide liquidity for other investments to diversify their portfolios. They also retain the upside of ownership, which with the right IDSO partner has resulted in generational wealth creating returns. It has not been uncommon for LPS clients to see returns of two, three, and even five times the value of their

retained ownership over time; this is far more value than a doctor could create independently.

TWO GREAT OPTIONS

When a doctor owns the practice real estate with an IDSO tenant, they have two great options. They can collect rent from an AAA tenant for typically 15 years of inflation adjusted, growing passive income. Option number two is to sell the real estate to an investor attracted to the tenant quality and long-term lease. With an IDSO tenant, values are determined by the income from the long-term lease, not the local appraised value of the building. The value increase can be substantial.

As in all elements of an IDSO partnership, whether for the practice or the sale of the real estate, doctors must negotiate the terms of their agreements carefully. When completing an IDSO partnership and/or a potential sale of the real estate, the lease terms, rental rates, and practice values achieved are intertwined. An increase in rent may result in a decrease in practice value. The opposite is also true, and tax minimization strategies within the structure are critical to achieving the maximum, net value after tax.

Doctors are urged to use a specialist advisor in any IDSO negotiations. Dentists are smile experts negotiating against professional investors who have completed dozens of complex transactions. The IDSO's goal is obviously to achieve the best value for themselves, not for you! **DE**



LPS | Large Practice Sales
Monetizing Larger Dental Practices

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