Which comes first - house or practice purchase?

David Brewer discusses savings, deposits and mortgages

Unlike the chicken and egg conundrum, there is a clearer answer to this question.

In the heady days of easy credit in the early to late 2000’s, raising finance for practice purchase was relatively straightforward – as long as you had a GDC number and a pulse, the banks would probably lend to you – often the full 100 per cent of asking price and at rock bottom rates.

As we all know, the banks then experienced a few financial difficulties (and that’s putting it mildly) and almost overnight sizably changed their lending stance to any new lending proposal (be it for house or any type of business including dental practice purchase).

The banks now take a much more critical approach to any financial request and will review in great depth all aspects of any proposal with particular focus on the purchaser’s experience, client commitment and overall ability to repay.

A prospective new purchaser should actually take comfort from the fact such a detailed analysis is now being undertaken by the bank to ensure the proposal actually ‘works’ – and it is staggering that in the past these questions were not being asked.

Thankfully, the dental profession remains one of the so-called ‘Green Light’ sectors for most of the banks - dentists are considered relatively low risk; the banks have very few dental loan defaults on their books and a positive appetite to lend - but to the right applicants.

One of the biggest changes in banks’ lending requirements is the need for the purchaser to commit ‘something’ towards the purchase - ideally a cash contribution.

As a rule of thumb, a contribution of between 10 per cent and 20 per cent of goodwill purchase is often sought by the banks. The same goes for house purchase as well – the days of being able to raise 100 per cent mortgage on your house are a distant memory. Nowadays if you want a decent house mortgage you need to put down a sizable cash contribution.

Most associates do normally have a reasonable level of savings (or possibly Bank of Mum and Dad) behind them, which could be used. However this is where we have the dilemma – do you put your deposit towards your first house or do you buy your first practice?

Past evidence has shown that practice purchase FIRST is the most effective way forward.

If you buy your house first you will have used your own/family savings towards the sizable deposit required by the mortgage lender leaving nothing left over to put down to wards practice purchase. Gradually your savings will slowly build up again - however as a new graduate your earning potential may be restricted by your current principal or practice partner base so it will be a while before your deposit has built up again.

Also... it may well be that you buy your house first and later find the ideal practice many miles away - so you will end up having to go through the whole house sell/buy process again.

By utilising your/family savings of say 10 per cent towards the purchase of a dental practice, you will of course be the proud owner of the practice which in turn should enable you to earn considerably more than you would have done as an associate – leading to your savings accumulating at a much faster rate thus putting a deposit down for a much larger house closer to where the practice is.

The same analogy can be applied to purchase of investment properties (normally residential buy-to-lets). If your wish is for practice ownership, in the vast majority of cases you would earn more £ for £ putting a dental practice compared with investing in property.

Equity in your house or own/family investment property can be considered by the bank as quasi contribution - however at present with property prices static at best, any deposit/equity within the property may not be as high as you think. The banks tend to place a ‘security’ value of between 70 per cent to 80 per cent of the value of the property LESS any existing mortgage. Eg House value £500K with £300K mortgage. The banks value at say 70 per cent would be £50K, (ie 70 per cent of £500K less £300K) much less than the ‘true’ equity of £200K.

I would stress again that the banks ARE still lending for practice purchase and the dental sector is viewed by them as relatively low risk - the fact banks will still lend up to lend 90 per cent of Goodwill is great testament to the dental profession. Indeed there are very few other sectors in which this would happen.

If you are seeking to raise funding for practice purchase it remains essential your application is presented in the right manner.

ALWAYS engage the services of an independent specialist to work on your behalf. They should present your proposal in a manner which will satisfy the bank’s lending criteria (which will vary from bank to bank) and ensure you are personally placed to provide advice and guidance to clients who might be looking to purchase a practice or simply review their existing arrangements. David works with Frank Taylor and Associates and can be contacted on 0845 1234567 or david.brewer@ft-associates.com.