

## Why it's a bullish year for the dental practice construction market

August 10, 2016

By Todd Andrew

President and Owner, Andrew General Contractors

*Dental practices are wisely taking advantage of strong market conditions to capitalize on opportunities for expansion*



*Above: Office design and build by Andrew General Contractors*

**As a general contractor**, my line of work revolves more around interior buildouts than anterior teeth. To me, an “excavator” is something else entirely. But even for those of us who use hammers and hard hats instead of burnishers and bite sticks, one thing is clear: dental practices are wisely taking advantage of [strong market](#)

conditions to capitalize on opportunities for expansion.

According to IBISWorld market research published earlier this year, dental revenues are soaring industry-wide after years of negative or stagnant gains, with 5.7% annual growth rates forecast through 2021.<sup>i</sup> Profit margin (currently at 19.7%) is also expected to hit 24.6% in five years. Considering that private dental clinics already top the rankings of the nation's most profitable industries, these are truly remarkable times. As a result, many practices are building new sites, renovating existing locations, or refurbishing second-generation spaces. My company, Andrew General Contractors (AGC), just converted a former veterinarian's office into a dental facility near Orlando, Florida.

I wouldn't quite compare this upswing to the crazy pre-bubble days, but the industry sure is generating a lot of work for contractors who have the required skills and expertise. At AGC—where we also serve a wide range of restaurant, medical, retail, financial, and industrial clients—about 30% of our annual revenue now comes from dental-related projects. Many of my competitors will share similar figures, too.



Everywhere you look, dental office construction is strengthening the economy. Five new establishments open every day across America, which equates to more than 1,800 each year.

Due to the industry's fragmentation, growth traditionally occurred in a somewhat random, one-off fashion. But those days are changing. Although group practices account for a mere 5% of today's dentistry landscape, that number is projected to quadruple by 2020.

Experts say this rapid move toward consolidation is making it more feasible for dentists to invest in much-needed capital projects. For example, it usually costs between \$300,000 and \$500,000 to start a practice. Combine that with increased overhead and soaring debt levels for dental school graduates, and it's no wonder the traditional sole

practitioner model is losing appeal.

In its place, dental practice management corporations (DPMCs) and corporate franchises are using economies of scale to lower operational costs and free up money for physical expansion. It's one reason why names such as American Dental Partners, Smile Brands Group, Comfort Dental, Coast Dental, and [Aspen Dental](#) have established themselves as regional and national players.

Here in Florida, one of my clients, Sage Dental, is following a similar growth strategy. What started as a small network in Boca Raton has spread to 43 locations across the state. Every time the company brings on a new affiliate, that office must be built out or renovated—usually a three-month process once permits are in place.



As with many dental practices, Sage finds it more cost effective not to own real estate. Instead, it leases retail space that must be customized to fit the company's highly specific brand standards. Mechanical, electrical, and plumbing connections—in addition to slab work, drywall and cabinet installation—all fall under the contractor's purview. Fixtures, furnishings, equipment, and color scheme are handled by others.

Michael Unthank, a registered architect and dentist who has designed more than 1,000 dental and specialty offices, writes, "Creating a new office environment will likely be the largest single investment you make in your practice."<sup>1</sup> To maximize value, as well as customer experience, he recommends a long-term, quality-first approach that creates a "highly functional, pleasant, inviting, and professional environment."

Choosing the right contractor is the first step in that direction. After you've made the decision to invest in a new office, make sure to partner with someone who can complete the project on schedule and on budget, with integrity, attention to detail, and "can-do" enthusiasm. It will be money well spent.