



Article appeared in the 22/02/2008 edition of GP Magazine



Reproduced by kind permission

Property Responsibilities for GPs

Rental Values

Question:

We completed a purpose built surgery in 2004 under one of the last cost rent schemes. Cost rent was capped beneath true cost assessment. Now the three-year review indications are the market (notional) rent could be up to 40 per cent higher than cost rent and if substantial we would consider switching to the notional rent. I am aware once we switch we cannot revert and would have to undertake risk assessment of potential downward values in the future against our largely fixed funding. Where can we find a realistic market projection on likely commercial rental movements for the next 10 years?

Answer:

You are correct that you should at any time have the right to revert from cost rent to notional rent but, once you have made that change, you cannot go back.

Cost rent, where taken at a fixed rent, will not be reduced. There is one exception to this: If you renegotiate the term and repayments on your loan, the PCO can then ask you to provide them with the details and, if the rates have been reduced, they will look at reducing the cost rent.

Conversely, notional rent varies with the market and thus, when you swap to cost rent, many would argue that you should ensure that it is a good 10 percent higher and that we are not in a recession affecting commercial rents. There is no way that any valuer can predict the exact pattern of the future rents although, by looking at the past increases and the current market, one can sometimes make educated guesses.

Until the summer of 2007, the commercial property and health care markets were buoyant, with rents increasing between 3 per cent and 8 per cent per annum.

Over the last six months, but there has been talk of recession in the property world and plenty of newspaper articles on the substantial slowdown or even fall in the residential market.

The commercial investment market has certainly slowed right down and it is predicted that rental growth over the next few years will be much reduced, possibly ranging from nil up to inflationary increases at maximum.

Nobody is predicting a fall in rental values on healthcare premises but, if we really are hit by the recession, such reductions could well occur.