



Article appeared in the 16/05/2008 edition of GP Magazine



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Seniority Pay and GP Premises

Overvalued Premises

Question:

I hope to buy into our practice building, but I think that my future partners are overvaluing it. I understand there are different ways to value surgeries: as a GP practice, as a commercial building, and as a residence. I have heard that the value as a GP practice is about 10 times the notional rent value, which in this case would total £600,000. Yet the senior partner has estimated the surgery's worth at £1 million. Buying into a building based on a £1 million price tag that brings in £60,000 revenue a year seems like financial suicide. How can I pay a realistic price?

Answer:

The most commonly adopted form of valuation is market value. The valuer looks at what potential purchasers would reasonably consider using a building for.

If a surgery is a converted residential dwelling, the valuer would consider a residential bid alongside potential surgery use.

Depending on the local market and the building's location the valuer may also consider potential office use.

The valuer can also make special assumptions, such as assuming that the property is restricted to use as a GP surgery. In this case, a major influence on its value will be the notional rent that it will generate. The valuer will assume vacant possession and assess the level of current market rent the property could attract.

The valuation will reflect a multiple of this figure. It will be derived by netting down the rent to its base (excluding any addition for repairs and insurance) and applying a 'yield' or investment return taking into account current property yields, borrowing rates and other factors.

Such calculation might have produced 10 times notional rent some years ago. However, because of low interest rates and reducing yields, multiples have been a lot higher and could fall somewhere between 10 and 17.5 per cent.

I suggest you consider hiring a specialist valuation surveyor to examine the partnership deed and provide a report on the market rent.