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Question: Two of us own the surgery which we bought from a third partner last year. We have a mortgage with a monthly payment significantly higher than the borrowing costs reimbursement. The non-owning partner claims that, as the property owners, we are responsible for all the expense of repairing the building's exterior and for the internal fixtures and furniture. We spent a lot on the roof and redecorated the nurses' rooms last year. Our primary care organisation (PCO) is not funding the full mortgage interest, or anything for repairs and maintenance.

Answer: The general rule is that where the property owning partners receive notional rent or current market rent reimbursement then they should bear the responsibility of paying for the building (not content) insurance plus the cost of external repair and decoration and structural repair. The Partnership, as a whole, (regardless of property owning or non property owning) should bear the cost of contents insurance plus the cost of all internal decoration and repair. The reason for this is that when the District Valuer assesses the current market rent or notional rent he will include a percentage contribution towards external / structural repair and insurance which normally falls within the range of between 5% and 7.5%.

You note that your current level of reimbursement does not cover your monthly mortgage payments and thus question whether any additional amount has been included for external repair and building insurance. However, there is no direct link between the residue of notional rent (i.e. after the percentage for external repair and building insurance has been removed) and your mortgage repayments. This is because mortgage repayments will differ dependent upon the term and whether it is interest only or inclusive of some of the capital repayments. However, I would expect the residue to have some similarity to the interest element of the loan

All of the above is complicated if you are on an actual Cost Rent, i.e. a rent calculated based not on a District Valuer's assessment but a percentage of the land purchase and building costs. Such a rent does not include any element for external repair and building insurance and thus for a period that a Practice is reimbursed to Cost Rent rather than the current market rent or notional rent the property owning partners and non-property owning partners will have to come to some form of compromise agreement.