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Question:

I bought my share in the surgery five years ago on joining the partnership. I was shown two values: one based on what the surgery's building costs; the other calculated on the notional rent paid by our PCT. I opted for the latter as it was lower. Since then a partner has retired and we recently took on a new partner. But our accountant says that our partnership deed clearly states that the cost of buying into the premises must be based on either the current market rent (CMR) value or building costs less improvement grants.

As the option I chose cannot be re-used, is it ok to use our notional rent to calculate a value?

Answer: Thank you for your query relating to partnership valuations. I note that, in the past, you had used a formula to calculate value based on the rent as a substitute to a Market Valuation undertaken by a specialist surveyor. I must say that this is a very dangerous exercise. The Market Value of a property will, amongst other things, take into account the rent. The valuer should look at the Notional Rent as currently assessed, his own assessment of the Market Rent as at the date of valuation, take into account any other non GMS/PMS accommodation and (dependent upon the exact wording of the Partnership Deed) take into account alternate use. In the past, there have been various "rules of thumb" that approximately the value of a surgery was "X" times the rent. This, however, is flawed and should never be used for a contractual valuation as it inevitably discounts any element of alternate use, or any element of the property not GMS/PMS. Of more concern, the multiple used has regard to investment yields and interest rates and is thus continually changing. If one looks at the multiple being used when we had a stronger economy, say two years ago, even for a modern surgery the multiple is likely now to be some 25% less. For older style/converted surgeries, the difference could be even greater as it is not just the rent but the likely life of the premises as a surgery that has to be considered. I am afraid there is no substitute to instructing a specialist and qualified valuer to assess Market Value. It cannot be done by adopting any rental formula.

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