



Association of
Independent Multiple
Pharmacies

Letter to NHS Properties

The list of pharmacy contractors attached to this letter are concerned that the rental figures being suggested by NHS landlords reflect historical market conditions and not the current market position. A position which has changed considerably over the last 5 years.

As a result, it is highly likely that these pharmacy contractors may not be willing to enter into new agreements with NHS Properties unless the lease terms reflect the current market factors as set out in the letter below.

Health centre landlords continue to seek rental values using patient numbers of the co-located GP practice(s) multiplied by a value per patient. Evidence shows the cost per patient ranges from around £1.74 up to as much as £5.00 in some cases. As a result, quoted rents are well above the going rate for a similar sized unit in a community setting sometimes opposite or very close to the health centre.

In the past pharmacy has seen co-location with GPs as a prime opportunity and therefore competition and rents for these locations has been high. Historic Industry practice has seen pharmacy contractors move from the high street into co-located spaces with GP health centres. However, several factors which cannot be ignored have forced a rethink of this policy. A number of these factors are summarised below.

1. Pharmacy core funding dropped 12.5% between 2011 and 2021 whilst the cost of wages during the same period has increased by around 41%. The Pharmacy contract is fixed and does not include any inflationary increases to account for rising costs. As a result, the value of a patient has reduced and the cost to service that patient have increase.

Pharmacy contractors report a significant margin squeeze from both ends, a fact that cannot be ignored during when calculating rent reviews and lease renewals based on a value per patient.

2. COVID-19 has accelerated the speed at which online appointments and consultations have been adopted. As a result, the number of visits to see a GP at the practice has decreased. The health secretary has confirmed that there is no plan to reverse the progress made and that this is only the start of digitisation and patients accessing healthcare professionals digitally from the comfort of their home. This swift and dramatic change in behaviour has driven patients away from accessing pharmacy services near their surgery and point of



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appointment towards pharmacy's closer to their home or those that offer distance services online.

Pharmacy contractors co-located within health centres report a reduction in capture rates as a result of the changing appointment practices. A fact that cannot be ignored during when calculating rent reviews and lease renewals based on patient list sizes.

3. COVID-19 has accelerated the speed at which patients have engaged with online/distance selling pharmacy, the ability to dispense repeat prescription from a central hub and deliver them directly to patient's homes is becoming more popular, with a growing number of patients choosing the convenience of direct to patient services for the majority of their prescription items. The need for patients to physically attend a pharmacy will reduce further over time as the technology develops. This is likely to accelerate dramatically after the current NHS consultation on Hub and spoke dispensing which might suggests there might be wide ranging changes in the law enabling a rapid expansion of hub assembly points across the country.

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4. The move from a high footfall community location or a high street to the surgery has always resulted in a loss of over the counter (OTC) sales. These sales attract a higher margin than prescriptions and are of course not subject to Government funding cuts. The loss of these sales has in the past been more than compensated for by the high capture rates and increase in prescription volume. However as capture rates reduce, the benefits have diminished.

The loss in OTC sales and the associated margin is no longer compensated to the same degree as a result of falling capture rates. A fact that cannot be ignored during when calculating rent reviews and lease renewals based on patient list sizes.

5. The focus of the funding model is changing from dispensing of prescriptions to delivering more NHS and private clinical services. With GP online appointment adoption rates increasing and the resultant reduction in footfall to GP surgeries, higher footfall locations such as community locations and high streets are becoming more popular and more suited to pharmacy services in the future.
6. The space allocated to pharmacy within most GP surgeries is small, and not fit for purpose, reducing the ability of co-located pharmacies to deliver both NHS and private extended clinical services. Pharmacy contractors co-located within GP surgeries reporting an inability to grow revenue to replace the loss of



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funding through prescription dispensing services. Pharmacies co-located within GP surgeries were often not large enough to offer COVID-19 vaccinations during the pandemic.

The historic model of calculating pharmacy rents using patient numbers of the co-located GP practice(s) multiplied by a value per patient does not consider the size of the pharmacy. Therefore, a 200sqm pharmacy co-located in a GP surgery is often quoted the same rent as an 80sqm pharmacy site located within a GP surgery of half the size. It is clear that the opportunity for adopting new NHS services and developing new private services would be restricted within the smaller site.

The size of the pharmacy unit cannot be ignored when calculating rent reviews and lease renewals.

In addition to the above factors which affect pharmacy remuneration today and beyond, contractors paying premium rents to occupy premises co-located with GP surgeries experienced a significant reduction in dispensing numbers throughout the covid pandemic. GP surgeries were, in the main closed, with restricted access, a significantly reduced number of total appointments with none of these occurring face to face. Patients chose to access more accessible pharmacies close to home or on the high St. Co-located pharmacies despite asking for support from landlords were faced with continuing to pay premium rents despite the surgery being closed and patient footfall reducing

A combination of all the above factors forces our members to look for preferred locations that are nearby or adjacent to health centres, or in higher footfall areas distant but accessible from the health centre. Until rental values are adjusted to reflect the changing market conditions set out in this letter, the future of community pharmacy is within flexible high street locations and not co-located in health centres.

We are calling on NHS Properties and private landlords to enter discussions with the community pharmacy sector to agree a more realistic approach for calculating rents so that pharmacies and patients alike can benefit.