

Revaluation 2017

Industrial Properties Committee

Practice Note 1

Valuation of Factories, Warehouses, Workshops and Stores

Part 1

1.0 Introduction

- 1.1 This Practice Note applies to the valuation of factories, warehouses, workshops, stores and similar, valued on the comparative principle.

2.0 Basis of Valuation

- 2.1 The basis of valuation is the Comparative Principle based on a consideration of local rental evidence. It is however recognised that different approaches in the application of the principle may be adopted by respective offices at the discretion of the individual Assessor.
- 2.2 As with all applications of the Comparative Principle, the most relevant evidence will be found locally and this should be used in preparing any local valuation scheme. Assessors having a body of rental evidence in their own areas are therefore free to adopt their own approach.
- 2.3 In establishing local schemes of valuation, the general guidance contained in the following paragraphs may offer assistance and can be adopted in part or in whole at the Assessor's discretion.
- 2.4 Valuations are likely to proceed on the basis of applying an appropriate rate/m² derived from analysis of rental evidence to the area of each respective building.

3.0 Analysis

- 3.1 Rents should be adjusted in terms of the Basic Principles Committee PN1 to ensure compliance with statutory terms.
- 3.2 Further analysis to derive appropriate rates/m² will depend on the valuation approach preferred.
- 3.3 Where a Basic Rate with adjustments approach is being adopted, Assessors will determine a specification for an industrial unit typical of their area. Rents will be adjusted to reflect variations from the specification chosen. Rates/m² will then be derived which may vary with location.

- 3.4 Where an Overall Rate approach is preferred then analysed rates will be appropriate not only to the location in question but also to the specification of the actual properties.

4.0 Building Services

- 4.1 It may be necessary to have particular regard to the rateability of building services. Further guidance on the approach is contained in **Part 2**.

5.0 Offices

- 5.1 The treatment of offices attached to or within industrial subjects will depend on the valuation approach chosen.

6.0 Business Parks

- 6.1 The Town & Country Planning (Use Classes) (Scotland) Order 1989 defines Class 4 use as.... *“a use which can be carried on in any residential area without detriment to amenity”*. Light manufacturing may take place in such multi-functional buildings which frequently resemble offices in character and appearance
- 6.2 It is recommended that such subjects are not valued in accordance with general industrial evidence but in line with their particular rental profile.

7.0 Ancillary Items

- 7.1 Ancillary items such as canopies may be added to value at a proportion of the rate applicable to the building which they serve.

8.0 Multi-Storey Buildings

- 8.1 Upper floor accommodation, designed for manufacturing and storage purposes, is less desirable and value is likely to reduce on upper floors. Appropriate adjustment should be made.

9.0 Age and Obsolescence

- 9.1 Appropriate adjustment is best gauged by local analysis or indeed may be unnecessary if an overall approach is employed and buildings of similar age are appropriately grouped.

10.0 Disabilities

- 10.1 Any adjustment for shortcomings which affect either an individual building or the whole of the unum quid will be a matter of valuer judgement.
- 10.2 Care should be taken that adjustments are not excessive particularly when combined with other allowances applied under preceding paragraphs. In particular, Assessors who have adopted an Overall Rate approach should ensure that any disability thought worthy of allowance is not already reflected in the adopted rate.

11.0 Yard Space

- 11.1 It is likely that a measure of yard space will be deemed to be included in the rate/m² applied to the building(s). The proportion will be determined by examination of local evidence.
- 11.2 Additional yard space may be added at an appropriate rate based on local rental levels and may include increments such as surfacing, lighting, fencing etc.

12.0 Quantum

- 12.1 The concept of *Quantum* recognises that unit rates may reduce as size increases and increase as size decreases. The area range in which the 'norm' rate holds true is likely to vary from location to location. It is therefore difficult to establish a single national scale of adjustment and it is recommended that where possible, local evidence should be used to determine any variation.

13.0 Nest Units

- 13.1 Nest units or 'Start-up' units comprise clusters of small modern units, or occasionally, converted older buildings, frequently provided by local authorities and national agencies for the purpose of regenerating economic activity in an area. These are normally let and should be valued on the basis of their particular evidence.

14.0 Other Categories of Properties

- 14.1 The following categories of properties should be valued on the comparative basis with the level of value reflecting local rental evidence from comparable subjects:
 - 1. vehicle auction marts
 - 2. vehicle tyres exhausts and repair centres; and
 - 3. builder's merchants

In certain circumstances, the available rental evidence may point towards a different level of value than the standard industrial comparative properties within the surrounding area. Where such evidence exists, it may be appropriate to consider valuing these subjects on the basis of their particular evidence.

Part 2

1.0 Introduction

- 1.1 Part 2 provides a range of options which Assessors may adopt at their discretion to supplement local evidence in carrying out comparative valuations of factory, warehouse and workshop properties.
- 1.2 It has already been stressed that the most relevant evidence will be found locally and Assessors having a body of rental evidence in their own areas are entirely free to adopt their own approach. However, where evidence is lacking, the following ranges of adjustments may be of assistance in establishing local schemes.
- 1.3 Where possible, variations to the standard specification should be reflected in accordance with local rental evidence but the following adjustments may be of assistance where there is no conclusive evidence to the contrary and indicate the general level of impact on rental values.
- 1.4 The adjustments should not be slavishly followed and it is essential that where they are used, thorough checks are introduced to ensure that the outturn of values conforms to the local profile of rental evidence.

2.0 Building Specification

- 2.1 The suggested value adjustments are related to a building matching the following specification. If a different local specification has been adopted then the adjustments may require to be modified.
- 2.2 *A modern single storey unit with steel or concrete frame, walls of modern insulated cladding or masonry equivalent, insulated roof and granolithic or power-floated load bearing floor. The eaves height will be in the range of 4.00 – 6.00m. There will be average quality heating and lighting of a standard permitting conventional factory work. Yardage and circulation space will vary depending on the type of property but should be at least of adequate amount.*

3.0 Variations to Specification - General

3.1 Structure

3.1.1 Floors

3.1.1.1 Floor Construction

Construction	Adjustment
Ash	-20.00%
Cobble	-10.00%
Earth	-20.00%
Flag stone	-10.00%
Heavy reinforced concrete	+ 5.00%
Inferior timber	-10.00%
Lightweight concrete	- 5.00%
Sleeper	-10.00%
Tarmac	- 5.00%
Timber	- 5.00%
Un-screeded concrete	- 2.50%

3.1.1.2 Floor Finish

Finish	Adjustment
Cork tiles	+ 5.00%
Epoxy resin	+ 2.50%
Hardwood strip	+10.00%
Parquet block	+10.00%
Quarry tiles	+ 5.00%
Steel plate on concrete	+10.00%
Surface drainage	+ 2.50%
Terrazzo	+10.00%
Vinyl tiles	+ 2.50%
Vinyl tiles (anti-static)	+ 7.50%

3.1.2 Walls

3.1.2.1 Wall Construction

Construction	Adjustment
Solid 0.22m brick or concrete block.	-2.50%
Solid 0.11m brick or concrete block	-5.00%
Un-insulated modern cladding	-5.00%

3.1.2.2 Wall Finish

Finish	Adjustment
Ceramic tiles	+10.00%
Mahogany faced plywood	+5.00%
Plaster on hard	+5.00%
Plasterboard	+5.00%
Terrazzo	+10.00%
Wipe-clean wall finish	+10.00%

3.1.3 Roof

3.1.3.1 Roof Construction

Construction	Adjustment
Inferior roof insulation	-2.50%
Lack of roof insulation	-5.00%

3.1.4 Wallhead Height

3.1.4.1 Adjustments for eaves height will depend on the norm height adopted by individual Assessors for subjects in their areas. Subject groups may be defined by location, age or other factors. It is desirable that local evidence is critically examined to determine appropriate height relationships but in the absence of local evidence, it is suggested that rates be increased by up to 2.50% for each additional metre above the local norm and reduced by 5.00% for each metre below the local norm with interpolation as required. The maximum addition should not normally exceed 20.0%.

3.2 Services

3.2.1 General

- 3.2.1.1 All items of service plant, named under Class 2 of the Valuation for Rating (Plant and Machinery) (Scotland) Regulations 2000 (as amended), should remain in valuation unless the valuer is clearly satisfied that the proviso in the Regulations relating to items of plant or machinery “.....used or intended to be used in connection with services mainly or exclusively as part of manufacturing operations or trade processes” applies.
- 3.2.1.2 Care should be taken not to exclude from value any items of plant under the Class 2 proviso that may still be rateable elsewhere in terms of Classes 1, 3 or 4.
- 3.2.1.3 Careful consideration must be given before removing any service plant or machinery from value which it is claimed was installed only as a process requirement. It is suggested that where the main or exclusive use of an item of service plant cannot be identified as being used as part of manufacturing operations or trade processes, then the item should be

regarded as rateable under Class 2.

3.2.1.4 In the case of multi-purpose service plant, the functions of the plant should be individually considered. For example, in the case of an air-conditioning system which provides amongst other things, heating, the use of the heating needs to be identified and unless the heating is used mainly as part of manufacturing operations or trade processes then an element in respect of heating should be retained in value. For assistance in this matter reference should be made to the SAA paper *“Interpretation Guidance: Class 2 Table 2(b) The Valuation for Rating (Plant and Machinery) (Scotland) Regulations 2000”*.

3.2.2 Heating

3.2.2.1 The specification assumes adequate heating. A deduction of 5.00% may be made if there is poor heating and 10.00% where heating is absent.

3.2.2.2 Where the heating is considered to be excellent an addition of 2.50% may be made. Further additions may be made for specialised installations. Refer also to paragraph 3.2.1.4.

3.2.3 Lighting

3.2.3.1 The specification assumes adequate lighting. A deduction of 5.00% may be made in buildings without lighting and 2.50% where the only lighting is from isolated pendants. An addition of 2.50% may be made for excellent lighting. Further additions may be made for specialised installations. Refer also to paragraph 3.2.1.4.

3.2.4 Air Conditioning

3.2.4.1 The specification includes adequate heating. Where items of plant and machinery contributing to air conditioning are also present then additions may be made from the following table. Refer also to paragraph 3.2.1.4.

Specification	Addition
Ducted AC system capable of heating, cooling, ventilating and humidity control but without filtration.	+15.00% as an extra-over to the basic rate which already reflects average heating.
Simple mechanical ventilation systems inducing fresh air from outside or suspended cartridge systems providing chilled air only.	+5.0% as an extra-over to the basic rate which already reflects average heating.

3.2.5 Sprinklers

- 3.2.5.1 The following addition is recommended but should be considered in the light of information contained in the SAA/VOA Rating Cost Guide. Refer also to paragraph 3.3.1.

Specification	Addition
Normal hazard system (to include ancillary plant but not any water storage tank or lagoon).	+5.00%

3.3 Offices

- 3.3.1 It is not possible to provide a single recommendation on valuation treatment, which will depend on local evidence and analysis method. However the basic level for offices derived from any rental analysis is likely only to reflect the quality of office accommodation associated with typical letting units.
- 3.3.2 Many subjects, particularly those erected for owner occupation and used for example as corporate headquarters may have offices with considerably higher standards of finish which should be reflected in valuation.

3.4 Ancillary Accommodation

- 3.4.1 The following approach is suggested for treatment of minor buildings and elements frequently associated with industrial subjects.

Item	Approach to valuation
Canopies	Apply 25.00% of basic rate for simple roof and up to 40.00% for more substantial structures.
Loading areas	A percentage addition may be made in accordance with local evidence. For the treatment of dock levellers see para 8.0.
Mezzanine floors	The building may be valued in the normal way and the mezzanine valued at between +15.00% to +30.00% of the basic rate depending on strength and quality.

3.5 Multi-Storey Buildings

The following tables of adjustments provide guidance where there is no conclusive local evidence. The adjustments may be inappropriate in Class 4 developments where an office approach may be more appropriate or in the case of industrial subjects with vertical process systems where allowances may be abated or withheld or a cost basis considered.

3.5.1 Production/Warehouse Space

Floor	Separate passenger & goods lifts	Goods lift only	Stair access only
GF	100%	100%	100%
1F	90%	85%	75%
2F	85%	80%	50%
3F	85%	75%	25%
4F & above	85%	70%	At discretion

3.5.2 Offices

Floor	Lift	Stair access only
GF	100%	100%
1F	95% - 100%	90% - 100%
2F	90% - 95%	80% - 90%
3F	90% - 95%	70%
4F & above	90% - 95%	60%

3.5.2.1 The percentage selected from any range will be dependent on the quality of access.

3.5.3 Basements, Galleries, Attics and Lofts

3.5.3.1 This type of accommodation varies widely in quality, character and purpose and no general recommendations can be made. However, the final rate selected should be sensibly related to the principal floor served.

4.0 Age & Obsolescence

4.1 For guidance on age and obsolescence allowances, reference should be made to SAA Basic Principles Committee PN 2 Contractor's Basis Valuations. It may provide an indication of the reductions appropriate for subjects valued on the comparative basis. It should be noted that this PN states that allowances in excess of 50% for Buildings or Plant should only be given in exceptional circumstances; refer to the PN for full guidance. It is recommended however that Assessors be guided by local evidence.

5.0 Disabilities

- 5.1 The following table suggests a range of appropriate allowances for the most commonly found drawbacks to the occupation of industrial subjects. The list is not exhaustive but care should be taken to ensure that aggregated allowances are not excessive.

Disability	Allowance
Bad shape and/or layout	Up to -10.00%
Excessively thick stone walls	Up to - 5.00%
History of flooding	Up to -10.00%
Narrow bays with columns 3.00m apart 9.00m apart 15.00m apart	Deduct 10.00% Deduct 5.00% No allowance
One wall open to yard	Deduct 5.00%
Poor access	Up to - 5.00%
Restricted yard space as compared to rental evidence subjects	Up to - 5.00%
Subjects divided by public road with security/transport on-costs (in the exceptional event of such subjects being properly considered a unum quid)	Up to - 5.00%

- 5.2 It is suggested that the total of allowances for Age & Obsolescence in terms of paragraph 4.0, and for Disabilities in terms of this paragraph, should not exceed 80.0% for any building still capable of reasonably economic use.

6.0 Quantum

6.1 Introduction

6.1.1 Quantum refers to variation in the rate/m² applied which is due only to the relative size of similar properties. Variations in local demand and the differing character of industrial estates make a single national scale of allowances difficult to establish and it is therefore recommended that local evidence, where available, should be used to determine any adjustment.

6.1.2 Even locally it may not be practicable to have a single scale, as each estate or location may be analysed and valued with regard to local demand and particular character of the properties where there is no significant variation in size. However where a more extensive analysis has been necessary, care should be taken to identify and reflect quantum.

6.2 Conventional Units

6.2.1 Where no conclusive local evidence exists, the following scale may give a broad indication of the levels of adjustment required and should be applied with interpolation as necessary.

6.2.2 It will be for each Assessor to determine the norm(s) of unit size for subjects in their areas. Subject groups may be defined by location, age or other factors. It is however suggested that the maximum allowance should not be greater than 50.0%.

Range	Adjustment
0 – 5,000m ² To be decided by individual Assessor in relation to local norm	variable
For every 1,000m ² greater than the local norm up to 5,000m ²	-5.00%
For every additional 5,000m ² up to 20,000m ²	-5.00%
For every additional 10,000m ² thereafter up to a maximum of 50.0%.	-5.00%

6.2.3 Applying these adjustments achieves the following results for a 500m² norm.

Area (m ²)	Allowance (%)	Area (m ²)	Allowance (%)
1,500	5.0%	15,000	32.5%
2,500	10.0%	20,000	37.5%
3,500	15.0%	30,000	42.5%
4,500	20.0%	40,000	47.5%
5,000	22.5%	50,000	50%
10,000	27.5%		

6.3 Nest Units

- 6.3.1 No recommendation is provided for clusters of nest units or for units less than the norm range as value levels will invariably depend on local evidence.

7.0 Plant & Machinery

- 7.1 Rateable items of plant and machinery not covered by rental rates will be valued by application of the Contractor's Basis of valuation with reference to guidance and replacement costs contained in the SAA/VOA Rating Cost Guide.

- 7.2 Care should be exercised that the value attributable to plant items valued on a cost basis and included in the valuation of a comparative subject is not out of proportion to the realistic total value of the *unum quid*.