

## **Revaluation 2017**

### **Commercial Properties Committee**

#### **Practice Note 1 Valuation of Shops**

##### **1.0 Introduction**

This practice note applies to the valuation of standard shops and subjects occupying shop type premises in retail locations. This practice note also applies to Retail Units and Bookstalls situated at Railway stations and Transport Interchanges, Pharmacies situated within or attached to Health Centres and Rural Destination Retail Outlets. It should not be used to value supermarkets, large shops, department stores, retail warehouses or factory outlet centres.

##### **2.0 Basis of Valuation**

Shops are valued by application of the comparative principle using rates per square metre derived from local rental evidence.

##### **3.0 Rental Analysis**

Rental analysis is undertaken in accordance with the SAA Basic Principles Committee Practice Note 1 (Adjustment of Rents). Local rental and cost evidence is used to determine rates applied and adjustments to value.

##### **4.0 Survey & Measurement**

Shops are generally measured on an internal basis in accordance with local practice. Measurements are usually taken from the building line or from the plate glass frontage.

The following areas are normally excluded from valuation:

- Plant rooms (process plant rooms at dry cleaners, bakers, etc remain in the value).
- Lifts.
- Areas used exclusively for fire escape purposes.
- Stairs enclosed by structural walls.
- Pillars.
- Structural walls.

## 5.0 Valuation

It is generally recognised that shops should normally be valued by application of the zoning principle and this will be applied in accordance with local practice. However, in some circumstances, an overall area approach to valuation may be more appropriate (see 5.3 below).

### 5.1 Zoning Principle

The zoning principle recognises that the area to the front of the shop, normally referred to as 'zone A', is the most valuable area of the shop and that the value of accommodation reduces towards the rear of the shop.

Ground floor areas are therefore calculated in zones and a reduction factor is applied to each zone. This may be effected either by directly reducing the rates per square metre applied to each zone, or by multiplying the actual area of the zone by the appropriate factor such that a total reduced area is calculated to which the zone A rate is applied.

The standard reduction factors used are shown below. The zone depth should be consistent in any location and is normally dictated by local evidence and practice (See Appendix 1).

<b>ZONE</b>	<b>Reduction Factor</b>
A	100%
B	50%
C	25%
D	According to local evidence

The above reduction factors may be adjusted upwards or downwards to reflect variations in the quality of accommodation, the presence of structural walls or similar disabilities.

### 5.2 Ancillary Floors

Ancillary floors are not zoned but are taken at an overall storey reduction factor. The relative worth of areas situated on upper or lower floors should be adjusted before the basic rate per square metre is applied. Local rental evidence and practice will determine the storey reduction factors.

Where there is lift/escalator access to ancillary floors it may be deemed appropriate to amend the reduction factor typically applied.

### 5.3 Overall Area Approach

Some shops/shopping stretches can be let on an overall basis and may be better suited to analysis and valuation on the same basis. This type of property can be found in out of town locations and is often built by one developer.

Where retail subjects are not situated in typical retail locations such as

Railway Stations, Pharmacies at Health Centres and Rural Destination Retail outlets an overall approach may also be considered appropriate.

## **6.0 Retail Units and Bookstalls at Railway Stations and Transport Interchanges**

Retail units typically include standard shop units, Restaurants/Cafes with no liquor licence and Kiosks which comprise retail units with no area provided for the public and customers served directly on the concourse/street.

As with standard shop premises retail units and bookstalls found at railway stations and transport interchanges are valued on the Comparative Principle generally using rates per square metre derived from local rental evidence.

Care must be taken where the lease agreement is subject to a monopoly or global agreement clause which can be found in newsagent premises where rent is also generally based on a percentage of gross turnover.

Licensed premises including Refreshment Rooms and Public Houses situated at railway stations should be valued on the Comparative Principle having regard to local comparative evidence and level of turnover achieved in accordance with SAA Commercial Committee Practice Note 17 (Valuation of Licensed Premises).

## **7.0 Pharmacies within Health Centres**

Particular care should be applied to the treatment of Pharmacies situated within or attached to Health Centres where they may be separately occupied. Evidence of passing rents in these situations would indicate that rental levels can be significantly higher than local shop rates, reflecting a monopoly situation where rents may reflect the level of patient or prescription numbers. In such situations the passing rent may be the best guide to annual value.

## **8.0 Rural Destination Retail Outlets**

Retail outlets situated adjacent to or within agricultural subjects have become increasingly popular and diverse with many offering facilities including coffee shops or tea rooms etc. They are often destination shopping locations with a significant level of turnover.

Values should be determined by reference to local rental evidence. However, in situations where local rental evidence is not available or is not derived from comparable Destination Retail Outlets, consideration should be given to the location of the subjects, quality of facilities on offer and availability of parking when arriving at a level of value.

## **9.0 Adjustments To Value**

**Where a property has been let in a shell state an adjustment to the rent will be required to reflect the value of the fitting out. This adjustment should be based, where available, on local comparable evidence from fitted units, however in the absence of local evidence see Appendix 1 attached for guidance.**

Ideally all shops in any stretch will be of a similar quality and this will be reflected in the basic rate per square metre analysed from the rental evidence. However, any significant departure above or below the standard quality of the properties from which the evidence is derived may require to be reflected in the valuation.

Where adjustments to value are required to reflect features not already reflected in the basic rate applied these should, where possible, be based on rental evidence. Where no such rental evidence exists it may be necessary to consider the cost of installing additional features.

Adjustments may take the form of additions to, or deductions from, the initial value in order to reflect the extent to which the particular shop varies from the standard assumed for the stretch of properties.

### **9.1 Deductions from Value**

Subject to section 6.0 above the following factors may affect the valuation of the property:

- Structural division wall
- Variation in floor levels that have a detrimental effect on the property – excluding purpose built design features
- Pillars – only if these have a serious effect on the value of the shop floor space
- Awkward shape not accounted for in the zoning of the premises
- Blank frontage – only if structural
- Step/stair access from street level

A deduction based on local rental evidence may be made to reflect the disadvantages associated with such factors.

### **9.2 Additions to Value**

Subject to section 6.0 above the following factors may affect the valuation of the property:

- Corner Situations
- Return Frontage
- Hot food consent
- License to sell liquor etc

An addition based on local rental evidence may be made to reflect the

advantages associated with such factors.

### 9.3 Further Additions/Deductions to Value

The existence or absence of the following features may require to be reflected either by making an addition or a deduction depending on the standard reflected in the typical shop within the stretch to be valued.

- Heating
- Air conditioning / Air handling
- Modernity
- Sprinklers
- Rear access
- Toilet facilities
- Shop front disabilities or improvements
- CCTV

Rateable items of plant and machinery not already reflected in the rental rates should be dealt with in terms of the Valuation for Rating (Plant & Machinery)(Scotland) Regulations 2000 as amended and valued with reference to the Rating Cost Guide.

As stated above, additions and deductions are based on local rental evidence where available, however, in the absence of rental evidence the rates in the following table may be used for air-conditioning and sprinklers

Item	Rate
Air-Conditioning (costs based on cassette system)	£7/square metre
Sprinklers	£3/square metre

These rates should only be applied to those areas benefiting from the items listed above and prior to any zoning reduction factor being applied.

### 9.4 Quantum/Inverse Quantum

An adjustment may be required, based on local evidence, where a shop is larger or smaller than the standard shop.

In the retail market landlords generally obtain a lower rate per square metre for large shops, and higher rate per square metre for small shops, in comparison to the standard size property.

Quantum deductions may be given to large shops as a percentage allowance to reflect an expected lower rental value rate per square metre paid by the hypothetical tenant.

Inverse Quantum additions may be made to small shops as a percentage addition to reflect an expected higher rental value rate per square metre paid by the hypothetical tenant.

## **10.0 Pertinents**

Items such as car parking or outbuildings which are not reflected in the basic rate applied, nor reflected in the reduced area of the shop, should be valued in accordance with local evidence and added to the valuation as a separate item.

## APPENDIX 1

### Guidance Note – Fitting out of Shops

- 1.0** The following notes set out the recommended approach towards the valuation of shop fitting in standard retail units. It is not intended to cover department stores, supermarkets or retail warehouses. It is intended to assist with the harmonisation of the approach to the valuation of shop fitting throughout Scotland.
- 2.0** The preferred approach to valuation is to rely on comparable rental evidence to reflect the presence of such features as air conditioning, sprinklers and shop fitting. Where the basic rate analysed includes these features there will be no need for further adjustments. In other situations it may be possible to demonstrate a value difference (e.g. a percentage difference) in rental terms between those units containing these features and those without. The rates recommended in this guidance note are therefore only intended to be used where there is no clear local rental evidence available and the passing rents used to set the tone rate do not reflect the presence of these features.
- 3.0** The rates shown in part 4 have been derived from the analysis of actual fitting out costs and have been adjusted to tone levels. They reflect the cost of a new fit out and it may be appropriate to depreciate these rates as set out in Basic Principles Report No.1 section 8.1.2.
- 4.0** In situations where the rental agreement reflects shell condition it will be necessary to make an addition to reflect the rateable fitting out. Where actual costs are known an adjustment should be made to the basic rent to reflect fitting out or, in the absence of local evidence, the following additions should be applied:

Item	Rate
Air – conditioning (costs based on cassette system)	£7/square metre
Sprinklers	£3/square metre
Shop Fitting	£40/square metre
Shop Frontage	£135/ metre

The rate for shop fitting excludes air conditioning, sprinklers and shop frontage. It also excludes the cost of lifts, escalators, stairs and mezzanine floors. The presence of these latter features will be reflected in the reduction factor applied to the relevant floor.

The rates should only be applied to those areas benefiting from the items listed above and prior to any zoning reduction factor being applied.

For the purposes of rental analysis, a fit out addition may be depreciated on a straight line basis over the period of time considered to be appropriate. The depreciation percentage should be based on the age of the fitting out, or notional age of the fitting out if the property has been refitted or partially re-fitted, at the date of the rent. Any depreciation applied if the recommended rates outlined above are adopted, should be depreciated at 4% per annum over 25 years.