

Revaluation 2023

Public Buildings Committee

Practice Note 26 Valuation of Hospitals

1.0 Introduction

- 1.1 This Practice Note deals with the valuation of all classes of hospital, both NHS and private.
- 1.2 This Practice Notes does not apply to subjects which are principally residential in character, other than geriatric and psychiatric hospitals in which medical treatment is provided to residents on a regular basis. Subjects of a residential character should be valued by reference to Public Buildings Committee Practice Notes 9, (Valuation of Residential Homes).

2.0 Basis of Valuation

- 2.1 Subjects covered by this Practice Note are valued on the Contractor's Basis.

2.2 Let-Outs

Non-domestic premises forming part of a hospital complex that are let by the hospital in such a way as to require separate assessment should be assessed by the most appropriate method of valuation; this will normally be by reference to rental evidence.

3.0 Survey and Measurement

- 3.1 Building areas should be calculated on a gross external basis (GEA) for each main floor. Attic floor accommodation should be calculated on a gross internal basis (GIA) excluding any area under 1.5 metres in height.
- 3.2 Where a subject is of older construction e.g. stone, and has thicker than normal walls, the area should be adjusted on a floor by floor basis in accordance with SAA Public Buildings Committee Practice Note 4 (Valuation of Contractor's Basis Subjects, Areas Adjustment and External Works' Costs) to adjust the floor area to the modern equivalent.

- 3.3 Site area should be calculated together with the areas of any car parks, roadways and other paved or landscaped surfaces. Measurements and details of boundary walls, fences and any other items in the nature of external works, civil works or plant and machinery should also be noted.

4.0 Building and External Works' Costs

- 4.1 The available cost evidence was analysed in terms of SAA Basic Principles Committee Practice Note 2 (Contractor's Basis Valuations). The unit cost rate(s) derived reflect a Scottish Mean location factor, a £4m contract size and a tone date of 1 April 2022.

5.0 Valuation

- 5.1 Valuations should be carried out in accordance with SAA Basic Principles Committee Practice Note 2 (Contractor's Basis Valuations).
- 5.2 Recommended unit cost rates excluding professional fees for buildings are noted below.
- 5.3 For External Works reference should be made to section 6.2 below.

6.0 Estimated Replacement Cost (ERC)

6.1 Unit Cost Rate (Buildings)

Design and build quality of new hospitals changed significantly in the early 2000's and as a consequence, the unit cost of a new hospital from that period can be substantially higher than one built even a few years earlier.

The unit costs specified in the table below reflect this change by categorising hospitals as follows:

Category 1

Generally, modern hospitals that have been designed and built since 2005 and comply with Scottish Government policies on Design Quality for NHS Scotland. Ward provision will be a minimum of 50% single bed en-suite rooms for hospitals designed and built between 2005 and 2010 and up to 100% provision for more recent examples. Other design features will include improved ventilation, and specialist surfaces, walls and ceilings to help combat Healthcare Acquired Infection; more open, lighter spaces in both visitor and patient areas; high standards of energy efficiency with more recent examples holding BREEAM excellent accreditation.

Category 2

Older hospitals of all types that do not meet the same high standard of design and quality as those described in category 1.

Reference to actual costs may assist in determining the category applicable to a specific facility.

Acute Hospital	Unit Cost Rate/m ²
Category 1	£3,200
Category 2	£2,000
Community Hospital (incl. Geriatric and Day Hospitals)	
Category 1	£2,600
Category 2 (higher rate may apply where full theatre facilities are provided)	£1,600 to £2,000

Where a category 2 hospital is improved or extended and provides accommodation similar to that of category 1, it will be a matter of valuer judgement as to the appropriate unit cost to apply to the relevant parts. Where such an extension comprises a large, new standalone facility, then the appropriate cost will be that applicable to category 1.

Prefabricated Buildings	Description	Unit Cost per m²
Modern	Buildings of prefabricated sectional design, internally insulated and plasterboard lined similar to permanent buildings. Serviced and sited on permanent hardstanding.	£1,150
Portable Cabin	Transportable as a complete unit with basic connection to services, sited on rudimentary base and providing adequate temporary accommodation.	£750
Inferior Prefabricated	Inferior quality, poor or no insulation, lacks services, typically to HORSAs hut standard,	£550

6.2 Unit Cost Rates (External Works)

External Works should be valued in accordance with SAA Public Buildings Committee Practice Note 4 (Valuation of Contractor's Basis Subjects, Areas Adjustment and External Works' Costs).

6.3 **Outbuildings**

Garages and other substantial outbuildings may also be added at appropriate rates based on local evidence or other Practice Notes. Care should be taken to ensure that values attributed to old buildings, which may be of little use or even redundant, are reasonable. It must be remembered however, that the above rates represent overall unit costs for all elements normally found in hospitals of a particular type. Lesser rates should not therefore be applied to laundry accommodation etc. simply to reflect poorer internal finishes.

6.4 Small entrance canopies, small external stores etc. may be judged to be *de minimis*. Covered walkways, depending on the extent, construction, finish etc. may be added at an appropriate rate.

6.5 **Adjustments to ERC**

Adjustments in respect of contract size and additions for professional fees should be made in accordance with the recommendations contained in SAA Basic Principles Committee Practice Note 2 (Contractor's Basis Valuations).

7.0 **Adjusted Replacement Cost (ARC)**

7.1 In applying age and obsolescence allowances, reference should be made to guidance in SAA Basic Principles Committee Practice Note 2 (Contractor's Basis Valuations) – Column E. In particular it should be noted that allowances in respect of age in excess of 60% should only be given to buildings and plant in exceptional circumstances.

7.2 Further allowances of a functional and technical nature should be considered in accordance with SAA Basic Principles Committee Practice Note 2 (Contractor's Basis Valuations) and SAA Public Buildings Committee Practice Note 4 (Valuation of Contractor's Basis Subjects, Areas Adjustment and External Works' Costs), particularly those referring to inferior system-built structures and inferior flat roof construction.

Older category 2 Acute and Community hospitals may suffer from additional functional obsolescence which is not generally covered by the scheme of age/obsolescence allowances within Practice Note 2. Where this is the case, further allowances of up to 20% may be granted as deemed appropriate. Ageing Victorian hospitals with restricted circulation space; poor space planning and construction that presents difficulties of adaptation to modern use are likely to attract the maximum functional obsolescence allowances.

7.3 Buildings without Lifts Provision

Buildings or affected parts of buildings without lifts may be granted an allowance as indicated in the table below.

2 Storey	-5%
3 Storeys	-10%
4 Storeys	-15%
5 Storeys and above	-20%

If, in the case of buildings of two storeys or above, a particular floor such as an attic is significantly smaller than the main floors or consists of a basement or poorer quality, then such a floor should be excluded from the determination of an appropriate lift allowance to be applied to the whole building in the table above.

7.4 The above allowances should not be aggregated but applied in sequence to provide the Adjusted Replacement Cost of a particular item.

7.5 In cases of buildings or part of a building being unused, care should be taken that functionally viable accommodation is not granted additional redundancy allowances. The mere closure of a building or part of a building is not a material change in circumstances and so, in considering any alteration to the value of a hospital between revaluations as a result of a building closure care should be taken that a “material change of circumstances” has occurred.

8.0 Plant and Machinery

8.1 Building’s unit cost rates above are inclusive of service plant typically found in subjects covered by this Practice Note. Rateable items of plant and machinery not already reflected in these 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 Scotland. CHP plant is included in the unit cost rate and, as the nature of such plant will be site specific, care should be taken at the valuation stage to exclude non-rateable elements where the hospital has an exemption certificate, under the Climate Change Levy (Combined Heat and Power Stations) Exemption Certificate Regulations. The excepted items of plant and machinery are those contained within paragraphs (b), (c), (d) or (k) of Class 1 Table 1 of the Regulations. Where excepted items of plant and machinery are included in the overall rate, these will require to be adjusted for site specific circumstances and decapitalised to rateable value.

9.0 Land

9.1 Land value should be determined by reference to local evidence and SAA Basic Principles Committee Practice Note 2 (Contractor’s Basis Valuations).

10.0 Decapitalisation Rate

10.1 The appropriate statutory decapitalisation rate should be used.

11.0 End Allowance

11.1 Any factors or circumstances which might affect the value of the occupation of the lands and heritages as a whole should be reflected at this stage. An adjustment under this head should not duplicate adjustments made elsewhere.