



COMMERCIAL PROPERTIES COMMITTEE

Practice Note 12

REVALUATION 2005

Valuation of Cinemas

1.0 Introduction

This practice note covers Cinemas of the following types:

- Multiplexes: Modern purpose built cinemas providing at least 5 screens
- Modern Non Multiplexes: Purpose built cinemas providing 1 – 4 screens
- Traditional cinemas including those which have been converted to create extra screens.

2.0 General

The cinema market has continued to expand since 2000, with an increase in both number of screens and total admissions. There are now 23 multiplexes in Scotland providing circa 240 screens.

In many cases the increase has been at the expense of traditional cinemas. There are now just 15 single screen cinemas in Scotland.

3.0 Basis of Valuation

This category of subject should be valued by application of the comparative principle. Rents have been analysed in accordance with Basic Principles Committee Practice Note1.

4.0 Analysis and Adjustment of Rents and Gross Receipts

4.1 Traditional, Converted and Modern Non Multiplex Cinemas

4.1.1 Treatment of Income

Certified Gross Receipts exclusive of V.A.T should be examined for the 5 year period to 2003 to establish the hypothetical achievable turnover for the property in the year to 31 March 2003.

To calculate each year's turnover, income from all sources should be totalled without adjustment. This will include income from:

- Admission Charges
- Sales within premises (soft or alcoholic drinks, tobacco, ices, confectionery etc)
- Meals or snacks
- Lets of the premises
- Advertising
- All other sources

4.1.2 Film Hire Charge Adjustment

These charges will normally be based on a percentage of box office receipts and analysis shows that the normal range is from 35% to 50%. Where film hire charges exceed 50% consideration should be given to adjustment of the box office receipts element. This may be applied by deducting half of the excess film hire charge.

Example

Actual Box Office Receipts	£3,000,000
Max. Film Hire Charge (50% of above)	£1,500,000
Actual Film Hire Charges	£1,650,000
Deduct half of excess (0.5 x £150,000)	- £75,000
Adjusted Box Office Receipts	£2,925,000

If there are any costs incurred in providing live entertainment these should be added to film hire charges and treated as part of the above calculation.

4.1.3 Valuation

With the diminishing numbers of this type of cinema, the evidence suggests that rentals being paid are more closely linked to turnover than to numbers of seats.

Generally the percentage to Gross Receipts will vary depending on:

- Whether purpose built or converted
- Modernity
- Number of screens
- Total Gross Receipts

This category of subject should be valued using the appropriate percentage to adjusted gross receipts from Table 1 below.

Table 1

Gross Receipts	Modern Multiplex	Non Traditional and Converted	
	4 or less Screens	1 or 2 Screens	3 or more Screens
£250,000 (& below)		4% - 5%	
Up to £650,000	10 %	5 %	6 % - 6 ¾ %
£750,000	10 %	5 ½ %	7 %
£850,000	10 %	6 %	7 ½ %
£1,000,000	11 %	6 ½ %	8 %
£1,500,000	11 %		8 ½ %
Over £2,000,000	12 %		9 %

A check should be made to ensure that the valuation by this method will not produce a higher value than if the cinema was valued by a rate per seat from Table 2 or Table 3.

4.2 **Multiplex Cinemas**

4.2.1 **Valuation**

The majority of Multiplexes in Scotland are let and analysis of these subjects shows a pattern of rent rate per seat on a diminishing basis as numbers of seats rise. In the city centre areas of Glasgow, Aberdeen and Edinburgh there again exists a pattern of a diminishing rent rate per seat as seat numbers rise, however in these locations it appears the market sustains a higher rate per seat.

This category of subject should therefore be valued by application of the comparative principle using the appropriate rate/seat derived from Tables 2 or 3 below as appropriate. Seat numbers include all seats plus numbers of spaces left for wheelchair use

Table 2 should be used when the cinema is located in the city centres of Glasgow, Edinburgh or Aberdeen.

Table 3 should be used in all other locations

Intermediate points should be interpolated.

Table 2

No. of Seats	NAV / Seats
1500 - 4500	£300 - £250

Table 3

No. of Seats	NAV / Seat
1500 - 1750	£250 - £230
1751 - 2000	£230 - £210
2001 - 2250	£210 - £195
2251 - 2500	£195 - £185
2501 - 2750	£185 - £175
2751 - 3250	£175 - £165
3251 - 3750	£165 - £155
3751 - 4500	£155 - £150

4.2.2 End Adjustments For Multiplex Cinemas

(a) Where a cinema has screens on more than one floor the following allowances should be granted

On 2 floors: -5 %
On 3 or more floors: -7 ½ %

(b) Evidence suggests that normal levels of turnover per seat falls in the range £1,100 - £1,500 per seat. Where turnover falls outwith this range it may be appropriate to adjust the rate per seat.