



COMMERCIAL PROPERTIES COMMITTEE

Practice Note 32

REVALUATION 2005

Valuation of Livestock Auction Markets

1.0 INTRODUCTION

This practice note deals with the valuation of all types of Livestock Auction Markets.

2.0 BASIS OF VALUATION

The basis of valuation recommended is the Comparative Principle. The available rental evidence has been analysed to a percentage of Gross Commission to arrive at NAV.

Markets will be categorised as follows:-

- a. Large markets serving a wide catchment area with gross commissions of above £300,000 per year.
- b. Markets which fall between a. and c. probably trading at about £200,000 per year.
- c. Smaller local markets with gross commissions of less than £100,000 per year.

3.0 BACKGROUND

Traditional town centre markets have continued to close since 1998 and those located outside the town centres are increasingly drawing trade away from the remaining more congested town centre markets. Many smaller markets, within the catchment areas of larger markets, that rely heavily on a localised trade are becoming increasingly uneconomic to run, and are facing the prospect of closure as trade rationalises to the larger markets better able to cope with the rapidly changing patterns of farming.

This trend was accelerated by the outbreak of Foot and Mouth Disease (FMD) on 20 February 2001. By the end of February 2001 all markets had closed and although the last recorded outbreak was 30 September 2001, they did not begin to reopen until late in 2001. Markets had only just recovered from the outbreak of Bovine Spongiform Encephalopathy (BSE) in 1996, and although some continued to trade during the outbreak as livestock collection centres or rely on non-livestock sales, the effect on profitability was dramatic. Some markets closed due to the outbreak have not reopened. The prolonged period of closure of livestock markets both during and after the outbreak has caused difficulties for large and small markets alike as they try to recover lost trade. For the larger markets the burden of high fixed costs in relation to lower turnover has meant that trading conditions have remained difficult.

Abattoirs and major food supermarket companies are buying livestock direct from farms or through non market based dealers which has further reduced the numbers of animals sold through the traditional market by auction. Compared to five years ago, more producers are switching from auctions to selling their stock, particularly fatstock cattle, direct to the slaughterhouse on a deadweight basis. This trend greatly increased during the period when markets were closed, therefore forcing sellers to find new outlets until restrictions on stock movement were finally removed.

In some cases Markets have attempted to mitigate the effect of lower auction prices by increasing commission rates, or introducing a minimum rate to cover expenses, but the practice has not been uniform. Prices at auction obtained for store and breeding stock in 2003 have been exceptional and well above levels achieved pre FMD.

Although volume of stock has fallen since 2000 in most markets, not all markets have been affected by FMD to the same extent. This will depend on the location, degree of competition, type of stock traded, and the extent of non-livestock sales. Some markets have substantially diversified into non-stock sales such as antiques, car boot sales, chattels, motors cars and furniture, which may now form a substantial proportion of total income to the market. In the areas of the country worst affected by FMD it may take some time for the throughput of stock passing through the local markets to recover to pre FMD levels. Markets that predominantly trade in fatstock cattle have found trading conditions more difficult than those that sell a much higher proportion of stores. Many market operators are pessimistic that trading will ever return to its previous level, and although throughput has recovered to a level better than expected, the future remains uncertain for many markets. Uncertainty has also increased in relation to possible future changes in legislation, such as the possible introduction of a 150km restriction on stock transportation from farm to mart and onward destination, and a 48 hour lairage limitation at markets that will affect those trading 5 days a week or which experience seasonal peaks (introduced in August 2003).

At the same time as livestock sales are falling, additional burdens have been placed on markets by requirements of local authorities and DEFRA for disposal of sewage effluent, cleaning of vehicles, movement of vehicles and animal welfare. Traditionally many of these costs were borne by the landlord but increasingly landlords have sought to renegotiate leases in order for the burden to be placed on the tenant. This has had the effect of depressing levels of rent offered for such markets. Restrictions on animal movements have been progressively removed, but there is still a 6 day standstill restriction on movement of livestock after sale and this has placed additional costs on the industry already facing increased costs because of bio security measures.

Although a number of markets have closed since FMD, the economic position is improving. Some have recovered trade and obtained new trade from other markets in the locality that have closed, and some are now trading at levels equal to or above pre FMD.

4.0 **VALUATION**

The rates in the following table should be applied to the year closest to that ending 31.03.2003. Care should be taken to adopt a commission level which is a fair reflection of a sustainable level of value.

Livestock commission income -

Category	% to Commission
a. Large markets serving a wide catchment area with gross commissions of above £300,000 per year	10% to 12.5%
b. Markets which fall between a. and c. probably trading at about £200,000 per year.	9% to 10%
c. Smaller local markets with gross commissions of less than £100,000 per year.	6% to 7%

The adoption of any particular percentage will depend on, for any market, catchment area, degree of competition, type of sales, quality of the yard and buildings and the superfluity of the subjects compared to the level of trade.

Income from other sources for the same year as adopted above.

Category	Basis
<p>Lorry washes Lorry wash areas are a statutory requirement for livestock markets, and if this facility is non profit making it can be reflected in the valuation without a specific addition.</p>	Where there is significant income from other than market users then an addition should be made either as a lump sum related to the value adopted for separately assessed lorry washes, or by reference to 10% of gross receipts
<p>Lorry/car parking</p>	Where income is derived from parking on non market days then an addition should be made by reference to local levels of value for such facilities, but making adjustment for the number of days a week it is in market use. Where there is no local comparison take 25% of gross income.
<p>Car boot sales and market stalls</p>	Adopt 50% of payment from a market operator or 50% of net income from direct sales where the market or car boot sales are run by the occupier of the livestock market.
<p>Chattels/antiques auctions sales</p>	Adopt 15% to 20% of gross commission depending on how significant this source of income is in relation to the market as a whole. Where gross commissions from this source comprise less than 10% of total income then do not value separately, but include in gross commissions for the market as a whole
<p>Car auctions</p>	Where there is a dedicated building reference should be made to the value of separately assessed car auction markets but reflecting any lack of specialised facilities for this purpose, otherwise value on the same basis as chattels sales related to gross commissions.
<p>Plant and machinery auction sales</p>	As for chattels/antiques above
<p>Non livestock sales offices Examples will include estate agency or electronic auctions, kiosks in paramount occupation of the market operator.</p>	Value by having regard to the local level of rental for similar offices, making allowance for being part of larger lands and heritages.
<p>Cafeteria and restaurant Most markets will have refreshment facilities on site and they may be open on non market days.</p>	Where a lease specifies that an additional sum of rent shall be payable for the restaurant, usually in relation to gross income, an addition in line with this should be made to the valuation. For most markets the facility should be reflected in the valuation with no separate addition unless it generates a good income from meals and licensed sales, including on non market days. In this case a separate addition should be made on the basis of a %age of gross receipts but having regard also to the level of value for other similar subjects.

<p>Horse sales</p>	<p>Some markets are now beginning to develop a good market in horse sales and it is recommended that the %age of gross commissions for this income be increased by 2.5% when gross commissions from this source comprise more than 10% of total livestock income. Small scale sales below this level should be valued at the appropriate gross commission rate for the market as a whole</p>
<p>Advertising rights Normally separately assessed unless it is not let out, and comprises an advertising station</p>	<p>Value similarly to other advertising subjects.</p>
<p>Other miscellaneous income</p>	<p>Value in line with the most appropriate section above.</p>