



COMMERCIAL PROPERTIES COMMITTEE

Practice Note 40

REVALUATION 2005

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. It should not be used to value supermarkets, large shops, department stores or retail warehouses.

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 Scottish Assessors' Association Basic Principles Committee Practice Note 1. Local rental and cost evidence is used to determine rates applied and adjustments to value. The analysis of rents is undertaken using reduced areas calculated using the zoning principle.

4.0 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; -

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

5.0 VALUATION

It is generally recognised that shops should 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.

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. The rate per square metre halves back through regular depths towards the rear of the shop.

Ground floor areas are therefore calculated in zones and a reduction factor is applied to each. By this means the relative worth of each zone is adjusted before the basic rate per square metre is applied. The zone depth should be consistent in any location and is normally dictated by local evidence and practice.

ZONE	Reduction Factor
A	100%
B	50%
C	25%
D	according to local evidence

5.2 Overall Area Approach

Some shops/shopping stretches may be let on an overall basis and may be better suited to analysis and valuation on the same basis. This type of property may be found in out of town locations and is often built by one developer. Additions and deductions may not apply to this type of property because of the probable standardisation typical of such developments.

5.3 Ancillary Floors

Ancillary floors are not zoned but are taken at an overall storey reduction factor. Again this means that the relative worth of areas situated on upper or lower floors is adjusted before the basic rate per square metre is applied. Local rental evidence and practice determines 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

6.0 ADJUSTMENTS TO VALUE

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 calculated for the shop in order to reflect the extent to which the particular shop varies from the standard assumed for the stretch of properties

6.1 Deductions from Value

Subject to section 6.0 above the following possible factors may affect the valuation of the property; -

- Structural division wall.
- Variation in floor levels that have a detrimental affect 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.

6.2 Additions to Value

- Corner situations/Return fronts – An addition based on local rental evidence may be made to reflect the advantages associated with such factors. .

6.3 Addition/Deduction to Value

The following may be either additions or deductions depending on the standard reflected in the typical shop within the stretch to be valued. Additions and deductions are based on local rental evidence and would only be applied where rental analysis indicates a material effect on the value of the particular subject when compared to the standard unit in any shopping stretch: -

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

7.0 QUANTUM/INVERSE QUANTUM

An allowance may be made 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. Quantum or inverse quantum should be calculated using local evidence.