



COMMERCIAL PROPERTIES COMMITTEE

Practice Note 22

REVALUATION 2005

Valuation of Petrol Filling Stations

1. GENERAL

The following recommendation results from the agreements reached in discussions between the Valuation Office Agency, The Scottish Assessors' Association, agents for the UK Petroleum Industry Association, and the Petrol Retailers Association.

2. BASIS OF VALUATION

The method of valuation is the comparative principle based on open market rents at or about the tone date. The main elements are : -

1. Petrol sales forecourt
2. Forecourt shop
3. Car wash (where applicable)
4. Non-forecourt buildings (e.g. workshops, showrooms etc.)
5. Bunkered Fuel

2.1 The Petrol Sales Forecourt

2.1.1 Valuation of the Petrol Sales Forecourt

The value of the petrol sales forecourt will be determined in accordance with a nationally applied scale relating rental value to the throughput of motor fuel. For this purpose it is proposed that all grades of fuel are aggregated without adjustment for different types and grades of fuel, the profit margins on all grades being approximately equal.

The forecourt value will include the value of:

- (i) The developed forecourt, (excluding non-rateable plant items).

- (ii) Canopies.
- (iii) Rateable tanks.

2.1.2 Adjustments to the actual throughput may be required to arrive at the maintainable throughput.

The maintainable throughput is the throughput the site might reasonably be expected to generate if it adopted normal opening hours (up to 16 hours) and sold the fuel at the U.K average price per litre. Adjustments outwith the average price should be made in accordance with the table on page 9. The 'tone' year of throughput is the calendar year 2002. The U.K average price per litre for unleaded fuel is 73 - 74 pence per litre.

Adjustments may be required at this stage to arrive at the maintainable throughput for the following factors:

- (i) 24 hour opening
- (ii) Customer credit accounts, in excess of 5%
- (iii) Pricing policy

Further details are given in Appendix 1.

The maintainable throughput should be valued in accordance with the throughput scale on pages 9-10 with straight line interpolation between the fixed points.

2.1.3 Adjustment to the forecourt value may be required for the following:

- (i) Agency sales in excess of 5% of total volume

No adjustment should be made for credit card sales.

2.2 The Forecourt Shop

The value generated by the scheme will apply to the majority of forecourt shops and will include their ancillary offices and stores. The basis of the value is turnover and hence the scheme will be able to readily accommodate not only those sites where the custom is primarily motorist generated, but also the increasing number of sites trading as a destination shopping venue, under the banner of "convenience".

2.2.1 High Turnover Shops

In situations where the shop turnover generated is higher than expected from a station achieving a certain level of throughput, an adjustment is required to reflect that the turnover is abnormal for that throughput level. The normal relationship of shop turnover to passing throughput was established after a full

analysis of all the available information. It will be referred to as Core Turnover and was determined at the following levels.

Throughput Level	Normal %age of Total Adjusted Turnover to Total Adjusted Throughput (Core Turnover)
Up to 5m litres	Up to 20%
5 – 6m	Up to 19%
6 – 7m	Up to 18%
7 – 8m	Up to 17%
8 – 9m	Up to 16%
Above 9 m	Up to 15%

2.2.2 **Shop Valuation**

- a) Where the Total Adjusted Turnover of the shop expressed as a percentage of the Total Adjusted Throughput is less than or equal to the percentages detailed in the table above, for the various bands of throughput, the shop should be valued by applying the percentage as indicated in the table below or in Appendix 2.
- b) Where the Total Adjusted Turnover of the shop expressed as a percentage of the Total Adjusted Throughput is above the percentages detailed in the above table for the various bands of throughput, the shop should be valued as follows:
 - i) Value the Core Turnover as determined by the percentage in the table above in accordance with the percentage for the whole shop turnover as indicated in the table below or in Appendix 2.
 - ii) The remainder of the turnover should be valued at 2% below the previously determined %age (applied in (i) above) to reflect that this excess turnover is being generated from non motorist trade and is above the normal turnover expected of a station with that level of throughput.

However, the percentage for this portion of the turnover should be a minimum of 2%.

Turnover	%age
Up to £100,000	2%
£600,000	4%
£1,000,000 and above	5%

Values have been based on straight-line interpolation of the %age between the turnover thresholds. For the purpose of the valuation scheme turnover has been banded in £25,000 tranches, as shown in the table included in Appendix 2

The foregoing applies to shops up to 75 square metres ITSA (In terms of Sales Area). To reflect the increased cost of operating larger shops, the rental bid percentage is discounted by up to a maximum of 10% at 275 square metres ITSA. The adjustment for shop size is interpolated between 75 and 275 square metres on a straight line basis.

The shop area is adjusted to ITSA as shown below.

The area of the shop and ancillaries (ITSA) is first calculated by applying the following factors:

- (a) Shop area (including tills) at 100%
- (b) Ancillary offices at 80%
- (c) Ancillary stores (excluding external bin stores) at 50%

The value of the following items will be reflected in the values applied to the forecourt and shop and will not be the subject of any addition:

- (a) Toilets and related facilities, kitchens, staff rooms and passages.
- (b) Meter cupboard
- (c) Circulation space for vehicles sufficient for the purposes of the petrol forecourt, car wash and shop.

There may also be instances where a station has a shop which is inappropriately large, for historic reasons, but only sells the usual range of forecourt shop goods and where there is no significant demand other than from the motorist. In such cases the shop value will be determined by the turnover and no further adjustment is necessary.

In the absence of turnover information, the valuer should estimate the turnover based on forecourt throughput as an indicator.

In determining the maintainable shop turnover, it has been agreed that monies received from utility/rent/council tax payments, commonly through Paypoint/Payzone facilities, should be excluded. These transactions yield a very low commission level, understood to be less than 1%, and are employed essentially as " footfall generator" to increase other shop sales rather than as a valuable income stream in itself.

Further, it has been agreed that national lottery sales should be taken at 25% of the full transaction value to reflect the relatively low commission received

compared with the average level of gross profitability achieved on general shop sales. In a typical forecourt shop the average lottery sales will be in the order of £80,000. Where actual Lottery figures are available, these should be taken at 25% of the full transaction value, however, where lottery sales are not available it is recommended that £60,000 (£80,000 less 25%) be deducted from the income of the forecourt shop before the value is calculated. Catalyst have provided the information on those who participate in the national lottery.

Kiosks which do no more than take the money for petrol sales will be taken to be included in the forecourt value.

2.3 Car Washes

Eight classes of car wash are identified and shown on Appendix 3. The value of the car wash should be determined by taking into account both description and turnover.

2.4 Other Buildings

The values of buildings other than the forecourt shop and its ancillary office and store will be determined on the basis of local evidence/tones and are outside the scope of any national scheme of valuation.

2.5 Bunkered Fuel Attached to a P.F.S.

This is to be valued independently from the retail fuel sales. Bunkered fuel should be valued in accordance with Appendix 4 and added to the final Net Annual Value of the Filling station.

**ADJUSTMENTS TO ACTUAL THROUGHPUTS TO
ARRIVE AT THE MAINTAINABLE VOLUME**

3.0 GENERAL

Because of the complexities of the petrol filling station market, it is important to have a clear understanding of the operating practice of all the sites within a given locality.

Valuers should consider all available evidence of throughputs, pricing policies and be aware of all material changes which may have affected a particular site and the date the material changes occurred.

The starting point of the valuation is to establish a maintainable throughput which will determine the value to be attributed to the forecourt and will also assist in setting the level of the value for the forecourt shop (in the absence of turnover information.) The maintainable throughput is also crucial for the adjustments to be made for such factors as credit customers and agency cards.

The maintainable throughput is the volume of fuel a site could reasonably be expected to sell¹ during normal daytime opening hours during the calendar year 2002 on the basis that it was retailing the fuel at the UK average price (Unleaded fuel price), and with no more than 5% of trade coming from customer credit accounts. It also assumes the other competition in the locality is pricing on a similar basis irrespective of their actual market position. Sites selling at 1 pence per litre more than that price may require adjustment, however all maintainable volumes must be justified by comparison in the locality.

Small variations in the maintainable throughput can have a major impact on the final rateable value because the throughput is valued on a sliding scale. Great care is therefore required to ensure the maintainable throughput is correctly identified. Information from Catalist has been obtained to allow the valuer to compare the filling station to be valued with the UK average price. The information has been accepted by agents representing the major petrol companies as being reliable. Promotions should not be included in any pricing consideration.

¹ Maintainable throughput should therefore exclude bunkered fuel and fuel retained for the occupier's own use.

In some areas of the country there will be stations that were not pricing competitively in 2002. These are likely to be situated either on a major trunk road system, or in an area unaffected by hypermarket competition. It is not uncommon for fuel sold on the major trunk roads to be priced several pence above the competitive level in neighbouring urban areas. In such cases the stations may be sacrificing volume for enhanced margin, therefore the rate per thousand litres should be enhanced in accordance with the scale on page 8. It may also be that the location on the trunk road system will add to the inherent value by allowing the possibility of retailing with increased profitability. This will be reflected in the turnover for the shop. Similarly in areas unaffected by hypermarket competition, it is not uncommon for prices to be generally several pence above the prices charged in areas where hypermarket competition exists. Clearly an across the board alteration in pump price is unlikely to significantly affect the volumes traded at individual sites, nevertheless an attempt should be made to reflect the increased profitability of the fuel sold in such locations. In either case there can be no hard and fast rule as to how any such additional value should be identified.

The 2002 throughput of all fuels sold should be the starting point in determining the maintainable throughput but adjustments may be required where a material change of circumstances has taken place and its impact is not fully reflected in the 2002 throughput. Adjustments may also be required if the 2002 throughput, or any other throughput that is being considered has been influenced by a low price or high price policy. Please note that fuels sold should not include any 'bunkered throughput'. Fuel sold should also exclude fuel used by the operator for their own use.

If there are no subsequent material changes to take into account and the site together with its competition was trading at or near the UK average price the 2002 throughput may be expected to be the maintainable throughput of the site. However, all adopted volumes from whichever source will need to be justified by comparison with competitor sites. In some cases an individual return may not have been made or there may be instances of new sites opening or a change of ownership/occupation. Under these circumstances, there is little alternative but to estimate having regard to any historic throughput information available for the site. Comparison with other sites in the locality may also be appropriate.

Where a site has been affected by a material change, commonly the opening of a hypermarket, other petrol filling station or road changes, valuers need to carefully consider all available throughput information. Having first established the correct assessment based on the 2002 volume, the recommended approach is to identify the effect of a material change by studying throughputs on a 'before and after' basis. Care should be taken to have regard to pricing information since following alterations a station may have adopted a different trading policy to that previously pursued. Where this is the case adjustments will need to be made to compare the 'before and after' volumes on the pricing basis which underpins the scheme. Once the impact has been established at the date of the material change, valuer's judgement must be exercised to determine what effect the material change

would have had at the valuation date reflecting any other matters which may have occurred in the meantime

3.1 24 HOUR OPENING

It is agreed that the maintainable throughput should be based on an average opening of 16 hours per day (usually between 7.00am and 11.00pm). Where the kiosk is manned 24 hours, a deduction of 10% of the total throughput should be made. For those sites open long hours, but not 24 hours, an adjustment of less than 10% should be made in accordance with the matrix below.

Hours	% Adjustment
16	0.00
17	1.25
18	2.50
19	3.75
20	5.00
21	6.25
22	7.50
23	8.75
24	10.00

3.2 CUSTOMER CREDIT ACCOUNTS

It is agreed that there will be occasions where adjustments of throughput will be required to arrive at the adjusted throughput where there are customer credit accounts.

No adjustment is required in respect of any throughput attributable to 'deposit' accounts, i.e. those where the account holder has paid an initial deposit. Throughput achieved on 'credit' accounts, i.e. those where the account holder has not paid an initial deposit, shall be adjusted as follows:-

Where credit account sales represent more than 5% of total throughput (net of bunkered fuel and fuel used by the occupier) an amount equal to 25% of credit account throughput should be deducted from total throughput, after adjustment of total throughput for long opening hours. No adjustment is required under this head where credit account sales represent 5% or less of total throughput.

3.3 SCALE TO BE APPLIED TO MAINTAINABLE THROUGHPUT.

3.3.1 General

The price per litre applied is now dependant on level of throughput and price. Price adjustment is now dependant on the relationship of the 2002 price for unleaded fuel at the subject to be valued and the average UK price of 73 - 74 pence per litre. This price has been determined by the use of Catalyst information and information has been obtained for all main stations in Scotland.

3.3.2 Throughput 4m and over.

Where the maintainable throughput has been derived from an actual throughput achieved against unleaded pricing above or below the average band, adjustments to the £/000 litres should be made on the basis of £2.50/000 litres above and below the average price of 73.5p.

At 4m litres average pricing of 73-74p will result in a rate of £3.50/000 litres. At 72p the rate will fall to £1.00/000 litres and at 75p the rate will be £6.00/000 litres. Interpolation is required at prices between these rates. The scale is extended beyond 75p to 78p. The scheme makes no recommendation above this rate but leaves the decision to the valuer based on knowledge of the local market. Similarly below 71p there is no recommendation on the rate to be applied.

The Valuation scale to be applied to maintainable throughput is as follows:

Maintainable Throughput (000 litres)	£/000 litres (Within average price band of 73 –74pence per litre)
1,500	0
2,000	0 up to 25p above average price band max70p at 5p above average price band max.
2,500	£1.40
3,000	£2.10
3,500	£2.80
4,000	£3.50
10,000	£7.00
20,000	£10.00

3.3.3 Throughput under 4m litres

In recognition of the fact that at volumes below 4 million litres pricing above the average band does not necessarily translate immediately to additional value, it has been agreed that the upper end of the average price band range should be extended on a progressive basis, as volume reduces, as set out in the following table:

Maintainable Throughput (000)	Average Price Band Upper Threshold	Based on 2002 UL average of 73.5ppl (pence per litre)
1,500+	+1.75ppl	75.25ppl
2,000+	+1.5ppl	75.00ppl
2,500+	+1.25ppl	74.75ppl
3,000+	+1.0ppl	74.50ppl
3,500+	+ 0.75ppl	74.25ppl
4,000+	+ 0.5ppl	74.00ppl

3.4 LOW VOLUME STATIONS

It is recommended that below 1,500,000 Litres there should be no additional value attributed to the retailing of fuel from the forecourt. In addition, up to 4,000,000 Litres the values are very modest. No forecourt should have a nil value and if the valuer is satisfied that an adjustment to volume for enhanced margins is not required then a minimum value on the forecourt should take account of local site values and the forecourt value of other low volume filling stations in the area. In the absence of local evidence with regard to site values it is recommended that at normal pricing and even in some cases where enhanced prices are applied that the forecourt should be valued at a flat rate of £250. Appropriate additions should also be made for the shop, car wash, excess site and other buildings.

		Value (£)	
Turnover (£)		Area (ITSA unadjusted)	
From	To	Up to 75 sqm	275 sqm and over
	62,500	1,000	900
62,501	87,500	1,500	1,350
87,501	112,500	2,000	1,800
112,501	137,500	2,625	2,363
137,501	162,500	3,300	2,970
162,501	187,500	4,025	3,623
187,501	212,500	4,800	4,320
212,501	237,500	5,625	5,063
237,501	262,500	6,500	5,850
262,501	287,500	7,425	6,683
287,501	312,500	8,400	7,560
312,501	337,500	9,425	8,483
337,501	362,500	10,500	9,450
362,501	387,500	11,625	10,463
387,501	412,500	12,800	11,520
412,501	437,500	14,025	12,623
437,501	462,500	15,300	13,770
462,501	487,500	16,625	14,963
487,501	512,500	18,000	16,200
512,501	537,500	19,425	17,483
537,501	562,500	20,900	18,810
562,501	587,500	22,425	20,183
587,501	612,500	24,000	21,600
612,501	637,500	25,391	22,852
637,501	662,500	26,813	24,131
662,501	687,500	28,266	25,439
687,501	712,500	29,750	26,775
712,501	737,500	31,266	28,139
737,501	762,500	32,813	29,531
762,501	787,500	34,391	30,952
787,501	812,500	36,000	32,400
812,501	837,500	37,641	33,877
837,501	862,500	39,313	35,381
862,501	887,500	41,016	36,914
887,501	912,500	42,750	38,475
912,501	937,500	44,516	40,064
937,501	962,500	46,313	41,681
962,501	987,500	48,141	43,327
987,501	1,012,500	50,000	45,000

Classes (1)	Value (2)	Turnover (3)	Description (4)
A++	£7,500	Over £50,000	As A, but invariably modern multi programme, highest turnover sites.
A+	£6,000	Over £40,000	As A, but invariably modern multi programme, high turnover sites.
A	£5,000	Over £33,500	Well located car wash, probably a modern multi programme type, on a well laid out site with limited local competition. Good access and circulation within the site without obstruction to the petrol sales forecourt. Good demand from residential areas close-by.
A-	£4,000	Over £26,500	As for Class A above, but where there is an average amount of local competition.
B	£3,000	Over £20,000	Likely to be a multi programme type, but possibly not modern, on a well laid out site with good access and circulation. Situated close to residential areas but with heavy competition from other car washes in the vicinity.
C	£2,000	Over £13,500	Likely to be an older type of car wash offering only a limited range of wash facilities. Located in areas of relatively low demand or competition from more modern multi programme facilities. Would also include the modern multi programme Jet Wash type facility on a good site with limited competition.
D	£1,000	Over £6,500	Jet washes not included in class C.
E	£500	Under £6,500	Poorest Jet Washes

The valuation scale to be applied to throughput is set out below: -

Litres (000's)	£ per 000 litres	RV £
1,000	0.525	525
2,000	1.125	2,250
3,000	1.425	4,275
4,000	1.569	6,276
5,000	1.687	8,435
6,000	1.789	10,734
7,000	1.874	13,118
8,000	2.035	16,280
9,000	2.142	19,278

Prices £ per 000 litres should be interpolated between volume thresholds.

Generally the handling charge paid to the site operator for bunkered fuel has not altered significantly since 1998. The scheme values are therefore the same as those for the purposes of the 2000 revaluation.