

Revaluation 2026

Hospitality Properties Committee

Practice Note 1 Valuation of Licensed Premises

1.0 Introduction

1.1 Use of Practice Note

This Practice Note should be used for the valuation of licensed premises with the character of Public Houses, Licensed Restaurants and Nightclubs. Consideration should also be given to the valuation of snooker halls and other licensed clubs not covered by The Licensing (Clubs) (Scotland) Regulations 2007.

1.2 Licensing

The Licensing (Scotland) Act 2005 is the current legislation governing the sale of liquor for all establishments in Scotland.

Each establishment requires an Operating Plan approved by a local Licensing Board. Operating Plans contain information relating to the proposed operation of the premises, and copies should be available from Licensing Boards. Although they provide some detail, the Operating Plans are nevertheless fairly general, and examination of an Operating Plan alone could be insufficient to clarify if the premises are being run as a nightclub, public house, restaurant etc.

2.0 Basis of Valuation

The subjects covered by this Practice Note should be valued by application of the comparative principle, using the percentages of rent / turnover shown at 5.2, which should be applied to the adjusted Hypothetical Achievable Turnover (HAT), which excludes VAT and is defined at section 5.1 below.

It should be recognised that the essence of the valuation scheme is based on the HAT. The scheme is designed to enable valuers to ascertain “the rent at which the lands and heritages might reasonably be expected to let from year to year” on the statutory terms, by identifying a relationship between rents and turnovers which can then be used to arrive at Net Annual Value.

3.0 Rental Analysis

Rents have been adjusted in terms of the SAA Adjustment of Rents Practice Note, and then analysed with reference to the appropriate Adjusted Turnover, as detailed at section 4.0

4.0 Adjustment of Turnover

4.1 All income, with the exception of food, should be taken at 100%.

4.2 Income from food up to £45,000 should be ignored and the remainder taken at 75%.

4.3 Income from Machines should be net of all charges.

4.4 Entertainment Costs

If a specific admission charge is made to cover the cost of providing entertainment and there is a surplus of income over expenditure, the surplus should be taken at 100%.

If, however, either expenditure exceeds income from admission charges or expenditure on entertainment is not offset by admission charges, and the expenditure incurred could be seen to have increased turnover, then the following approach should be adopted.

Analysis of entertainment costs shows that most operators will spend on average approximately 5% of their total turnover on entertainment costs, and therefore expenditure for this item should be treated as follows:-

Entertainment costs amounting to the first 5% of total turnover – deduct 1 x the actual costs incurred.

Entertainment costs amounting to the next 5% of total turnover – deduct 2 x the actual costs incurred.

Any entertainment costs exceeding 10% of total turnover – deduct 0.5 x the actual costs incurred.

Door stewarding costs are now the norm in urban locations and are a licensing board requirement if premises are open after 1 am. These costs should not be allowed as entertainment costs, as they are considered as one of a range of operating costs which requires to be met in certain locations.

5.0 Valuation

5.1 Hypothetical Achievable Turnover (HAT)

The actual turnover can be an indication of the trading potential, however the turnover adopted should represent the annual amount considered to be the hypothetical achievable level in the year to 1 April, 2025, having regard to the physical nature of the property and its location as at 15 March 2026, on the assumption that the premises will be operated by a competent operator seeking to maximise profits. Consideration of other comparable properties may also be of assistance.

The statutory hypothesis assumes that the letting takes place in an open market, which includes prospective tenants who would recognise past and/or current good practices and operating techniques and seek to at least replicate them.

Due care should be taken when valuing vacant licensed premises, to ensure that all relevant factors are considered.

5.2 Categories

Licensed premises differ in their locational advantages, attractiveness, and character, and are affected by the trading policies of licensees, along with being subject to the vagaries of current popular trends.

Subjects should be placed in the following categories:-

1) Category A – City or larger town centre Licensed Premises.

i. Upper percentage range.

- Will have good footfall within a circuit or destination premises.
- Can be either wet or food led.

ii. Lower percentage range.

- Lower footfall areas out with a circuit.

2) Category B – Suburban, Rural.

i. Upper percentage range.

- Will trade well all year round.

- Situated in popular tourist destinations, small towns or good suburban locations.
- Not necessarily food led.
- Not always but will likely have outdoor areas.
- Will have limited local competition from other outlets.

ii. Lower percentage range.

- More remote / island locations.
- Inconsistent trade across the year.
- Likely to be wet led.
- Not a tourist destination.
- Serving local community.
- Poorer suburban location.

5.3 Percentages to be Applied

Using the turnover figures from the year closest to the year of the rent, an analysis relating all rents to adjusted turnovers was undertaken.

The table below outlines the range of percentages to be applied. In the rare situation where local evidence/material factors exist which are sufficient to merit a variation, an alternative percentage may be applied.

Category	Percentage
A	6% - 9%
B	5% - 8%

5.4 Valuation of Establishments Where Turnover is Not Known

In the absence of any indication of the anticipated level of turnover, the HAT should be estimated by comparison with other similar properties. Reference should be made to section 2 above when establishing HAT.

5.5 Valuation of Extensions to Existing Establishments

A strictly arithmetical approach should be treated with extreme caution, as the HAT in relation to any property is not necessarily proportionate to floor area.

In order to estimate the increase in value that might be achieved as a result of an extension having been added to an existing establishment, the reduction factors contained in Appendix 1 may be applied to the floor area of the premises in order to arrive at a rate per square metre of reduced area, which can then be used as a guide.

6.0 Other Factors

6.1 Hours of Opening

With extensions to permitted opening hours being fairly commonplace, it should be assumed that the hypothetical tenant will seek to maximise turnover by opening during the hours which generate the maximum income.

Operating hours should be clearly specified in the Operating Plans.

6.2 Over or Under Performance

As stated at 2.0 above, the turnover adopted should represent the annual amount considered to be the hypothetical achievable level in the year to 1st April 2025, having regard to the physical nature of the property and its location as at 15th March 2026, on the assumption that the premises will be operated by a competent operator seeking to maximise profits.

No adjustment to actual turnover should be made solely on the grounds that a particular operator occupies the property, nor should the popularity of the products on offer give rise to any adjustment.

If, after consideration, there is clear evidence that the actual turnover is considerably different from the HAT, an adjustment to the supplied turnover may be appropriate.

6.3 Consideration of Floor Area

If a licensed premises is located within a distinct market on a retail park or shopping centre, for example, and where there is relevant rental evidence, it may be appropriate to consider whether the property could be more appropriately valued on a comparative floor area (rate /m²) basis, or as a check to establish HAT.

6.4 Pricing Policy

No adjustment should be made to the level of turnover applied to a particular licensed premises simply because the operator's pricing policy permits the sale of liquor at lower prices than those offered by competitors, on the basis that another hypothetical operator could do the same.

6.5 **Opening Period**

Where a property is new, or has reopened, the initial turnover may be enhanced for the duration of a 'honeymoon' period and may require caution before estimating the hypothetical achievable level of turnover. The duration of any recognised honeymoon period should be individually assessed according to the particular circumstances.

Conversely, it may be the case that during an initial opening period trade is still building towards the hypothetical level of turnover and again caution should be exercised in assessing the HAT.

6.6 **Promotional Activities**

No adjustment should be made to reflect alleged reduced profitability resulting from such activities, since it is assumed that any such instances are part of the operator's efforts to maximise turnover.

Appendix 1

2026 REVALUATION – LICENSED PREMISES REDUCTION FACTORS

GROUND FLOOR		FACTOR
1.	PUBLIC BAR	On its own 1
2.	LOUNGE BAR	On its own 1
3.	LOUNGE BAR WITH PUBLIC BAR With separate accesses and separate service bar.	Public Bar 1 Lounge 1
4.	LOUNGE BAR WITH PUBLIC BAR Where no separate access eg Lounge enters off Public Bar:	Public Bar 1 Lounge 0.9
	Where lounge has no separate service Bar	Lounge 0.7
5.	RESTAURANT, LOUNGE, DINING AND DANCE FLOOR AREAS	1
6.	GAMES ROOM, DINING ROOM, SITTING ROOM OR FUNCTION HALL ETC As 3+4 above, depending on access and bar service facilities	1.0 to 0.7
7.	CHILDREN'S PLAY BUILDINGS	0.25
8.	KITCHEN, TOILETS, CELLARAGE, STORAGE, STAFF ROOMS, STAIRS, ENTRANCE VESTIBULE (OF MODEST AREA) AND PASSAGES Note however that where the Kitchen area is open to and integral with the bar then that area should be taken at 1 .	Nil

ACCOMMODATION ON OTHER FLOORS

A. First Floor & Basement

As for ground floor, but with consideration being given to a reduction factor where quality, extent, access and location are deserving of such. It is anticipated that where a restaurant is solely situated on a first or basement floor, a reduction factor of **1** will apply.

0.5 to 1

In the case of public houses, a reduction factor of **1** will only be appropriate in exceptionally good circumstances.

Where the main part of the premises is on the ground floor, a reduction factor from the range shown of less than **1** may be adopted, if considered appropriate.

B. Other Floors

An appropriate reduction factor should be applied, having regard to quality, extent, access and location.

Up to 1