

Assessor for Fife Council

Revaluation 2017

Local Practice Note

Valuation of Shops

1.0 Introduction

This Practice Note (PN) applies to the valuation of standard shops and subjects occupying shop type premises in retail locations. This practice note also applies to Retail Units and Bookstalls situated at Railway stations and Transport Interchanges, Pharmacies situated within or attached to Health Centres and Rural Destination Retail Outlets. It should not be used to value supermarkets, large shops, department stores, retail warehouses or factory outlet centres.

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 SAA Basic Principles Committee Practice Note 1 Adjustments of Rents. Local rental and cost evidence is used to determine rates applied and adjustments to value.

4.0 Survey & Measurement

The basis of measurement should, wherever possible, be the Net Internal Area subject to the following:

- (a) Shops should normally be measured from the building line (as opposed to the glass window).
- (b) All structural walls over 0.15m should normally be excluded.
- (c) Toilet areas should be included.
- (d) Stairs should be excluded.
- (e) Escalators should be excluded.
- (f) Plant rooms (i.e. service plant) should be excluded where these are solely used for plant.
N.B. where accommodation is partly plant and partly storage a pro rata area should be included. Process plant rooms e.g. at dry cleaners or bakers should be included.
- (g) Partitioned fire corridors used solely for this purpose should be excluded.
- (h) Mixed use areas (i.e. fire corridors / general access) should not be excluded.

5.0 Zoning

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 and the value of accommodation reduces towards the rear of the shop.

All shops, apart from those valued on an overall basis, should be zoned to 10 metres depth. Wherever possible 10 metres zoning should be strictly adhered to, end allowances for shape etc., being dealt with as a separate item. Valuer's judgement should, however, be applied when natural breaks occur (eg thick structural walls which encroach on natural zone depths).

5.1 Reduction Factors

5.1.1 Ground floor the standard reduction factors used are shown below:-

Zone A	1.00
Zone B	0.50
Zone C	0.25
Remainder	0.125

Where toilets occur in Zone A, these areas should be separately calculated and taken out of Zone A and included in Zone B.

5.1.2 Ancillary Floors ancillary floors are not zoned but are taken at an overall storey reduction factor

	<u>Stair Access only</u>		<u>Public Lift</u>	<u>Escalator</u>
	Stock / Shell	Sales	<u>Access</u>	<u>Access*</u>
Basement / 1 st Floor	0.10	0.125	+10%	+20%
2 nd Floor	0.05	0.062	+10%	+20%
3 rd Floor	0.025	0.031	+10%	+20%
4 th floor & above	0.012	0.016	+10%	+20%

* the reduction factor for escalator will apply whether or not there is, in addition to the escalator, a public lift (i.e. the maximum addition for lift / escalator access will be +20%).

Note: Caution should be applied when using these upper floor multipliers e.g. when upper floors are used for offices or sales, consideration should be given to the rates applied to upper floor offices in the locality.

5.2 Return Frontage

(a) Where a shop has a frontage on two sides and where the advantage is obvious, add up to 10% to the Zone A value. **Do not add 10% to the Zone A rate.** It is recommended that such areas be denoted as Zone AA with a multiplying factor of 1.1.

(b) Where the shop has two separate entrances, the following methods might be considered.

(i) Add 10% for return frontage as above.

(ii) Zone from both accesses (adopting the Zone A rate applying in each case) and average the result.

Both methods should be appraised and the fairest method of value adopted. Rental evidence will provide the best guide as to the suitability of an addition for return frontage or two entrances.

5.3 Overall Area Approach

Some shops/shopping stretches can be let on an overall basis and may be better suited to analysis and valuation on the same basis. This type of property can be found in out of town locations and is often built by one developer.

Where retail subjects are not situated in typical retail locations such as Railway Stations, Pharmacies at Health Centres and Rural Destination Retail outlets an overall approach may also be considered appropriate.

6.0 Retail Units & Bookstalls at Railway Stations & Transport

Interchanges

Retail units typically include a standard shop units, restaurants/cafes with no liquor licence and kiosks which compromise retail units with no area provided for the public and customers served directly on the concourse/street.

As with standard shop premises, retail units and bookstalls found at railway stations and transport interchanges are valued on the Comparative Principle generally using rates per square metre derived from local rental evidence.

Care must be taken where the lease agreement is subject to a monopoly or global agreement clause which can be found in newsagent premises where rent is also generally based on a percentage of gross turnover.

Licensed premises including refreshment rooms and Public Houses situated at railway stations should be valued on the Comparative Principle having regard to local rental evidence and level of turnover achieved in accordance with SAA Commercial Properties Committee Practice Note No 19 Valuation of Licensed Premises.

7.0 Pharmacies within Health Centres

Particular care should be applied to the treatment of Pharmacies situated within or attached to Health Centres where they may be separately occupied. Evidence of passing rents in these situations would indicate that rental levels can be significantly higher than local shop rates, reflecting a monopoly situation where rents may reflect the level of patient or prescription numbers. In such situations the passing rent may be the best guide to annual value.

8.0 Rural Destination Retail Outlets

Retail outlets situated adjacent to or within agricultural subjects have become increasingly popular and diverse with many offering facilities including coffee shops or tea rooms etc. They are often destination shopping locations with a significant level of turnover.

Values should be determined by reference to local rental evidence. However, in situations where local rental evidence is not available or is not derived from comparable Destination Retail Outlets, consideration should be given to the location of the subjects, quality of facilities on offer and availability of parking when arriving at a level of value.

9.0 Adjustments to Value

9.1 Fit-Out Rate

In shopping centre locations, where it is usual for the tenant to completely refit a shop prior to entry, £25/M² has been added to the analysed shell Zone A rate to reflect heritable fit-out. This addition was arrived at through analysis of actual fit-out costs. In other shopping locations, where it is not usual practice to completely refit a shop prior to entry, no addition has been made.

9.2 Devaluation of Fit-out Allowance

In cases where the Zone A rate includes an addition to rental value for fit-out, it may be necessary to make an allowance for deterioration of that fit-out. This should be based on valuer's judgement of the age and condition of the shop fittings. The following methodology may be used for guidance;

For fittings, the end allowance applied to the Fit Out should be 0% for new fittings increasing to the maximum allowance of 100% for fittings 25 years old and over.

Example: - Where a shop has fittings which are 5 years old at 2015.

Full fit-out rate £25/m²

E/A for fittings $5/25 \times £25 =$ £ 5/m²

Fit out rate to be applied to Zone Z rate £20/m²

Where a shop, which has an allowance for fit-out, is refitted it may be appropriate to adjust the fitting out allowance to reflect this.

9.3 Deductions from Value

Subject to section 6.0 above the following 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

A deduction based local rental evidence may be made to reflect the disadvantages associated with such factors.

9.4 Additions to Value

Subject to section 6.0 above the following factors may affect the valuation of the property:

- Corner Situations
- Return Frontage
- Hot food consent
- Licence to sell liquor etc.

An addition on local rental evidence may be made to reflect the advantages associated with such factors.

10.0 Quantum

An examination of evidence at the rental analysis stage has been carried out to determine levels of quantum. The quantum scale takes account of the size of a shop in relation to the typical reduced area of a shop in that location.

Before applying quantum it is first necessary to determine the typical reduced area for shops in that location. Location in this respect could be a small town, street, shopping precinct, or part of a street. New or redeveloped locations may require the typical reduced area to be calculated. Once the typical reduced area for shops in a particular location has been determined quantum may be applied using the following scale:-

- Shops 1.5 times the typical reduced area - nil
- Shops twice the typical reduced area - 2.5%
- Shops three times the typical reduced area - 7.5%
- Shops four times the typical reduced area - 15%
- Shops five times the typical reduced area - 20%

11.0 Plant & Machinery

Where rateable plant and machinery, such as air conditioning, is present in a shop, details should be noted and consideration given to whether a further addition is appropriate. These rateable items of plant and machinery should be dealt with in terms of the Valuation for Rating (Plant & Machinery) (Scotland) Regulations 2000 as amended and valued with reference to the Rating Cost Guide.

In situations where the rental agreement reflects shell condition, it will be necessary to make an addition to reflect the rateable fittings. Where actual costs are known, an adjustment should be made to the basic rent to reflect fitting out, or in the absence of local evidence, the following rates should be applied:

Air-conditioning (costs based on cassette system)	£7/m ²
Sprinklers	£3/m ²

If the rent for a shop does not include for shop frontage, then £135/linear metre should be added for the shop frontage.

12.0 Pertinents

When considering pertinents the surveyor should always have regard to what can be regarded as a unit of valuation, in terms of the appropriate legislation and case law

Items such as car parking or outbuildings which are not reflected in the basic rate applied, nor reflected in the reduced area of the shop, should be valued in accordance with local evidence and added to the valuation as a separate item.

13.0 Advice

For advice on any part of this practice note consult the Assistant Assessor (East).