

Revaluation 2010

Industrial Committee

Practice Note 2 Valuation of Cold Stores

1.0 Introduction

This Practice Note provides guidance on the valuation approach to Cold Stores; both those that form an ancillary part of a larger subject and those that are stand-alone subjects.

2.0 Basis of Valuation

The basis of valuation is the Comparative Principle as it applies to industrial properties having regard to (i) the costs associated with the provision of additional features necessary to create such subjects and (ii) available rental evidence.

3.0 Cold Store Development

Over the period from post war to the present day, there have been improvements in technology resulting in improved quality and performance of insulation and also of door design, allowing more rapid closure thus retaining temperatures and reducing costs. In addition, the older types of insulation, in respect of quality, form of construction and method of fixing tend to be more prone to deterioration, resulting in loss of efficiency and increased running costs in maintaining required temperatures.

Generally, older units used a 'Smith's panel' sandwich construction, whereas modern units are more akin to ambient warehousing with an inner cold store 'chamber'. Earlier stores were generally smaller and of lower height with multi-chambers allowing different products to be stored at different temperatures. In the early 1970's, there was a move towards bulk long-term storage requiring larger enclosures with increased eaves heights but with relatively few doors.

With the decline of EU storage from the mid 1980's, and the increase in demand for fresh and chill products, there has since been a move towards throughput storage with rapid turnaround of goods, requiring improved access and racking systems. EU regulations now generally require chilled enclosed loading bays.

4.0 Cold Store Types and Rateability

4.1 Purpose built cold stores where the structural walls, floors and ceiling of the building contain insulation.

Purpose built cold stores have evolved through improvements in design and operator requirements and the following range of structural specifications will cover the majority of types commonly found.

The primary consideration is the structural specification. Construction dates are given only as guidance because different operators in different locations moved to using new specifications over a period of time.

It should be appreciated that older stores may have been subject to upgrading such as the enclosure of loading bays, improved door closure systems, construction of racking systems and the opening out of former multi-chambers to give larger, more flexible, storage capacity.

4.1.1 Category 1

Normally constructed pre 1970 with chamber height of 6.00 to 7.00 m with cork insulation panels on timber frame in small sheets with many joints. External loading platforms. Older brick cold stores should be treated initially as meeting this specification.

4.1.2 Category 2

Constructed from the late 1960's through to the mid 1970's and designed for bulk storage without racking systems, but may now have racking systems installed. Generally larger chambers for long term storage of single products. Chamber height generally under 10.00 m. Open fronted loading bays. Minimal door provision. Often exposed structural steel roof members. Insulation panels on timber frames; early examples have cork insulation but polystyrene more common post 1972/73. Insulation panel size gradually increasing with correspondingly fewer joints.

4.1.3 Category 3

Generally erected late 1970's to early 1980's with enclosed loading bays (either internal or external to chambers) more common. Chamber heights variable, but usually from 9.30 to 10.30 m. Large insulation panels using slab polystyrene. Increased number of chamber access doors to allow improved throughput of goods. Generally designed for use with racked storage systems.

4.1.4 Category 4

Constructed from mid 1980's. Enclosed loading bays either internal or external to chambers with urethane or polystyrene large panel insulation. Rapid closing doors with increased number of ports and lorry docking facilities. Chambers designed to accommodate static or mobile racking systems. Chamber heights variable but usually of 10.30 m or more and

designed to suit purpose built racking.

4.1.5 Category 5

Constructed generally from about 1990. Specification as for Category 4 but of greater chamber height - usually to 12.30 m or more.

4.1.6 Category 6

Constructed from mid 1990's. Specification as for Category 5.

4.1.7 Category 7

Constructed from 2000. Specification as for Category 5.

4.2 **Cold stores of modern pre-fabricated construction installed within an existing building.**

Although essentially free standing structures, these may well take up a substantial volume of the property and will have insulation standards similar to the purpose built cold stores described in paragraph 4.1.

Most cold stores will be assembled on site using either basic materials or prefabricated parts and as such can readily be regarded as being plant "in the nature of a building or structure". A cold store exceeding 400 m³ will be rateable in terms of Class 4, Table 4 (chambers) and a cold store of smaller capacity will still be rateable provided it is "not readily capable of being moved from one site and re-erected in its original state on another without the substantial demolition of any surrounding structure". The valuer should be quite convinced that the cold store could be removed and re-erected in the prescribed circumstances before conceding rateability.

Valuation of this type of cold store will proceed on the same basis as purpose built structures but care should be taken in deciding the area to which the cold store addition should apply.

4.3 **Free standing freezer cabinets and chills in the nature of large refrigerators placed on the floor (but may be located externally) with cooling plant.**

An external or internal location is not inherently conclusive as to rateability. However, when considering the rateability of such items it is essential to determine if they may be considered as plant "in the nature of a building or structure". Having determined this question the notes at 4.2 considering size and removability apply.

5.0 Rateability of Service Plant

The approach to the treatment of cooling plant in cold stores is governed by the terms of the Valuation for Rating (Plant and Machinery) (Scotland) Regulations 2000. Class 2 of the Schedule of Prescribed Classes of Plant and Machinery describes as rateable service items including plant used for heating, cooling and ventilating but specifically excludes

“any such plant or machinery which is in or on the lands and heritages and is used or intended to be used in connection with services mainly or exclusively as part of manufacturing operations or trade processes”.

While careful consideration must always be given before removing any service plant from value, it is accepted that rateable cold stores are lands and heritages that actually carry out *“manufacturing operations or trade processes”* and as such cooling plant which serves them *“is used or intended to be used in connection with services mainly or exclusively as part of manufacturing operations or trade processes”*.

Maintaining produce in a frozen or chilled state can be regarded as a trade process as there is clearly a market demand for produce in this form and the cooling plant is essential for the cold store to maintain the produce in that state. It is also the case in cold stores that certain produce will be brought in progressive stages down to storage temperature or conversely back to ambient temperature and in such circumstances, the cooling plant clearly *“is used ... as part of manufacturing operations or trade processes”*.

6.0 Approach to Valuation

6.1 General

The approach for Revaluation 2010 will use local rental tone enhanced by a percentage that reflects the additional cost of the rateable cold store elements in comparison with a standard ambient warehouse.

The local tone rate should be adjusted in terms of the SAA Industrial Practice Note 1 (Comparative Principle) to reflect variations such as wall-head height. End allowances, as described, are appropriate. In particular, the local tone rate should be adjusted, if necessary, to exclude heating. Note however that the percentage additions that follow reflect the difference between the basic constructional form of a cold store and a standard SAA specification ambient warehouse. No adjustments should therefore be made to reflect for example an un-insulated building followed by the cold store addition.

6.2 Cold store additions

Additions to the adjusted rate should be made, before applying end allowances, from the following table.

Group	Construction	Type	Addition
4.1	Purpose built	All Categories	+25.00%
4.2	Installed		+25.00%
4.3	Free standing		+15.00%

6.3 Chills

The approach advocated in paragraph 4.2 is appropriate to structures designed and operated as cold stores, that is chambers capable of storing frozen produce and having an operating temperature of generally around minus 25⁰C. It is important to appreciate that only the structure of any cold store is rateable and the operating temperature is therefore not a safe guide to value.

Structures that are physically similar should have the same value regardless of their actual use and the temperatures at which they are maintained.

Where however a structure is insulated to a level that it can only be operated as a chill, usually in a temperature range of 0⁰C to +5⁰C, then the addition of 25.00%, suggested in paragraph 6.2 for groups 4.1 and 4.2, should be reduced to 15.00%. The addition of 15.00% for free standing structures as specified in group 4.3 is appropriate for both freezers and chills.

6.4 Blast freezers

Blast freezing now usually takes place in continuous process plant that is normally not rateable. Where blast freezing takes place in rateable freezing chambers, then insulation in excess of normal cold storage requirements is needed and the addition of 25.00% suggested in paragraph 6.2 should be increased to 35.00%.

7.0 **Age & Obsolescence**

7.1 Ancillary cold stores

Ancillary cold stores are those that form parts of larger buildings or stand-alone structures within a larger *unum quid*.

Additions made in terms of Section 6.2 of this Practice Note are based on local tone rate adjusted in terms of the SAA Industrial Practice Note 1 (Comparative Principle) to reflect variations including age and condition. It follows that these additions will already reflect "norm" age and condition from the table below. Particular care should however be taken to adjust the cold store addition to reflect an appropriate age allowance in cases where

cold store finishes have been installed within an existing warehouse at a later date.

Valuers should appreciate that the operation of a cold store can lead to faster depreciation resulting in higher maintenance costs in comparison with conventional industrial buildings. Where an ancillary cold store has clearly depreciated more than an ambient warehouse then allowance may be based on its equivalent age in the following table.

Year	Allowance	Year	Allowance	Year	Allowance
2010	0.00%	1986	19.00%	1962	43.00%
2009	0.50%	1985	20.00%	1961	44.00%
2008	1.00%	1984	21.00%	1960	45.00%
2007	1.50%	1983	22.00%	1959	46.00%
2006	2.00%	1982	23.00%	1958	47.00%
2005	2.50%	1981	24.00%	1957	48.00%
2004	3.00%	1980	25.00%	1956	49.00%
2003	3.50%	1979	26.00%	1955	50.00%
2002	4.00%	1978	27.00%	1954	50.00%
2001	4.50%	1977	28.00%	1953	50.00%
2000	5.00%	1976	29.00%	1952	50.00%
1999	6.00%	1975	30.00%	1951	50.00%
1998	7.00%	1974	31.00%	1950	50.00%
1997	8.00%	1973	32.00%	1949	50.00%
1996	9.00%	1972	33.00%	1948	50.00%
1995	10.00%	1971	34.00%	1947	50.00%
1994	11.00%	1970	35.00%	1946	50.00%
1993	12.00%	1969	36.00%	1945	50.00%
1992	13.00%	1968	37.00%	1944	50.00%
1991	14.00%	1967	38.00%	1943	50.00%
1990	15.00%	1966	39.00%	1942	50.00%
1989	16.00%	1965	40.00%	1941	50.00%
1988	17.00%	1964	41.00%	1940	50.00%
1987	18.00%	1963	42.00%	1939	50.00%

7.2 Stand-alone purpose built cold stores

This describes subjects where cold storage is the principal activity of the operator and will include both public cold stores (where space is let to anyone with a storage requirement) and privately owned concerns. It may include purpose built subjects that are principally cold stores but some measure of processing takes place.

Valuations should proceed using the methodology outlined in the preceding paragraphs. However, where appropriate additional allowances may be made for each category from the table below. Such allowances will be made on a building by building basis to the resulting £rate/m² after

reflecting normal age allowances from the table in 7.1 for an equivalent warehouse in the locality.

The ranges of allowances in the table below are based primarily on rental evidence from England & Wales where, in some localities, there is an over supply of technically obsolete purpose built cold stores. The wide ranges of possible allowance reflect that position. The factors of supply and demand in Scotland, where such subjects are relatively few in number, are quite different and, accordingly, it is not envisaged that allowance will require to be granted in the upper end of the ranges provided for in the table below. Valuers should be aware, for example, that a 25% addition for cold store construction with a 20% end allowance produces a rate equal to that applied to the equivalent ambient warehouse in the locality.

In using the table below valuers should be aware that age is only a guide to categorisation and the true nature and category of the cold store will be determined by consideration of age, specification and character. This will include reflecting any improvements or upgrading of original specifications.

For the avoidance of doubt it should be noted that the allowances below apply only to stand-alone purpose built cold stores and not to cold stores or chills that form part of a larger subject such as food production facilities or distribution warehouses.

Cold store category	Specification	Typical age profile	Allowance
1	See para. 4.1.1	Pre 1970	Up to 50%
2	See para. 4.1.2	Late 1960's to mid 1970's	Up to 40%
3	See para. 4.1.3	Late 1970's to early 1980's	Up to 30%
4	See para. 4.1.4	From mid 1980's	Up to 20%
5	See para. 4.1.5	From 1990	Up to 10%
6	See para. 4.1.6	Mid to late 1990's	Up to 5%
7	See para. 4.1.7	2000 to date	Nil