

Revaluation 2010

Commercial Properties Committee

Practice Note 38

Valuation of Factory Outlet Centres

1.0 Introduction

- 1.1 A Factory Outlet Centre is a group of shops which has been developed or adapted for the express purpose of selling end-of-range, surplus and obsolete stock at heavily discounted prices. Such centres will normally have on site car parking, a management suite, children's play areas and public toilets. The development itself may vary from a series of small modern units on either side of an outdoor, pedestrianised street to a substantial covered shopping mall. In the majority of cases there will be food outlets and possibly leisure facilities attached.
- 1.2 A feature of factory outlet centres is the incidence of short leases, mostly structured on a turnover basis, together with conditions that goods will be sold at a certain percentage below the recommended retail price. The landlord will normally be heavily involved in determining the tenant mix, in managing the centre and advertising and promoting the centre as a family day out.
- 1.3 Early examples of Factory Outlet Centres were developed in greenfield situations at some distance from major conurbations so as not to compete with established retail centres. However, later examples have been developed closer to traditional town centres. Research indicates that the development of such centres may now have peaked and that the market is consolidating. Some centres have failed and closed in recent years whilst others have begun to welcome standard retail outlets, thereby blurring the distinction between the Factory Outlet Centre and normal shopping centres.

2.0 Basis of Valuation

Factory Outlet Centres should be valued on the basis of the Comparative Principle using rates per square metre derived from local evidence. Rents should be analysed in accordance with SAA Basic Principles Practice Note 1 (Adjustment of Rents).

3.0 Valuation Considerations

At first letting, units are frequently let on a shell basis and in such circumstances an addition for fit out will be appropriate. However, the turnover of occupiers at factory outlet centres can be high and second or subsequent letting may be on a fully fitted basis. Care must be exercised to establish which lettings are on a shell basis and which are fully fitted.

4.0 Survey and Measurement

It is understood that the letting of factory outlet units is normally conducted on a gross internal basis and it is therefore recommended that where this is the case rents are analysed and basic rates determined on this method.

5.0 Analysis of Rents and Turnover

5.1 Fitting out:

5.1.1 In situations where the rental agreements are all on a shell basis it will be necessary to make an addition to reflect the rateable fitting out. In these situations the cost of fitting should be analysed to arrive at an appropriate addition - see SAA Basic Principles Practice Note 1 (Adjustment of Rents) and *Morrison EF (GP) v Assessor for Central Scotland 2003* for guidance.

5.1.2 In situations where all the units are let on a fitted basis no adjustment will be required.

5.1.3 In situations where there is a mixture of fitted units & shell rents the available costs of fittings should be analysed as above and adjustments made to bring all rents to a fitted equivalent rent.

5.2 Turnover rents:

5.2.1 The incidence of turnover rents at factory outlet centres requires careful consideration. It is essential that full details concerning both base rents and turnover top up rents are available for each unit over a number of years (preferably three years) preceding the tone date of 1 April 2008.

5.2.2 Generally the relationship of base rent to market rental value will vary from unit to unit. The threshold at which a turnover element will become payable and the percentage of turnover achieved in excess of that threshold to be paid as turnover rent will also normally vary and this can present very inconsistent levels of analysed rates/m² throughout the centre.

5.3.3 The preferred approach will be to analyse all rentals in the first instance. The full amount of rent paid (i.e. both base rent and turnover element) to the landlord should be analysed to arrive at a rate /m² (GIA) for each unit. Thereafter the rentals of non typical units which are significantly below or above the standard sized unit should be set aside for separate consideration. Units which are considered to be in abnormal locations within the centre or where the analysed rent is clearly out of line with the general pattern should also be treated with caution.

5.3.4 The results should be carefully considered and an appropriate valuation judgement applied to arrive at a basic rate/m². Account should be taken of the preponderance of units which pay only the base rent and those which pay base rent + turnover rent. In certain circumstances, such as those outlined in *Morrison EF (GP) v Assessor for Central Scotland* concerning a new development, it may be appropriate to consider whether to modify the turnover element.

- 5.3.5 The analysis should be undertaken separately over each of the three years leading up to the tone date to arrive at the hypothetical rental figure at tone.
- 5.3.6 The rents of units which have been initially set aside from the analysis should be carefully examined and suitable adjustments made to reflect size (quantum), location or other factors.

6.0 Valuation

The derived rate per square metre for the units within the Factory Outlet Centre should be applied to the calculated gross internal area of each unit to determine Net Annual Value.