

Revaluation 2023

Commercial Properties Committee

Practice Note 23 Valuation of Free-Standing Restaurants

1.0 Introduction

- 1.1 This Practice Note covers restaurants situated outside the traditional high street/retail parades and which are suited, by virtue of their location and physical characteristics, to occupation generally by major restaurant chains. Whilst this Practice Note covers both drive through and non-drive through subjects it should be noted that these are 2 different classes of property and for valuation purposes they will require to be dealt with differently. Typical examples of these are listed below.
- 1.2 Purpose built units within a retail/leisure park with sit in, table service and no drive through.
- 1.3 Purpose built units in a standalone location with sit in, table service and no drive through.
- 1.4 Purpose built units within a retail/leisure park with counter service and drive through.
- 1.5 Purpose built units in a standalone location with counter service and drive through.

2.0 Basis of Valuation

- 2.1 This category of subject should be valued by application of the comparative principle using the rates per square metre derived from local evidence. Rentals should be analysed in accordance with SAA Basic Principles Practice Note 1 (Adjustment of Rents).
- 2.2 For sites with only one restaurant, the individual nature of the location, size and type (drive through or non-drive through) of these subjects means that the passing rent, suitably adjusted for fitting out where applicable, may be considered to be the best evidence.

3.0 Basic Specification

- 3.1 The standard unit is generally modern purpose built or may be of modular construction built off site and assembled on site. There will be onsite parking available and those units offering drive through facilities will have a drive through lane around the main building with ordering facilities and collection windows.
- 3.2 The size of a basic unit is typically in the order of 200 - 375 m².
- 3.3 Units are generally let in a “shell” state whether situated in a retail/leisure park or in a standalone location. In such circumstances an addition for tenants fit out will be appropriate.

4.0 Survey and Measurement

- 4.1 Free standing restaurants should be measured to gross internal area, as defined by RICS Code of Measuring Practice 6th Edition. Survey and measurement should take separate account of items such as upper floors, external stores, and chiller/freezer pods. The external stores and chiller/freezer pod area should be excluded from the GIA for analysis purposes as they are generally tenant’s improvements.

4.2 Reduction Factors

In the absence of local evidence, the following reduction factors should be applied:

Ground	100%
First	50%
Basement / Lower Ground Floor	50%
Second	25%
All other floors	At valuer’s discretion
External Stores	Up to 25%

5.0 Rental Analysis: Addition for Fitting Out

The preferred approach to rental analysis is to rely on evidence which reflects the presence of features such as fitting out, air conditioning and sprinklers. Where the rental rate includes these features there will be no need for further adjustment.

In situations where the rental agreement reflects shell condition it will be necessary to make an addition to reflect rateable fitting out. 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, it is recommended that an addition is made of £130 per square metre to GIA (before any reduction factors are applied) which is inclusive of air conditioning.

For the purposes of rental analysis, a fitting out addition may be depreciated on a straight-line basis over the period of time considered to be appropriate. The depreciation percentage should be based on the age of the fitting out or notional age of the fitting out if the property has been re-fitted or partially re-fitted at the date of the rent. Any depreciation applied if the recommended rate is adopted, should be depreciated at 4% per annum over 25 years.

6.0 Valuation

These should be valued on local evidence.

6.1 Valuation of Drive Through Restaurants

Evidence has shown a drive through unit would command a premium value above that of a non-drive through unit in a comparable location. Ultimately, the value difference should be determined by a consideration of relevant local evidence. In the absence of such evidence, it is recommended that the addition to value of a restaurant benefiting from a drive through facility should be 10%.

Where there is more than one drive through operator on a site the rents passing may show a wide variance. In these circumstances, it may be appropriate to establish a level of rent rate which is truly reflective of the hypothetical achievable level.

6.2 Valuation of Prefabricated External Freezer/Chiller Pods

Valuation of external prefabricated freezer/chiller pods added as a tenant's improvement situated out with the main structure of the restaurant shall be valued at a rate of £120/m² to GIA. This does not refer to freezer or chiller units situated internally within the restaurant, ie under the main roof space, which should be valued at the restaurant rate.

6.3 Quantum/Inverse Quantum

An adjustment may be made where a restaurant is significantly larger or smaller than the typical unit range referred to in 3.2. Quantum/inverse quantum should be based on local evidence. External freezer/chiller pods and stores should be excluded from the calculation.

6.4 Car Parking

The value of associated car parking is generally included in the rate applied to the buildings.

7.0 Plant & Machinery

Rateable items of plant and machinery not already reflected in the rental rates 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 Scotland.

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