SAA
Scottish Assessors Association

Revaluation 2023

Commercial Properties Committee

Practice Note 19
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.

It should be recognised 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.

The turnover adopted should represent the annual amount considered to be the hypothetical achievable level in the year to 1 April, 2022, having regard to the physical nature of the property and its location as at 15 March 2023, on the assumption that the premises will be operated by a competent operator seeking to maximise profits.

Turnover for the full financial years 2020 / 2021 and 2021 / 2022 together with a small portion from 20 March 2020 will have been impacted by enforced closure or restricted operating capacity due to the Covid 19 pandemic. Consideration of turnover in these periods should be treated with caution. Furthermore, the adjustment of any part year turnover during that period to arrive at a pro rata HAT is also to be treated with caution as it may not provide a true indication of the HAT at the valuation date.

In the absence of any information during the period leading up to the valuation date, or a valuer cannot reliably use any information provided; as matter of caution, they may wish to consider as a starting point, the closest reliable trade prior to 20 March 2020. Having established the likely pre-COVID-19 HAT, the valuer must then consider any adjustments from that point to arrive at a turnover envisaged on 1 April 2022 as would have been anticipated by the parties given the prevailing circumstances and beneficial use that could have been achieved at the property at that date.

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.

3.0 Rental Analysis

Rents have been analysed in terms of the SAA Basic Principles Committee Practice Note 1 – Adjustment of Rents.

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 £35,000 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 **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 range.

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

   ii. Lower range.

- Lower footfall areas out with a circuit.
- Traditional office locations.

2) Category B – Suburban, Rural.

   i. Upper range.

- Will trade well all year round.

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

ii. Lower 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.

5.2 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 carried out.

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

Category	Percentage
A	7% - 10%
B	6% - 9%

5.3 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.

5.4 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 which 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.

5.5 Valuation of Office Accommodation

Offices situated within the premises occupied for the purposes of the administration of that property alone should be ignored.

Office accommodation used for other commercial purposes or not occupied solely in connection with the premises in which they are situated should be valued in comparison to other commercial offices.

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 2022, having regard to the physical nature of the property and its location as at 15th March 2023 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* 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

2023 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 Lounge	**1** **1**
4.	LOUNGE BAR WITH PUBLIC BAR Where no separate access eg Lounge enters off Public Bar:		Public Bar Lounge	**1** **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**
9.	OFF SALES Although generally off sales should be taken at 1, consideration may have to be given to quality, extent, access and location.			**1**

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** <u>may</u> 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