

Revaluation 2023

Commercial Properties Committee

Practice Note 24 Valuation of Exclusive Use Venues

1.0 Introduction

- 1.1 This Practice Note should be used for the valuation of Exclusive Use Venues.
- 1.2 Exclusive Use Venues are subjects whose typical uses include a venue for weddings, conferences, corporate entertainment and private parties. The key criterion is that the property, or significant parts of it, is rented out to a single hirer at any one time.

Subjects covered by this Practice Note, may provide facilities that range from purely a function venue, through to facilities that are similar to high quality hotels. The character of the property may range from function halls with little or no outlook, to marquees in scenic locations, grand rooms in historic homes and castles, to country houses and their associated estate. Some exclusive use venues will provide overnight accommodation either in the main building or in lodges at the property or a combination of both.

- 1.3 Properties used as short stay accommodation only, such as Self-Catering Accommodation (Commercial Properties Committee Practice Note 17), should not be valued as Exclusive Use Venues. Properties let out on a per room basis akin to hotels should be valued on the Hotel basis (Commercial Properties Committee Practice Note 20).

1.4 Licensing

Whenever liquor is sold on the premises an appropriate licence is required under the Licensing (Scotland) Act 2005. The operator of the Exclusive Use Venue may hold a Premises Licence to sell liquor, alternatively this could be fulfilled by obtaining an Occasional License where the licence is applied for as and when an event takes place.

The licensing information could assist in establishing the trading activity at the property. The Operating Plans contain information relating to the proposed operation of the premises, and copies should be available from Licensing Boards. The plans combined with knowledge of how the premises are being run, will provide guidance on the appropriate valuation method.

1.5 **Planning**

Given the character of properties and the use, specific planning consent may not be required for this use. Where it has been applied for it may specify limitations on number of functions per year or other relevant factors, and this information could assist in establishing the hypothetical achievable turnover of the property.

2.0 **Survey and Measurement**

2.1 Survey should include such information as the type of premises, location, age, construction, services, the date when last refurbished, the size and capacity of rooms used for functions, number and type of bedrooms, type extent and quality of ancillary facilities, parking, details of WC facilities, the use of marquees and their permanence.

2.2 In some instances, the owner/occupier living at the property may decant temporarily from their residential accommodation in order to provide additional rooms for the function. Where this is the case full details of the extent and duration should be obtained. The extent of shared use of the property should also be established.

Details of the intensity of use should also be made including numbers of functions and whether catering is provided in-house by staff employed by the operator, or by a separate catering company, details of any commission and catering arrangements should be obtained from the operator.

A note should also be made of any non-domestic use other than functions, eg, grounds being used for events, bedrooms being used as B&B accommodation, self-catering accommodation etc. Any brochures for the property should be obtained, these are often available online. Details of any planning consents should be obtained.

Details of any premises licence should be sought including information regarding the premises covered, a copy of the operating plan and details of the numbers and purpose of any Occasional Licences, these can be obtained from the licensing board or local planning department. Details of any Civil Licence should also be obtained including details of the rooms so licensed.

3.0 Basis of Valuation

- 3.1 It should be recognised that the essence of the valuation scheme is based on the hypothetical achievable turnover (HAT). The scheme is designed 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.
- 3.2 This Practice Note recommends a comparative principle valuation, applying a percentage to the hypothetical achievable turnover. However the subjects covered by this Practice Note are extremely diverse and other valuation approaches may be more appropriate dependent on the individual circumstances. Where available, local comparable rental evidence should be considered, but in its absence the percentage to be applied to turnover at section 6.2 is recommended. This should be applied to the adjusted “hypothetical achievable turnover” which excludes VAT and is calculated on a gross of outgoings basis.
- 3.3 The turnover adopted should represent the annual amount considered to be the hypothetical achievable turnover 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 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 circumstances where any available turnover relating to the period leading up to the valuation date is deemed to be insufficient for the determination of HAT, consideration may be given to the closest reliable turnover prior to 20 March 2020 as a starting point. Having established the likely pre Covid-19 HAT further adjustments may be necessary to arrive at an appropriate level of turnover on 1 April 2022 taking account of the prevailing circumstances and beneficial use that could have been achieved at the property on that date.

- 3.4 In order to determine if an Exclusive Use Venue entry should be made in the Valuation Roll, the level of turnover being generated by the operation may form a useful criterion in reaching that decision.

4.0 Rental Analysis

- 4.1 Rental analysis has been undertaken in accordance with the Scottish Assessors Association Basic Principles Committee Practice Note 1 (Adjustment of Rents).

5.0 Income to be Included

- 5.1 Businesses built around Exclusive Use Venues tend to focus on providing bespoke services to their clients and often incorporate a range of income streams. Income derived from the property and receivable by the operator, must form part of the hypothetical achievable turnover. In addition to the hire of function accommodation, these may include: commission from caterers and suppliers, accommodation, classes and lectures, outdoor activities (riding, quad bikes, shooting, archery, fishing etc.), advertising or promotional royalties.
- 5.2 The catering and liquor income stated may not represent the full amount traded at the property. It may be that the figure provided represents the commission paid to the operator by an external catering company. If the catering and liquor amounts are commission rather than full catering and liquor income, assume that the commission amounts to 20% of the total and gross up the figure and add to the hypothetical achievable turnover. Alternatively, adopt 50% of the commission figure as a rental payment and add to the end value.

6.0 Valuation

- 6.1 The appropriate percentage should be selected with regard to the following criteria;
- Location (eg, close to centres of population or areas of natural beauty or historic interest)
 - The quality or suitability of the property for the present use
 - Age, layout and character of the property
 - The extent of adaptation to older properties originally built for domestic use
 - The extent of residential use made of the property
 - Upgrade of bedrooms to en-suite
 - Operational restrictions

6.2 Percentages To Be Applied & Recommended Approach to Valuation

In the absence of local evidence, an appropriate percentage of between 7% and 12% may be applied to the Hypothetical Achievable Turnover, after consideration of the criteria set out in 6.1.

7.0 Other Factors

7.1 Over or Under Performance

It should normally be assumed that the hypothetical tenant will seek to maximise the hypothetical achievable turnover derived from the premises. This is not always the case for Exclusive Use Venues as they may be set up purely to supplement the income of other activities, such as, being part of a working farm or country estate, and are not always run on a full commercial basis. In these circumstances careful consideration must be given to all the facts, having regard to planning and licensing constraints, and marketing of the property.

If, after careful consideration, there is clear evidence that the actual turnover is considerably different from the hypothetically achievable turnover, an adjustment to the supplied turnover may be appropriate.

7.2 Opening Period

Operators of these types of properties rely on advance bookings, which may be made months or indeed over a year in advance. Newly opened Exclusive Use Venues will take time to build up bookings and the initial turnover will not be representative of the potential income once the business has been established. For this reason, care must be taken when estimating the hypothetical achievable level of turnover.