



Renfrewshire Valuation Joint Board

Standard Shop Practice Note

Revaluation 2017

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1.0 General

These instructions apply to the valuation of shops and shop type subjects and should be used in conjunction with the Scottish Assessors Association, Basic Principles Committee Report No. 1 – Adjustment of Rents.

Shops are valued using the comparative method of valuation. This involves an analysis of passing rental information to establish a unit of comparison normally expressed as the Zone A rate. This zone A rate is then applied to the reduced area of the shops covered by the analysis. This rate will reflect the characteristics of the normal shop unit in the locality being valued. It is the analysis however which will normally determine the extent to which any variances from the norm such as better or poorer access for loading, better or poorer quality of finishes, larger or smaller size etc add to or reduce the value of any particular property. The adjustment recommended below should therefore not be applied blindly where local evidence suggests something to the contrary.

In modern developments there is a tendency for standard shop units to be let on a non-zoned basis. The valuer should be aware of the landlords letting policy and determine which approach is best supported by the evidence.

It will be necessary, when analysing the rental evidence you make various assumptions. If, for example, the rental evidence includes heating, then no addition at the valuation stage should be made. If you have one property in the stretch which does not have heating it may be appropriate in that case to grant an allowance.

The decision of the Lands Tribunal in the case of *Spud-U-Like v Assessor for Tayside* and the ruling of the Lands Valuation Appeal Court in *Assessor for Glasgow v Monti Marino* are strong reminders that actual use is a major factor to be taken into account when valuing lands and heritages for rating. In most locations these other users pay the same rental levels as Class 1 users and there will be no need to differentiate. In some locations however some users may pay more or less than Class 1 users and this must be reflected in the valuations of the relevant properties. Some examples are hot food takeaways etc and these should be paid particular attention in any analysis.

Special consideration should be given to the valuation of subjects operating on first floors above shopping parades where it may be appropriate to apply rates derived from other first floor users.

2.0 Valuation Roll Descriptions

All descriptions must conform to the 'List of Categories, Class and Subject Types'.

3.0 Rates to be used

Rates to be applied will be derived from an analysis of rental evidence at, or adjusted to, Tone Date. (cf. SAA Report No. 1 - 'Adjustment of Rents'). All rates will be expressed in pounds and pence and will be applied to the **total reduced area**.

4.0 Measurement

All shops are to be measured on a gross internal basis including all walls up to 15mm thick. Care should be taken to ensure that all shops are measured from the building line which is not necessarily the plate glass front e.g. in some modern developments a brass strip delineates the actual frontage line. In some modern developments you may also find that shop fronts extend beyond the building line (generally known as pop-outs). The shop should still be zoned from the building line and the area of pop-out calculated separately. It will be a matter to be determined from analysis how much these areas add to the value of the shop. All areas should be measured and areas calculated irrespective of whether or not they are eventually included in the valuation.

5.0 Areas

It is generally recognized that shops will normally be valued by application of the zoning principle. However, in some circumstances, an overall area approach to analysis and valuation may be more appropriate. This will occur where shops/shopping stretches may be let on an overall basis and may be better suited to analysis and valuation on the same basis. This type of property may be found in out of town locations and is often built by one developer. Additions and deductions may not apply to this type of property because of the probable standardization typical of such developments.

If you are applying the zoning principle then the ground floor areas will be calculated on 9 metre zones with the following reduction factors to be applied:-

Zone A	100%
Zone B	50%
Zone C	25%
Zone D and beyond	12.5%

Other Floors - Reduction Factors - See paragraph 6.

Areas on all other floors and on ancillary buildings will be calculated on actual use of the space.

Areas of similar use but with different finishes should be calculated separately.

Disabilities due to structural walls, blank frontages etc. are dealt with under 8.0 Disabilities within a shop.

It may be appropriate in certain circumstances to adjust the rates applied to zones C and D to ensure that a reasonable relationship is maintained with the rates being applied to storage etc. space in back buildings in the vicinity. This will normally only be done in exceptional circumstances e.g. where the rear shop has been formed by extending into such a back building.

Where there is an entrance from another shopping street, the value of parts of the shop may be higher when zoned from that street and appropriate adjustments should be made. This may be done using zoning from the second frontage or by an end addition.

The valuer must use his/her discretion to ensure that a reasonable value is brought about by the zoning method.

5.1 Areas to be excluded from Valuation

- a) Plant rooms (process plant rooms at dry cleaners, bakers etc. should remain in the value).
- b) Lifts.
- c) Fire escapes and fire escape corridors – used exclusively for this purpose.
- d) Stairs whether for use by staff or public – however areas beneath stairs above 1.5 metre in height are to be included.
- e) Pillars, structural walls.
- f) Toilets may be excluded – this will depend on how the units have been analysed. Care must be exercised however where toilets have been added as a ‘tenant’s improvement’. The value of such a unit should not fall below a unit with standard toilet provision. A good example of this is in betting offices where there is likely to be an ‘over provision’ of toilets constructed by the occupier. A similar situation maybe where, e.g. a café opens in a shopping stretch and has to, under planning conditions, install additional toilets. In this case we must look to the hypothetical situation and value and analyse in line with the norm for that stretch. Obviously the rent passing on the unit will be a material consideration. *The valuer will be expected to use valuation judgment.*

6.0 Floor Ratios

These should generally be derived from local rental evidence. Demand for first floor space particularly for retail use will vary from location to location. The type of access will be a significant factor in the use which can be made of ancillary floors. Floors suitable for sales will normally require a good quality finish, a staircase suitable for customer flow and a lift. Without these, these areas will normally be suitable for staff accommodation or storage.

In the absence of conclusive local evidence the following table can be used.

<u>Floor</u>	<u>Suitable for sales</u>	<u>Unsuitable for sales but similar finish</u>	<u>Unsuitable for sales and poorer finish</u>
Basement	10%	9%	8%
Ground Floor	100%	100%	See 7.0
First Floor	10%	9%	8%
Others		At Discretion	

6.1 Adjustments for size in relation to ground floor

Where the area of upper floors significantly exceeds the total area of the ground floor it may be appropriate to make a further allowance to reflect this. A normal unit shop is unlikely to need ancillary floor space greater than the area of the ground floor. In applying such an allowance however care must be taken to ensure the allowance does not result in a valuation lower than that for the ground floor alone or of a similar shop with a normal sized ancillary floor.

7.0 Lack of Finish on Ground Floor

Like all allowances or additions these will only be appropriate where the zone A rate assumes a particular standard of finish.

Where an area of a shop on the ground floor is in an unfinished or partly unfinished state an allowance of up to 10% of the specific rate applying to the area in question may be made subject to a maximum deduction of £20 from the particular NAV rate. This allowance should apply to all areas irrespective of the zone in which the unfinished area is located.

Examples

- 1) Area within Zone B where Zone A rate is £600
10% of zone B rate would be $£600 \times 50\% \times 10\% = £30$, therefore rate deduction to be applied in this case would be limited to £20.

- 2) Area within Zone D where Zone A rate is £600 and reduction factor to be applied to Zone D is 12.5%
10% of Zone D rate would be $£600 \times 12.5\% \times 10\% = £7.50$, therefore rate deduction in this case would be £7.50.

The maximum allowance of 10% should only apply to totally unfinished areas.

8.0 Disabilities within Shop

Prior to granting any allowance the valuer should check the zoning of the shop. It may be the disability has been taken account of at the zoning stage and therefore it is unlikely further adjustment is required.

- 1) Lateral wall - deduct up to 5% from the space affected by the walls (n.b. could be whole shop)
- 2) Structural division wall between front and back shops. For whole area behind structural wall that is affected allow 10%.
- 3) Steps - a maximum allowance of 5% should be given to the areas that are at a higher or lower level than the main sales area. In no circumstances should this allowance be given where the changes in floor level are a design feature.
- 4) Pillars - only if these have a serious effect on the value of the shop floor space a deduction of up to 5% may be made to the space affected.
- 5) Awkward shape - an allowance of up to 5% may be made to the area affected, **if this has not been taken account in the zoning.**
- 6) Blank frontage – only if structural an allowance of 10% should be made to the area behind the blank frontage.

9.0 Additions/Deductions: (see tables at end of section 9)

The following are always additions (unless there is reliable local evidence to the Contrary)

- 1) Corner/Return Frontage - Add up to 10% to the total sales area effected to reflect the estimated worth of the particular situation. It is unlikely that a corner situation will be worth more where there is no return frontage. The maximum addition will normally only arise where the return frontage is very visible from a distance or where it is to another shopping street of similar value level. In certain circumstances it may be appropriate to make an addition to the whole shop. If the valuer is considering this option there should be rental evidence to support the stance taken.
- 2) Escalators - add 15% to the value of any floor fully served by escalators i.e. up and down. For single escalators add 10% to the value of the floor served.

The following are either additions or deductions depending on what is reflected in the typical shop within the stretch to be valued.

- 3) Heating/ Air Conditioning - only the difference from the typical shop should be reflected here.

In many modern shopping centres the air conditioning comes as standard with the unit and should be reflected in the zone A rate. In other locations air conditioning will normally be a tenant's improvement and will therefore not be reflected in the zone A rate.

Additions for air conditioning which is calculated by reference to costs should not normally attract adjustments for quantum, layout etc and should be applied to the measured area.

- 4) Fitting out – where a unit has been let as shell and then fitted out by the tenant, an addition should be made for this. It may be appropriate to depreciate the fit out addition as set out in Basic Principles Report No 1.
- 5) Modernity - For a modern shop in a stretch of older shops an addition of up to 10% may be made. For an old shop in a modern stretch a deduction of up to 10% may be made.

The maximum addition will normally only be made where the shop has a modern frontage and interior compared to the standard shop in the range. This addition is not intended to apply where a completely new building has been added in an area of older shops. In many such cases it is likely that the zone A rate will be significantly higher than that of existing older properties where cost of repairs, insurance and other running costs may be higher.

- 6) Sprinklers - depending on whether or not the typical shop has sprinklers, deduct, or add the rate detailed in the table at the end of section 9, **to the area affected.**

Additions for sprinklers which are calculated by reference to costs should not normally attract adjustments for quantum, layout etc.

- 6) Rear loading - depending on the typical shop an addition or deduction of 5% may be made for having/not having rear loading. It should be clear that in most locations the existence or absence of good front or rear loading facilities will be reflected in the zone A rate derived from passing rents and any adjustment will only be merited where the shop differs from the norm.
- 7) Toilet facilities – the zone A rate derived from rents will reflect whether or not the standard shop in the area has a toilet or not. An addition or deduction of up to 5% may therefore be appropriate where the shop to be valued differs from the norm for that area. Care should be taken in a location where the toilet area to be excluded from valuation, that the value of a shop with a toilet is not lower than a similar unit without a toilet.
- 8) Pertinent – Items such as car parking or out buildings which are not reflected in the basic rate applied, nor reflected in the reduced area of the shop, should be valued in accordance with local evidence and added to the valuation as a separate item.

Item	Rate
Air Conditioning (Cassette System)	£7/square metre (to the area affected on a Measured Area basis)
Sprinklers	£3/square metre (to the area affected on a Measured Area basis)
Heating	£5/square metre (to the area affected on a Measured Area basis)

10.0 Quantum

This is very much a matter where consideration of the local rental evidence is paramount. Demand for different sizes of unit will vary from location to location. An average shop in Paisley High Street may well be a large shop in Clarkston or Port Glasgow. The level of quantum for a given range of shops will be dependent on the rental analysis for that area, and whether or not quantum should be applied.

Where there is no local evidence, and a shop has been valued on the "zoning" principle an allowance for quantum may be calculated using the following tables:-

Quantum should be calculated in relationship to either:-

- a) the standard shop unit where it can clearly be identified or,
- b) the average area of shop in the range.

x Average Area / Standard Unit	Deduction
up to 1.5X	Nil
at 1.5X	2.5%
1.5X to 2X	2.5% to 5%
2X to 2.5X	5% to 7.5%
2.5X to 3X	7.5% to 10%
3X to 4X	10% to 12.5%
4X to 6X	12.5% to 15%

Larger shops will probably come in to the large shop category.

10.1 Inverse Quantum

As for quantum this is a matter where consideration of the local rental evidence is paramount. The level of inverse quantum for a given range of shops will be dependent on the rental analysis for that area, and whether or not inverse quantum should be applied.

Where there is no reliable definitive evidence within the range of shops to be valued or from general analysis in the locality, inverse quantum should not be applied.

If it is considered appropriate to apply quantum or inverse quantum the calculation should be based on the reduced area not the measured area.

When making an allowance or addition the valuer's primary source of evidence should be the analysed rents or cost evidence not this Practice Note.

11.0 Final End Allowances

In some circumstances it may be appropriate to apply a final end allowance to all parts of the valuation, including air conditioning, sprinklers, pertinent etc. This allowance should be granted on the total value. The preferred order of making the end adjustment is:

	Say basic value £100,000	
1. Adjustment for quantum -10%		<u>-£10,000</u>
		£90,000
2. Other End Adjustments		
Layout -10%		
Superior Frontage +5%		
Adjustment -5% of £90,000		-£4,500
3. Adjustment for pertinents		
Add Air Con say 300m2 @ £7/m2	£2,100	
Add car parking say 2 spaces @£1,000/space	<u>£2,000</u>	
	+£4,100	
		<u>+£4,100</u>
		£89,600
FINAL ADJUSTMENT (if appropriate)		
E.g. Liable to flooding -10% (if appropriate)		<u>-£8,960</u>
		£80,640
		NAV/RV £80,600

12.0 Valuation Tools

In the interest of consistency of valuation, all retail premises should be valued using “Alpha 5” valuation tool. While some more unusual premises will be beyond the scope of the application, it is expected that the large majority will be valued by this method.

13.0 General Comment

There may be exceptional circumstances which are not covered by this report and which require special treatment. Such cases should be reported to the Internal Retail Working Group and if it was felt necessary, circulated to all members of the valuation staff to make them aware of the issue.

Above all it should be noted that these instructions are for guidance only. There will be circumstances where the valuer must exercise his/her own skill and judgement, *although instances of this should be reported to the Internal Working Group and if it was felt necessary circulated to all members of the valuation staff to make them aware of the issue.*

This will promote consistency of approach to similar issues.

14.0 Plant and Machinery

Any plant in these subjects which is rateable in terms of the Valuation for Rating (Plant & Machinery) (Scotland) Regulations 2000 as amended, should be valued by reference to the relevant cost guide e.g. CCTV.