



Revaluation 2017

Guidance Note

Valuation of Shops & Shop Type Subjects

1.0 Introduction

This instruction applies to the valuation of standard shops and subjects occupying shop type premises in retail locations. It also applies to retail units and bookstalls situated at railway stations and transport interchanges, pharmacies situated within or attached to health centres, rural destination retail outlets and takeaways.

2.0 Basis of Valuation

Shops are valued using the comparative method of valuation. This involves an analysis of passing rental information to establish a unit of comparison. This unit of comparison is normally a rate per square metre of overall or reduced area. Where it is a reduced area it is normally expressed as the zone A rate. This zone A rate is applied to the reduced area of the shops covered by the analysis or alternatively an appropriately reduced rate can be applied to the actual area of each zone. The zone A 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 adjustments recommended below should not therefore be applied blindly where local evidence suggests something to the contrary.

As in all classes of lands & heritages use will be a factor to be considered in arriving at a value. A range of different users will occupy properties which physically fall into the category "shop". While it remains a basic principle in valuation for rating that subjects should be valued in their proper category and that such categories should not be minutely subdivided the analysis of rents should give consideration to whether or not different users pay different levels of rent. Any shop type property being used for a purpose not covered by Class 1 of the current Use Classes Order must be considered carefully when fixing zone A rates or overall rates/m². 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. Hot food takeaways, restaurants, betting offices and Class 2 office uses should be paid particular attention in any analysis.

Banks, building societies and licensed restaurants are subject to separate SAA Practice Notes. While it may be appropriate to value such subjects using this instruction, the SAA Practice Notes should also be considered before a final decision is made.

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. Similarly, shops located in basement/lower ground floors should derive a rate from any rental evidence available for such subjects. It is generally more appropriate to value first floor/basement floor only shops on an overall basis, rather than zoning. An exercise may also be undertaken to establish a percentage relationship between such shop units and the surrounding rent rates in terms of zone A from 'street level' shop units, eg, where a first floor only shop has an overall rent rate of £540 and the surrounding shops' rent rate in terms of zone A is £600, then the percentage relationship of the subject would be 90% to the zone A rent rate of the street in which it is located. This is a useful exercise when trying to establish an overall rate for an owner occupied first/basement floor only shop.

This should not be confused with shops located on ancillary floors to the main shopping mall within shopping centres, the rent rates of which should be derived from the passing rents for such subjects and the zoning principle adopted. Additionally, care should be taken not to simply zone both units of a shop which is situated over two malls in a shopping centre and which form a unum quid (dual mall access shops) and apply the appropriate zone A levels to each, but gather and analyse as much evidence as possible for such subject types before arriving at a rate to be applied.

3.0 Valuation Roll Descriptions

All descriptions must conform to the '*List of Categories, Class and Subject Types*' currently held in the Northgate system. Request for new descriptions should be raised with the Divisional Assessor.

4.0 Measurement

All shops are to be measured on a gross internal basis including all walls up to 15 cm 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 it may be the case 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 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 Basic Principles Committee Practice Note 1(*Adjustment of Rents*)) All rates will be expressed in pounds and will be applied to the **total reduced area**.

6.0 Areas

Ground floor areas will normally 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%

There may be circumstances where it is inappropriate to zone shops. A development of unit shops of all the same depth might just as appropriately be valued by calculating the overall rent rate and applying this to the total ground floor area. In other cases a development of unit shops could all be let at the same figure. In such circumstances it may be appropriate to adopt this figure as the net annual value and rateable value of the shops with no need to zone. The letting practice of a common landlord for a development may also be a relevant factor. In general local evidence will be the best guide to arrive at the appropriate method to be adopted.

Other Floors - Reduction Factors

See paragraph 7.

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 9.0 - 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 or mall, 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 or any alternative adopted.

6.1 Areas to be excluded from Valuation

- a) Lift shafts and enclosed escalators.
- b) Areas used exclusively for fire escape purposes.
- c) Enclosed stairwells whether for use by staff or public.
- d) Pillars, structural walls.

7.0 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>Stair Access only</u>		<u>Public Lift</u>	<u>Escalator</u>
	Stock /Shell	Sales	<u>Access</u>	<u>Access*</u>
Basement / 1st Floor	0.10	0.125	+10%	+20%
2nd Floor	0.05	0.062	+10%	+20%
3rd Floor	0.025	0.031	+10%	+20%
4th floor & above	0.012	0.016	+10%	+20%

** the maximum addition for lift and escalator access will be 20%.*

Note that this percentage is not determined by actual use but by suitability for a particular use. Additionally, the factors are intended to apply to shops which have their principal sales floor at ground floor level and will not apply to shops which have their principal sales space at an upper or lower level. These will require to be treated separately on their own merits.

7.1 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 a similar shop with a normal sized ancillary floor. Again local rental evidence should be followed where it exists.

8.0 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. The maximum allowance of 10% should only apply to totally unfinished areas. Additionally, if there exists the unusual circumstance that there is an area within the unit that has a superior finish to that of the main shop area, then an addition of up to 10% may be considered to the specific rate of that area.

Examples

- 1) Area within Zone B considered to be of inferior finish where Zone A rate is £600
Zone B = 50% of Zone A = £300; less 10% = £270 to be applied to the identified area.
- 2) Area within Zone D considered to be of inferior finish where Zone A rate is £600
Zone D = 12.5% of Zone A = £75; less 10% = £67.50 to be applied to the identified area.

9.0 Disabilities Within Shop Unit

Local rental evidence will determine whether or not any allowance is required. If all shops in a location suffer from the same disability then this will be reflected in the analysed rent rate and the resulting adopted valuation rate. No further adjustment will be necessary in such cases.

- 1) Lateral wall - deduct up to 10% from the applicable rate of the area affected, e.g. if affected area is within zone A of shop then the area should be referred to as zone A1 and 10% deducted from the rate. If the area affected continues into zone B, then 10% should also be deducted from the zone B rate and area referred to as zone B1.
- 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 - 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.
- 6) Blank frontage - an allowance of 10% should be made to the area behind the blank frontage, where structural

10.0 Fitting Out

The preferred approach to valuing the 'fitted out' element of a shop unit is to rely on comparable rental evidence to reflect the presence of such features as air conditioning, sprinklers and what is generally referred to as 'shop fitting'. Where the basic rate analysed includes these features, there will be no need for further adjustments. In limited circumstances, it may be possible to demonstrate a percentage value difference in rental terms between those units containing these features and those without. In the absence of such evidence, the rates shown in the table below should be adopted.

Item	Rate
Heating	£5/square metre
Air – conditioning (costs based on cassette system)	£7/square metre
Sprinklers	£3/square metre
Shop Fitting	£40/square metre
Shop Frontage	£135/ metre

The rates should only be applied to those areas benefiting from the items listed above and prior to any zoning reduction factor being applied.

Any allowance for depreciation, if deemed to be appropriate, should be made in terms of the SAA Basic Principles Committee, Practice Note 1 (Adjustment of Rents).

11.0 Additions/Deductions

Additions/deductions to value should be made to shop units where rental evidence suggests that an adjustment to value is appropriate. The following highlights a number of circumstances where adjustments are normally made to unit shops.

- 1) Corner/return frontage – Normally add up to 10% to the total sales area value 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/mall. There may however be special locations where visibility from a second street or mall is particularly advantageous and adds significantly to value. In such circumstances a significantly higher addition may be appropriate. Such cases will normally be obvious from rental evidence.
- 2) Modernity/frontage - For a modern or modernised 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. A deduction of 10% will normally only apply to a shop with a built up house or office type frontage in an area of modern frontage shops.

The addition for modernity 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.

- 3) Hot food use – Where the subject is being used as a hot food takeaway local evidence may show a different level of value for such subjects. In such circumstances a percentage addition should be made to the zone A rate. Regardless of whether an addition is made to the zone A rate, such subjects should be described as “Takeaway”.

- 4) 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.
- 5) 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.
- 6) Car parking – there may be circumstances where a shop has exclusive car parking as a pertinent to the shop. In such circumstances it may be appropriate to add each space at an appropriate rate per car space derived from local evidence.

12.0 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 East Kilbride Town Centre may well be a large shop in Hamilton or Wishaw. Each narrative for a given range of shops should provide information on the results of 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 should 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	Deduction (may vary locally)
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%

In respect of larger shops consideration should be given to value them as a large shop. Larger shops will probably come in to the large shop category.

12.1 Inverse Quantum

As for quantum this is a matter where consideration of the local rental evidence is paramount. Each narrative for a given range of shops should provide information on the results of the rental analysis, 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.

13.0 Plant And Machinery

Consideration should be given to any plant or machinery which may be rateable. See The Valuation of Rating (Plant and Machinery) (Scotland) Regulations 2000 as amended.

14.0 Valuation Check

At the end of the day the test of a good scheme of valuation is if the valuations produced are in line with the generality of the rental evidence. At the checking / authorization stage of the revaluation therefore all valuations will be checked against known rents.

Where all valuations appear out of line with the rents the basic rate may have to be reviewed. Where only some are out of line the assumptions and/or adjustments made in the valuation will require to be checked to see if they are insufficient or excessive.

15.0 General Comment

Above all it should be remembered that these instructions are not to be followed blindly and are primarily for guidance. There will be circumstances where the valuer must exercise his/her own skill and judgement and vary from this guidance. **Instances of this should be raised with the Divisional Assessor. This will promote consistency of approach to similar issues.**