

VALUATION OF RESTAURANTS

1.0 Introduction

There are a large number and variety of restaurants in Lothian, particularly in central Edinburgh. This instruction should assist in identifying the best method of valuation for each type of retail outlet where food is prepared for consumption by customers on the premises.

2.0 Subjects Included

All restaurants and cafes, licensed and un-licensed, which hold **Class 3 planning consent**, which is “use for the sale of food or drink for consumption on the premises”.

3.0 Subjects Excluded

Those restaurants which do not resemble shops/offices or are in isolated locations should be valued with reference to turnover as detailed in SAA Commercial Committee Practice Note 17 Valuation of Licensed Premises.

Free standing and drive-through restaurants should be valued in terms of SAA Commercial Practice Note 8 – Valuation of Freestanding Restaurants.

Hot food takeaways, which are now excluded from Class 3 of the Use Classes Order, should be valued with reference to the Valuation of Shops VP/S/1, whether or not the property bears the description "Restaurant" for advertising purposes.

4.0 Licensing

The requirements of the Licensing (Scotland) Act 2005, which are effective from 1 September 2009, change the licensing situation for all establishments licensed to sell liquor in Scotland.

Prior to that date, the Licensing (Scotland) Act 1976 had provided for various types of licence which could be held by licensed premises operators. These are listed and defined at Appendix 1.

During a transition period between 1 February 2008 and 31 August 2009, Operating Plans were prepared and submitted by licensed premises operators for the consideration and approval of their local Licensing Boards. From 1 September 2009, the licensing position becomes much less diverse, with each licensed establishment simply requiring a premises licence to operate, and the premises manager required to hold a personal licence. Some establishments have more than one personal licence holder.

The/....

- 4/ 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 have a bearing on the appropriate valuation method.

5.0 Approach to Valuation

Valuation will be arrived at by application of the comparative principle, having regard to the available restaurant rental evidence and in accordance with the relevant part of this instruction.

5.1 Area Rate Basis

The majority of restaurants will be found in or near shopping thoroughfares or in the midst of busy commercial centres, close to centres of public entertainment etc. Many will have the characteristics of shops, although in some cases lacking a shop frontage. Some will be found in office locations. Many of these businesses will be well established with good reputations and those in or near the city centre may have a thriving lunch time trade. The majority will be licensed.

For assistance outlined in Appendix 2 are the main features that differentiate the valuation of restaurants from retail premises.

An analysis of the restaurant rents has indicated that the existence of Class 3 planning consent increases the rental value of a property above that of the surrounding shop and office levels, in certain locations.

5.1.1 Shop Type Properties

Restaurants in shop type properties should be valued by the application of a rate to the reduced area. The reduced area will be calculated having regard to the zoning principle outlined in VPS1, utilising the reduction factors at 5.1.3 and 5.1.4 below and incorporating, where appropriate, the quantum scheme applied to shops.

The rate to be applied will be derived from an analysis of all the restaurant rents in the particular locality. In most locations an enhancement of the local shop rate will be appropriate. The amount of the increase will depend upon the level of the local rate and that applicable to the nearest main thoroughfare. It is unlikely that the final restaurant rate will be less than that of the main thoroughfare.

Premises located on the **main** commercial streets within the **city centre** (please see [f/home/common/GIS live maps/LVJB restaurant areas](#)) may not require any uplift to the rate, as the evidence suggests a similar level to that of the surrounding properties.

Minimum Levels

The rental evidence suggests that restaurants within the **inner urban area** (please see [f/home/common/GIS live maps/LVJB restaurant areas](#)) should be valued at a Zone A rate greater than or equal to **£250/m²**.

Restaurants located in the **urban area** (please see [f/home/common/GIS live maps/LVJB restaurant areas](#)) should be valued at a Zone A rate not less than **£200/m²**.

Outwith/....

- 5.1.1/ Outwith the **urban area**, unless there are exceptional circumstances, the Zone A rate should not be less than **£125/m²**.

In some locations away from the city centre restaurants may be found in "isolated" positions in apparently "poor" shopping streets with, perhaps, little or no other retail uses nearby. Care should be taken not to undervalue these examples, especially if there is rental evidence supporting sound value levels. Consistently high levels of turnover would obviously be a factor to bear in mind when considering subjects in marginal locations.

Advice should always be taken from a Divisional Valuer or those professional staff with local expertise and knowledge of the area, as the final allowances will depend on local rental evidence.

5.1.2 Reduction Factors/Quality Addition

Reduction factors should be enhanced in respect of ancillary accommodation where expenditure on finishes has resulted in superior quality. It is recommended that seating accommodation, kitchen, servery, food preparation areas and customer toilets should be taken at unity irrespective of the location within the premises e.g. behind a permanent wall.

Likewise, allowance for poor frontage, shape, layout, set back, steps up/down etc should be withheld, since factors of this nature do not adversely affect the restaurant trade in the same way as other traditional retail uses.

Hoists and air conditioning additions will be the same as for shops.

Where subsidiary accommodation above or below ground floor level is encountered, a storey reduction factor of 0.4 is suggested for first and basement floors, assuming permanent stair access.

5.1.3 Basement and Upper Floor Restaurants

Basements and first floor locations are more valuable to a restaurateur than they are to a typical retailer. The rental evidence suggests that, in good localities, restaurant operators are more interested in the general location of their business rather than its particular situation within a street. This is exemplified by a number of rentals which indicate that upper and lower floors command only marginally lower levels of rent compared to their ground floor counterparts and the evidence is particularly strong in relation to basement floors.

Accordingly, where the main accommodation is a true basement or upper floor eg Howies Alva Street, it should be zoned, the storey RF taken at unity and an end allowance of up to 30% applied, unless this has already been reflected in the basic rate.

5.1.4 Office Locations

There are a few restaurants situated in office locations. The rental analysis suggests that the level of value is similar to the office levels. This is also the case for first floor restaurants in mixed use locations. The rate to be applied should be derived from surrounding offices utilising the same methodology, with the following differences in the valuation: kitchens and customer toilets should be taken at unity, circulation areas created between ancillary uses should be included.

The rate applied is unlikely to be below that of the 'good' office classification.

5.1.5 /....

5.1.5 Addition for Licence

The majority of restaurants will hold a liquor licence and will serve liquor by table service only. However, restaurants operating with a public house licence (under the 1976 Act), depending on the actual use and the physical extent of the property given over to the liquor element, should, in order to reflect the extra value attributable to this, have an end addition of 10% applied to the valuation.

Advice should always be taken from a Divisional Valuer.

5.2 Turnover Basis

Restaurants which have a bar counter for serving the public and/or where the liquor turnover exceeds the food turnover, may be considered for valuation with reference to turnover as detailed in SAA Commercial Committee Practice Note 17 Valuation of Licensed Premises again depending on the actual use and the physical extent of the property given over to the liquor element.

Some properties, although still within Class 3, hold planning use for café/bar or restaurant/bar should also be considered for valuation with reference to turnover.

When turnover figures are not available, a valuation may be carried out in accordance with this practice note and an addition of 10% made to reflect the value of the licence.

5.3 Sandwich Bars, Coffee Shops and Cafes

Sandwich bars, coffee shops and cafes generally operate under Class 1 planning use. The operation is restricted to serving only cold food with small amounts of food heated in a microwave permitted and minimal seating for customers. In normal circumstances these properties should be valued as shops. However, where the operation is more akin to that of a restaurant then it should be valued in terms of this instruction.

6.0 Description

Subjects valued in terms of this instruction should be described as **Restaurant** or **Café**. The valuation code **CSR** should be applied to properties valued on an area rate basis and **LR** when valued on turnover basis. The appropriate valuation suffix should be added as shown in Appendix 1.

7.0 Confidentiality of Drawings

Valuation staff must respect the confidentiality of drawings supplied to the LVJB. Particular drawings should only be discussed with ratepayers and their agents and not disclosed to third parties. If other subjects are referred to by ratepayers, discussions should be limited to generalities and specific differences between the properties.

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8.0 Rounding

8.1 All valuations should be rounded in accordance with the following table.

START VALUE (£)	END VALUE (£)	ROUND TO NEAREST
0	50	1
51	100	5
101	500	10
501	1,000	25
1,001	5,000	50
5,001	100,000	100
100,001	250,000	250
250,001	500,000	500
500,001	1,000,000	1,000
1,000,001	5,000,000	5,000
5,000,001	9,999,999,999	10,000

Licensing (Scotland) Act 1976 Schedule 1 – Types of Licence

Public House Licence

A public house licence is a licence granted in respect of a public house specified therein which authorises the holder thereof to sell by retail alcoholic liquor for consumption on or off the premises.

Restaurant Licence

A restaurant licence is a licence granted in respect of premises specified therein which:-

- (a) is granted in respect of premises which:-
 - (i) are structurally adapted and bona fide used, or intended to be used, for the purpose of habitually providing meals for the accommodation of persons frequenting the premises;
 - (ii) so far as they are used, or intended to be used, for the said purpose, are principally to be used, or intended to be used, for providing the customary main meal at midday or in the evening, or both; and
 - (iii) do not contain a bar counter; and
- (b) authorises the holder thereof to sell by retail or supply alcoholic liquor in the said premises to persons taking table meals there, for consumption by such a person as an ancillary to his meal.

Refreshment Licence

A refreshment licence is a licence granted in respect of premises specified therein which:-

- (a) is granted in respect of premises which:-
 - (i) are structurally adapted and bona fide used, or intended to be used, for the provision of refreshments, including food and non-alcoholic beverages for consumption on the premises; and
 - (ii) do not contain a bar counter; and
- (b) authorises the holder thereof to sell by retail or supply alcoholic liquor for consumption on the premises when food and non-alcoholic beverages are also on sale, provided that no alcoholic liquor is sold or supplied for consumption off the premises.

Effect on Valuation

In terms of the above Act licensed restaurants will possess one of three types of licence. This may have a bearing on the valuation method.

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- (i) **Restaurant Licence – Val Suffix ‘R’**
Also commonly known as a "table licence", it authorises the sale of alcoholic liquor only to customers taking table meals as an ancillary to the meal. In some cases a dispense bar accessible only by staff will be present.
- (ii) **Public House Licence – Val Suffix ‘P’**
A restaurant operating under this type of licence will normally possess a bar counter and gantry. The sale of liquor to customers who are not taking table meals is permissible albeit the main function of the premises will be to serve meals.
- (iii) **Refreshment Licence – Val Suffix ‘F’**
This licence allows the sale or supply of liquor on the premises when food and non-alcoholic beverages are on sale. In short, alcohol may be consumed via table service without the necessity for the customer to purchase food. Refreshment licences apply only in premises that do not possess a bar counter.

Listed below are a number of features that differentiate restaurants from retail units.

1. Restaurants are treated within a different use class for Town Planning purposes (Class 3) in terms of the Town and Country Planning (Use Classes) (Scotland) Order 1997.
2. Restaurants trade at different hours from retail premises..
3. Many restaurants do not rely on passing trade.
4. Because a restaurant business relies more on goodwill, the difference between prime and secondary situations may have little effect on client numbers and consequently rental differentials, if any, will not be nearly as pronounced as that found in retail usage.
5. The internal layout in a restaurant has less effect on utility and efficiency than in retail premises.
6. External visibility is of less importance to a restaurateur than a retail operator. Lack of shop front, set back etc are not appropriate allowances.
7. The standard of finish, quality and detail may vary considerably from that of surrounding retail units, generally for the better.
8. Restaurants sell a service as well as a product which is consumed on the premises, the operator must provide ambience and atmosphere, as well as good food and wine.
9. Often menu prices within a given area will be in a similar range unless a restaurant has a particularly good reputation.
10. Notwithstanding the observations noted in 1 to 9 above, certain features present in the valuation of retail premises are adopted in the valuation of many urban restaurants with a street frontage eg the zoning principle.

There is a common misconception that restaurants should always be valued on a direct comparison basis with nearby retail units.

Whereas such an approach may be appropriate in certain valuable central locations, the reality of the market place is that, to invariably value restaurants as traditional retail units often results in a valuation that bears no relationship to the true value of this type of specialised property.