



VP / C / 4

VALUATION OF RESTAURANTS ETC

1.0 Introduction

This Practice Note identifies the best method of valuation for each subject where food is prepared for consumption by customers on the premises.

2.0 Subjects Included

Properties that are used as restaurants and cafes. Subjects will normally hold **Class 3 planning consent**, which is “use for the sale of food or drink for consumption on the premises”, or operate on an equivalent basis.

Reference to restaurants throughout is deemed to include all of the above.

3.0 Subjects Excluded

Those restaurants which do not physically resemble shops/offices or are in isolated locations should usually be valued with reference to turnover as detailed in SAA Commercial Committee Practice Note 19 Valuation of Licensed Premises.

Free standing and drive-through restaurants should be valued in terms of SAA Commercial Practice Note 23 – Valuation of Freestanding Restaurants.

Hot food takeaways, which are excluded from Class 3 of the Use Classes Order, should be valued with reference to the Lothian Valuation Joint Board Valuation of Shops Practice Note.

4.0 Licensing

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

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 actually being used, may have a bearing on the appropriate valuation method.

It should be noted that this practice note applies to both licensed and unlicensed subjects.

5.0 /...

5.0 Approach to Valuation

The valuation will be arrived at by application of the comparative principle, having regard to the available restaurant rental evidence and in accordance with sections 5.1, 5.2 and 5.3.

5.1 Area Rate Basis

The majority of restaurants will be found in or near shopping thoroughfares, in the midst of busy commercial centres or close to centres of public entertainment etc. Many will have the characteristics of retail units, although in some cases lacking a shop frontage. Some will be found in office locations. For assistance, the main features that differentiate the valuation of restaurants from retail premises are outlined in Appendix 1.

Restaurants should be measured on a net internal basis, including all toilets and circulation space. Zoning is not appropriate.

5.1.1 Reduction Factors and Allowances

All accommodation on each floor will be included, regardless of use and irrespective of the location within the premises e.g. behind a permanent wall. This includes circulation space, toilets, storage etc.

For Restaurants operating where the principle floor is at ground level, the following reduction factors will apply:-

| Principle Floor | RF for Stair access |
|--|----------------------------|
| Ground floor | 1.00 |
| Subsidiary floors | |
| Basement – with permanent stair access | 0.40 |
| Basement - with trap door access only | 0.125 |
| Mezzanine floor | 0.70 |
| First floor | 0.40 |
| Second floor | 0.20 |

Restaurants operating from a basement or first floor location are more valuable to a restaurateur than they are to a typical retailer. Rental evidence suggests that restaurant operators are more interested in the general location of their business rather than its particular situation within a street. Accordingly, for a restaurant situated on the basement or first floor with stair access only, the following reduction factors will apply:-

| Principle Floor | RF for stair access |
|-------------------------|----------------------------|
| Basement or First Floor | 0.70 |
| Subsidiary floor | |
| Ground | 1.00 |

The presence of a hoist or lift will add value to a restaurant, therefore the value will be enhanced on the subsidiary floor as follows:-

| | |
|-----------|-------|
| Hoist | +2.5% |
| Lift | +5% |
| Escalator | +10% |

Structurally/....

5.1.1/Structurally inferior ancillary accommodation e.g. under pavement cellars or basements with severely restricted head room, may merit further reduction.

An allowance may be made to restaurants situated on lower ground floors where the RF is unity and which are set back and have steps down from the pavement of up to 10%.

An allowance may be made to restaurants situated on upper ground floors where the RF is unity and which are set back and have steps up from the pavement of up to 5%.

No allowance will be made for frontage, shape and layout etc. since factors of this nature do not adversely affect the restaurant value.

5.1.2 Restrictions on Use

5.1.2.1 Planning Restriction

All properties valued in terms of this PN with Class 3 planning consent will be valued at the appropriate rate per square metre. Where there are restrictions placed on the use of the property within that consent that affect value then either an allowance may be made or a lower basic rate applied.

In general there are two relevant types of restriction; opening hours restrictions and cooking restrictions. An allowance will be appropriate only where the rental value of the property would be impacted. The allowance applied will depend on the severity of the restrictions and the impact on the operation in relation to comparable properties.

Severe restrictions on opening hours, for example, a restaurant is restricted to opening during the day only, would merit an allowance of up to 30%, subject to minimum levels at 5.1.3.

Cooking restrictions, for example, to food heated in a microwave and/or a soup heater and/or panini maker would merit an allowance of up to 10%.

No allowance should be applied in a situation where an operator chooses to close early or has placed self-imposed limits on their menu, actions that the Hypothetical Tenant would not do.

5.1.2.2 Physical Restrictions

In situations where there is no kitchen for the preparation of full meals, either an allowance may be made or a lower basic rate applied having regard to available rental evidence.

5.1.3 Minimum Levels

Class 3 planning consent often commands a rental premium over ordinary Class 1 retail. However in high value retail areas this may be less pronounced, if evident at all. A feature of the planning regime is that subjects with Class 3 consent can also be operated either as Class 2 office or Class 1 retail but not the other way around. Accordingly, where the valuation proceeds on the area/rate method, always check the resultant value against a shop or office value and where it is lower advice should be taken from a Divisional Valuer.

5.1.4 /....

5.1.4 Quantum

Quantum allowances should generally be made in accordance with the following table, with no interpolation:-

However where it is clear that in a particular location the norm size of the restaurants is much larger than 125m² and where derivation of the NAV rate/m² can be derived from the actual rents departure from this scale is acceptable, for example at Ocean Terminal or at the Omni Centre.

| Reduced Area | % reduction |
|----------------------------|-------------|
| Up to 125m ² | Nil |
| 125.10 – 130m ² | -1.00% |
| 130.1 – 135m ² | -2.00% |
| 135.1 - 140m ² | -3.00% |
| 140.1 – 145m ² | -4.00% |
| 145.1 – 150m ² | -5.00% |
| 150.1-155 m ² | -6% |
| 155.1-160 m ² | -7% |
| 160.1-165 m ² | -8% |
| 165.1-170 m ² | -9% |
| 170.1-175 m ² | -10% |
| 175.1-180 m ² | -11% |
| 180.1-185 m ² | -12% |
| 185.1-190 m ² | -13% |
| 190.1-195 m ² | -14% |
| 195.1-200 m ² | -15% |
| 200.1-205 m ² | -16% |
| 205.1-210 m ² | -17% |
| 210.1-215 m ² | -18% |
| 215.1-220 m ² | -19% |
| >220m ² | -20% |

5.1.5 Outdoor Seating

Where outdoor seating is present and is not included in the rate an addition of between 2.5% and 10% should be added depending on the position and extent.

5.1.6 Prominent Site

Some restaurants have clear advantage over others due to their situation on a corner site or in a particularly prominent location. An addition of up to 15% may be applied in these situations.

5.1.7 Air Conditioning

Where air conditioning is present and is not included in the rate it should be valued at £7/m².

5.2 Turnover Basis

This section should be considered in conjunction with Subjects Excluded at 3.0.

Restaurants/...

- 5.2/ Restaurants which have a licensed bar counter for serving the public and/or where the liquor turnover is significant, as a guide around 30% or more of the food turnover, may be considered with reference to the SAA Commercial Committee Practice Note 19 Valuation of Licensed Premises depending on the actual use and the physical extent of the property given over to the liquor element.

Some properties hold planning use for café/bar or restaurant/bar or similar. These subjects should also be considered for valuation with reference to SAA PN 19.

5.3 Subjects Retailing Food for Consumption off the Premises

Sandwich bar, or other shops selling cold food for consumption off the premises, fall within Planning Class 1 Shops. Such a property does not cease to be a shop as a result of it retailing a proportionately small amount of hot drinks, or where minimal seating is provided.

In normal circumstances these properties should be valued as shops. However, where the operation is more akin to that of a café or restaurant then it should be valued in terms of this instruction. The actual use, e.g. the proportion of the property given over to the seating and service of customers, and/or the physical circumstances, e.g. the presence of customer toilets or of kitchen facilities, will determine the valuation method.

Where the valuation proceeds on the restaurant method, always check that the resultant value is not lower than it would be valued in accordance with the Lothian Valuation Joint Board Valuation of Shops Practice Note.

- 5.4 **Advice should always be taken from a Divisional Valuer or those professional staff with local expertise and knowledge of the area, as the valuation method/valuation rate applied will depend on rental evidence.**

6.0 Description

Subjects valued in terms of this instruction should be described as **Restaurant** or **Café** and valuation code **CSR** should be applied. **CSI** will apply where the property is valued on a shop method and **LR** when valued on turnover basis.

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.

8.0 /....

8.0 Rounding

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

| START VALUE (£) | END VALUE (£) | ROUND DOWN 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 and above | | 5,000 |

APPENDIX 1

For Guidance only

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

- 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.
- Restaurants trade at different hours from retail premises.
- Many restaurants do not rely on passing trade.
- The difference between prime and secondary situations may have little effect on customer numbers and consequently rental differentials, if any, will not be nearly as pronounced as that found for a retail use.
- The internal layout in a restaurant has less effect on utility and efficiency than in retail premises.
- Restaurants are physically set up for serving customers food and drink on the premises e.g. toilet, kitchen facilities, seating etc.
- External visibility is of less importance to a restaurateur than a retail operator. Lack of shop front, set back etc. are not appropriate allowances.
- The standard of finish, quality and detail may vary considerably from that of surrounding retail units, it is generally superior.
- Restaurants aim to provide ambience and atmosphere. Accordingly, the physical aspects of a property considered detrimental to a retail subject may be beneficial in a restaurant e.g. compartmentalised layout or excessive pillars.