

VP/S/4

VALUATION OF RESTAURANTS ETC

1.0 INTRODUCTION

This Practice Note applies to the valuation of 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 foregoing.

Most 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.

2.0 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. The presence of a public bar counter would normally indicate the subject is suitable for valuation on this basis.

Restaurants and cafes in locations where evidence indicates that valuation should proceed on the same basis as adjacent Class 1 retail subjects [eg certain shopping centres, retail parks and certain prime Edinburgh city centre precincts]. These should usually be valued by reference to the relevant SAA or LVJB Practice Note.

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 LVJB Practice Note:- Valuation of Shops.

Sandwich bars, or other shops selling food predominantly for consumption off the premises fall within planning Class 1 (Shops) and should be valued by reference to the LVJB Practice Note:- Valuation of Shops. Most, although not all, of the outlets occupied by companies such as Subway, Greggs and Pret operate on this basis.

3.0 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.

4.0 DESCRIPTION

Subjects valued in terms of this Practice Note should be described as **Restaurant** or **Café** and valuation code **CSR** should be applied. **CSR** should also be applied to restaurants and cafés that are valued on an overall rate/m² approach but out with the terms of this Practice Note [see para 2.0 above].

Restaurants and cafés valued on a zoned shop basis should be coded **CSI**, and those valued as Licensed premises should be coded **LR**.

5.0 BASIS OF VALUATION

The valuation will be arrived at by application of the comparative principle using rates per square metre derived from local evidence. **Restaurants should be measured on a net internal basis, including all toilets and circulation space. Zoning is not appropriate.**

5.1 Reduction Factors

All accommodation on each floor will be included, regardless of use and irrespective of the location within the premises eg behind a permanent wall. This includes circulation space, toilets, storage etc. For Restaurants operating where the principal floor is at ground level, the following reduction factors will apply:-

Principal 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	0.50
First floor	0.40
Second floor	0.20

Restaurants operating mainly from the basement or first floor location are more valuable to a restaurateur than they are to a typical retailer. Accordingly, the following reduction factors will generally apply. There may some situations, for example where the restaurant is exclusively located on upper or lower floors, where the appropriate rate per square metre for the subject can be derived directly from rental evidence.

5.1/

Principal Floor	RF for stair access
Basement or First Floor	0.50
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%

5.2 Physical Restrictions

In general no allowances will be made for frontage, shape and layout etc. since factors of this nature do not usually affect the value of a restaurant. In exceptional cases where there is no frontage and/or the layout is exceptionally difficult an end allowance can be granted where justified by open market rental evidence. Advice should be sought from the LVJB retail working group.

Structurally inferior or physically encumbered accommodation on **ancillary** floors with inherent issues such as under pavement cellars, basements with severely restricted headroom, access/egress, compartmentalisation caused by structural walls etc. may merit a further allowance of up to 50% in the worst cases. On occasion, the use of ancillary floors for customer seating may be prohibited by the local authority for fire safety or other reasons.

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 15%.

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 15%.

5.3 Planning Restrictions

In general the two relevant types of restriction that can be placed on Class 3 use relate to opening hours and cooking. An allowance will be appropriate only where the rental evidence is clear, of up to 25% in extreme cases. The allowance applied will depend on the severity of the restrictions and the impact on the operation in relation to comparable properties.

No allowance should be applied in a situation where an operator chooses to close early or has placed self-imposed limits on their menu.

5.4 Enhancements

Outdoor seating. This may be a valuable asset and particularly where the land used for seating is in the rateable occupation of the operator. Where present and is not included in the rate, an addition of up to 10% should be added depending on the position and extent.

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.

Air Conditioning. Where present and not included in the rate it should be valued at £9/m².

5.5 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, it is recommended that a check on the resultant value is carried out against a shop or office value. Where it is lower advice should be sought from the LVJB retail working group.

5.6 Quantum

Quantum allowances should generally be made in accordance with the following table, with no interpolation. Where it is clear 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 the Omni Centre.

It is also important to note that subjects valued out with the terms of this practice note (see para 2.0 above) may have a different quantum scheme tied into a local centre, for example St James Quarter.

Reduced Area	% reduction
Up to 125m ²	Nil
125.1 - 130m ²	-1%
130.1 - 135m ²	-2%
135.1 - 140m ²	-3%
140.1 - 145m ²	-4%
145.1 - 150m ²	-5%
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%
220.1 - 225 m ²	-20%
225.1 - 230 m ²	-21%
230.1 - 235 m ²	-22%
235.1 - 240 m ²	-23%
240.1 - 245 m ²	-24%
>245 m ²	-25%

6.0 TURNOVER BASIS

This section should be considered in conjunction with Subjects Excluded at 2.0.

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.

7.0 ROUNDING

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

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 eg 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 eg compartmentalised layout or excessive pillars.