

NON DOMESTIC REVALUATION 2003

CLASS 251

PETROL FILLING STATIONS

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1.0 INTRODUCTION/DESCRIPTION

- 1.1 This Practice Note provides an overview of the Petrol Filling Station market and sets out in detail the methodology and basis of valuation for the Fifth Revaluation. It refers to all properties within Class 251, Sub Class 'PFSTN'.
- 1.2 Discussions have taken place with the Petrol Retailers Association.

2.0 DISTRICT RESPONSIBILITIES

- 2.1 District Offices will be responsible for the inspection and valuation of Petrol Filling Stations within their respective areas. Given the nature of this property it is considered appropriate to appoint a specialist valuer within each district.
- 2.2 Research and the production of a Scheme of Valuation has been the responsibility of the Lisburn Office.

3.0 4TH REVAL BASIS OF VALUATION

The valuation of petrol filling stations were made on a direct rental basis, rents being devalued for analysis purposes to a price per thousand litres of maintainable throughput.

The main elements of the valuation included:

- The petrol sales forecourt
- The forecourt shop
- The car wash
- Non forecourt buildings

4.0 OVERVIEW OF THE PETROL FILLING STATION MARKET

- 4.1 At the antecedent valuation date it was found that the oil majors were scaling down their investment in Northern Ireland. Those companies supplying the retail fuels industry are experiencing a greatly reduced demand for their products.
- 4.2 The substantial difference in Excise Duty rates between the UK and Republic of Ireland together with the currency differential has resulted in a large number of people, including fleet operators, crossing the border to purchase fuel.
- 4.3 A number of stations have closed and others have diversified and increased their reliance on the shop and other areas of the retail trade.

- 4.4 The major UK national food stores, who are also filling station operators entered the market at the end of 1996 and have continued to impact thereon.
- 4.5 The combined effect of the changes in the market has resulted in much lower profit margins.

5.0 5TH REVAL BASIS OF VALUATION

5.1 Background

The valuation of petrol filling stations are made on a direct rental basis, rents being devalued for analysis purposes to a price per thousand litres of maintainable throughput.

The main elements of the valuation are to be:

- The petrol sales forecourt
- The forecourt shop
- The car wash (where applicable)
- Non forecourt buildings

5.2 THE PETROL SALES FORECOURT

5.2.1 The valuation of the petrol sales forecourt will be determined in accordance with a Province wide applied scale relating rental value to the throughput of motor fuel. For this purpose it is proposed that all grades of fuel are aggregated without adjustment for different types and grades of fuel, the profit margins on all grades being approximately equal.

5.2.2 The forecourt value will include the value of:

- (i) The developed forecourt
- (ii) Canopies
- (iii) Rateable tanks

5.2.3 Adjustments to the actual throughput may be required to arrive at the maintainable throughput.

Maintainable throughput can generally be defined as the volume of fuel sales which might reasonably be expected to be generated by the hypothetical tenant, pursuing normal, prudent trading practices having regard to the trading policies of other, competing stations in the locality.

Adjustments may be required at this stage to arrive at the maintainable throughput for the following factors:-

- (i) 24 hour opening.
- (ii) Customer credit accounts.
- (iii) Pricing policy

Further details are given in Appendix 1.

The maintainable throughput should be valued in accordance with the throughput scale, Appendix 2.

5.2.4 Adjustments to the forecourt value may be required for the following:

- (i) Credit card sales outside a “normal” band
- (ii) Agency sales in excess of 10% of total volume
- (iii) Bunkering (storage of fuel for oil company)

Details are given in Appendix 3.

The adjustments at 5.2.3 and 5.2.4 are sequential adjustments not aggregated.

5.3 The Forecourt Shop

Trade from forecourt shops has become an important part of the petrol retail trade. Operators continue to place greater reliance on sales from the shop as profit margins on fuel sales have decreased.

Where shops have been developed into mini-marts/convenience stores and therefore enjoy a substantial portion of trade beyond purely ‘motorist generated’ trade then forecourt shop values will be closely related to the value of other local retail units.

In locations where the majority of trade is linked to petrol sales, the value of the forecourt shop will be more properly reflected in the usage of the petrol forecourt. Consequently the shop value is likely to increase with the throughput of petrol.

5.3.1 Normal forecourt shops together with their ancillary offices and stores will be valued on the following basis:

- (i) the area of the shop and ancillaries in terms of sales area (ITSA) is first calculated by applying the following factors:-

- (a) Shop area (including tills) at 100%
- (b) Ancillary offices at 80%
- (c) Ancillary stores, kitchen at 50%

The value of the following items will be reflected in the values applied to the forecourt and shop and will not be the subject of any addition:

- (a) Toilets and related facilities
- (b) Meter cupboard
- (c) Circulation space for vehicles sufficient for the purposes of the petrol forecourt, car wash and shop.

- (ii) The reduced area ITSA is adjusted if necessary by deducting one half of the excess of the ITSA over the threshold in the matrix below.

* Maintainable Volume	Area Threshold
Litres up to 1.00 m	(ITSA) 40m ²
Over 1.0 – up to 3.0m	50m ²
Over 3.0 – up to 5.0m	70m ²
Over 5.0m	100m ²

* Maintainable volume is found after adjustment for credit account customers and long hours of opening.

- (iii) The forecourt shop rate may be found by examining Street and Ward SPV's for local retail units and applying a suitable rate to the Reduced Area (ITSA). This rate will fully reflect the nature and location of the forecourt shop with any advantages/disadvantages attaching thereto.

It will also have regard to the different measurement criteria, ie ITSA for the petrol filling station shop as opposed to zoning/overall for other retail uses.

As a check, Valuers should compare the resultant shop values of similar stations in truly comparable locations.

- (iv) In those locations where local street or Ward SPV's do not exist or are not applicable, and where the value of the shop is more directly related to the level of petrol sales, the following approach should be adopted.

The forecourt shop rate is found by applying a price per m² of £6 per 100,000 litres of maintainable volume to the Reduced Area (ITSA).

- (v) Kiosks which do no more than take the money for petrol sales will be taken to be included in the forecourt value.
- (vi) As a further check it is important to compare the price per m² found by examining the SPV's for other retail units to the scale value produced from the throughput formula. The figure to be adopted for the shop should generally be the higher of the two valuations.
- (iv) These instructions do not apply to the valuation of village shops with pavement pumps and similar hereditaments, which should be classified as Class 253. The petrol element will subsequently be valued by application of the throughput scale. The same procedure applies to car showrooms, etc.

5.4 Car Washes

Car washes will be valued on the following basis:

Class A	£5,000 NAV
Class A-	£4,000 NAV
Class B	£3,000 NAV
Class C	£2,000 NAV
Class D	£1,000 NAV

The car wash plant itself is not rateable under the provisions of the Plant and Machinery Regulations and must therefore be ignored for the purpose of rating valuations.

In classifying the car wash for valuation purposes it is the potential of the site and buildings cleared of all non rateable plant which is to be ascertained. The most important factor in determining the valuation of a car wash is location. Classes A, A-, B will generally be buildings with differing standards of equipment. Category A is limited to those sites, which do not have any competition in the immediate vicinity. The following guidelines will assist further in classification.

5.4.1 Class A

Well-located car wash, probably a modern multi programme type, on a well laid out site without obstruction to the petrol sales forecourt. Good demand from residential areas close-by.

Class A-

As above but with average local competition.

Class B

Likely to be a multi programme type, but possibly not modern, on a well laid out site with good access and circulation. Situated close to residential areas but with significant competition from other car washes in the vicinity.

Class C

Likely to be an older type of car wash offering only a limited range of wash facilities. Located in areas of relatively low demand or competition from more modern multi programme facilities. Would also include the modern multi programme Jet Wash type facility on a good site with limited competition.

Class D

Jet washes not included in Class C.

Note: Whilst the plant itself is not rateable, the existence of good modern equipment and the number of washes per week, or estimated receipts (if available), may assist in the classification.

5.5 Other Buildings

The values of buildings other than the forecourt shop and its ancillary office and store will be determined on the basis of local bulk class SPV's for that class of property.

5.6 Bunkered Fuel Attached to a PFS (See Appendix 3)

This is to be valued independently from the retail fuel sales. In common with the retail forecourt it should be valued by reference to throughput but a separate scale of value will need to be applied.

6.0 INSPECTION PROCEDURES

6.1 As noted in Section 2.1 District Offices are responsible for the Inspection of PFS's within their own area.

6.2 The forecourt shop and ancillary accommodation are to be measured on a net internal basis (NIA).

7.0 FORMS OF RETURN

7.1 Forms of Return to be issued by district offices to all hereditaments with a Class 251 description.

8.0 CONTACTS

8.1 For further information and advice contact:

R J Barrett – Lisburn Office

Tel: 028 92 623536

2003 REVALUATION

ADJUSTMENTS TO ACTUAL THROUGHPUTS TO ARRIVE AT THE MAINTAINABLE VOLUME

1.0 GENERAL

Because of the complexities of the petrol filling station market, it is important to have a clear understanding of the operating practice of all the sites within a given locality.

Valuers should consider all available evidence of throughputs, pricing policies and be aware of all material changes which may have affected a particular site and the date the material changes occurred.

The maintainable throughput is the volume of fuel a site could reasonably be expected to sell during normal daytime opening hours during the 12 months ending April 2001 on the basis that it was retailing the fuel within a small tolerance of hypermarket prices, if applicable, and with no more than 5% of trade coming from customer credit accounts. It also assumes the other competition in the locality is pricing on a similar basis irrespective of their actual market position. All maintainable volumes must be justified by comparison in the locality.

Where a site has been affected by a material change, commonly the opening of a hypermarket, other petrol filling station or road changes, Valuers need to carefully consider all available throughput information.

2.0 24 HOUR OPENING

The maintainable volume should be based on an average opening of 16 hours per day (usually between 7.00am and 11.00pm). Where a site is open 24 hours, a deduction of 10% of the total throughput should be made.

3.0 CUSTOMER CREDIT ACCOUNTS

There will be occasions where adjustments of throughput will be required to arrive at the adjusted throughput where there are customer credit accounts.

No adjustment is required in respect of any throughput attributable to 'deposit' accounts, ie those where the account holder has paid an initial deposit. Throughput achieved on 'credit' accounts, ie those where the account holder has not paid an initial deposit, shall be adjusted as follows: -

First examine the amount of customer accounts as a percentage of total throughput. If this is in excess of 5% then an adjustment is to be made to the resultant throughput after adjustment for 24 hour opening. The actual percentage (as above) is applied to the adjusted throughput and the resulting amount is taken at 25%.

4.0 PRICING POLICY

In practice many actual volumes will need no adjustment for the purpose of the valuation.

There may be occasions where a station generates a considerable enhancement in throughput, in excess of the norm volume for the locality, by cutting the price it sells petrol at or by offering inducements, which are exceptional. This is particularly so in the case of hypermarkets where such inducements as reward cards, air miles are available.

In such instances it may be inappropriate to estimate maintainable throughput from the actual volume and it may be necessary to check any estimate of maintainable throughput by reference to volume on other sites in the locality, which are adopting more typical pricing and promotional policies.

APPENDIX 2

2003 REVALUATION

VLA THROUGHPUT SCALE OF VALUATION

Litres (000s)	£ per 000 Litres
500	0.50
775	0.50
800	0.60
850	0.70
900	0.80
950	0.90
1,000	1.00
1,250	1.50
1,500	2.00
1,750	2.50
2,000	3.00
2,250	3.46
2,500	3.92
2,750	4.37
3,000	4.83
3,500	5.75
4,000	6.67
4,500	7.58
5,000	8.50
6,000	10.33
7,000	12.17
8,000	14.00
9,000	14.50
10,000 +	15.00

Prices, £ per 000 litres, above £0.60p, to be interpolated between volume thresholds.

2003 REVALUATION

ADJUSTMENTS TO VALUATION ARRIVED AT IN ACCORDANCE WITH THE SCALE

1.0 CREDIT CARD SALES

Credit card sales within defined limits are considered to be reflected in the scale of values applied. The limits within which this applies varies with the level of throughput as follows:

- (a) up to 1,500,000 litres, 0 – 40%
- (b) over 1,500,000 litres up to 2,000,000, 0 – 50%
- (c) over 2,000,000 litres, 0 – 60%

For the purpose of the above matrix the credit card sales should be compared to the gross throughput net of any bunkering and occupiers own fuel but before adjustment for long hours.

Where credit card sales are not within the appropriate range, adjustment will be made as follows:

- (i) the maintainable throughput after adjustment and including credit card sales will be valued in accordance with the scale (Appendix 2).
- (ii) the valuation will then be adjusted by a percentage calculated by applying a factor of one-third to the percentage of credit card sales falling outside the range.

eg, for a station with a throughput of 2,500,000 litres and 75% of sales transacted by credit card:

Valuation in accordance with Appendix 2

2,500,000 litres @ £3.92 per 1,000 = £9,800

Allowance for Credit Card Sales

Deduct $\frac{1}{3}^{\text{rd}}$ x (75% - 60%) ie 5% = £ 490

Forecourt Value £9,310 NAV

2.0 AGENCY SALES

Some oil companies operate agency schemes. Under these schemes the oil company contracts to supply fuel to operators of fleets of vehicles through its network of stations. The agreement is between the oil company and the fleet operator, the fleet operator paying the oil company direct. The oil company repurchases the fuel from the retailer at cost price plus a handling charge for dispensing the fuel and dealing with the paperwork. The handling charge is a proportion of the profit margin available to the retailer for normal sales.

No adjustment to the valuation will be appropriate where agency sales are 10% or less.

Where agency sales exceed 10% of total throughput an allowance will be made on the same basis as for excessive credit card sales, ie:

- (i) the maintainable throughput will be valued in accordance with the scale.
- (ii) the valuation will then be adjusted by deduction of a percentage calculated by applying a factor of one-third to the percentage of agency sales in excess of 10%.

eg for a station of 2,500,000 litres throughput and agency sales at 25%.

Valuation in accordance with Appendix 2

2,500,000 litres @ £3.92 per 1,000 = £9,800

Allowance for Agency Sales

Deduct $\frac{1}{3}$ rd x (25% - 10%) ie 5% = £ 490

Forecourt Value £9,310 NAV

3.0 BUNKERING

The practice of bunkering is less relevant than at the time of the last Revaluation. The term is given to fuel, normally diesel, which is stored and dispensed by a forecourt operator, generally on behalf of the oil company.

Those who receive the fuel, who will mainly be involved in the transportation industry, will have bought the fuel direct from the organizing company and the site operator will receive a handling charge for the administration and electricity costs.

Where a station operates a bunkering service the throughput should not be included in the fuel sold on the forecourt but valued using the following scale.

Litres (000's)	£ per 000 Litres	NAV £
1,000	0.525p	525
2,000	1.125p	2,250
3,000	1.425p	4,275
4,000	1.569p	6,276
5,000	1.687p	8,435
6,000	1.789p	10,734
7,000	1.874p	13,118
8,000	2.035p	16,280
9,000	2.142p	19,278

Prices £ per 000 litres should be interpolated between volume thresholds.