

NON DOMESTIC REVALUATION 2003

CLASS 266

PUBLIC HOUSES

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1.0 DESCRIPTION

This practice note relates to the valuation of public houses for rating purposes in connection with the 2003 Revaluation, It specifically refers to properties falling within Class 266, sub class “LICH0”

The purpose of the guide is to provide a general framework around which the valuation of public houses can be assessed. It should, however, be borne in mind that no scheme can cater for the diverse range of properties which exist within this class and there will remain, as always, discretion with individual valuers to vary the application of the scheme to suit the particular circumstances of each individual case.

1.1 Licensing Framework

The main legislative provisions are contained in the Licensing (Northern Ireland) Order 1996 [the 96 Order].

The 96 Order consolidated with amendments the law relating to licenses for the sale by retail of intoxicating liquor. The principle amendments were:

- The kinds of premises which may be licensed were extended to include guest houses, conference centres and higher education institutions;
- Licences are now valid for up to 5 years;
- The sale of intoxicating liquor is permitted along with other goods;
- The compulsory afternoon break in the permitted hours on a Sunday was abolished;
- The permitted hours for an off-licence were extended;
- Additional permitted hours may be allowed for licensed premises providing entertainment or food or both and on 20 occasions in any year for other licensed premises without any conditions;
- Children, in the company of an adult, are now allowed in certain licensed premises which are certified in that respect;
- The prohibition on a restaurant having a bar was abolished; and
- Licensed premises are permitted to open outside the permitted hours for any purpose that does not involve the sale of intoxicating liquor.

2.0 DISTRICT RESPONSIBILITIES

All inspection, analysis and valuation operations will be carried out at district level. Co-ordination of values between districts will be carried out by Craigavon district.

3.0 VALUATION APPROACH

Virtually all public houses are owner occupied. Some rents are available but they are of insufficient number to form a basis of assessment. They also tend to include non-rateable items such as goodwill and fittings.

Against this background the profits method is considered to be appropriate for the valuation of public houses. Based on an analysis of accounts and other relevant information a valuation scheme based on the application of differential percentages to the Fair Maintainable Trade [FMT] has been developed. This shortened profits method will form the primary valuation approach for all pubs.

The FMT represents the annual trade [excluding VAT] considered to be maintainable at 1st April 2001 having regard to the physical nature of the property and its location on the assumption that the business will be proficiently carried out by a competent publican responding to the normal trading practices and competition of the locality.

The percentages to be applied will vary according to the physical characteristics of the premises and the nature of the trade being carried on.

3.1 Inspection Procedures

Where possible the inspection should be carried out in the presence of the licensee. Pubs should be surveyed on a NIA basis.

During the inspection a note should be made of:

- Location
- Physical characteristics [age, design, construction, repair etc]
- Design, layout and quality of the interior
- Nature and extent of public bars, lounge bars, function rooms etc
- Nature and extent of the competition in the area
- Any additional permitted hours and or extension licences

- Nature of trade, trading patterns and business acumen of the licensee
- Nature and extent of food and drink trade
- Nature and extent of entertainment [including admission charges]
- Price levels.

The above list is by no means exhaustive but gives a flavour of the factors that will influence NAV and should, therefore, be noted at the time of inspection. Other, supplemental information will be provided on the Form of Return [FOR]

3.2 Fair Maintainable Trade

The first step in the valuation process is to estimate the FMT that the hypothetical tenant would envisage when looking at the premises “vacant and to let”.

The estimation of FMT should, in the first instance, be based on actual receipts. It will, however be necessary to investigate all aspects of the trade in order to consider what should properly be taken into account in the hypothetical scenario.

- **Personality Enhancement**
 1. Where there is clear evidence that the actual turnover of a property has been enhanced by an individual’s “celebrity status”, the turnover should be adjusted downward to reflect the hypothetical achievable turnover.
 2. Similarly, where the actual turnover of premises is lower than that which would be anticipated due to lack of action on the part of the operator, that low turnover should also be adjusted, in this case upwards, to reflect the hypothetical turnover.
 3. Despite the line taken by the Tribunal in the case of O’Neill Arms v the Commissioner [VR/45/87] no downward adjustment of turnover should be made where it is claimed that an “ordinary” individual, without celebrity status, has achieved relatively high turnover as a result of hard work, on the basis that every hypothetical tenant will attempt to maximise turnover and profit.

- **Opening Period**

1. Where a property is new, or has reopened, the initial turnover may be enhanced for the duration of a “honeymoon” period, and may warrant a downward adjustment, in order to reach the hypothetical available level of turnover. The duration of any recognised honeymoon period should be individually assessed according to the particular circumstances.
2. Similarly, it may be the case that during an initial opening period trade is still building towards the hypothetical level of turnover, and an upward adjustment may be appropriate.

- **Happy Hours, Promotional Discounts, Sponsorship of Football/Darts teams**

1. No adjustment should be made to reflect profitability resulting from such activities, since it is assumed that any such instances are part of the operator’s efforts to maximise profitability.

Care must be exercised in analysing past trading figures to take all of these factors into account and it should be remembered that past performance can not necessarily be relied on to gauge future performance. Remember that trade can decrease as well as increase.

It is not sufficient to determine a FMT for the premises as a whole because different premises have a different trading mix the various elements of which have varying profit margins. It is necessary then to determine the FMT for each of the following income streams:

- **On sales** – turnover for all on sales of intoxicating liquor, soft drinks and incidental bar sales such as nuts and crisps:
- **Food** – receipts from the sales of all food [excluding wines and liqueurs which will be included with on sales]
- **Off Sales** – may be either “over the counter” or from a separate dedicated area
- **Other** – relates to a wide range of sources such as admission charges, room hire, machine income etc

3.3 Adjustment to FMT

The FMT for each of the above income streams requires to be “weighted” to take account of the differential profit margins. The objective is to express all trade in terms of “on sales” income.

On Sales

Income from on sales should be taken at 100%

Food Sales

The first £17,500 of food sales should be disregarded due to their lack of profitability, on the basis that up to this amount will be used to meet overheads such as staff costs, the provision of kitchen facilities and equipment etc.

Food sales in excess of £17,500 should be taken @ 80% to reflect the difference in profitability between wet and food sales.

Off Sales

The treatment of “off sales” income will depend on whether sales are “over the counter” or from a separate dedicated area. Income from the former should be taken at 25%

Where sales are from a separate part of the premises the floor area should be valued on a price / metre square basis in line with the adjoining retail premises. The turnover arising therefrom should be ignored.

Other Sources

Income from all other sources should be taken, generally, at 100%. Care is however needed in the treatment of door receipts. If the cover charge relates to low cost entertainment a 100% weighting is probably appropriate. On the other hand, if the entertainment is high key and costly to provide, 50% should be adopted.

Having adjusted the turnover as above a further stage is required for those properties with weighted turnovers in excess of £1.5 million. This adjustment reflects the fact that these properties are extremely sensitive to market movement, a fact that would be considered by a hypothetical tenant. The adjustment is as follows:

1. the first £500,000 of weighted turnover in excess of £1.5 million should be taken at 75%;
2. any remaining weighted access should be taken at 50%.

The following example demonstrates the point

Total turnover £2.5 million made up as follows:

1. on sales	£1,750,000
2. food	£ 300,000
3. off – sales	£ 240,000
4. other	£ 210,000

Initial weighting

1. on sales	£1,750,000 @ 100%	£1,750,000
2. food	£ 300,000 less £17,500 @ 80%	£ 226,000
3. off – sales	£ 240,000 @ 25%	£ 60,000
4. other	£ 210,000 @ 100%	<u>£ 210,000</u>
	Weighted FMT	£2,246,000

Since FMT exceeds £1.5 million a further adjustment is required:-

1. First	£1,500,000 @ 100%	£1,500,000
2. Next	£ 500,000 @ 75%	£ 375,000
3. Remaining	£ 246,000 @ 50%	<u>£ 123,000</u>

Weighted FMT for NAV purposes **£1,998,000**

3.4 Classification

Having found the total FMT the next step in the valuation process is to place the hereditament into one of three valuation bands for the appropriate location so as to reflect the nature of the trading locality, the physical characteristics of the premises and the style of trade that is maintained. The reason for doing so is that research has shown that there are differential profitability levels across the various bands

Band 1

Comprise good quality premises in good trading locations.

Band 2

Comprise good quality premises in poor trading locations, average quality premises in average trading locations and poor quality premises in good trading locations.

Band 3

Comprise poor quality premises in poor trading locations

When deciding into which band a particular property falls the following pointers are intended to give guidance only. They are not intended to exclusively determine what should be a matter of Valuer's judgement. It

is accepted that many properties at the borderline will not fall distinctly into one particular band. The band adopted, however, should not be value significant due to the overlap of the rate % in each band

- **Higher quality type of construction**
 - Modern, well designed, purpose built premises;
 - Older property refurbished to a high standard;
 - Older properties of a high quality construction retaining their character and renovated or maintained to a high standard; and
 - Well designed conversions fitted out to a high standard

- **Lower quality type of construction**
 - Older properties with little or no up-to-date alterations;
 - Properties in poorish repair;
 - Properties with dowdy interiors; and
 - With piece-meal layout.

- **Higher value locations**
 - Prominent sites with little or no competition;
 - Centres of nightlife or focus of the community;
 - Primary town/city centre sites; and
 - Sites adjacent or in close proximity to some special feature which generates strong customer demand all year round.

- **Lower value locations**
 - Remote/rural areas with limited passing trade;
 - Run down inner city areas;
 - Located in poor housing estates;
 - Peripheral areas with strong local competition; and
 - Areas of static/dwindling population with limited spending power.

3.5 Choice of Percentage

When the appropriate band has been determined, the valuation will fall within the range of percentages in accordance with the following table:

Weighted Turnover £000,s	Band 1 %	Band 2 %	Band 3 %
0 - 150	5.0 – 5.5	4.5 – 5.0	4.0 – 4.5
150 – 300	6.0 – 6.5	5.5 – 6.0	5.0 – 5.5
300 – 500	7.0 – 7.5	6.5 – 7.0	6.0 – 6.5
500 plus	8.0 – 8.5	7.5 – 8.0	7.0 – 7.5

The choice of percentage to be applied to the total FMT is a matter of judgement. This allows for the “fine tuning” of the valuation to reflect the operation of the house and the significance of the expenses required to maintain the particular type of trade being carried on. Factors to be considered include the level of prices charged, staffing

costs, maintenance, incentives, insurance, marketing, provision of entertainment, etc. in relation to the FMT receipts adopted.

3.6 Relativity

Having arrived at the initial valuation it will be necessary to stand back and take an overview of the assessment to ensure relativity with other similar properties in the general locality.

4.0 CONTACT

Alan Hanna, Marlborough House, Central Way, Craigavon,
Tel (028) 38 320016