

Sarah Cremin

From: Byrnes, Cillian <cillian.byrnes@VALOFF.IE>
Sent: Friday 18 October 2019 15:53
To: Public Accounts Committee
Cc: Coyle, Catherine
Subject: RE: Correspondence from the Public Accounts Committee
Attachments: VO reply to PAC re valuation of retail property 11 Oct 2019.pdf; Supporting document for reply 11 Oct 2019 - Retail Zoning Revaluation Guidelines December 2018.pdf

Categories: Red Category

Dear Éilis,

Please find reply attached along with a supporting document.

I want to bring to your attention that from page 5 in the second attachment to its conclusion is made up of a Society of Chartered Surveyors Ireland (SCSI) and Royal Institution of Chartered Surveyors (RICS) information note. In this note it states that copyright rests with the SCSI and RICS and save by their prior consent it shall not be reproduced etc.

We have no objection to the first four pages of the second attachment being published by you as correspondence received by the PAC. However, I feel that if you wish to publish from page 5 onwards you will need to seek permission from the SCSI and RICS.

Regards,

Cillian

Cillian Byrnes

Strategic Management Support



BLOCK 2, IRISH LIFE CENTRE, ABBEY STREET LOWER, DUBLIN D01 E9X0, IRELAND

E cillian.byrnes@valoff.ie | **W** www.valoff.ie

T +353-1-8171006 | **M** +353-86-4664199



From: Public Accounts Committee [<mailto:PAC@oireachtas.ie>]
Sent: 27 September 2019 11:18
To: Coyle, Catherine <catherine.coyle@valoff.ie>
Subject: Correspondence from the Public Accounts Committee

Dear Catherine,

Please find attached correspondence from the Public Accounts Committee.

Kind regards,

Éilis Fallon

Éilis Fallon | Committee of Public Accounts
Houses of the Oireachtas | Kildare House | Dublin 2 | D02 XR20
T: +353 1 618 3074
<https://www.oireachtas.ie/>

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Ms. Éilis Fallon,
Committee Secretariat,
Committee of Public Accounts,
Leinster House,
Dublin 2.

11th October 2019

Ref: PAC32-I-1554

Valuation of Retail Property for Commercial Rates Purposes

Dear Ms. Fallon,

I refer to your letter of 27th September 2019 on behalf of the Committee of Public Accounts requesting information arising from my correspondence (correspondence number 2324 and 2341) which were discussed at the Committee's meeting on the 19th September 2019. The information requested by the Committee is set out hereunder.

1. Valuation of Retail Property

The valuation of retail properties for commercial rates purposes is arrived at using a valuation technique and approach which divides the area of the subject premises into zones. Such "zoning" of the overall area of a retail premises has been established as the accepted method of determining the rental values of such premises for the majority of retail properties. The approach caters for the very different physical features and layouts of retail shops. This zoning approach is used internationally and is accepted by the courts and the Valuation Tribunal in connection with the valuation of shops for rating purposes. It is also frequently employed by landlords and tenants in the determination of rental values when rent reviews and lease renewals are being conducted.

The zoning method is based on the principle that the most valuable part of a shop is closest to the street or mall, which often includes the display area. In the retail zoning model, the highest value is attributed to the first 6.1 metres in depth (usually called Zone A). The next 6.1 metres zone (Zone B) is valued at 50% of the Zone A and so on up to a maximum of four zones. This mirrors the fact that rental values usually decrease proportionally as one goes deeper into the retail unit. Zoning is generally suitable for properties that are located at ground floor level or in shopping centres. Zoning was adopted in the rateable valuation system internationally to allow equitable comparisons between shops of equivalent layout and frontage. Allowances and adjustments can be made to the valuation levels to cater for any differences in frontages and depths.

For the further information of the Committee, I enclose a copy of the **Valuation Office Retail Zoning Guidelines (December 2018)** which incorporates the Society of Chartered Surveyors Ireland (SCSI) retail zoning professional guidance information paper. Valuation Office Guidelines, Practice Guidance Notes and guidance videos on a wide range of rateable valuation matters are available to the public through the Office's website www.valoff.ie.

2. Retail Zoning Adjustments/Factors for Consideration

In the retail zoning model, the Net Width/Net frontage of the premises is a primary factor. In terms of frontage to depth, a ratio 1:3 is generally regarded as the norm or starting point. Many retail units do not, of course, accord with this model. Accordingly, without appropriate adjustment, the zoning model may, in some circumstances, overvalue small retail units with a relatively wide frontage and undervalue large relatively narrow shops. However, to take account of this, allowances to the valuation may be deployed for shallow or deep shops.

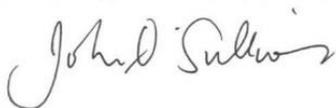
Zoning usually does not go beyond internal structural walls. The maximum size limit for zoning shops is usually 1,000 sq. m. At the other end of the scale, retail kiosks and very small shops are usually not zoned as this would not result in an equitable valuation.

3. Car Parks and Car Parking Spaces

Car parks and car parking spaces are rateable under the Valuation Acts. Where a property such as a retail park or supermarket has its own car parking facilities, this is a relevant factor in arriving at the rateable valuation of the property. Where a property does not have its own exclusive car parking spaces, the availability or otherwise of free or paid parking spaces nearby is one of the factors that may influence its valuation. In both circumstances, the rateable valuation attributed to the property reflects the open market rental value operable in the said locations.

I trust that this information will be of assistance to the Committee.

Yours sincerely,



John O'Sullivan
Commissioner of Valuation



Retail Zoning Guidelines for Revaluation

December 2018

Retail Zoning Guidelines

Introduction

This Retail Zoning Information Paper published by the Society of Chartered Surveyors Ireland in May 2015 is the definitive zoning guidelines document used by the Valuation Office (Located at the end of this document). This document provides additional clarification and working examples.

Zone Depths and Uses

Zoning applies to ground floor only. The net frontage of a retail property is used for zoning. The zone area is the Net area¹ contained within that zone. Zone depths are normally 6.1m. A shop is zoned to a maximum of three zones plus remainder:

- a. If you have 2 zones - Zone A and Zone B.
- b. If you have 3 zones - Zone A, Zone B and Zone C.
- c. If you have 4 zones - Zone A, Zone B, Zone C and Remainder Zone.
- d. Rental values are halved for each successive zone.

Zoning is not generally used for Department Stores, Retail Warehousing and Traditional Banks.

Quantum discount for frontage to depth

Special features may justify an end allowance/loading. The maximum allowance should not exceed 10% -see SCSI Guidance document. Consult your Team Leader for advice if you plan to apply higher allowances.

Changing Levels

Steps, which are installed by a tenant as a design feature, will not make a material difference to the rental value.

Structural Walls

Structural walls within a retail unit will generally impact on the zoning. The area behind a structural wall within a retail unit may be valued using an overall level or the next zone level.

Shadow or Masked Areas

Shadow or masked areas will be valued at the rate applicable to the zone they occur unless there are large obstructions. Professional judgement may be required.

Comparable Sizes

Greater weight should be given to comparisons derived from units, which are closer in size to the premises being valued. The maxim "As you devalue so shall you value" applies.

¹ The usable space within a building measured to the internal finish of external or party walls.

Number of Zoned areas in a Street

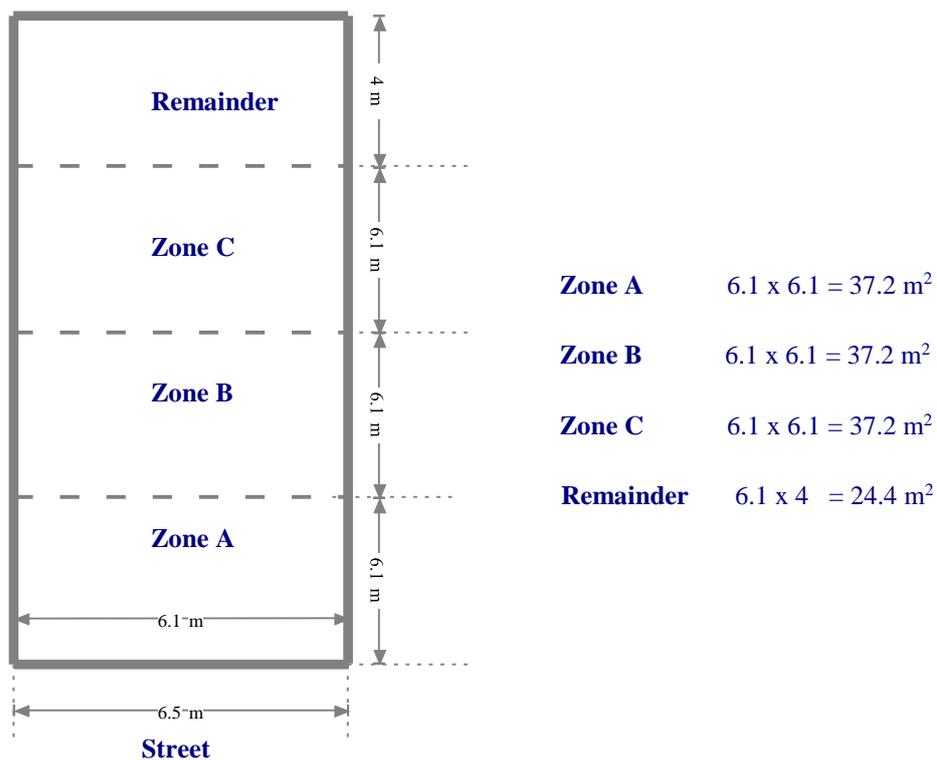
Where there are natural breaks within the street there may be different Zone A levels in that particular street. Rental analysis will establish the Zone A levels in a particular location but where there is no rental evidence the use of professional judgement may be required.

Note

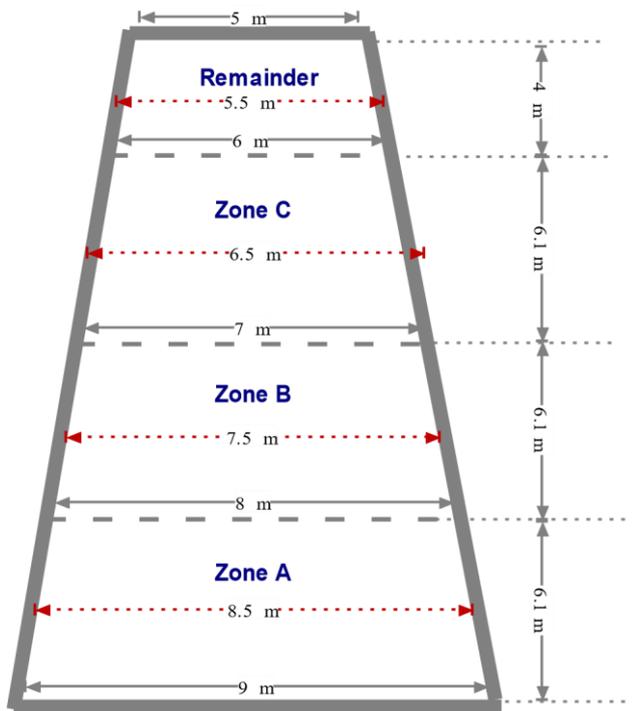
Zoning is a tool, an aid to valuation; it must at all times be overruled by common sense. Not all retail units are suitable for zoning due to their shape, size or configuration. Consult with your line manager in relation to unusual type retail units.

EXAMPLES OF ZONING

Example 1



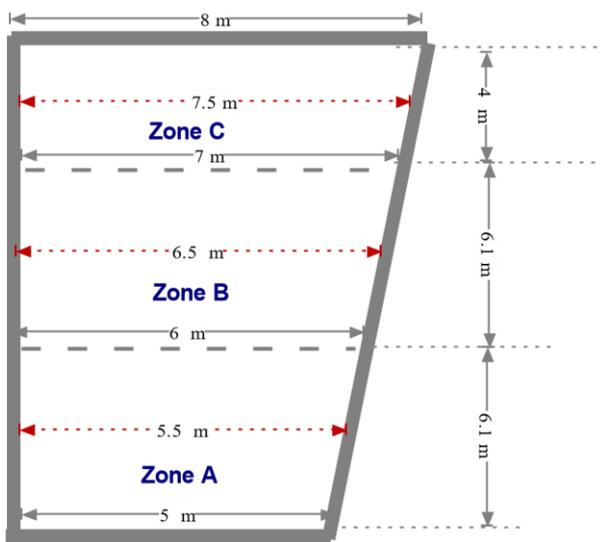
Example 2



Zone A	$8.5 \times 6.1 = 51.8 \text{ m}^2$
Zone B	$7.5 \times 6.1 = 45.7 \text{ m}^2$
Zone C	$6.5 \times 6.1 = 39.6 \text{ m}^2$
Remainder	$5.5 \times 4.0 = 22.0 \text{ m}^2$

Street

Example 3



Zone A	$5.5 \times 6.1 = 33.5 \text{ m}^2$
Zone B	$6.5 \times 6.1 = 39.6 \text{ m}^2$
Zone C	$7.5 \times 4.0 = 30.0 \text{ m}^2$

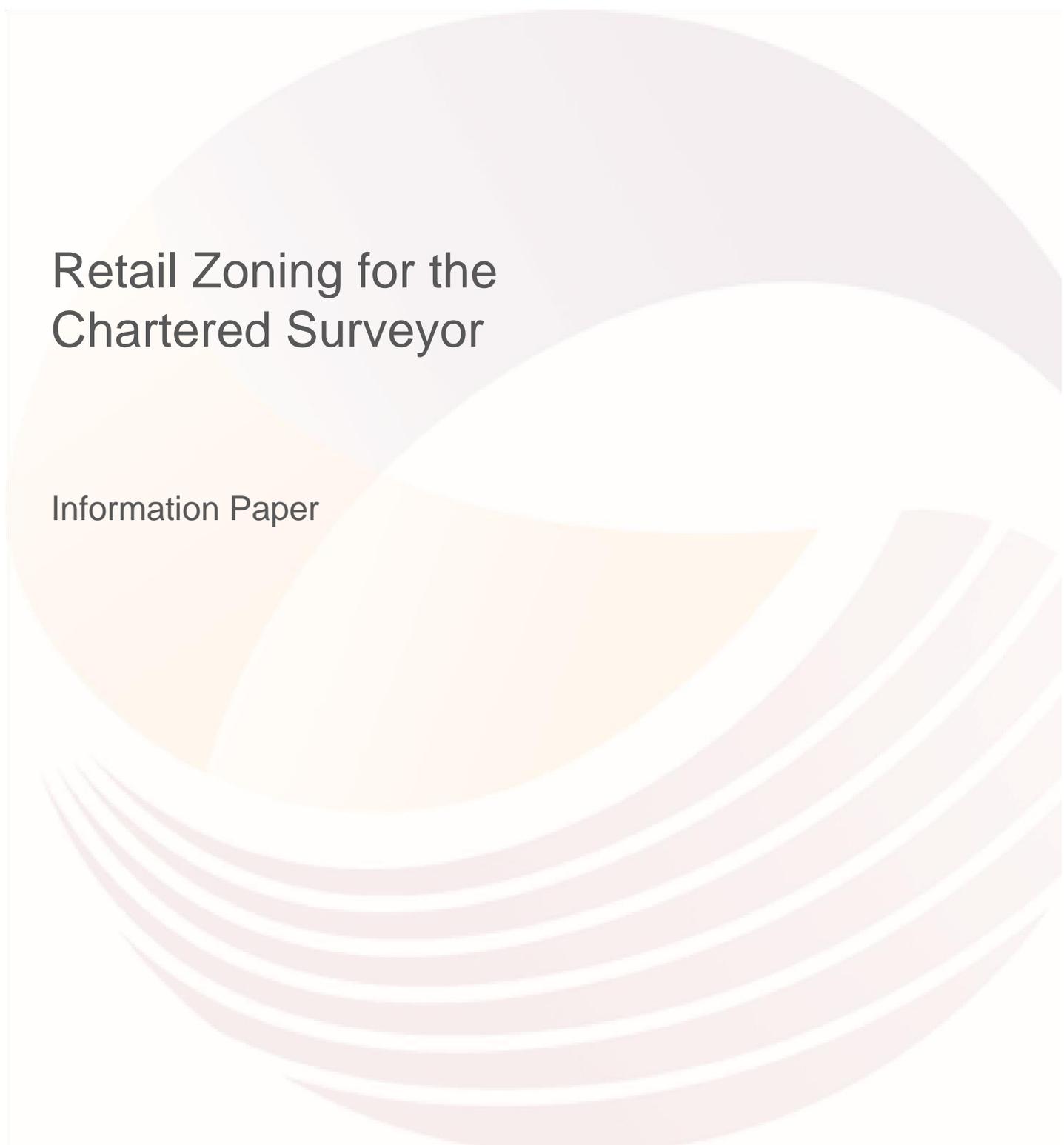
Street

SCSI Professional Guidance

Retail Zoning for the Chartered Surveyor

Information Paper





Retail Zoning for the Chartered Surveyor

Information Paper

Published by
Society of Chartered Surveyors Ireland,

38 Merrion Square,
Dublin 2, Ireland
Tel: + 353 (0)1 644 5500
Email: info@scsi.ie

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Contents

	Page
Acknowledgments	4
SCSI Information Paper	4
Document Status defined	4
Introduction	5
Depth of Zone	5
Quantum discount for frontage to depth ratio	5
Kiosk/Cut Out Units	6
Unit Sizing	6
Number of Zones	6
Two level trading	6
Size limit zoning	6
Dual/Return Frontage	6
First floor rental	7
User	7
Masked or Shadow Areas	7
Angled or Irregular Shop Front	7
Evidence	7
Period Buildings/Non Standard Shopfront	7
Changing Levels	7

Acknowledgements;

SCSI Working Group consisted of;

- David Potter MSCSI, Savills
- John Stewart FSCSI, John Stewart and Associates
- John Mc Cann FSCSI, BNP Paribas Real Estate
- Stephen Murray FSCSI, Jones Lang Lasalle
- Paul Kelly MSCSI Mason Owens & Lyons
- Geraldine Kingston MSCSI, Douglas Newman Good
- Pat Kyne MSCSI Valuation Office
- Chantal Molony MSCSI, BNP Paribas Real Estate
- Hugh Markey FSCSI, Lisney
- Karl Stewart MSCSI, DTZ
- Paul McElearney FSCSI, McElearney Chartered Surveyors
- Des Byrne FSCSI, Bannon Commercial

SCSI Information Paper

This is an information paper (IP). Information papers are intended to provide information and explanation to SCSI members on specific topics of relevance to the profession. The function of this paper is not to recommend or advise on professional procedure to be followed by members.

It is, however, relevant to professional competence to the extent that members should be up to date and have knowledge of information papers within a reasonable time of their coming into effect.

Members should note that when an allegation of professional negligence is made against a surveyor, a court or tribunal may take account of any relevant information papers published by SCSI in deciding whether or not the member has acted with reasonable competence.

SCSI / RICS produce a range of standards products. These have been defined in the table below.

Document status defined		
Type of document	Definition	Status
SCSI practice statement	Document that provides members with mandatory requirements of the Rules of Conduct for members	Mandatory
SCSI code of practice	Standard approved by SCSI that provides users with recommendations for accepted good practice as followed by conscientious surveyors	Mandatory or recommended good practice (will be confirmed in the document itself)
SCSI guidance note	Document that provides users with recommendations for accepted good practice as followed by competent and conscientious surveyors	Recommended good practice
SCSI information paper	Practice based information that provides users with the latest information and/or research	Information and/or explanatory commentary

Introduction

It is apparent that while in general Zoning remains useful, there are a number of areas where clarification and guidance would be beneficial.

Zoning has become established as an accepted method of establishing rental values for the majority of retail premises. Originally confined to prime locations, its use has now spread beyond this.

In this document where figures or percentages are given, they are for guidance purposes only. They are not intended to be taken as rigid cut off points and valuers would be expected to use their professional judgement accordingly.

Where zoning is applied it is also recommended the premises be considered on an overall basis as there are instances where zoning produces an anomalous result.

Suggested approaches are as follows:

1. Depth of Zone

Consideration was given to varying the depth of each zone from the current 6.1 metres (20ft). It was concluded that the existing zoning depths should be retained.

2. Quantum discount for frontage to depth ratio

It has become apparent that the application of zoning can at times overvalue relatively wide premises and at the same time undervalue narrow deep premises.

In terms of frontage to depth a ratio of 1:3 is felt to be ideal.

For the purpose of discounting the Zone A rate it is suggested that a discount in the region of $\pm 10\%$ be applied to units with a frontage to depth ratio of less than 1:2.

This is a guideline figure only and will vary depending on the actual configuration of the unit. It is being suggested as a guideline figure and not as one to be applied rigidly.

For example where a unit is particularly wide and shallow, a substantially larger discount may be appropriate.

In conjunction with this, it is suggested that particularly deep units with frontage to depth ratios in excess of 1:4 could be loaded by up to $\pm 10\%$.

For the sake of clarity, it should be noted that the above suggests that where a particularly wide and shallow premises is being compared with a particularly deep premises the difference can be $\pm 20\%$.

3. Kiosk/Cut Out Units

There will be exceptions to the above where units are particularly small c.20m² and effectively trade as kiosks and where units are exceptionally narrow at 4.5 metres or less.

Cut out units can be zoned but where they are particularly small c.30m², caution should be exercised.

Freestanding kiosks and very small shop units of less than 20m² should be treated with caution.

In addition external retailing kiosks may pay additional rent to reflect their external trading ability.

4. Unit Sizing

It is suggested that greater weight be applied to evidence derived from units which are closer in size to the premises being valued. A guideline of $\pm 50\%$ is suggested.

5. Number of Zones

It is recommended that the maximum number of zones should be 4.

6. Two Level Trading

Where a unit has frontage to two trading malls it should be zoned from both malls with an appropriate end discount to reflect the two level trading.

7. Size Limit for Zoning

It is felt that in the region of 1,000m² of single level unit should be the limit for the application of zoning.

In exceptional circumstances up to 1,500m² on a single level can be considered but only when compared with similar sized units also on a single level.

8. Dual/Return Frontage

It is suggested that a premises with dual/return frontage should be zoned from the more valuable frontage with a loading if appropriate for the benefit of the return frontage/second frontage.

In some cases the added security and monitoring of a second entrance may outweigh the benefits.

If the premises has frontage to two areas of equal value it is not felt appropriate to have a large L shaped Zone A area or to have two separate Zone A areas.

Where a shop has dual frontage and the longest frontage is to the most valuable street, particular difficulties can arise.

9. First Floor Rental

The practice of valuing first floor or basement retail by reference to a rigid percentage of Zone A is not recommended as it does not take account of the relative quality of the non ground floor accommodation.

Notwithstanding the above, the practice of suppressing the non ground floor space to increase the Zone A rate should be discouraged and the rates applied should bear some relationship to the Zone A rate.

10. User

It is suggested that some users do not suit zoning. For example pubs and large restaurants do not derive the same benefit from the first 6.1 metres of the premises as retail outlets.

This will only apply where the premises does not readily suit or cannot be used for retail purposes.

11. Masked or Shadow Areas

It is not possible to give a definitive answer in relation to masked or shadow areas and valuers would be expected to use their own professional judgement.

In general, it is suggested that for slight or normal obstructions such as staircases no allowance be made.

12. Angled or Irregular Shop Front

In general it is suggested that each zone follow the line of the shopfront.

13. Evidence

Evidence should not just be given as an ITZA figure. The actual zones should be given in addition to the overall rate as a simple ITZA figure can sometimes be misleading.

14. Period Buildings/Non Standard Shopfront

Zoning is not recommended for period premises or those without a standard shopfront presence.

An example would be purpose built historic bank buildings.

15. Changing Levels

Where there are steps or a material change in levels within a premises this should be reflected in the zoning analysis.

The extent of the allowance will depend on the specific premises. For example a single step may not make a material difference whereas a number of steps may have a fundamental effect on the rent of the premises.

Where an allowance is made it should be related to the part not at street level.

Dating back to 1895, the Society of Chartered Surveyors www.scsi.ie Ireland is the independent professional body for Chartered Surveyors working and practicing in Ireland.

Working in partnership with RICS, the pre-eminent Chartered professional body for the construction, land and property sectors around the world, the Society and RICS act in the public interest: setting and maintaining the highest standards of competence and integrity among the profession; and providing impartial, authoritative advice on key issues for business, society and governments worldwide.

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Members of the profession are typically employed in the construction, land and property markets through private practice, in central and local government, in state agencies, in academic institutions, in business organisations and in non-governmental organisations.

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www.scsi.ie

Society of Chartered
Surveyors Ireland
38 Merrion Square,
Dublin 2, Ireland
Tel: + 353 (0)1 644 5500
Email: info@scsi.ie

