



COMMERCIAL PROPERTIES COMMITTEE

Practice Note 16

REVALUATION 2005

VALUATION OF HOTELS

1.0 INTRODUCTION

This Practice Note deals with the valuation of all classes of hotels and country inns, except for budget hotels, which are dealt with in terms of Practice Note 35.

2.0 BASIS OF VALUATION

The subjects covered by this practice note should be valued by application of the comparative principle.

It is accepted practice that the value of an hotel, either capital or rental, is normally quantified by reference to the turnover derived from the various elements of the business, i.e. accommodation, catering and liquor. This approach is considered to provide the best foundation for a valuation for rating purposes.

An analysis of Scottish hotel rents has been carried out and provides the basis for the valuation of the subjects referred to in this practice note. The recommended approach to valuation is that percentages are applied to the hypothetical achievable turnover for the main elements of the hotel operation.

3.0 CLASSIFICATION OF HOTELS

Since January 2000 the Automobile Association, the Royal Automobile Club and the English Tourist Board have operated a unified star rating system. This method of classification has been used as a guide to classifying hotels. The Scottish Tourist Board method of classification reflects facilities, services and quality of guest care. As such it is not suitable for classification for property valuation purposes.

All hotels should be allocated to one of the following classes.

Class 0 (AA 1 Star)	Lower standard than Class 1. May be an inn or a converted dwelling house. Similar in quality to a guesthouse but offering more facilities and generally run by the proprietor. Limited eating and bar facilities. There will usually be a guest lounge.
Class 1 (AA 1 Star)	Good hotels and inns generally of small scale and with a limited range of facilities and services. Frequently run by proprietor. Majority of rooms have en suite or private facilities. Restaurant/eating area will provide simple catering of limited choice for residents and guests with time restrictions. There may be a bar or lounge serving alcohol.
Class 2 (AA 2 Star)	Small to medium sized hotels offering a higher standard of accommodation and a straightforward range of services. All bedrooms have en suite or private facilities and colour TV. Food and drink is of a slightly higher standard. There is usually a reception area and a lift.
Class 3 (AA 3 Star)	Larger hotels offering a higher standard and range of services and facilities. The bedrooms are more spacious as are the reception and other public areas. The restaurant will usually cater for non-residents with a greater attention to quality of food. Some room service can be expected. Generally a more formal style of service.
Class 4 (AA 4 Star)	Exceptionally well appointed hotels offering a superior standard of comfort and quality. All bedrooms with en suite facilities, both bath and shower and WC. More emphasis on quality food and drink. The higher staff ratios mean that services such as portage, 24 hour room service, laundry and dry cleaning are available.
Class 5 (AA 5 Star)	Highest quality hotels with spacious and luxurious accommodation throughout matching the best international standards. Professional, attentive highly trained staff. Impressive interior design. Superb cuisine. Exceptional comfort.

Guidance is provided below for brand name hotels which may not appear to fit the standard classification.

Brand Name Hotels Class 3 minimum	Well known chains of hotels that have not applied for official star rating. These usually have a similar standard throughout the chain often catering for business clients.
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4.0 TURNOVER

Gross turnover (exclusive of VAT and service charges) should be obtained and broken down into the three main elements of accommodation, liquor and catering for the years to 31 March 2001, 2002 and 2003, or the nearest accounting year to "tone" eg 31 December 2002 with the objective being to determine the hypothetically achievable turnover for the hotel. Adjustment of the actual turnover, may be appropriate in order to reflect any underlying trend in the business and arrive at the hypothetically achievable turnover. Any physical or other material change during the period to or post 1 April 2003, which may not be reflected in the turnover, should also be taken into account to ensure a correct valuation for 2005.

If separate turnover for the main elements is unobtainable the total gross turnover may be apportioned between the main elements according to the style of business being carried on – i.e. liquor orientated - or accommodation orientated. In some cases, accommodation turnover may include bed and breakfast income. The valuer should apportion this income between the accommodation and catering elements. For classes 0 & 1, 75% of B&B income may be allocated to accommodation and 25% to catering. For other classes the apportionment of B&B income between accommodation and catering will depend on the style of operation.

If turnover is not known, an estimate should be made by comparing the turnover from hotels of a similar class and mode of operation.

Where there is clear evidence to show that liquor turnover has been enhanced by the provision of entertainment, expenditure on entertainment in excess of 3% of the liquor turnover may be deducted in a similar fashion to that recommended in item 5.7 of the Commercial Properties Committee Practice Note 17, Valuation of Licensed Premises. Valuers should note that the expenditure is compared to liquor turnover as opposed to total turnover as in the case of public houses. Where there is a specific charge for admission and that charge does not cover the provision of a meal, liquor, etc., the entertainment expenditure should be set against the admission charge with any surplus revenue added to liquor income and taken at the appropriate percentage.

In some hotels, which rely mainly on business from touring coach parties, the provision of entertainment is necessary to maintain the resultant high levels of accommodation income. In these circumstances and where expenditure on entertainment can be seen to have inflated the accommodation income, it is appropriate to allow that expenditure against the accommodation element of turnover in the valuation. Again, only expenditure in excess of 3% of accommodation income should be deducted in a similar fashion to that recommended above. Such an adjustment is not considered appropriate for hotels located in the main cities, since it is unlikely that the provision of entertainment would enhance the accommodation income due to the variety of alternative entertainment on offer.

Turnover from sources other than catering, accommodation or liquor should be modified, if appropriate, and added to the element most closely comparable in terms of profitability.

5.0 VALUATION

Select appropriate percentages for each of the main elements of turnover depending on the classification of the particular hotel and the levels of turnover in accordance with the tables of provided.

The resultant Net Annual Value obtained may be analysed, where appropriate, by a rate per double bed unit (DBU) (reference item 10.0).

5.1 Accommodation

TURNOVER	PERCENTAGES TO NAV	
	CLASSES 0-1	CLASS 2-3
Up to £25,000	5.00%	6.00%
At £50,000	7.00%	8.00%
At £100,000	8.00%	9.00%
At £150,000	8.25%	9.00%
At £200,000	8.50%	9.00%
At £250,000	8.75%	9.00%
At £300,000 and above	9.00%	9.00%

The above percentages should not be applied to brand name hotels. Valuers should interpolate the percentage to be applied to incomes between those given above.

Class 3 brand name for all levels of turnover	9.00% - 11.00%
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Class 4 for all levels of turnover	10.00% - 11.50%
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Class 5 for all levels of turnover	11.00% - 11.50%
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The range of percentage rates to net annual value shown above reflects the location and/or quality of the particular hotel. A figure from the higher end of the range would apply to an hotel located within one of the principal cities or an hotel in a good location with limited competition.

5.2 Catering

TURNOVER	PERCENTAGE TO NAV		
	CLASSES 0-1	CLASSES 2-3 & 3 brand name	CLASS 4-5
Up to £35,000	0%		
At £40,000	1.00%	1.00%	
At £50,000	2.00%	2.00%	
At £75,000	3.50%	4.00%	
At £100,000	5.00%	5.50%	
At £150,000	6.00%	6.00%	6.00% - 6.50%
At £200,000 and above	6.50%	6.50%	6.00% - 6.50%

Where catering income does not exceed £35,000, it should be ignored. If the income does exceed £35,000, the total amount including the first £35,000 should be valued at the appropriate % given in the above table. Valuers should interpolate the percentage to be applied to incomes between those given above.

The range of percentage rates to net annual value shown above for classes 4 & 5 reflects the style of operation; a figure from the lower end of the range would apply to a property of higher quality with a standard of food and service to match.

5.3 Liquor

TURNOVER	PERCENTAGE TO NAV		
	CLASSES 0-1	CLASSES 2-3 & 3 brand name	CLASS 4-5
Up to £150,000	5.00%- 8.25%	6.00% - 8.50%	7.00% - 8.75%
£150,000 to £200,000	8.50%	8.50%	8.75%
£200,000 to £500,000	8.75%	8.75%	8.75%
At £500,000 and above	9%	9%	9%

5.4 End Adjustment

In certain exceptional circumstances an adjustment might be merited for individual hotels. This could apply to older properties with listed building status or which may have been adapted from other uses for operation as an hotel. There are likely to be very high maintenance and running costs due to the age/style of building and severe operational difficulties caused by unsuitable design/layout inherent in the building. This allowance should only be made in exceptional cases and will be a matter of judgement by the individual valuer.

6.0 Seasonal Hotels

Seasonal hotels should be compared to other similar hotels in the locality that are open for the full year, if that is the norm for the location, on a DBU rate basis. Turnover may then require adjustment if the valuer is satisfied that the actual turnover is below the hypothetically achievable figure.

7.0 Inns and Hotels with Low Accommodation Turnover

Where it is considered that the premises have more in common with a public house than with an hotel, having regard to their character and to the type of business conducted, they may be valued by reference to Commercial Properties Committee Practice Note 17, Valuation of Licensed Premises. When valuing hotels by this method the percentage applied to the accommodation turnover should be no lower than that applied to the liquor element.

8.0 Permanently Resident Staff

Where details of staff accommodation have been provided - including the extent of the manager or owner/operator's house - these elements have been stripped out in the adjustment of the rents analysed. Accordingly, values produced by application of the recommended percentages to turnover are solely for the commercial accommodation.

For the purposes of providing an apportionment in terms of the Local Government Finance Act 1992 the value added to the domestic element for accommodation occupied by resident staff and permanently resident guests should reflect the extent, situation and quality of the rooms occupied.

Income derived from permanently resident guests should be excised from turnover when determining the hypothetical achievable turnover of the non-domestic element of the property.

9.0 Car Parking

On the assumption that car parking facilities will be reflected in the turnover of hotels no additions (or deduction for lack of parking) should be made. Some city centre hotels charge for car parking, the income from this should be included with other income and taken at the appropriate percentage.

10.0 Double Bed Units

A double bed unit will be calculated for each hotel on the following basis: -

Room Description	En Suite Factor	Not En Suite Factor	Size Guide
a) Double or Twin	1.00	0.75	10 - 20m ²
b) Single	0.70	0.45	Up to 10m ²
c) Family	1.25	1.00	20 - 30m ²
d) Suite - Standard	1.50	-	2 rooms or over 30m ²
e) Suite - Superior	2.00	-	2 rooms or over 30m ²

These factors apply to ground and first floors and also basement and upper floors where served by passenger lift(s). The above factors should be reduced by 15% for rooms on basement and second floors without a passenger lift, and by 25% for rooms on the third floor and above if not served by a lift.