

## **Revaluation 2026**

### **Hospitality Properties Committee**

#### **Practice Note 5 Valuation of Hotels and Accommodation Subjects**

##### **1.0 Introduction**

- 1.1 This Practice Note deals with the valuation of all categories of Hotels and subjects offering accommodation, such as Lodges, Aparthotels and Serviced Apartments.

##### **2.0 Basis of Valuation**

- 2.1 The subjects covered by this Practice Note should be valued by application of the comparative principle
- 2.2 It is accepted practice that the rental value of a hotel is normally quantified by reference to the turnover comprised of the various elements, i.e. accommodation, food, beverage, conferencing, leisure etc. This approach is considered to provide the best foundation for a valuation for rating purposes.
- 2.3 An analysis of rents, in terms of the SAA Adjustment of Rents Practice Note, has been carried out and provides the basis for the valuation of the subjects referred to in this practice note. The statutory hypothesis assumes that the letting takes place in an open market, which includes prospective tenants who would recognise past and/or current good practices and operating techniques and seek to at least replicate them.
- 2.4 The recommended approach to valuation is that percentages are applied to the adjusted hypothetical achievable turnover (HAT), exclusive of VAT, for the main elements of the hotel operation. These percentages can be found in section 5.0 which deals specifically with the valuation.

It should be recognised that the essence of the valuation scheme is based on the HAT. The scheme is designed to ascertain “the rent at which the lands and heritages might reasonably be expected to let from year to year” on the statutory terms, by identifying a relationship between rents and turnovers which can then be used to arrive at Net Annual Value.

The turnover adopted should represent the annual amount considered to be the hypothetical achievable level in the year to 1st April 2025, having regard to the physical nature of the property and its location as at 15th March 2026, on the assumption that the premises will be operated by a competent operator seeking to maximise profits.

### **3.0 Hotel Categories**

- 3.1 The distinction between categories of hotel and accommodation subjects is dependent on a mixture of factors, such as, the nature and extent of the facilities available to guests, the location, physical attributes and design of the property, the market the property is aimed towards and the standard of service offered to such guests.

The Automobile Association in conjunction with Visit Scotland operates a star rating system. The importance of this within the industry is declining however it can be used as a guide when determining which category is appropriate.

- 3.2 All properties should be allocated to one of the following categories. The main driver of categorisation is through the level of service being offered. As the hospitality industry continually evolves, there is an increasing trend towards more room orientated styles of operating with higher proportions of room income, relative to total income, being seen in hotels across all the traditional star ratings. This is largely due to the room income being the most profitable hotel income stream, but also largely due to hotel patrons seeking out food and beverage options beyond the hotel they are residing in. Notwithstanding that trend, there are still obvious differences in service and the extent and quality of facilities available to discern variations that will be reflected in the booking price.

#### **3.2.1 Standard Full Service Hotels**

##### **Category 1**

These will comprise a range of subjects which operate with a lower level of service. They will generally comprise a range of older traditional hotels, trading at an equivalence of 3 star level and below, of a modest nature with a smaller number of bedrooms, typically 30 rooms or less. Facilities may vary from a single breakfast/dining room to those with bar and restaurant facilities open to the public often with separate capacity for small functions. These are mainly run by independent operators and are found in cities, towns and rural locations throughout the country. Food and beverage may be the main focus of the business and in some instances, they may have more in common with a public house than with a hotel, with the accommodation element being more ancillary due to the limited provision of rooms. In those circumstances and having regard to their character and to the type of business conducted therein, these subjects may be more appropriately valued by reference to the SAA Valuation of Licensed Premises Practice Note in accordance with section 6.2 below. Conversely,

where a subject provides a room only facility with no food and beverage facilities, they should be considered under paragraph 3.2.3.

## **Category 2**

These will comprise more traditional hotels, also trading at 3 star or below, but will be larger both in terms of number of bedrooms and dining and bar facilities. They will generally have more ancillary space to cater for larger function, conferencing and events. The accommodation and other spaces will be functional and may not have been refurbished/modernised for some time and there will also be a variation of room types from singles, doubles/twins to larger family sized rooms or suites which may be finished to a better quality. These will typically form part of a larger chain of hotels, operating as managed properties or through franchise agreements and may benefit from the pooling of marketing and economies of scale of costs in terms of group purchasing. They will be located in cities, towns and rural locations throughout the country with a mixture of both leisure and corporate trade. In the latter locations the type may be synonymous with larger traditional coaching inns. Properties in some settings may be more room focused, with a higher proportion of their income being derived from that source.

## **Category 3**

Higher quality accommodation subjects operating in the 4 star or equivalent market with a greater level of service. It will typically include larger purpose-built hotels, either modern or traditional, often found in city/town centres or situated out-with urban areas within their own spacious grounds. It will also include high quality conversions of town houses (either residential or other use) into boutique hotels which tend to have a smaller accommodation element, or traditional hotels that have been fully refurbished to high quality modern standard. While these are mainly located in cities or towns, they will also be found in holiday destinations and good rural locations or near transport network/termini. There will also have a mix of leisure and corporate business, often with large spaces to accommodate conferencing and banqueting.

They will vary in size depending on their location and will typically, but not exclusively, form part of a group of hotels, either as owned or let managed sites or separately let though still affiliated to the group to ensure consistent standards are maintained and that product purchasing, or marketing opportunities can be pooled.

Accommodation will be more spacious and opulent in terms of the letting rooms and common areas (reception, corridors, bar & dining, leisure), than subjects in category 2. For the larger properties there may be a variation in the type, size and quality of rooms on offer while the boutique type is generally more consistent with double rooms being the norm but their size can vary often due to the physical difficulties of the converted properties that

they have been laid out within. They will also have a far greater array of facilities and services on offer than hotels in category 2.

Boutique hotels in certain settings may have higher proportion of their income from their food and beverage function with those properties often competing with high end bars and restaurants in their vicinity. Where that occurs, consideration should be given to valuing the subject in terms of the SAA Valuation of Licensed Premises Practice Note in accordance with 6.2 below.

#### **Category 4**

The highest service provision typically found in 5-star properties or equivalent. The accommodation throughout, the level of service, the ancillary facilities and the overall experience of the stay are to the utmost standards. They will also be associated with a highly reputable fine dining offering. The property will normally be purpose-built - traditional or modern – with an impressive exterior and lavish interiors which is reflective of the level of service found within. They will be found in city centres or situated out-with urban areas in exclusive resort type settings with spacious grounds and considerable integrated leisure such as golf courses or luxury spa facilities.

#### **3.2.2 Limited Service Provision Hotels**

This style of operation has become more commonplace in recent times in that accommodation has become the main emphasis and any other facilities, including the dining and bar, are more of an ancillary to that primary function. A further common feature is that the quality, type and size of room throughout the property are largely, if not entirely, consistent throughout the property. While they may appear similar to category 2 hotels described above, the level of service will be more limited as will the on-site food and beverage offering.

Subjects in this categorisation can be purpose built modern properties or good quality conversions, such as former office properties, with room totals commonly in excess of 50. They can be found in a wide variety of locations including city and town centres, airports, roadside locations and business and retail parks aimed equally at the tourist and corporate sectors. They can vary in size depending on where they are located.

#### **3.2.3 Room Only**

##### **Lodges**

Accommodation subjects offering rooms only with no integral bar and restaurant. This includes Lodges with adjacent public house, licensed restaurant or roadside restaurant that attract non-resident trade.

These are more commonly purpose-built subjects but they can also be found in converted properties - such as former office subjects in built up urban areas. Their rooms are practically identical in type and size with facilities that are comfortable and functional. The number of rooms will vary according to the locations they are found - city and town centres, airports, roadside locations and business and retail park. As with limited service provision hotels, they are aimed at both tourist and corporate sectors.

### **Aparthotels**

Accommodation subjects offering rooms only. Unlike their Lodge counterparts, these are usually of a higher quality with a greater variation in the types and sizes of rooms. These can comprise standard double rooms, larger family rooms that can comfortably contain additional beds, studio type rooms or self-contained suites with one or more bedrooms off a separate living space. Though not always, they may also have cooking facilities to enable self-sufficient styled occupancy. While being generally of a higher standard than lodges, the quality of accommodation will also vary from good to the very best in terms of fixtures, fittings, furnishings, additional bathrooms or the presence of personal outside spaces such as private balconies or roof terraces. The category is also distinguishable by the presence of additional facilities, such as a staffed reception, resident's lounge and/or a modest dedicated fitness space.

The types of properties concerned are commonly, but not exclusively, found in city and town centre locations often comprised in converted former commercial subjects or town house(s). They can also be purpose built as part of large commercial developments or regeneration projects. This type of accommodation is becoming increasingly more common in city centre locations with new build or the redevelopment of existing commercial properties whose historical uses are now being repurposed.

### **Serviced Apartments**

As with Aparthotels, this specific category of accommodation only based subject has also become more common in recent years. They will vary in terms of character, type and size but are similar in that they are all styled as self-sufficient units with living, cooking, dining and sleeping accommodation all on site. They can be comprised within an open plan studio or multi bedroomed arrangement over one or more floors. Quality again will vary from good to the very best in terms of the accommodation, facilities, fixtures, fittings and furnishings on offer.

The types of property concerned are commonly, but not exclusively, found in city and town centre locations often comprised in converted former commercial subjects or town house(s). They can also be purpose built, either within large multi-use developments in large centres or forming part of residential development sites in secondary or tertiary locations. They will comprise individual units exclusively within a single building accessed from

a common entrance and will have been granted a sui generis planning approval for that use.

#### **4.0 Hypothetical Achievable Turnover (HAT)**

- 4.1 The total turnover (exclusive of VAT and service charges) for properties in the various categories should be obtained for the years to 31 March 2023, 2024 and 2025, or the nearest accounting year end e.g. 31 December, with the objective being to determine the hypothetical achievable turnover for the hotel. That actual turnover will provide the best source of information in order to reflect any underlying trend in the business and to arrive at the hypothetical achievable turnover for the property at 1 April 2025.
- 4.2 The total turnover for a hotel will comprise income from a range of different sources - accommodation, food, beverage, leisure, conferencing & events and other miscellaneous items. The profit margins on the income from each of these associated departments will be different due to the cost associated in providing those services. The percentages specified in 5.0 are reflective of that.
- 4.3 When looking at turnover for the period advised above, if a breakdown for the main elements is unobtainable the total turnover may be apportioned between the main elements according to the style of business being carried on, e.g. food and beverage or accommodation orientated.
- 4.4 In some cases, accommodation turnover may include bed and breakfast income. This income may be apportioned between accommodation and catering elements. The split will depend on the style of operation and the nature of the breakfast offering, but up to a maximum of **15%** of the adopted accommodation income.
- 4.5 Income derived from permanent resident guests should be excised from turnover when determining the hypothetical achievable turnover of the non-domestic element of the property.
- 4.6 The use of Online Travel Agencies (OTA's) continues to increase, pervading throughout the entire accommodation sector. The marketing opportunities afforded by these third-party platforms enable operators to maximise their customer base and extend it beyond their own internal reaches. The associated costs for this opportunity have become the industry norm and no allowance for this is advised as an alternative cost would have to be borne by the operator if they were to oversee that function entirely themselves. Looking at OTA costs alone may therefore not fully reflect the relative weight of all the marketing costs where one operator chooses to outsource that entirely, one undertakes it internally or another employs a combination of the two which is more commonly the case.
- 4.7 If turnover is not known, an estimate should be made by comparing the turnover from hotels of a similar category and mode of operation. A double bed unit rate comparison, based on a calculation in terms of section 10

below is advised as being the best way to conduct that exercise. In adopting that basis of comparison, caution should be applied. The analysed rate will reflect all the various facilities available within that hotel, and it can give an indication of whether the hotel is trading significantly above or below the norm for that particular type. The suitability of the comparisons, in terms of being like for like, are therefore key to the usefulness of that approach.

- 4.8 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. Expenditure should be offset against accommodation income in those specific cases. 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.
- 4.9 For hotels where there is significant bar trade from non-residents and where that trade is considered to have been enhanced by the provision of entertainment commonly found in other licensed premises, a deduction may be made in calculating the level of hypothetical achievable turnover in accordance with the recommended guidance in the SAA Valuation of Licensed Premises Practice Note. The amount of deduction should be based on the relationship of the entertainment costs relative to the total income from food and beverage elements only, in alignment with that practice note.
- 4.10 Where there is a Night Club element to a subject, that can often be found in large towns or cities, any income from admissions to the premises should be offset against any cost of providing that entertainment. Any surplus of entertainment cost should be treated in the same manner as prescribed in the SAA Valuation of Licensed Premises Practice Note and included in the total hypothetical turnover figure adopted for the valuation process.
- 4.11 Due care should be taken when valuing vacant hotel and accommodation subjects, to ensure that all relevant factors are taken into account when determining a fair and reasonable level of HAT.

## 5.0 Valuation

- 5.1 The application of the percentages detailed below are recommended in the absence of any local evidence to the contrary. These give a percentage range that should be applied to the various items of turnover specified.

Select appropriate percentages for each of the main elements of turnover depending on the category of the particular hotel and the levels of turnover in accordance with the tables provided. **Assessors have discretion to**

**deviate, where local evidence exists, either higher or lower than the percentage levels proposed where applicable.**

## 5.2 Accommodation

<b>Category - All Levels of Turnover</b>	<b>Percentages to NAV</b>
<b>Category 1</b>	<b>6.50% - 11.00%</b>
<b>Category 2</b>	<b>8.50% - 13.50%</b>
<b>Category 3</b>	<b>7.50% - 12.00%</b>
<b>Category 4</b>	<b>8.00% - 10.00%</b>
<b>Limited Service Provision</b>	<b>9.50% - 15.00%</b>
<b>Lodges</b>	<b>9.00% - 16.00%</b>
<b>Serviced Apartments &amp; Apart Hotels</b>	<b>11.00% - 16.00%</b>

- 5.2.1 Where to place a property in the range of percentage rates will be dependent on a function of the following two primary factors:-

### **Location**

Subjects in better locations i.e. within one of the principal cities, in a good holiday location or a destination hotel with limited competition e.g. close to an attraction such as a golf course would be towards the higher end of the range. Airport hotels generally operate at a higher level than they would were they located so far outside a centre of population. This should be considered before adjusting for other factors below.

### **Quality**

A figure from the higher end of the range would apply to a property which is modern purpose built or a good quality conversion. Conversely, the lower end of the range would apply to an older, unimproved property which may have been adapted from other uses and is poorly located. There are likely to be operational difficulties caused by the unsuitable design/layout inherent in the building and high maintenance and running costs due to the age/style of building or the lack of lift provision.

- 5.2.2 Other factors to consider are:-

### **Accommodation Turnover per DBU**

This may indicate as to relative quality and/or location thereby informing where a subject should be placed within a band with a higher comparative rate per DBU being reflective of those factors.



## Number of Rooms

Economies of scale may be experienced in those subjects with a higher quantity of rooms in terms of income generated from those relative to the additional cost in servicing them.

- 5.2.3 There may likely to be operational difficulties caused by the unsuitable design/layout inherent in the building and high maintenance and running costs due to the age/style of building or the lack of lift provision. That can also be allowed by a variation to the percentage adopted.

## 5.3 Check Valuation for Accommodation

- 5.3.1 The resultant Net Annual Value obtained may be analysed, where appropriate, by a rate per double bed unit (DBU) (reference item 7.0). In adopting that basis of comparison, the suitability of the comparisons referred to should be considered carefully.

## 5.4 Food and Beverage

- 5.4.1 A total hypothetical achievable turnover for food, beverage and any ancillary items of income should be calculated jointly in accordance with the following provisions:

- Income from beverages to be taken at 100%.
- Income for food up to £45,000 should be ignored and any remaining income over that amount should be taken at 75%.

All Categories of Hotel	Percentages to NAV
Total adjusted turnover from food and beverage	5.00% to 9.00%

- 5.4.2 Where to place a property in the range of percentage rates is dependent on a number of factors such as the location or the attractiveness and character of the bar and restaurant offering.

A hotel bar and restaurant may be in competition with other licensed premises in the immediate vicinity and therefore locations in city or large town centres with good footfall may experience higher turnover levels and be considered towards the higher end of the range specific to that location. Similarly, the presence of additional features such as outdoor areas and/or scenic ground floor or rooftop terraces may lead to those spaces being regarded as food and beverage destinations in their own right.

In other settings, the hotel bar and restaurant will be reliant mainly on the patronage of its residents only rather than the public, and valuer may also wish to consider that when deciding where to place that property within the percentage range.

## **5.5 Other Income**

- 5.5.1 Turnover from sources other than accommodation or food and beverage should be modified, if appropriate, and valued at a similar rate to the element most closely comparable in terms of profitability. Specific common items of other income are specified below along with how they should be considered.
- 5.5.2 Income from function/meeting room hire should be valued at a percentage rate commensurate with that applied to the accommodation income.
- 5.5.3 Any surplus of income from a nightclub element (refer to paragraph 4.10) should be valued at percentage rate commensurate with that applied to the beverage income.
- 5.5.4 Income from bar gaming machines (amusements with prizes) should be net of all charges and should be taken at the same rate as that applied to food and beverage.

## **5.6 End Adjustment to the Rate Chosen**

- 5.6.1 In certain exceptional circumstances, which are not already reflected in the turnover, or the rate applied, an adjustment might be merited for individual hotels over and above any considerations already made in 5.2.1. This allowance should only be made in exceptional cases and will be a matter of judgement by the individual valuer.

## **6.0 Other Considerations**

### **6.1 Seasonal Hotels**

The turnover for these properties, while only being for part year, will essentially reflect the level of trade that can be exploited over the full year due to their unique trading circumstances or capabilities. However, comparison should be made if there are any 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. In those circumstances, where seasonality is regarded as a personal operating choice, the actual turnover may be below the hypothetical achievable figure and if that is the case, a suitable adjustment may be required.

### **6.2 Inns and Hotels with Low Accommodation Turnover**

Where it is considered that the premises have more in common with a public house than with a hotel, having regard to their character and to the type of business conducted, they may be valued by reference to the SAA Valuation of Licensed Premises Practice Note.

This can occur in city centre locations where the food and beverage operation of the hotel is direct competition with bars and restaurants in the

vicinity. It can also occur in small town or village settings where a property may be known as a hotel or has historical planning use due to having a small number of rooms available for let. These properties, however, may be operating in direct competition with other Public Houses or Licensed Restaurants in their vicinity.

In those circumstances, the predominant use will be that of a licensed premises and therefore the valuation should be considered by reference to the SAA Valuation of Licensed Premises Practice Note. The valuer should consider the use of the property and may look to the percentage of income from accommodation compared to total income as an indication of when to apply that.

In terms of the accommodation element, if the approach to value in accordance with that practice note is adopted, the percentage applied to accommodation should be no lower than that applied to the food and beverage element within that practice note for that location. Moreover, the valuer may consider increasing the percentage rate by up to 3% to typically reflect the higher margin of profit for that element. This should be considered carefully depending on extent and the quality of the accommodation concerned. Alternatively, an appropriate DBU rate can be applied to the adjusted room total based on DBU levels for other hotels within in the same category in that location.

### **6.3 Separate Food and Beverage Facilities**

In relation to room only subjects (Lodges, Aparthotels & Serviced Apartments), there will generally be no breakfast restaurant/bar on site but rather an adjoining public house/restaurant/licensed restaurant or roadside restaurant. In the first instance, a separate entry should be considered for this element on the valuation roll and that should be valued in relation to the SAA Valuation of Licensed Premises Practice Note.

If room only subjects do provide for a small food or beverage offering on site, the valuer should establish the extent of that operation before considering if it should be added to the accommodation income or taken at a different percentage rate. In the case where there is an income for sales from vending machines, that should be included with the accommodation income and valued at the corresponding rate for that subject in terms of 5.2 above.

### **6.4 Leisure or Spa Facilities**

Income from leisure can take many forms and so the treatment of that must be considered carefully on its own facts. Such facilities may be provided and operated by the hotel operator themselves, or, in some cases, they may be run by a separate company with the income to the hotel operator being in the nature of a rental/concession/franchise fee rather than receipts. If that is the case, the valuer will need to establish an equivalent hypothetical achievable. Once established, or if the income figures submitted are total

receipts, an appropriate percentage applied should reflect the relative costs of providing these facilities and the effects on profitability compared to other streams of income within the hotel per 5.2.1.

Where there is a leisure or spa function operating within the hotel and it is considerably larger than what would normally be expected within a typical Category 2, 3 or 4 hotel, in that they are more hybrid in nature with the leisure, the valuer may wish to derive a value on the leisure element based on the equivalent SAA or local Practice Note for that specific part e.g. Golf Course or Health Club. Any associated income associated with this activity must however be removed from the calculation of the Hypothetical Achievable Turnover for the remainder of the hotel to avoid any possible double counting.

## **6.5 Permanently Resident Staff**

Where details of staff accommodation have been provided - including the extent of the manager or owner/operator's house - it has been excluded from 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.

## **6.6 Car Parking**

On the assumption that car parking facilities will be reflected in the turnover of hotels no addition (or deduction for lack of parking) should be made. Some city centre hotels charge for car parking, in which case this income should be included with other income and taken at an appropriate percentage. Valuers should be aware that income for car parking that is off site can be included in the operators return of information. Hoteliers may lease spaces within nearby multi story car parks in city/town locations and where any separate valuation roll entry for that space exists, the valuer must be careful not to double count that element within the valuation for the hotel subjects.

## **7.0 Double Bed Units**

7.1 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
%Double or Twin	1.00	0.75	10 - 20m <sup>2</sup>
Single	0.70	0.45	Up to 10m <sup>2</sup>
Family	1.25	1.00	20 - 30m <sup>2</sup>

<b>Suite Standard</b>	<b>1.50</b>	-	<b>2 Rooms (or &gt;30m<sup>2</sup>)</b>
<b>Suite Superior</b>	<b>2.00</b>	-	<b>3 Rooms (or &gt;30m<sup>2</sup>)</b>

- 7.2 These factors apply to ground and first floors and also basement and upper floors where they are 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.
- 7.3 Where there are double or twin rooms within a hotel that have an additional sofa bed / smaller bed for an accompanying child or carer, those should be considered as a double or twin room per the above unless they are noticeably different in size or facilities to the norm for that room type within the subject.
- 7.4 In terms of 'Room Only' subjects described in 3.2.3 above, a standard lodge bedroom will be treated as one Double Bed Unit (DBU). For Aparthotels and Serviced Apartments, the layouts of these units may vary as they can be comprised within a more traditional flat with one or more separate bedrooms along with kitchen and lounge facilities or in an open plan arrangement with sleeping areas more notionally separated or masked from any public spaces. The size and room guide above will apply but no adjustment in accordance with 7.2 should be made to the Aparthotels or Serviced Apartments properties.

For subjects comprising two or more bedrooms, which can be found in more spacious and higher end subjects, the valuer should consider the effects of quantum when determining an appropriate factor for those multi bedroom subjects and consider the extent and exclusivity of the lounge, dining and commensurate bathroom facilities within the apartment in arriving at that. As a general guide the following should be adopted but it may be appropriate to vary this for the most capacious/luxurious units, such as penthouses that may have access to their very own external roof terraces.

- Three bedrooms with separate public accommodation 2.50 DBU
- Four bedrooms with separate public accommodation 3.00 DBU