

**Revaluation 2010**  
**Commercial Properties Committee**

**Practice Note 16**  
**Valuation of Hotels**

**1 Introduction**

- 1.1 This Practice Note deals with the valuation of all classes of Hotels and Country Inns.
- 1.2 Lodge hotels with no integral bar and restaurant, lodge hotels with adjacent public house, licensed restaurant or roadside restaurant, aparthotels with a low service provision and blocks of serviced apartments should be valued in terms of Practice Note 16A.

**2 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 an hotel 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.
- 2.3 An analysis of Scottish hotel rents, in terms of SAA Basic Principles Committee Practice Note 1 (Adjustment of 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 Classification of Hotels**

- 3.1 The Automobile Association operates a star rating system; this has been used as a guide for the classification of hotels. The Scottish Tourist Board method of classification reflects facilities, services and quality of guest care and as such is not suitable for classification for property valuation purposes.
- 3.2 All hotels should be allocated to one of the following classes.

<b>Class 0 (AA 1 Star)</b>	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.
<b>Class 1 (AA 1 Star)</b>	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. A designated 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.
<b>Class 2 (AA 2 Star)</b>	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. Food and drink is of a slightly higher standard. There is usually a reception area and a lift.
<b>Class 3 (AA 3 Star)</b>	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.
<b>Class 4 (AA 4 Star)</b>	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.
<b>Class 5 (AA 5 Star)</b>	Highest quality hotels with spacious and luxurious accommodation throughout matching the best international standards. Professional, attentive highly trained staff. High quality menu and wine list. Impressive interior design. Exceptional comfort.
<b>Lower Service Provision Budget Hotels</b>	Branded hotels offering a lower level of service than standard hotels. Generally 2 or 3 star rating, also includes lodges with integral bar and/or restaurant facilities.

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

<b>Brand Name Hotels Class 3 minimum</b>	Well known chains of hotels that have not applied for official star rating. These usually have a similar standard throughout the chain, to at least 3 Star as specified above. Often catering for business clients.
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## 4 Turnover

- 4.1 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 2006, 2007 and 2008, or the nearest accounting year to "tone" eg 31 December 2007, with the objective being to determine the hypothetical achievable turnover for the hotel. Adjustment of the actual turnover may be appropriate in order to reflect any underlying trend in the business and to arrive at the hypothetical achievable turnover. Any physical or other material change during the period to or post 1 April 2008, which may not be reflected in the turnover used, should also be taken into account to ensure a correct valuation for 2010.
- 4.2 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.
- 4.3 If turnover is not known, an estimate should be made by comparing the turnover from hotels of a similar class and mode of operation.
- 4.4 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 accordance with that recommended in item 4.7 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.
- 4.5 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.
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- 4.6 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 e.g. income from function/meeting room hire should be added to accommodation.

## 5 Valuation

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

### 5.3 Accommodation

TURNOVER	PERCENTAGES TO NAV	
	CLASS 0-1	CLASS 2-3
Up to £25,000	5.50%	6.50%
At £50,000	7.50%	8.50%
At £100,000	8.50%	9.50%
At £150,000	8.75%	9.50%
At £200,000	9.00%	9.50%
At £250,000	9.25%	9.50%
At £300,000 and above	9.50%	9.50%

- 5.3.1 The above percentages should not be applied to brand name hotels. Valuers should interpolate the percentage, to the nearest 0.25, and apply to incomes between those given above.

Lower Service Provision Budget Hotels	11.00% - 15.00%
Class 3 Brand Name for all levels of turnover	9.00% - 12.00%
Class 4 and 5 for all levels of turnover	10.00% - 13.00%

- 5.3.2 The range of percentage rates to net annual value shown above reflects the location and/or quality of the particular hotel.

- 5.3.3 A figure from the middle of the range would apply to a standard property in a standard location.

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5.3.4 A figure from the higher end of the range would apply to a property which is modern, purpose built or a good quality conversion located within one of the principal cities or in a good location with limited competition.

5.3.5 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.

5.3.6 Valuers should interpolate the percentage, to the nearest 0.25, and apply to incomes between those given above.

#### 5.4 Catering

TURNOVER	PERCENTAGE TO NAV				
	Class 0	Class 1	Classes 2-3	Brand Name Class 3	Class 4-5 & Low Service Provision
Up to £40,000	0%	0%	0%	n/a	n/a
At £50,000	2.00	4.50%	5.50%	n/a	n/a
At £75,000	3.50	5.00%	6.00%	7.50%	8.00%
At £100,000	4.75%	5.50%	6.50%	7.50%	8.00%
At £150,000	4.75%	5.50%	6.50%	7.50%	8.00%
At £200,000 and above	4.75%	5.50%	6.50%	7.50%	8.00%

5.4.1 Where catering income does not exceed £40,000, it should be excluded. If the income does exceed £40,000, the total amount including the first £40,000 should be valued at the appropriate % given in the above table.

5.4.2 Valuers should interpolate the percentage, to the nearest 0.25, and apply to incomes between those given above.

#### Liquor

TURNOVER	PERCENTAGE TO NAV				
	Class 0	Class 1	Classes 2-3	Brand Name Class 3	Class 4-5 & Low Service Provision
At all levels of turnover	4.75%	5.50%	6.50%	7.50%	8.00%

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## **5.5 End Adjustment**

5.5.1 In certain exceptional circumstances an adjustment might be merited for individual hotels. This allowance should only be made in exceptional cases and will be a matter of judgement by the individual valuer.

## **6 Seasonal Hotels**

6.1 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 hypothetical achievable figure.

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

7.1 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 Permanently Resident Staff**

8.1 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.

8.2 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.

8.3 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 Car Parking**

9.1 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, in which case this income should be included with other income and taken at the appropriate percentage.

## **10 /....**

## 10 Double Bed Units

10.1 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
a) Double or Twin	1.00	0.75	10 - 20m <sup>2</sup>
b) Single	0.70	0.45	Up to 10m <sup>2</sup>
c) Family	1.25	1.00	20 - 30m <sup>2</sup>
d) Suite - Standard	1.50	-	2 rooms, or over 30m <sup>2</sup>
e) Suite - Superior	2.00	-	2 rooms, or over 30m <sup>2</sup>

10.2 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.