

## **Revaluation 2017**

### **Commercial Properties Committee**

#### **Practice Note 20**

#### **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 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.

### **3.0 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 of the business, the physical attributes and design of the property, the type of guest the property is aimed towards and the standard of service offered to 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 deciding which category is appropriate.

3.2 All properties should be allocated to one of the following categories.

3.2.1 **Standard full service hotels:**

**Category 1 -** Older traditional hotels trading at 3 star level and below, generally less than 50 bedrooms. Facilities range from a single breakfast room in the smaller operations to bar and restaurant facilities open to the public often with the capacity for small functions. Food and beverage may be the main focus of the business. They are often personally run by the proprietor and are located in towns as well as rural locations throughout the country. Mixture of both leisure and corporate trade.

**Category 2 -** Mid-market 3 or 4 star purpose built modern properties or good quality conversions located in or close to towns and cities or close to transport network/termini, usually a mix of leisure and corporate business. Generally more than 50 bedrooms.

**Category 3 -** Best quality accommodation subjects operating in the 4/5 star market. Accommodation is generally very spacious in both the bedrooms and the common areas (reception, corridors etc). This includes town house/boutique hotels and other quality properties, which tend to be smaller, older hotels brought up to a modern standard or residential properties converted. Located in cities, holiday and good rural locations.

3.2.2 **Budget** hotels with limited service provision – generally purpose built properties these are aimed at the cost conscious and can vary in the level of facilities offered, usually limited dining and/or bar facilities. They can be found in a wide variety of locations including town centres, airports, roadside locations and out of town industrial and retail parks.

3.2.3 **Lodges** - Accommodation subjects offering rooms only with no integral bar and restaurant. This includes Lodges with adjacent public house, licensed restaurant or roadside restaurant, Aparthotels and Serviced apartments. Refer to appendix 1 for valuation of these subjects.

## 4.0 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 2013, 2014 and 2015, or the nearest accounting year to “tone” eg 31 December 2014, 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 2015, which may not be reflected in the turnover used, should also be taken into account to ensure a correct valuation for 2017.
- 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 may apportion this income between the accommodation and catering elements. The split will depend on the style of operation and will range from no apportionment for budget operations offering continental style breakfast, up to a maximum of 10% of accommodation income apportioned for a smaller high quality operation.
- 4.3 If turnover is not known, an estimate should be made by comparing the turnover from hotels of a similar category and mode of operation. The double bed unit calculation at section 10 could be of assistance.
- 4.4 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. Only expenditure in excess of 5% of accommodation income should be deducted in a similar fashion to that recommended in the Commercial Properties Committee Practice Note 19, Valuation of Licensed Premises. 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.
- 4.5 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.

## 5.0 Valuation

5.1 In the absence of local evidence which is sufficient to merit a variation, application of the percentages detailed below is recommended. 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.

### 5.2 Accommodation

|                               |                           |
|-------------------------------|---------------------------|
| <b>Category 1</b>             | <b>Percentages to NAV</b> |
| <b>all levels of turnover</b> | <b>7.50% to 12.50%</b>    |
|                               |                           |
| <b>Category 2</b>             |                           |
| <b>all levels of turnover</b> | <b>11.00% to 16.00%</b>   |
|                               |                           |
| <b>Category 3</b>             |                           |
| <b>all levels of turnover</b> | <b>9.00% to 14.00%</b>    |
|                               |                           |
| <b>Budget</b>                 |                           |
| <b>all levels of turnover</b> | <b>12.00% to 18.00%</b>   |

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

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

5.2.3 A figure from the higher end of the range would apply to a property which is modern purpose built or a good quality conversion and is in the best location 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. Airport hotels generally operate at a higher level than they would were they located so far outside a centre of population.

5.2.4 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.

5.2.5 For Category 2 and 3 the percentage rate applied may be modified by up to 0.5 to reflect an old unimproved property with severe operational difficulties, which are caused by the unsuitable design/layout inherent in the building and the higher than normal running costs due to the age style of the building.

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

### 5.3 Check Valuation for Accommodation

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

As a guide, the analysis of rents shows the following rates per DBU for Budget Hotels and Lodges:-

| Location                | Rate per DBU     |
|-------------------------|------------------|
| Edinburgh central       | £5,500 to £7,000 |
| Edinburgh suburban      | £3,500 to £4,500 |
| Glasgow                 | £3,800           |
| Aberdeen, Dundee, Perth | £3,000           |

### 5.4 Catering and Liquor

| Category   | PERCENTAGE to NAV |
|------------|-------------------|
| Category 1 | 6.00% to 8.50%    |
| Category 2 | 8.50%             |
| Category 3 | 8.50%             |
| Budget     | 10.00%            |

5.4.1 In relation to Category 1 hotels, it is recommended that 8.5% is applied to all levels of turnover. Where there exists local evidence/material factors which is sufficient to merit a variation, a rate between 6% and 8.5% may be applied.

### 5.5 End Adjustment

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

## **6.0 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.

## **7.0 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 19, 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**

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

## **9.0 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.

## 10.0 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.

## VALUATION OF LODGES

This table applies where the subject consist of a basic lodge only ie bedrooms, reception and storage cupboards only, but no breakfast restaurant/bar within the lodge; it also applies to similar purpose built lodge accommodation adjoining a public house, public house restaurant/licensed restaurant or roadside restaurant. Aparthotels and Serviced Apartments with a similar limited service provision will also be valued using this scale.

The rental percentage will be determined according to the hypothetical turnover per bedroom, irrespective of whether it is let for single, double or family occupancy. A standard lodge bedroom will be treated as one Double Bed Unit (DBU). For Aparthotels and Serviced Apartments the usual factors to be adopted will be for a one bedroom flat with lounge/kitchen – 1.5 DBU, and 2 DBU for a two bedroom flat.

The rateable value of the accommodation should be determined in accordance with the table below. The range should be interpolated between the points shown.

| ACCOMMODATION RECEIPTS PER DBU | PERCENTAGE TO NAV |
|--------------------------------|-------------------|
| 26,500 and above               | 17.25% to 18.75%  |
| 23,500                         | 15.75% to 17.25%  |
| 20,500                         | 14.50% to 16.00%  |
| 17,500                         | 11.75% to 13.25%  |
| 14,500                         | 11.25% to 12.75%  |
| 11,000                         | 10.75% to 12.25%  |
| 7,500                          | 10.25% to 11.75%  |
| 4,000 and below                | 9.75% to 11.25%   |

Intermediate points should be interpolated pro rata.

Excludes super-budget hotels, Formule 1, Yotel and Easy Hotel. Equivalent position on Lodge scale plus up 2.5% will apply in these cases.



For a modern purpose built, or good quality conversion the top of the range should be adopted. A lower figure in the range may be adopted where due to design constraints the operational running or maintenance costs are excessive.

Minimal other income such as sales from vending machines should be included and valued together with the accommodation income. The total should be used to determine the scale point.

On the few occasions where there is a substantial income from meeting room facilities this should be valued at 1% below the accommodation percentage adopted from the lodge scale.