

Revaluation 2023

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, 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 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 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 that 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 2022, having regard to the physical nature of the property and its location as at 15th March 2023, 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 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 determining 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 of a modest nature and with a smaller number of bedrooms. Facilities will 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.

They are mainly personally run by proprietors and are found in cities, towns and rural locations throughout the country. Food and beverage may be the main focus of the business and 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, these subjects may be more appropriately valued by reference to Commercial Properties Committee Practice Note 19 in accordance with section 7.1 below.

Category 1A - Older traditional hotels trading at 3 star level and below. These will be larger than the properties in Category 1 in terms of the number of bedrooms. The dining and bar facilities will be more considerable, and they will have more ancillary space to cater for larger functions. The accommodation and other spaces will be modest and functional or may have not been refurbished/modernised for

some time. There may also be a variation of room types from singles to larger family sized rooms.

These subjects may be run by a sole proprietor, but they may also form part of a smaller chain of hotels. They will be located in cities, towns as well as rural locations throughout the country with a mixture of both leisure and corporate trade. In the latter locations the type is more synonymous with larger traditional coaching inns.

Category 2 - Mid-market 3/4 star purpose built modern properties, good quality conversions or improved traditional properties, generally located in or close to towns and cities or close to transport network/termini, usually a mix of leisure and corporate business. They will vary in size depending on their location and will typically, but not exclusively, form part of a chain of hotels, either as owner occupied or let managed properties 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. There may be a variation of room type and size but the quality of finish and level of appointment will be largely consistent throughout.

Category 3 - Higher quality accommodation subjects operating in the equivalent 4/5 star market. Accommodation is generally very spacious and more opulent in terms of the letting rooms and common areas (reception, corridors, bar & dining, leisure), than subjects in category 2. It will typically include larger purpose-built Hotels, often found in City Centres and may include those comprised within high quality conversions of larger other properties. It will also include high quality conversions of town houses (either residential or other use) into boutique hotels which tend to be smaller, or traditional hotels that have been fully refurbished to high quality modern standard. While these are mainly located in cities, they will also be found in holiday and good rural locations.

For the larger properties there may be a variation in the type size and quality of rooms on offer while the Boutique type are generally more consistent with double rooms the norm but their size can vary often due to the physical difficulties of the converted properties that they have been laid out within.

Category 4 - The very best accommodation subjects of which there will only be a few throughout the country. They are styled as unique 5 star properties where the accommodation throughout, the level of service, the ancillary facilities and

the overall experience of the stay are of 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 - for their specific use and will be found in city centres or will be situated outwith urban areas in an exclusive resort setting with considerable integrated leisure facilities.

3.2.2 **Limited Service Provision Hotels:-**

These were formerly categorised as 'Budget' hotels but due to the variance of the quality of properties contained within this market the term has been replaced with "Limited Service". The commonality that remains throughout the category is that accommodation is the main emphasis of the operation and that the level of facilities, including the dining and bar, are more limited than the full service categories described above. Another common feature is that the quality, type and size of room throughout the property are largely, if not entirely, consistent within their respective standards.

While some of the subjects within this category are still aimed at the cost conscious, offering basic but functional accommodation with reduced food and beverage facilities, others provide more spacious, well-appointed accommodation and facilities with comparatively larger dining and bar spaces. They 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. They have become more common in recent times with the evolution of the hospitality market into more varied modes of occupations within properties that have seen their historical uses also evolve.

Serviced Apartments - As with Aparthotels, this specific category of accommodation only based subject has become more pervasive in large built-up areas over the last 15 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 however 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. The latter are more characterised by entire blocks of self-contained individual flatted properties accessed beyond a common entrance that are not dissimilar to the adjacent residential blocks.

4.0 Hypothetical Achievable Turnover (HAT)

- 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.

Certified Gross Receipts exclusive of VAT should be examined for the period prior to 2022 to establish the hypothetical achievable turnover for the property in the year to 31 March 2022. Turnover for the full financial years 2020/21 and 2021/22 together with a small period from 20 March 2020 to 31 March 2020 will have been impacted by enforced closure or restricted operating capacity due to the Covid pandemic. Consequently, any consideration of turnover in these periods should be treated with caution. Furthermore, the adjustment of any part year turnover during that period to arrive at a pro rata HAT is also to be treated with caution as it may not provide a true indication of the HAT at the valuation date.

In circumstances where any available trading information relating to the period leading up to the valuation date is deemed to be insufficient for determination of HAT, consideration may be given to the closest reliable turnover prior to 20 March 2020 as a starting point. Having established the likely pre-COVID-19 HAT, further adjustments may be necessary to arrive at an appropriate level of turnover on 1 April 2022 taking account of the prevailing circumstances and beneficial use that could have been achieved at the property on that date.

- 4.2 When looking at the turnover period advised above, if a breakdown 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, eg liquor or accommodation orientated. In some cases, accommodation turnover may include bed and breakfast income. The 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.
- 4.3 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.
- 4.4 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 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 welter 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.

- 4.5 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.
- 4.6 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 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.
- 4.7 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, a deduction from the liquor turnover may be made in accordance with the recommended guidance in Commercial Properties Committee Practice Note 19, Valuation of Licensed Premises. The decision on whether to apply these allowances will be a matter of judgement based on knowledge of the subjects being valued.
- 4.8 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 Commercial Properties Committee Practice Note 19, Valuation of Licensed Premises.
- 4.9 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 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

Category 1 all levels of turnover	Percentages to NAV 7.50% to 12.50%
Category 1A all levels of turnover	9.00% to 14.00%
Category 2 all levels of turnover	10.00% to 16.00%
Category 3 all levels of turnover	9.00% to 14.00%
Category 4 all levels of turnover	13.00%
Limited Service Provision all levels of turnover	12.00% to 18.00%
Lodges all levels of turnover	10.00% to 20.00%
Aparthotels all levels of turnover	12.00% to 18.00%
Serviced Apartments all levels of turnover	10.00% to 20.00%

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:-

- **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 cost in providing them.

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 10.0).

5.4 Liquor & Catering

5.4.1 Liquor

Category	Percentages to NAV
All Categories	6.00% to 10.00%

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 offering. A hotel bar 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. In more remote or outlying suburban locations this may not be the case with the bar relying more on the patronage of the hotel residents rather than the general public.

Similarly, the presence of additional features such as outdoor areas and/or scenic ground floor or rooftop terraces may lead to those drinking spaces being regarded as destinations in their own right.

5.4.3 Catering

Level of Turnover All Categories	Percentages to NAV All Categories
Turnover up to £35,000	0.00%
All turnover over £35,000	4.50% to 7.50%

5.4.4 Where to place a property in the range of percentage rates will be largely dependent on the same factors as referred to for the liquor element in 5.4.2 but with food being the driver. One other factor that may merit consideration is the cost in the provision of catering on offer. That should only fall to be considered if it can be fully evidenced by comparison to other properties.

5.4.6 In relation to room only subjects (Lodges, Aparthotels & Serviced Apartments), there will generally be no breakfast restaurant/bar on site but rather an adjoining a public house/restaurant/licensed restaurant or roadside restaurant. The liquor and catering elements within those parts should be valued in relation to the respective practice note relevant to that use. If room only subjects do provide a limited liquor and catering offering on site, it is recommended that the range of rates above are used for those items of income. However, minimal other income such as sales from

vending machines should be included and valued together with the accommodation income at the corresponding rate for that subject in terms of 5.2 above.

5.5 Other Income

- 5.5.1 Turnover from sources other than catering, accommodation or liquor 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 4.8) should be valued at percentage rate commensurate with that applied to the liquor income.
- 5.5.4 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 regarded in the nature of a rental/concession/franchise fee rather than receipts. If that is the case, the valuer will need to establish an estimated hypothetical achievable figure before applying an appropriate percentage. Once established, or if the income figures available are total receipts, the 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. Alternatively, an adjustment of the rental etc. received can be made but again reflective of the profitability of that component and in mind of the services or facilities provided by the hotel operator to the other party.

Where the leisure or spa function is considerably larger than what would normally be expected within a typical Category 2-3 hotel, in that they are more hybrid in nature with the leisure, the valuer may wish to look to deriving a value on the leisure element based on the equivalent SAA or local Practice Note for that specific part eg. Golf Course or Health Club.

5.6 End Adjustment

- 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. 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 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.

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 considered in terms of Category 1 in section 5.4 above, and 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 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.
- 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.

9.0 Car Parking

- 9.1 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.

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
Double or Twin	1.00	0.75	10 - 20m ²
Single	0.70	0.45	Up to 10m ²
Family	1.25	1.00	20 - 30m ²
Suite Standard	1.50	-	2 Rooms (or >30m ²)
Suite Superior	2.00	-	3 Rooms (or >30m ²)

10.2 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.

10.3 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.

10.4 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 layout 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 continue to apply.

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 bathroom spaces within the apartment in arriving at that.