



Land &
Property
Services®

NON-DOMESTIC REVALUATION 2015

VALUATION SCHEME

HOTEL AND GUESTHOUSE (LICENSED ACCOMMODATION)

1.0 SCOPE

The scope of this scheme is solely to ensure a consistent valuation approach for this property Class/Sub Class/Type for Non-Domestic Revaluation 2015 and subsequent entry in the new Valuation List which becomes effective on 1st April 2015.

The basis of valuation for new entries in the Valuation List, and Rating Revision cases after 1st April 2015, is Schedule 12 (2)(1) of the Rates (NI) Order 1977.

2.0 DESCRIPTION

This scheme refers to property classified as:

Class: Licensed Accommodation
Sub Class: Guesthouse
Holiday Complex
Hotel

Hotels can vary greatly in size, range and standard of facilities and amenities offered and a regulatory rating system is in place to grade properties. See Appendix 1.

3.0 LEGISLATIVE BACKGROUND

3.1 Rating legislation

Schedule 12 Part 1 Paragraph 1 of the Rates (NI) Order 1977 applies.

“Subject to the provisions of this Order, the Net Annual Value of a hereditament shall be the rent for which, one year with another, the hereditament can, in its actual state, be reasonably expected to let from year to year, the probable average annual costs of repairs, insurance and other expenses (if any) necessary to maintain the hereditament in its actual state, and all rates, taxes or public charges (if any), being paid by the tenant”.

3.2 Regulatory Legislation

Tourism (Northern Ireland) Order 1992, Article 12. The statutory categories of tourist establishment:

1. For the purposes of this Part there shall be the following categories of tourist establishment, namely:

(a) hotels;

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- (b) guesthouses;
- (c) bed and breakfast establishments;
- (d) self-catering establishments;
- (e) hostels;
- (f) bunk house;
- (g) campus accommodation; and
- (h) guest accommodation.

Article 14: Requirements as to certification and description of tourist accommodation:

1. A person shall not provide or offer to provide tourist accommodation in any establishment unless a certificate under Article 13 is in force in respect of that establishment.
2. The proprietor of an establishment shall not describe or hold out, or permit any person to describe or hold out, that establishment as being within a statutory category of tourist accommodation unless there is in force in relation to that establishment a certificate under Article 13 allocating that establishment to that statutory category.
3. A person who contravenes Paragraph (1) or (2) shall be guilty of an offence and liable on summary conviction to a fine not exceeding level 4 on the standard scale or to imprisonment for a term not exceeding 6 months, or to both.

3.3 Licensing Legislation

Licensing (Northern Ireland) Order 1996 [the 96 Order].

Article 5. Premises for which licences may be granted:

1. Without prejudice to Article 80, the premises in which the sale of intoxicating liquor is authorised by a licence shall be premises of one of the following kinds:
 - (a) premises in which the business carried on under the licence is the business of selling intoxicating liquor by retail for consumption either in or off the premises;
 - (b) premises in which the business carried on under the licence is the business of selling intoxicating liquor by retail for consumption off the premises;
 - (c) an hotel;
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- (d) a guesthouse;
- (e) a restaurant;
- (f) a conference centre;
- (g) a higher education institution;
- (h) a place of public entertainment;
- (i) a refreshment room in public transport premises; and
- (j) a seamen's canteen.

4.0 BASIS OF VALUATION

- 4.1 For this class of property the basis of valuation in the previous Valuation List, which expired on 31st March 2015, was the Receipts and Expenditure (R&E) method
- 4.2 The basis of valuation for the Valuation List coming in to force on 1st April 2015 is the Receipts and Expenditure (R&E) method.
- 4.3 In the absence of rental evidence, or a suitable unit of comparison to permit such rental evidence to be reliably analysed, the preferred method of valuation may be either the R&E method or the Contractor's basis. Where the nature of the occupation of the property is primarily concerned with achieving anticipated profit, and the tenant's rental bid is therefore likely to be based upon a consideration of receipts and expenditure, then in the absence of reliable rental evidence, the R&E method may be the most appropriate method of valuation to adopt.

Source: The Receipts and Expenditure Method of Valuation for Non-Domestic Rating Guidance Note produced in 1997 by the Joint Professional Institutions' Rating Valuation Forum which consists of the RICS, the IRRV, the RSA, the SAA, the VLA and the VOA.

1. Gross Receipts will be determined by taking into account all income reasonably to be derived from occupation of the property. A period of three years' accounts, prior to the AVD should give sufficient information to establish a fair and reasonable indication of the trading position. In the case of new ventures where trading accounts do not exist, refer to the accounts of similar ventures, or to the business plan prepared for the new occupier.
2. In general, receipts should include all income derived directly and indirectly from occupation of the property.

3. The proper Cost of Purchases made in order to produce those receipts should be deducted to determine the Gross Profit. Such costs relate only to those purchases which form part of the venture undertaken.
 4. Deduct the Working Expenses from the Gross Profit to determine the Divisible Balance. Outgoings considered as allowable working expenses are those incurred as a result of the operation. For example salaries, National Insurance payments, provision of services, insurance, phone bills, advertising, Head Office expenses. However a mortgage payment, which is an expense of the business, is not an expense for a rating valuation.
 5. The Divisible Balance (or net profit) is the remaining sum available to be shared between the landlord, and the tenant. It comprises two main elements:
 - a. **The Tenant's Share** – to provide a return on any tenant's capital employed and a reward to the tenant for his venture reflecting the extent of the risk and the need for profit. It must be a proper and sufficient inducement, not merely a fraction of the divisible balance. A 50/50 split of the divisible balance is adopted as a last resort. This is deducted from the Divisible Balance to leave:
 - b. **The Landlord's Share** – ie the amount available for the payment of rent and rates.
- 4.4 A shorthand methodology requiring the application of differential percentages to the various income streams making up the Fair Maintainable Trade (FMT) of establishments will form the primary valuation approach for all properties within this category.
- 4.5 Application of the scheme will require an estimate to be made of the FMT i.e. the likely level of trade [excluding VAT] considered to be maintainable at 1st April 2013, for each property. In assessing the FMT, some adjustments may be required to reflect the nature and type of business carried on at each establishment. See Appendix 2.

The established FMT will be apportioned between the primary income sources i.e. accommodation, drink, food and other income of the property. The NAV is then assessed by the application of differential percentage rates to each of these income streams. See Appendix 3.

5.0 FORMS OF RETURN

5.1 A bespoke Form of Return was issued for this class of property.

5.2 All Forms of Return used for NDR 2015 are available on the LPS website.

6.0 CONTACTS

6.1 For advice on any aspect of this scheme contact LPS on 0300 200 7801.

Appendix 1:

Accommodation rating

The Tourism (Northern Ireland) Order 1992 prohibits anyone from providing or offering to provide tourist accommodation as a business (that is, overnight sleeping accommodation for tourists provided by way of a trade or business) unless there is a valid certificate issued by NITB in force in respect of the premises. These regulations apply to all tourist accommodation categories including hotel, guesthouse, bed and breakfast and self catering establishments.

Classification

The inspection, certification and classification of such premises is the responsibility of the Northern Ireland Tourist Board. Premises are classified solely on the basis of the facilities they provide.

Hotels

Under the present system there are five classifications for Hotels built around a star system as follows:

5 star - prestige hotels which offer the highest international standards of comfort and service.

4 star - large hotels with high standards of comfort and service, in well-appointed premises, run by a professional team. All bedrooms have a private bathroom and some also have a private lounge. Food and beverage services meet exacting standards and there is good room service.

3 star - hotels offering good facilities and a wide range of services in comfortable surroundings. Food, wines and refreshments are available during the day and all bedrooms have en-suite facilities.

2 star - hotels offering good facilities with a satisfactory standard of accommodation, food and services. The majority of bedrooms have en-suite facilities.

1 star - hotels with acceptable standards of accommodation and food. Some bedrooms have en-suite facilities.

Unclassified - In addition, a number of hotels are ranked as unclassified. These are hotels that do not satisfy the minimum criteria of the classification scheme or do not as yet meet the minimum standards under the 1992 Order. They include hotels that, at the time of inspection, did not meet the requirements of the particular star rating for which they had applied, or are newly opened and have not been inspected yet.

Appendix 2:

Fair Maintainable Trade (FMT)

Application of the scheme will require an estimate to be made of the likely level of trade [excluding VAT] considered to be maintainable at 1st April 2013 having regard to the physical nature of the hotel and its location. It should be assumed that a competent hotelier responding to the normal trading practices and competition in the locality would proficiently carry out the business. This is known as the Fair Maintainable Trade (FMT) and should equate to the level of trade the hypothetical tenant would envisage when looking at the premises “vacant and to let”.

The estimate of FMT should, in the first instance, be based on actual receipts. These can usually be regarded as being representative of the trade of the hypothetical tenant. It will, however, be necessary to investigate all aspects of the trade in order to consider what should properly be taken into account in the hypothetical scenario. Where appropriate, adjustments should be made for over or under trading of the actual occupier. It should also be borne in mind that some types of trade can be incompatible.

Forms of return will be used to assemble past trading figures.

Where trade is not disclosed, an estimate will be made by comparison with other similar properties in the area. Comparison will be on the basis of FMT.

Trade mix

Trade mix [or income split] has a bearing on the profitability of licensed residential accommodation. Even premises with the same classification are likely to show wide variations in trade mix depending on location, character, range of facilities, business emphasis etc. It is essential that FMT is apportioned between the main income streams that make up the business at each premise. These main income streams are:

- accommodation;
- intoxicating liquor
- food, and
- other receipts.

Accommodation

Accommodation receipts are generally regarded as being the most profitable of the income streams and hence, can be viewed as a useful guide to profitability.

Liquor

Liquor sales are regarded as the middle ranking receipts in terms of profitability with gross profit margins in the region of 60%-65%.

Food

Although similar to liquor in terms of gross margins, food sales are the lowest ranking receipts from a profitability point of view.

Other Receipts

Income from other sources includes room hire, telephone calls, door receipts and machine income. Although they tend to represent only about 5% of turnover such receipts can be highly profitable and should, where quantifiable, be added to the liquor trade.

Expected Performance Norms

Over the years analysed figures have revealed a wide variation within and between classes of hotels. There is, however, considerable common ground. The figures in the table below should be regarded as the performance “norm” in respect of trade mix for each class of hotel.

Trade mix

CLASSIFICATION	% ACCOMMODATION	% LIQUOR	% FOOD
1 Star	10-15	40-50	40-50
2 Star	15-20	35-40	40-50
3 Star	20-30	20-30	40-50
4 &5 Star	30-40	20-25	40

Receipts under “other” sources are included in the liquor figures.

Hotels and guesthouses are subject to a rating system carried out by NITB. See Appendix 1. However, as the vast majority of premises that fall within the scope of this Scheme are Hotels for the purpose of this Scheme, Valuers should equate guesthouses and holiday complexes to an appropriate Hotel Star classification. This will require consideration of the facilities offered, the standard of accommodation provided and the trade mix at each property.

Unclassified hotels should be associated with 1 star if they have not yet met the minimum standards of the 1992 Order. If however they are unclassified because a decision on their classification is outstanding, they should be classified on the basis of the star rating for which they have applied.

Appendix 3:

Percentages to be applied to FMT

Having established the appropriate levels of FMT for each income stream, the next step in the valuation process is to apply differential percentages to establish NAV. The table below sets out the range of percentages depending on the hotel classification.

Factors influencing percentages adopted include:

Primary

- Quality of location.
- Age and operational efficiency.
- Type and mix of trade and its security.
- Seasonality of trade.
- Physical characteristics (purpose built/conversion).
- Nature and extent of bedrooms, public areas and function/conference facilities.
- Cost of repair and maintenance.
- Overall standard relative to class.

Secondary

- Nature and extent of competition.
- Site layout/access/parking facilities.
- Interior design and layout.
- Special character/appeal.
- Bedroom occupancy rate.
- Price structure.
- Nature and extent of entertainment.

Classification/Star	Accommodation%	Drink%	Food%
1	4.5 - 5.0	4.5 - 5.0	2.5 – 3.5
2	4.5 – 6.0	4.5 - 5.0	2.5 – 3.5
3	5.5 – 7.0	5.0 – 6.0	3.5 – 4.0
4	6.5 – 8.0	5.5 – 6.5	4.0 - 5.0
5	6.5 – 8.0	5.5 – 6.5	4.0 - 5.0