

Appeal No. VA00/3/009

AN BINSE LUACHÁLA
VALUATION TRIBUNAL
AN tACHT LUACHÁLA, 1988
VALUATION ACT, 1988

Atlantic Coast Hotel

APPELLANT

and

Commissioner of Valuation

RESPONDENT

RE: Licensed Hotel at Map Reference 13, 14, 15, 16 Westport Quay, Townland: Cloonmonad,
Westport Urban, Co. Mayo
Quantum - Valuation method

B E F O R E

Fred Devlin - FSCS.FRICS

Deputy Chairman

Michael Coghlan - Solicitor

Member

Finian Brannigan - Solicitor

Member

JUDGMENT OF THE VALUATION TRIBUNAL
ISSUED ON THE 10TH DAY OF APRIL, 2001

By Notice of Appeal dated the 26th day of September, 2000, the appellant appealed against the determination of the Commissioner of Valuation in fixing a rateable valuation of £800 on the above described hereditament.

The Grounds of Appeal as set out in the Notice of Appeal are that "the Valuation is excessive in comparison to similar properties."

1. The Appeal proceeded by way of an oral hearing, which took place on 14th day of March 2001 in the offices of the Tribunal, Ormond House, Ormond Quay, Dublin. The Appellant was represented by Mr. Nicholas McAuliffe A.S.C.S. A.R.I.C.S. and the Respondent by Mr. Colman Forkin A.S.C.S. A.R.I.C.S, a District Valuer in the Valuation Office.
2. Prior to the hearing written submissions and valuations were received from both valuers which were adopted by them at the oral hearing as being their evidence in chief given under oath.
3. The subject of this appeal is a newly built five-storey over-basement Hotel building situated on Westport Quay about one mile from the town centre. The Hotel is located in mid-terrace on the site of an old mill building and has been built and finished to a high standard with a cut stone elevation to the quay. The accommodation provided is as follows:-

Ground Floor	Foyer Lounge	
	Public Bar	
	Offices	
	Lifts	
	Ladies and Gents Toilets	
First Floor	Bedrooms 101-129	}
	Meeting Room No. 1	}
	Linen Cupboards	} 85 ensuite bedrooms
Second Floor	Bedrooms 201-229	} in hotel
	Meeting Room No. 2	}
	Linen Cupboards	}
Third Floor	Bedrooms 301-327	}
	Meeting Room No. 3	}
	Linen Cupboards	}
Fourth Floor	Function Room	
	Kitchens	

	Restaurant
	Ladies and Gents Toilets
	Reception
Basement	Motor Rooms
	Male and Female Changing Rooms
	Spirits Store
	Keg Cold Room
	Wine Store
Leisure Centre	Pool, Gym, Changing Areas, Steam Room, Children's Play Area, Reception, Solarium
	Offices
Outside	There is surface parking for 80 cars.

The Hotel has a four star rating and cost about £7.7 million to complete including all fitting out costs.

4. At the 2000/3 Revision the Rateable Valuation was assessed at £800. No change was made at the first appeal stage and it is against this decision that the appeal to this Tribunal lies.
5. Mr. McAuliffe in his direct evidence and in further oral evidence made the following contentions:-
 - 1) Westport depends largely on the Tourist Industry and enjoys a relatively short summer season. This is something that a hypothetical tenant would take into account.
 - 2) The building occupies a narrow site between the quay and a rock face at the rear. This gave rise to higher than normal costs during construction and precludes any further expansion in the future.
 - 3) The Atlantic Coast Hotel is a new hotel and is not yet operating to its full potential and it will take some time before it establishes its own good will.

- 4) The development of the hotel is a tax-based venture and is leased to the Atlantic Coast Partnership for a term of 20 years from 1999 at a rent of £712,000 per annum subject to review after ten years. The Partnership has a management agreement with a related company called Atlantic Coast Hotel Limited. In the circumstances the passing rent is not a market rent in the true sense of the word and cannot therefore be used as the basis of assessment.
 - 5) The Net Annual Value of a hotel should be determined having regard to its profit earning ability and not by comparison with the assessment of other hotels as proposed by the Valuation Office.
 - 6) At the valuation date the hotel complex was not complete and further building works were in hand.
6. Having regard to the above Mr. McAuliffe put forward the following valuation and introduced two comparisons as set out in the appendix attached to this determination.

November 1988

Average Turnover	-	£1,072,884
Nett Profit @ 18%	-	£193,119
Available for rent 50%	-	£96,559
1988 (reduced by 25%)	-	£77,419
RV. @ 0.5%	=	£362

7. Mr. Forkin in his direct evidence and in supplementary oral evidence put forward the following contentions:-
 - 1) Westport is a thriving town and the fact that certain areas of it were granted designation for redevelopment purposes does not indicate otherwise.
 - 2) In arriving at his opinion of Net Annual Value he considered the most appropriate method to adopt was the comparative method. Accordingly he had examined the assessments of four hotels in Westport of a similar size and whose valuations had recently been revised.
 - 3) A new hotel does not necessarily need time to build up good will but is able to avail of the opportunity to thrive from the outset of business activities.

8. Having regard to the above Mr. Forkin put forward the valuation as set out below:-

Area of Hotel on listed lots: 5437.76 m² @ £29.60 = £160.958
 Estimated Net Annual Value £160,000 x 0.5% = £800.00

In support of his valuation Mr. Forkin introduced four comparisons two of which are common and are set out in the appendix attached to this report.

Findings:

1. The valuers in this appeal adopted fundamentally different valuation approaches. Mr. McAuliffe depended upon what can be best described as a shortened version of the receipts and expenditure method which is also known as the profits/accounts method, while Mr. Forkin relied solely upon the comparative method.
2. In the appeal the Ferrycarrig Castle Hotel Limited v The Commissioner of Valuation VA95/1/025, this Tribunal considered at some length the valuation of Hotels and the various valuation methods and came to the conclusion

“that since the nature of the operation of a hotel is to achieve profit, it follows that the rent will be based upon this assumption and hence the most appropriate method of valuation will be the accounts or profits method.”

The Tribunal went on further to say

“In the absence of rental evidence the accounts or profits method is frequently used by valuers in assessing Net Annual Value. Mr. Colgan rightly said in this appeal that the accounts of a particular property would only show how that property is trading under the present management. It is to be remembered that under rating law it is to be assumed that the property is vacant and to let and that the occupation is that of a hypothetical tenant generally willing to occupy it for its present purpose. The task of the valuer therefore is to take the accounts as evidence and to assess the level of trade that could

reasonably be expected to be achieved by a hypothetical occupier taking into account all intrinsic and extrinsic factors upon which he would be likely to base his opinion of rental value. In arriving at his valuation, the valuer should examine the accounts for the present and previous years and before finalizing his valuation should if possible look at the trading accounts of comparable properties. The Tribunal attaches considerable weight to this type of evidence.

The comparative method of valuation based solely on the size of the Hotel may not be helpful due to the differences in design and range of facilities that may be provided. If valuers use this method, it is essential that the comparisons relied upon are relevant having regard to all the physical characteristics, location and trading circumstances. There is a danger that without knowledge of trading any comparison by reference to the physical characteristics solely could be misleading and unreliable. Under the circumstances therefore the Tribunal considers such evidence very carefully and will apply only such weight to it, as it considers appropriate in the circumstances.”

3. In regard to this appeal there is evidence of a passing rent which both valuers rightly disregarded having regard to the fact that the entire development is tax driven. In the absence therefore of reliable rental evidence all other alternative methods of valuation must be investigated in order to select the one which will contain the smallest margin of error.
4. Mr. McAuliffe in arriving at his opinion of Net Annual Value assumed a net profit of 18% of the turnover achieved for the first two years of operation. He did not however introduce the financial statements of the hotel in evidence and indeed the limited information on turnover provided appeared on examination to be imprecise in relation to the accounting periods used. Consequentially the Tribunal holds that it would be unsafe to use the limited financial information provided as the basis for determining Net Annual Value and hence Mr. Forkin's valuation method is preferred in the circumstances of this appeal. In this regard the Tribunal notes that two of Mr. Forkin's four comparisons were also introduced by Mr. McAuliffe so that he too considered the rateable valuations of these to be relevant. It is also noted that all of the comparisons are generally similar in size and function and have valuations made or revised within a recent period and hence meet the criteria in Section 5(2) of the Valuation Act 1986.

5. The four comparisons introduced by Mr. Forkin are mainly well established hotels with annual turnovers in the order of two million pounds which is considerably in excess of that being achieved in the subject. The Net Annual values of these comparisons have been based on sq.m. rates varying from £24.76 to £27.13 as against £29.60 per metre applied to the subject. Having regard to the fact that the subject is a newly established hotel not yet operating at its optimum capacity the sq.m. rate applied appears to be on the high side. Additionally further work is on hand and this ought to be reflected in the valuation of what is as yet an incomplete hotel premises.

Determination:

Having regard to all the evidence and comparisons introduced and to the findings set out above, the Tribunal determines the Net Annual Value of the subject property to be £14,000 giving a rateable valuation of £700. The above figure may be devalued as follows:-

Areas of Hotel	5,437.76 m ² @ £25.75 per m ² =	£14,022
Net Annual Value	Say =	£14,000

Rateable Valuation @ 0.5% = £700

and the Tribunal so determines.