

Appeal No. VA07/3/026

AN BINSE LUACHÁLA
VALUATION TRIBUNAL
AN tACHT LUACHÁLA, 2001
VALUATION ACT, 2001

Carlton Hotel (Dublin Airport) Ltd.

APPELLANT

and

Commissioner of Valuation

RESPONDENT

RE: Hotel at Lot No. 1E, Turnapin Great, Airport, Airport, County Dublin

B E F O R E

Fred Devlin - FSCS.FRICS

Chairperson

Michael F. Lyng - Valuer

Member

Patrick Riney - FSCS FRICS FIAVI

Member

JUDGMENT OF THE VALUATION TRIBUNAL
ISSUED ON THE 11TH DAY OF DECEMBER, 2007

By Notice of Appeal dated the 19th day of July, 2007 the appellant appealed against the determination of the Commissioner of Valuation in fixing a rateable valuation of €4,380.00 on the above described relevant property.

The grounds of Appeal as set out in the Notice of Appeal are:

"1) Valuation is excessive and inequitable. 2) Profitability affected by restricted planning."

1. This Appeal proceeded by way of an oral hearing held in the offices of the Valuation Tribunal, Ormond House, Ormond Quay Upper, Dublin 7 on the 11th day of October, 2007.
2. At the hearing Mr. Owen Hickey, BL, instructed by Mr. Brendan Byrne, of Liam Moran & Co. Solicitors, appeared on behalf of the appellant. Mr. James Devlin, BL, instructed by the Chief State Solicitor, appeared on behalf of the respondent, the Commissioner of Valuation.
3. Ms. Sheelagh O Buachalla, BA, ARICS and Mr. Noel Rooney, Dip. Env. Econ., a Valuer in the Valuation Office, gave expert valuation evidence on behalf of the appellant and respondent respectively. Mr. Michael Kearney, the Managing Director of the appellant company and Mr. Declan Meagher, the Manager of the Carlton Hotel at Dublin Airport, gave evidence in relation to the development and operation of the hotel. Mr. James Timmons of Horwath Bastow Charleton, Chartered Accountants, gave evidence in relation to their report on the rateable valuation of the Carlton Hotel prepared on behalf of the appellant company.

The Property Concerned

4. The property which is the subject of this appeal is the Carlton Hotel which is a new 4 star facility located on the old Airport Road close to Collinstown Cross Junction and convenient to the M1 and M50 motorways. The hotel which is located less than one kilometre from the main terminal of Dublin Airport is well served by public and private transport and provides surface car-parking for 250 vehicles.
5. The hotel, which was opened in June, 2006, is a four storey over basement building and provides 100 guestrooms including 7 Junior Suites and a Penthouse Suite. In addition there are 17 Conference/Meeting Rooms with all necessary ancillary telephonic/electronic communication systems.
6. The agreed area of the property measured on a gross external area basis is as follows:

Hotel: 8,010.30 sq. metres
 Basement Stores: 1,300.90 sq. metres
 Store at 3rd Floor: 584.00 sq. metres
 250 surface car-parking spaces

Rating History

7. In September, 2006 the Revision Officer appointed pursuant to Section 28(2) of the Valuation Act, 2001 issued a Valuation Certificate (Proposed) to the effect that the rateable valuation of the property concerned had been assessed at €4,480.00. Following representations by the appellant, a Valuation Certificate was issued wherein the rateable valuation was determined at €4,380.00. No change was made on foot of an appeal to the Commissioner of Valuation and it is against this decision by the Commissioner that the appeal to this Tribunal lies.

The Appellant's Evidence

8. Mr. Michael Kearney, the Managing Director of the appellant company, said he had purchased the former "Kittyhawks" Restaurant in 1994 with the intention of redeveloping the property as a hotel. At that time he was of the opinion that there was a market demand for a 200 bedroom hotel at this location, given its proximity to Dublin Airport. In May, 2003 an application for the construction of a 204 bedroom hotel with associated restaurant, bar, function area and conference facilities in a 6 storey over basement structure, with the sixth storey set back and having a total floor area of 15,953 square metres, was lodged with the local planning authority. The planning application provided for an underground car-park with additional surface car-parking for 263 cars and 3 coaches. This application, Mr. Kearney said, was not pursued for technical reasons. In May, 2003 the Manager of Fingal County Council wrote to Mr. Michael Kennedy, Cathaoirleach of the County Council, indicating that the proposed development would not be permissible for a number of reasons, but more particularly because the site, whilst not within the inner public safety zone (PSZ), was inside the proposed outer PSZ. In his letter the County Manager also said "I understand that hotels with over 100 bedrooms will not be considered acceptable within the outer PSZ."
9. In light of the County Manager's letter, Mr. Kearney said he instructed his architects to submit a revised planning application for a 100 bedroom hotel. In due course and on 21st February, 2005, Fingal County Council issued a "Notification of Intention to Grant Permission" for the subject hotel, subject to 16 conditions. A copy of this notification was contained in Ms. O Buachalla's précis of evidence. Mr. Kearney said there was a possibility of adding more bedrooms when the proposed second runway was opened at the airport.

10. Under examination by Mr. Devlin, Mr. Kearney said that all 250 car-parking spaces were necessary for the use of the hotel and all its many activities. He agreed that the hotel offered a “Fly and Drive” service to hotel guests, subject to the payment of an appropriate charge. This service, he said, was part of the overall operation of the hotel and was not available to anyone other than guests of the hotel.
11. Mr. Declan Meagher, the General Manager of the Carlton Hotel, said he had prepared the document included in Ms. O Buachalla’s précis which purported to compare the projected operating results of the property concerned for the year 2006/2007 with those achieved in the Great Southern Hotel at the airport for the year 2006. This analysis, Mr. Meagher said, indicated the disadvantages associated with operating a 100 bedroom hotel where the revenue for rooms represented 51% of total sales as against 62% achieved in the Great Southern Hotel, which has 229 bedrooms. In the hotel industry, Mr. Meagher said, bedroom sales were the most profitable of all the available services. Food and beverages sales, he said, were labour-intensive and labour costs associated with these services represented a high percentage of sales achieved.
12. Under examination by Mr. Devlin, Mr. Meagher said that in normal circumstances the car parking requirement for guests was probably about one space per room. There were, however, other activities in the property which also gave rise to car-parking requirements, such as weddings and functions.
13. Mr. John Timmons, a chartered accountant with 17 years experience in the hotel industry and a recent staff member of Horwath Bastow Charleton, said he was involved in the preparation of a report prepared on behalf of the appellant company in relation to the rateable valuation of the Carlton Hotel. A copy of this report was provided to the Tribunal as part of the evidence received before the hearing and subsequently received into evidence.
14. Horwath Bastow Charleton, Mr Timmons said, was well recognised as the expert in the Irish hotel industry and produced an annual survey dealing with the performance and profitability of the hotel industry in the country. The HBC report, he said, looked at the rateable valuation of all hotels in the Dublin Airport area relative to their size and circumstances. As part of this examination they carried out a competitive set analysis which produced the results as set out below:

Carlton Hotel Dublin Airport				
Competitive Set Analysis				
Hotel Name	Bedrooms	Classification	Rateable Valuation	RV per Bedroom
Ballymun Plaza	125	Unclassified	€2,535	€20
Bewleys	466	3*	€10,880	€23
Carlton Hotel	100	Unclassified	€4,380	€44
Clarion Hotel	248	4*	€5,460	€22
Crowne Plaza	204	4*	€5,100	€25
Days Inn	88	Unclassified	€1,825	€21
Hilton	166	4*	€3,850	€23
Holiday Inn Express	114	Unclassified	€1,850	€16
Radisson SAS	229	4*	€6,765	€30
Tulip Inn	155	3*	€2,937	€19
Total Rooms	1,895		€45,582	€24
Average Number of Bedrooms 190				

15. Elsewhere in the report HBC made the point that “*bedroom sales is the key driver of profitability*” and that the level of profitability achieved is in direct proportion to the number of bedrooms available. The HBC report said that “*the average hotel (per the Ireland and Northern Ireland Hotel Industry Survey 2007 by Horwath Bastow Charleton), at 120 rooms, converts 28% of bedroom revenue to profit, while only 14% of food and beverage sales converts to profit. For larger hotels, averaging 160 bedrooms, departmental profitability rises to 33% for rooms, but drops to 12% for food and beverage.*” Having regard to the above facts, Mr. Timmons said it was clear that the Carlton was operating at a distinct disadvantage to the larger hotels in the vicinity of the airport. This, he said, is something that should be taken into account when arriving at its valuation for rating purposes. Having regard to the contents of the report, Mr. Timmons said that in his opinion, the rateable valuation of the subject property should be in the range of €2,400.00 to €3,000.00.
16. Under examination Mr. Timmons agreed that he had no expertise in rating valuation matters. He further agreed that the competitive set analysis exercise was purely a

mathematical one and did not take into account the classification of the hotels nor the range and quality of the various services provided at each establishment.

17. At the hearing Ms. O Buachalla sought and obtained leave to amend her précis and valuation which had previously been received by the Tribunal and which was then formally received into evidence under oath.
18. In her evidence at the hearing Ms. O Buachalla contended for a rateable valuation of €2,757.00 calculated as set out below:

Hotel:	8,010.33 sq. metres @ €49.20 per sq. metre =	€394,106.70
Basement Stores:	1,300.70 sq. metres @ €27.33 per sq. metre =	€35,548.10
3 rd Floor Store:	584.30 sq. metres @ €13.67 per sq. metre =	<u>€7,987.38</u>
NAV		€437,642.00
RV @ 0.63% Say		€2,757.00

19. In support of her opinion of rateable valuation Ms. O Buachalla introduced 5 comparisons, details of which are set out in Appendix 1 attached to this judgment. Four of Ms. O Buachalla's comparisons are located close to the Airport whilst the Hilton Hotel (Comparison No. 1) is located in the Dublin City Council Rating Authority Area.
20. In her evidence Ms. O Buachalla said that a 100 bedroom hotel was smaller than a hypothetical tenant in the market would desire at this location. In arriving at her opinion of net annual value she had examined the valuation of hotels close by, all of which were valued at between €73 and €75 per square metre. Having regard to the economies of scale associated with running a 200 bedroom hotel she had made an allowance of 30% and hence arrived at a figure of €49.20 per square metre, which she considered appropriate for the property concerned having regard to its size and the relatively small number of bedrooms.
21. Ms. O Buachalla said she concurred with Mr. Meagher's and Mr. Timmons' evidence in relation to the proposition that profitability was a function of the number of bedrooms available at the property. The ability to make profit would have a bearing, she said, on the rental value.
22. In relation to the 250 car-parking spaces at the property concerned, Ms. O Buachalla said they were all required for normal hotel business activities. She also pointed out that it was not the practice to value car-parks in hotels at the Airport and there was no reason to depart from that practice when valuing the subject hotel. She was, she said, aware that the

car-park at Bewley's Hotel was valued but this she indicated was justified because Bewley's actively marketed the car-parking as a commercial activity and not merely as a service to its customers.

23. Under examination, Ms. O Buachalla agreed that the valuation put forward by her at the appeal to the Commissioner of Valuation stage was higher than that at this hearing. Ms. O Buachalla said her valuation at appeal was on a "without prejudice basis" and that at the time she made the submission to the Commissioner she was not fully aware of the restrictions on profitability associated with a 100 bedroom hotel. Similarly, she was not aware of the exercise carried out by Mr. Meagher which confirmed the trading disadvantages under which a 100 bedroom hotel operates, compared to one with 229 bedrooms. In the light of this additional information she felt a 30% reduction from the average square metre rate applied to other hotels in the Airport area was justified. Furthermore, she contended, the property concerned was in a start-up situation whilst the other hotels were well established and this too, together with all other relevant factors, must be taken into account when valuing the subject property.
24. Ms. O Buachalla agreed that the Hilton Hotel was not in the Fingal Rating Authority area but said she had included it, not as a direct comparison as such, but merely to show the level at which city centre hotels were valued.

The Respondent's Evidence

25. Having taken the oath Mr. Noel Rooney adopted his précis and valuation which was previously received by the Tribunal as being his evidence- in-chief given under oath.
26. In his evidence Mr. Rooney contended for a rateable valuation of €4,380.00 calculated as set out below:

Basement:	1,300.96 sq. metres	@ €4.68 per sq. metre	= €1,136.49
Ground 3 rd Floor:	8,010.27 sq. metres	@ €73.81 per sq. metre	= €91,238.02
Stores 3 rd Level:	584.00 sq. metres	@ €13.67 per sq. metre	= €7,983.28
Car parking:	250 spaces	@ €100 per space	= <u>€25,000.00</u>
NAV			= €95,357.79
RV @ 0.63% Say			€4,380.00

27. In support of his opinion of net annual value Mr. Rooney introduced 6 comparisons, all of which are located close to the subject property. Details of Mr. Rooney's comparisons are at Appendix 2 to this judgment.
28. Mr. Rooney said that his opinion of rateable valuation in this case was well supported by the comparisons put forward by him, all of which were within the Dublin Airport catchment area. Five of these comparisons, Mr. Rooney said, had been agreed with GVA Donal O Buachalla, of which Ms. O Buachalla had been a Director until recent times.
29. Mr. Rooney said that in all instances the availability of car-parking at his comparisons was reflected in the overall rate per square metre applied to the hotel building. This was because they did not, unlike the property concerned, operate a "Fly and Drive" facility. The only other hotel in the vicinity which offered such a service was Bewley's Hotel and in that instance the 900 car-parking spaces were valued. The car-park at the Tulip Inn was also valued because this was a facility shared with the adjoining restaurant, which was separately valued from the hotel.
30. Under examination by Mr. Hickey, Mr. Rooney said that his valuation approach was straightforward and based solely on the tone of the list for hotels in the vicinity of the Airport. In arriving at his valuation he did not consider the number of bedrooms to be a significant factor as such, nor indeed did he have regard to the actual profitability of the property concerned.
31. Mr. Rooney said that he accepted that there were economies of scale in the operation of larger hotels and agreed that this might have a bearing on rental value. He further agreed that the relativity between the rateable valuation and number of rooms examined in the Horwath Bastow Charleton report indicated a consistent pattern with an average of about €22 per bedroom in respect of 9 hotels in the airport area compared to €44 per room for the subject. Mr. Rooney said that the number of rooms was not the only criterion but regard would also have to be given to the added facilities provided at the subject hotel.

Submissions

32. In the closing submissions both Counsel contended that the valuation of the property concerned must be assessed in its present state and circumstance having regard to Section 49(1) of the Valuation Act, 2001. That being the case, it was important to have regard to the valuations of other relevant comparisons in the same rating authority area. Mr. Hickey emphasised the fact that all of the comparisons were hotels larger than the property concerned and with a greater number of bedrooms and hence benefited from economies

of scale. This, he said, must be reflected in the rateable valuation of the property concerned.

Findings

The Tribunal has carefully considered all the evidence and arguments adduced at the hearing and finds as follows:

1. The subject property is a new four star hotel located close to Dublin Airport. In the vicinity there are a number of hotels, some of which are located within the Airport complex itself. It would appear that there is an ongoing demand for bedroom accommodation convenient to the Airport and further hotels are at various stages in the procurement process to meet the needs of the ever-increasing number of passengers using Dublin Airport. The Carlton Hotel provides a wide range of conference facilities, function rooms, restaurants, bar and 100 bedrooms.
2. Section 49(1) of the Valuation Act, 2001 states *“If the value of a relevant property (in subsection (2) referred to as the “first-mentioned property”) falls to be determined for the purpose of section 28(4), (or of an appeal from a decision under that section) that determination shall be made by reference to the values, as appearing on the valuation list relating to the same rating authority area as that property is situate in, of other properties comparable to that property”*.
3. In arriving at their respective opinions of net annual value the expert valuers used the comparative method of valuation and introduced details of a number of hotels in the vicinity of the Airport which they considered to be relevant comparisons.
4. The evidence of Mr. Timmons of Horwath Bastow Charleton, indicates that the Carlton Hotel operates in a highly competitive environment and concludes that bedroom sales are the key driver of profitability.
5. The Horwath’s report includes an analysis of nine other hotels within the Dublin Airport catchment area and this indicates that the average number of bedrooms within each hotel is 180. However, if Bewley’s Hotel is excluded, the average drops to 143, varying from 88 at Days Inn in Ballymun to 248 at the Clarion at the Airport. This compares to 100 bedrooms at the subject property.
6. The Horwath’s report investigated the relationship between the rateable valuation of 10 hotels (including the subject) and the number of bedrooms in each hotel and arrived at an average figure of €24 per room, as compared to €44 per room in respect of the Carlton. This exercise in our opinion is an over-simplistic approach and does not take into account

other relevant factors, such as the hotel classification, the quality and finish of the hotel building and the range of facilities provided at the property. All of these, in addition to the number of bedrooms, would have a bearing on rental value.

7. The Horwath's report certainly puts forward the proposition that the number of rooms available at the subject is substantially below the optimum for a hotel in this location and this performance has an adverse effect on its ability to trade at acceptable levels of profitability. In the light of this inherent drawback, the report concludes that the rateable valuation of the property concerned is excessive by comparison with the assessment of other hotels in the Dublin Airport area. The Tribunal considers that there is some merit in this proposition.
8. Mr. Kearney in his evidence said that 250 car spaces at the property were necessary for the range of activities provided at the hotel which includes a "Fly and Drive" facility for guests. He agreed that parking was available on a sliding scale of cost depending upon the length of the parking stay period.
9. Mr. Meagher in his evidence said that a 100 bedroom hotel was more labour intensive than a similar hotel with 200 bedrooms, as there was an over-reliance on other revenue producing activities, such as food and beverage sales. The Tribunal accepts Mr. Meagher's evidence in this matter, and considers it to be a factor that a hypothetical tenant would have regard to in arriving at his or her opinion of rental value.
10. The number of car-parking spaces provided at the Carlton is substantially greater than the generally accepted industry norms of about 1 car-parking space per bedroom.
11. Many of the comparisons introduced were common and relied upon by both valuers to support their respective and greatly different opinions of net annual value. Notwithstanding the fact that these comparisons are inherently different from each other and the property concerned, neither valuer made any attempt to analyse the valuations of these comparisons to reflect the size, classification, bedroom numbers, range of facilities provided and any other relevant factor which may have a bearing in arriving at the appropriate valuation of the property concerned in accordance with section 49 (1). The mere statement of rates per square metre is almost meaningless unless accompanied by some qualitative and quantitative analysis.
12. The Tribunal, as stated at paragraph 7 above, accepts the proposition that a hotel of one hundred rooms in this location is operating at a disadvantage to other hotels in the catchment area of Dublin Airport. This disadvantage however, is to some degree offset by the quality and wide range of other activities provided at the Carlton. We are of the

view that Mr. Rooney did not fully appreciate the restrictions on trade imposed by only having 100 bedrooms when arriving at his opinion of net annual value. On the other hand Ms. O Buachalla overcompensated to an unsustainable extent.

13. Generally speaking the car-parking at the Hotels cited as being comparable is reflected in the valuation of the Hotel proper. In our opinion however there is an over-provision of car-parking spaces at the Carlton and hence we have decided to attribute a valuation to those spaces which we consider to be over and above what would normally be expected in a hotel of this size and nature.

Determination

Having regard to the foregoing the Tribunal determines the rateable valuation of the property concerned to be as follows:

Hotel	8,010.3 sq metres	@ €66 per sq. metre	€28,679.80
Basement	1,300.96 sq. metres	@ €44 per sq. metre	€7,242.00
Stores 3rd floor	584 sq. metres	@ €13.67 per sq. metre	€7,983.00
Car-parking	125 spaces	@ €50 per space	<u>€6,250.00</u>
NAV say			€600,000.00
RV@ 0.63%			€3,780.00

And the Tribunal so determines.