

Appeal No. VA97/6/011

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

**Allingham Arms Hotel Ltd.**

**APPELLANT**

**and**

**Commissioner of Valuation**

**RESPONDENT**

RE: Licensed hotel and land at Map Reference 24.26.28.28a, Townland: Maheracor,  
UD: Bundoran, Co. Donegal  
Quantum

**B E F O R E**

**Con Guiney - Barrister at Law**

**Deputy Chairman**

**Barry Smyth - FRICS.FSCS**

**Member**

**Marie Connellan - Solicitor**

**Member**

**JUDGMENT OF THE VALUATION TRIBUNAL**  
**ISSUED ON THE 18TH DAY OF NOVEMBER, 1998**

By Notice of Appeal dated the 3rd October 1997, the appellant appealed against the determination of the Commissioner of Valuation in fixing a rateable valuation of £675 on the above described hereditament.

The grounds of appeal as set out in the Notice of Appeal are that;

"1. The valuation is excessive and inequitable.

2. The valuation is bad in law".

The appeal proceeded by way of an oral hearing which took place on 3<sup>rd</sup> July 1998 at the Courthouse, Letterkenny, Co. Donegal. The appellant was represented by Mr. Desmond Killen FRICS FSCS IRRV, a director of Donal O’Buachalla & Company Limited. Also in attendance for the appellant was Mrs.Elizabeth McIntyre, Financial Controller of the Allingham Arms Hotel. The Respondent was represented by Mr. Christopher Hicks, a Valuer in the Valuation Office.

Having taken the oath each valuer adopted as his evidence in chief his respective written submissions which had previously been exchanged by them and submitted to the Tribunal.

**Material facts agreed or found by the Tribunal**

The property is located close to the centre of Bundoran facing directly onto the main beach. Bundoran is a holiday resort, with a population of approximately 1,800. It is a very active tourist location in June, July and August but throughout the rest of the year is quiet. The town enjoys little or no passing business or trade.

This is a three star, 88 en-suite bedroom hotel with bar, function room and dining room. It is open all year but only at weekends from January to March. Occupancy rates in the peak months is 85% but 45% and less for the remainder of the year. The function room can cater for weddings and dinner dances accommodating approximately 280 patrons but there is a limited demand for this facility. The total gross external floor area is 5,007 sq.m. (53,897 sq.ft.).

Mr. Killen provided the audited accounts for the years ended 29<sup>th</sup> February 1996 and 28<sup>th</sup> February 1995 from which the following information is obtained.

	<b>1996</b>	<b>1995</b>	<b>1994</b>
	<b>IR£</b>	<b>IR£</b>	<b>IR£</b>
Turnover	1,247,353	1,120,041	955,503
Cost of sales	<u>456,407</u>	<u>430,385</u>	<u>359,898</u>
<i>Gross profit</i>	790,946 (63.4%)	689,656 (61.6%)	595,605 (62.3%)
Administration Expenses	451,242	447,463	324,212
Operating profit before depreciation and financial expenses	339,704 (27.2%)	242,193 (21.6%)	271,393 (28.4%)

### **The Appellant's Case**

Mr. Killen stated that this was a basic three star hotel with approximately 88% of the business coming from tour companies. The tour tariff in 1995 was £20 to £29 for dinner, bed and breakfast. Mr. Killen drew the Tribunal's attention to a number of Tribunal decisions on Donegal hotels in recent times.

1. VA94/3/032 - Jody Gysling t/a Harvey's Point Hotel  
R.V. £290
2. VA93/1/069 - Donegal Hotels Limited (Mount Errigal, Letterkenny)  
R.V. £875
3. VA96/3/015 - Killybegs Hotel Limited  
R.V. £475
4. VA96/3/016 - Seaview Hotel (Bunbeg)  
R.V. £290

As a result of these decisions Mr. Killen expressed the view that valuations were available on a capital value basis, receipts and accounts basis and comparative basis i.e. price p.s.f. He therefore proposed R.V.'s on each basis as follows;

**1. Capital Value**

The N.A.V. of £175,000 on the Mount Errigal Hotel is 10% of the 1988 estimated capital value of £1.75m. The subject property, based on the 1996 accounts has land and buildings included at £1,665,000. Adjusting this figure to 1988 gives a figure of £1,150,000. Although Mr. Killen's submission does not develop this further, at 10% this would give rise to an N.A.V. of £115,000 and thus an R.V. of £575.

**2. Accounts/Receipts and Expenditure**

Mr. Killen did not provide a complete receipts and expenditure valuation but took the N.A.V. as a percentage of turnover adjusted to 1988. He provided three comparisons where a range of percentages was used, namely the Mount Errigal Hotel at 13.3%, the Central Hotel, Donegal at 11.36% and the Seaview Hotel, Bunbeg at 8.5%.

The turnover in the subject in 1996 was £1,247,000 which adjusted to 1988 gives a turnover of £1 million. Mr. Killen then applied the above percentages to the figure of £1 million giving rise to N.A.V.'s of £133,000, £113,600 and £86,000 and thus R.V.'s ranging from £665 to £568 to £430. He offered the opinion that the most appropriate percentage to use to derive an N.A.V. from the turnover, was 11.1% which is a simple average of the three figures noted in the comparisons above and gives rise to an N.A.V. of £111,000 and thus an R.V. of £550.

**Comparative Basis**

- 3.** On the comparative or rate p.s.f. basis, Mr. Killen produced two comparisons namely the Mount Errigal Hotel in Letterkenny, a four star 82 bedroom hotel of 75,800 sq.ft., the R.V. of which can be analysed to arrive at a rate of £2.30 p.s.f. and the Central Hotel in Donegal town, a three star 91 bedroom hotel of 67,228 sq.ft. which can be analysed at

£2.38 p.s.f. He stated that both hotels are in superior locations with passing trade, full year trading and function rooms. In Mr. Killen's opinion the appropriate rate p.s.f. to apply to the subject premises was £1.85 p.s.f on 53,897 sq.ft. equal to £99,709 N.A.V. or R.V. £498, say £500.

Mr. Killen requested the Tribunal to reduce the valuation on these premises to £500.

### **Respondent's Case**

Mr. Hicks dealt with the matter on a rate p.s.f. basis only and made in his written submission no reference whatsoever to the accounts.

Mr. Hicks provided three comparisons;

1. **The Tower Hotel, Sligo town**

A new three star hotel in a designated area comprising 33,200 sq.ft. and 58 bedrooms, let from June 1995 either at £230,000 per annum or £250,000 per annum. He stated that the N.A.V. was taken at 70% of this figure to allow for both backdating to 1988 and distortion caused by designation. The R.V. of £875 thus devalues at £5.27 p.s.f.

2. **Abbey Hotel, Donegal town**

Three star hotel of 50,000 sq.ft. R.V. agreed at £725 equivalent to an N.A.V. of £145,000 or £2.90 p.s.f.

3. **Slieve Russell Hotel, Ballyconnell**

A new four star hotel in rural Co. Cavan of 181,189 sq.ft. The R.V. was agreed at £2,930 in 1994 or an N.A.V. of £586,000 which devalues at £3 p.s.f. on the main area. This hotel has 156 bedrooms, a leisure centre and conference centre.

In reference to the receipts and expenditure method utilised by Mr. Killen, Mr Hicks expressed the view that the same rate (13.3%) used to derive the N.A.V. from the turnover as was used in the Mount Errigal Hotel was appropriate for the subject because of the nature of the business. He noted that 8.5% was used in the Seaview Hotel in Bunbeg, on the basis that the hotel was deemed by the Tribunal to be more in the nature of a public house than a hotel.

**Mr. Hicks valuation –**

53,897 sq.ft. @ £2.50 p.s.f. = £135,743.  
 Say = £135,000 N.A.V.  
 @ 0.5% = £675

**Determination**

While the respective valuers were largely in agreement on the nature of the location of the premises and the physical description and accommodation and type of trade in the premises, they are as much as 35% apart on their estimates of N.A.V. and R.V. In view of the fact that effectively three years accounts i.e. 1994, 1995 and 1996 were available it seems surprising to the Tribunal that the Respondent did not take any cognisance of these accounts in assessing N.A.V. and R.V. and relied simply on the comparative method. It is also surprising to the Tribunal that in view of the fact that full sets of accounts were available, that the appellant dealt only with the turnover and applied a simple percentage thereto to derive an N.A.V. This percentage varies from case to case depending on the nature of trade and profitability but the appellant takes the simple average of three comparisons and makes no argument as to why a certain percentage should be used or as to what that percentage might be. Mr. Hicks did state that in his opinion, the percentage should be equal to that applied in the Mount Errigal Hotel case because of the nature of the business in the subject premises. However the Mount Errigal Hotel case appears to have been decided on a percentage of capital value rather than a percentage of turnover and the information in relation to the matter is an analysis of a determined R.V.

The parties are aware that two other hotels in Bundoran are also the subject of appeals to the Tribunal, which appeals were heard on the same day as the subject premises. This is referred to in Mr. Hick's submission, where he states that the properties therefore cannot be considered in isolation. In view of the availability of the accounts for all three properties it is a matter of regret to the Tribunal that this appeal was dealt with without significant cross-reference by the appellant and without any reference to the accounts by the respondent.

The capital value basis outlined by the appellant is flawed in that the capital value provided is simply the book value of the property and does not necessarily refer to a market value of the property which was the case in the comparison provided of the Mount Errigal Hotel. The market value of a property could vary significantly from its book value. Under these circumstances this is not a method which finds favour with the Tribunal in this case and in fairness it is not proposed by Mr. Killen.

The comparative or rate p.s.f. method has been used in many hotel cases at least partly because a rate p.s.f. can be derived from the agreed or determined R.V. It is seldom that an actual passing rent is available for analysis in a hotel although the comparison of the Tower Hotel in Sligo town provided by Mr. Hicks is noted. The difficulty of the comparative method is adjusting the rate p.s.f. to be applied to reflect the size or quantum of the building, the physical condition and efficiency of the building and the trade that the hypothetical tenant considers the building capable of. It is perfectly possible that even in similar locations buildings of the same size could have quite different accommodation and thus quite different potentials for trade and these are matters that the hypothetical tenant would take into account. It would therefore have been useful for the Tribunal if comparison had been made between the size and accommodation of the subject property and the two other hotels under consideration at the same time and the accounts of all three.

The Tribunal has drawn together the evidence presented to it in relation to the three hotels, the subject of these appeals, as set out in the tables which follow:

## Comparison of Three Bundoran Hotels

<b>HOTEL</b>	<b>Area (Sq.ft.)</b>	<b>Turnover</b>	<b>Gross Profit %</b>	<b>Operating Profit (Before depreciation and financial expenses)%</b>	<b>Proposed R.V. VO/APP</b>
VA97/6/011 <b>Allingham Arms Hotel</b> 3*88B/R R/R £20/29	53,897	'96 £1.247m '95 £1.120m '94 £ .955m	63.4 61.6 62.3	27.2% 21.6% 28.4%	£675/£500
VA97/6/014 <b>Great Northern Hotel</b> 4* 96 B/R Leisure Centre Golf Course Was old Great Northern Hotel	72,206	'96 £1.15m '95 £1.07m	65.6 63.4	20.1% 21.1%	£810/£630
VA97/6/025 <b>Holyrood Hotel</b> 3*85 B/R Function Room & Disco	73,506	'96 £1.164m '95 £0.736m '94 £1.075m	60.9 56.6	24.5% 25.4%	£775/£645

### Comparison per year of turnover, gross profit and operating profit.

	Hotel	1996	Hotel	1995	Hotel	1994
<b>Turnover</b>	Allingham	£1.247m	Allingham	£1.12m	Holyrood	£1.075m
	Holyrood	£1.164m	Holyrood	£1.07m	Allingham	£0.955m
	Great Northern	£1.15m	Great Northern	£0.736m	Great Northern	N/A
<b>Gross Profit</b>	Great Northern	65.6%	Great Northern	63.4%	Allingham	62.3%
	Allingham	63.4%	Allingham	61.6%	Great Northern	N/A
	Holyrood	60.9%	Holyrood	56.6%	Holyrood	N/A
<b>Operating Profit (Before depreciation and financial expenses)</b>	Allingham	27.2%	Holyrood	25.4%	Allingham	28.4%
	Holyrood	24.5%	Allingham	21.6%	Holyrood	N/A
	Great Northern	20.1%	Great Northern	21.1%	Great Northern	N/A

From the above and from the evidence given by the valuers it is clear that The Great Northern and The Holyrood are very comparable in terms of size and turnover but the gross profit in The Great Northern is greater yet the operating profit is less. The Allingham Arms has a much smaller floor area but a greater turnover; gross profit similar to The Great Northern but considerably better operating profit. These factors clearly indicate that deducing an N.A.V. solely from the turnover requires further information. The hypothetical tenant would obviously seek such further information but is not an 'innocent abroad' and would be able to ascertain from inspection of the respective properties their efficiency as buildings and reasonably estimate the operating costs.

Having regard to the foregoing and the evidence adduced by the parties the Tribunal determines the rateable valuation at £600 calculated as follows:

53,897 sq.ft. @ £2.25 p.s.f. = £121,268 N.A.V.

@ 0.5% = £606

Say £600





