

VALUATION OF ACCOMMODATION HOTELS

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Guidance Papers

Objectives

The principal objective of a Guidance Paper (GP) and Resource Pack (if applicable) is to clarify professional and industry processes, best practices, and procedures and to discuss their use and implementation.

A GP is designed to be of assistance to Members and those who use Members' services. They serve as a guide and measure of acceptable professional practice and conduct of a Member.

The intention of a GP is to:

- a) provide information on the characteristics of different types of assets that are relevant to the advice.
- b) provide information on appropriate practices and their application.
- c) provide information that assists Members in exercising the judgements they are required to make in specific situations',
- d) convey elements of what is considered "competent professional practice" for Australian Property Institute (API) Members and "best practice" for Property Institute of New Zealand (PINZ) Members and New Zealand Institute of Valuers (NZIV) Members.

A GP is not intended to provide comprehensive training, instruction or prescriptive practices and procedures, or direct that a process, professional approach, or method should or should not be used in any specific instruction or situation.

Member Obligations

The Member is responsible for choosing the most appropriate approach in a matter based upon the task and instruction. It is a matter for each Member to decide the appropriate practice in any situation, and if they are unclear, seek professional advice from others, or contact the Institute(s). Members have the responsibility of deciding when it is appropriate to depart from the guidance and practices contained in a GP.

The Institute(s) do not warrant that anything contained in this, or any GP is the definitive or final statement on any issue. Members must perform their own work pursuant to their own professional expertise and experience and if required, seek additional advice which might include legal advice.

Court or Tribunal Reliance

A court or tribunal may consider the contents of any relevant GP or other document relating to a recommended professional practice published by Institute(s) in deciding whether the member acted to a standard required by law.

Currency of Publication

Case law and relevant legislation may change over time and whilst the Institutes(s) consider this GP current at the time of publication, Members and those who use Members' services should have regard to legislative changes and new rulings and if necessary, seek further advice prior to having regard to this GP.

Departure or Non-Compliance

Where a Member considers that a circumstance exists that warrants the departure from or non-compliance with any of this GP, the Member's report (or other advice) must include a statement that outlines:

- a) the reasons for the departure or non-compliance with this GP; and
- b) any impact the Members departure or non-compliance may have on the content of the report.

Members are advised to seek legal and/or other advice before departing from practice recommended in a GP.

Enquiries

If any Member considers any information or advice in this GP to not be accurate or up to date, or wish to raise any issue for consideration arising from the contents of this GP, please refer this to

API contact: standards@api.org.au

PINZ/NZIV contact: standards@property.org.nz

1.0 Introduction

1.1 Scope of this Guidance Paper

This GP applies to Institute Valuer Members (Valuers) who undertake valuations of accommodation hotels on behalf of known clients with whom those Valuers or their employers have entered into the appropriate valuation services agreement. The purpose of this GP is to detail commonly accepted processes and procedures for the valuation of accommodation hotels and to discuss the use of these processes and procedures.

Valuers providing valuations of accommodation hotels must do so to the standard of professionalism and skill required and consistent with membership of the Institute(s) and in compliance with the law.

This GP should be read in conjunction with other relevant GPs, TIPs, Guidance Notes and any other relevant publications from the Institute(s) which are either over-arching or directly applicable to the issues raised in this GP.

1.2 International Valuation Standards

International Valuation Standards (IVS) published by the International Valuation Standards Council (IVSC) are adopted by the Institute(s).

It is the Member's responsibility to comply with the IVS applicable at the date of valuation, keep informed of any changes and, apply them appropriately and consistently when providing valuations.

This GP is also intended to be consistent with the concepts and definitions contained in the IVS, however, there may be departures from the IVS to reflect Australian and New Zealand law and practice. This GP refers to and uses IVSC definitions to promote consistency.

2.0 Definitions

The definitions contained below and used in this GP are applicable to this GP and have been included to assist with the interpretation and understanding of certain stated terms used within this GP. Where a defined term is included in this GP it is identified as a capitalised term.

Institute(s)	All references to Institute(s) mean, as the context requires, the API, PINZ and/or NZIV.
Member(s)	A Member(s) of the API and/or PINZ and NZIV.

3.0 Instructions and Basis of Valuation

3.1 Role of the Valuer

The Valuer needs to demonstrate in a report an understanding of the operation of the subject property, the operator and/or lessee, the hotel's place in the market, competition, and any unique features it possesses.

3.2 Basis of Valuation

The valuation should clearly state whether it reflects the terms of an operating or management agreement, or an occupational lease or whether the valuation is on a vacant possession basis. It should also state whether it has been undertaken as a 'going concern' on a 'walk-in-walk-out' basis inclusive of all plant, equipment, furniture, and fittings but excluding stock.

3.3 Interests

The Valuer should be aware of the different interests in a property and should apply the same valuation principles to all interests based on the term of the management agreement or lease.

3.4 Accepting an Instruction

Prior to accepting an instruction, a Valuer must be confident of having the necessary expertise and sufficient information to undertake the valuation. For example, if the Valuer does not have complete or appropriate access to comparable sales and trading data, then the valuation instruction should be declined, or undertaken in conjunction with a Valuer who has the expertise and access to such information.

4.0 Review of Improvements

4.1 Key Factors

The improvements need to be considered in the context of their specialist use, with the following being examples of relevant factors:

- a) summary of room numbers by size/type/aspect
- b) location and adequacy of kitchen(s)
- c) appropriateness of food and beverage outlets
- d) size, location and appearance of entrance lobby and front desk
- e) layout and capacity of meeting rooms
- f) back of house facilities
- g) other facilities (e.g. Health Club, pool, etc.)
- h) on-site car parking (numbers/adequacy)
- i) vertical transportation (number and size of passenger and service lifts)
- j) building operational and management system (HVAC/operable windows/security, etc.)
- k) technological facilities (e.g. visual display units, communication/media access facilities)

4.2 Specialised Features

The Valuer should consider the design characteristics and appeal of the property, including unique or specialised features that may impact upon the viability of operation, value, and marketability.

Factors to be considered include the efficiency of the layout in relation to guest servicing and labour costs, back of house servicing and adequacy of storage space (wet/dry/cold rooms).

5.0 Repair and Condition

5.1 State of Repair

Comment on the state of repair of the improvements of the property, including any outstanding works to be completed, and any modification or maintenance work required. Make comment upon the condition of fixtures fittings & equipment (FF&E), back of house equipment (e.g. kitchens), in the context of the FF&E Reserve.

5.2 Refurbishment

Comment on the feasibility and extent of possible refurbishment likely to be necessary over a normal investment period. Comment upon economic and functional obsolescence and the need or capability to upgrade improvements.

5.3 Capital Expenditure

The Valuer should provide an estimate of likely required capital expenditure, in respect to building works/services, refurbishment and FF&E replacements. It is acknowledged that this task may be difficult for the Valuer to undertake and that it requires input and guidance from the owner/operator of the facility.

6.0 Approvals and Authorities

6.1 Building and Planning

Where necessary, issues relating to building compliance, heritage, environmental and planning classification should be reviewed and any consequent impact on value fully explained.

6.2 Non-Compliance

Whilst it is acknowledged that the Valuer may not be qualified in these areas, based upon the inspection (noting limitations of such), comment should be made on any possible occupational health and safety requirements or requisitions recommending further inspection by qualified experts where appropriate. In addition, the Valuer should seek from the instructing party details of any notices of non-compliance of which the instructing party is aware.

6.3 Licenses

The Valuer should sight and comment on all licences required for the property's operation and note that these are included in the valuation.

6.4 Legislation

Comments are required as to whether the building is compliant with any current and pending legislation. Whilst it is recognised that the Valuer is not an expert in this area, the report should highlight any potential risks in this regard through inspection and inquiry.

7.0 Trading Performance

7.1 Accounts

Where possible, accounts should be presented and analysed in accordance with the Uniform System of Accounts for the Lodging Industry (USALI). State whether the figures that have been relied upon have been audited.

The Valuer should make a specific notation when relying upon information provided without being able to verify it, and clearly state any consequent limitations to the advice as a result.

7.2 Summary of Detailed Figures

The Valuer should provide a summary of detailed figures for the hotel, showing trading performance for the last 3 years on a departmentalised basis, together with year-to-date trading figures. Appropriate periodic occupancy and average room rate statistics should be considered and commented upon. Comparison should also be made regarding fair market share with the broader market and STR Competitive Set data.

7.3 Expenses/Outgoings

The Valuer should itemise all expenses/outgoings in schedule form including management, all fixed costs, capital expenditure, and FF&E allowances, where possible in accordance with the USALI. Compare and contrast the current trading with the previous year's actuals, YTD figures versus budget, and comment upon any major variances. These figures should also be compared with appropriate industry benchmarks.

7.4 Trading Levels

The Valuer should comment in detail on the current level of trading being achieved, the stability of the income and the projected maintainable trading performance of the property compared to the operator's projections.

7.5 Business Mix

The Valuer should comment upon the business mix, typically analysed where available by geographical source, market segment and by guest type. Reliance may be had to third party internet reservation sites.

7.6 Operational Review

The Valuer is not expected to carry out a detailed operational review, but would be expected to make appropriate comment upon:

- a) the marketing plan.
- b) budget vs actual performances.
- c) effectiveness of referrals within the operating group.
- d) a fair market share analysis.
- e) profile of operator and branding.

8.0 Trading Environment

8.1 Benchmarking

Benchmark the performance of the hotel in comparison to the following:

- a) accepted market and industry indices,
- b) comparable and competing properties, to the extent that such data is available as well as identifying any items of revenue/expense which are outside acceptable market parameters.

8.2 Competition

The Valuer should provide full details of current and proposed competition within the catchment area, incorporating demand and supply criteria.

8.3 Current State of Industry

The Valuer should analyse the current state of the hotel and tourism industry and in particular the subject property's target market and detail any changes (current or anticipated) which may impact on the long term income sustainability and growth potential of the asset. Statistics and research data should be used to highlight trends and as a basis for projections.

9.0 Management Agreement/Tenancy Details

9.1 Commentary

The Valuer should:

- a) Sight a copy of the management agreement/operating lease. A summary of the Agreement / Lease should be incorporated together with commentary on the general market acceptability of its terms and conditions. If these terms are outside typical market practice this should be stated and some commentary on what is considered acceptable should be provided.
- b) Read and understand all factors in the agreement or lease which could affect value, such as quality and certainty of income, income guarantees and associated clawbacks, break clauses, owner's involvement. The Valuer should also comment on remedies of default, assignability, termination clauses, non-disturbance clauses and the quality of the lease covenants.
- c) Provide a brief profile on the hotel operator including details of its brands, number of hotels/rooms and geographical spread.
- d) Investigate and comment upon the existence of any agreements between the owner and manager/operator which may affect value. Similarly, comment upon any agreements between the operator and other properties in the vicinity that may affect the operation of the property, for example, non-compete clauses, shared costs and expenses.
- e) Where the hotel forms part of a mixed-use project, all leases relating to the property should be reviewed by the Valuer. Tenancy information should be summarised in schedule form. Comment upon the relationship of the hotel with the other components of the property.

10.0 Earnings Potential

10.1 Sustainable Net Return

Calculate the sustainable net return to the owner after reflecting appropriate outgoings. The treatment of management fees and FF&E Reserve varies, but as a general guide Valuers should apply as they analyse and reflect the way the market is capitalising. Although net return is typically expressed after management fees and FF&E Reserve, an owner operated property may be considered on a 'before fees' basis.

10.2 Existing Agreement

Fees and FF&E provision should reflect any existing management agreement, or prevailing market rates. The net return should also be expressed before depreciation, amortisation, interest, tax and capital expenditure.

10.3 Projections

Any projections should be in accordance with the 'USALI', and preferably undertaken for a period of five (5) years or beyond, reflecting the method adopted to analyse sales.

10.4 Upgrades/Capital Expenditure

Have regard to any upgrading or capital expenditure which would impact on the trading performance of the hotel or its marketability.

10.5 Cashflow

A detailed analysis of the cashflow is an essential requirement. The calculations should be completely self-explanatory. Details of the discount rate, time period, inflation, and wage growth factors, etc., should be shown.

10.6 Changes

Comment upon the anticipated changes to outgoings, timing of capital expenditure, particularly significant items (e.g. major contract renewals, rating changes, etc.).

10.7 Variation

Comment on variations between the operator's projections and those assumed by the Valuer, with rationale supporting any variations.

10.8 Analysis

A sensitivity analysis for key variables may be appropriate.

11.0 Market Commentary

11.1 Purpose

This should address the following sectors, as relevant to the specific hotel – global, local (regional), comparison of design features with market demand and competitive supply.

11.2 Market Conditions

This requires both a current and forward-looking view (typically 3-5 years) rather than an historic view of market conditions. Typically, this commentary should include:

- a) Investment activity including depth of market and identification of key 'players.
- b) Building activity including competition and likely additions to supply.
- c) A discussion of the major drivers of supply/ user demand over the period under review.
- d) A Valuer should consider a model of future supply and demand to project average occupancies and room rates within the market and to form the basis of a fair market share assessment.

12.0 Sales Evidence

12.1 Sales Analysis

It is not always possible to obtain sufficient information to fully analyse every sale; however, the Valuer still needs an appropriate level of sales that have been adequately analysed to arrive at an opinion of value. To simply quote a yield or a room rate from a sale, without first seeking the information to analyse the sale is unsatisfactory.

12.2 Trading Performance

The future trading performance of the adopted sale or sales being analysed should be explored for each sale, in combination with the sale's historic performance. This is required, to allow the formation of an acceptable level of consistency between the sale being analysed and the subject property, to allow informed comparison.

12.3 Relativity of Sale

The relativity of each sale should be commented on and explained.

12.4 Recent Sales History

The Valuer should indicate recent sales history of the subject property. Where the property is being transacted, the contract for sale should be sighted and commented upon.

13.0 Management Agreement/Tenancy Details

13.1 Vacant Possession

Where owner occupied properties are valued on a vacant possession basis in existing condition, an indication of net income after management expenses and replacement reserve should also be provided for comparison purposes.

13.2 Leases, Plant and Equipment

The Valuer should comment on leases of plant and equipment where the lease payments for plant and equipment are substantial to have a material effect on value if the costs are deducted from income. It is conventional commercial practice for the property to exchange unencumbered and accordingly, the valuation should assume unencumbered transfer, with any intending reliant party making their own enquiry and adjustment for any transferring or assigned HP/Lease agreement.

13.3 Leasehold Title

In cases of hotels held under leasehold title, the impact of the ground rent on returns/incomes should be fully considered and reflected in the valuation. As with any other leasehold the Valuer may need to consider the value of the hypothetical unencumbered freehold and then consider the value of the Lessors Interest, the Lessee's Interest, and potential marriage value of the interests concerned. See Guidance Paper relating to *Valuation of Partial Interests in Property Held with Co-Ownership Structures*.

13.4 Impact on Valuation

The impact on valuation of the separation of the various title components, related options, obligations and impediments, potential loss of tenure, etc. should be identified and fully explored in relation to both sales and the subject property.

13.5 GST Caution

The Valuer should consider the way similar properties are bought and sold from a GST perspective and adopt the most appropriate treatment of GST accordingly.

14.0 Effective Date

This TIP is applicable from 1 July 2021. Earlier adoption is permitted and encouraged.

This GP replaces *ANZVTIP 7 Valuations of Accommodation Hotels* which was in effect from 30 November 2016 and was withdrawn 30 June 2021.