

Appeal No. VA93/1/009

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

E.G.B. Management Limited/Castletroy Park Hotel

APPELLANT

and

Commissioner of Valuation

RESPONDENT

RE: Hotel and Land, at Map Ref: 1I 11/'O', Townland: Newcastle, Ward: Ballysimon, R.D.
Limerick Rural, Co. Limerick
Quantum

B E F O R E
Henry Abbott

S.C. Chairman

Mary Devins

Solicitor

Veronica Gates

Barrister

JUDGMENT OF THE VALUATION TRIBUNAL
ISSUED ON THE 7TH DAY OF APRIL, 1994

By Notice of Appeal dated the 12th day of February, 1993 the appellant appealed against the determination of the Commissioner of Valuation in fixing a rateable valuation of £2,405.75 on the above described hereditament.

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

"the Rateable Valuation of £2,405.75 is excessive, in amount and inequitable."

The Property:

The property is located on the Dublin Road on the outskirts of Limerick adjacent to Plassey Technological Park/Limerick University Campus on an elevated site over-looking the Shannon River. It is approximately 3 minutes drive from Limerick City and 30 minutes from Shannon Airport.

The premises comprise a new purpose built hotel and conference centre. Rated 4 star deluxe it is a three-storey building constructed to the highest standard with brick to second floor level and smooth rendered cement exterior finish thereafter with a pitched slate roof and colour coded aluminium window frames with double glazing on the ground floor.

There is parking for approximately 192 cars surfaced with a combination of concrete cobble lock paving and tarmacadam.

The ground floor has an air handling system. The bedrooms and conference suites on the upper floors are serviced by two guest lifts and a staff lift.

Valuation History:

In November 1991 a rateable valuation was assessed at £2,400 on the buildings. This was appealed to the Commissioner of Valuation but no change was made at First Appeal. It is against this valuation that an appeal lies to the Tribunal.

Written Submissions:

A written submission was received on the 1st November, 1993 from Mr. Desmond M. Killen, F.S.C.S., F.R.I.C.S., I.R.R.V., of Donal O'Buachalla & Company Limited, Valuers, Rating & Property Consultants, Estate Agents & Auctioneers, on behalf of the appellant.

In the written submission Mr. Killen described the property and its valuation history. He set out the development of the hotel from acquisition of the site in 1989 to opening for business on the 31st May, 1991. He said that in deriving a net annual value for a hotel Mr. Justice Barron in his judgment *Rosses Point Hotel Company Limited -V- The Commissioner of Valuation, High Court 1987*, should be considered, where he said that:-

"Profit earning ability is the basic element in determining the net annual value. it is based not on actual profits but on what the prospective tenant would anticipate would be his profits."

Mr. Killen said that it was not possible to deduce a Net Annual Value using either the rental or profits method as there was no rental evidence available nor any profits being made at the moment. He therefore used the comparative method and the contractors method to derive an N.A.V..

Using the comparative method Mr. Killen compared the subject to a number of Grade A Hotels in Limerick including Jury's, Limerick Ryan, Greenhills, Limerick Inn, Two-Mile Inn, Fitzpatrick Shannon Shamrock, Dromoland Castle and Clare Inn, and suggested that the subject did not have the advantages of the comparisons such as historical attraction in the case of Adare Manor or Dromoland Castle or the cost advantages in advertising management of group hotels such as Jurys, Ryans and Dromoland Castle. He also said that from a location point of view it was not as well sited as the comparisons. He therefore said that the correct assessment should be calculated as follows:-

Net Annual Value - 97,586 sq.ft. @ £2.50 p.s.f. = £243,965
R.V. i.e. 0.5% = £ 1,220

On the contractors method Mr. Killen said that the Tribunal did not appear to have settled on a rate of return that it would apply to the purchase price and capital expenditure on hotels which would be used in the subject premises and that the rate had seemed to vary considerably. He said that using the valuation appraisal made by independent valuers of £6 million, one could, in using the comparison of the Sheen Falls Hotel in Killarney, arrive at a rateable valuation of £1,000.

Mr. Killen also submitted the Report and Financial Statements of Castletroy Hotels Limited for the year ended 31 January, 1993.

A written submission was received on the 3rd November, 1993 from Mr. Patrick Conroy, a District Valuer with 20 years experience in the Valuation Office, on behalf of the respondent.

In the written submission Mr. Conroy described the property and its valuation history, and commenting on the grounds of appeal of the appellant, said that the R.V. was in line with other recently revised hotels.

In relation to the property he said that it has a total gross area of 98,364 square feet. He said that it was a modern well laid out premises with a minimum in maintenance required. He

said that it was purchased in 1989 at a cost of £250,000 with construction costs amounting to £11.7 million of which £1.5 million was attributable to fittings.

Mr. Conroy said that in calculating the rateable valuation on the subject premises, he had used the return on capital as a basis of assessing N.A.V.. As a cross check on this he used the comparative method relating it to other hotels in the region.

He set out his calculation of the rateable valuation on the return on capital method as follows:-

Valuation	
Construction Costs	£ 11,700.00
Deduct Fittings	<u>£ 1,500.00</u>
	£ 10,200.00
Adjust to November, 1988 level	
Say 87½%	£ 8,925.00
@ 7% Return	£624,750.00 N.A.V.
@ 0.5% Return	£ 3,123.00 R.V.

Commenting on the profits method of valuation he said that to break even the hotel needed a turnover of £3 million. He said therefore that the hypothetical tenant would expect turnover to be in the region of £3 or £4 million and that it is on a turnover at this level that a hypothetical tenant would pay rent, he therefore calculated the rateable valuation on this method as set out in Appendix A to this judgement.

He said that he considered a rateable valuation of £2,400 representing an N.A.V. of £480,000 to be the absolute minimum return that could reasonably be expected on the level of expenditure involved.

In general on comparisons Mr. Conroy said the most comparable in his opinion was the Conrad Hotel in Dublin. Locally the most comparative was Jurys in Limerick. However, he said that the local comparisons were inferior buildings, somewhat cosmetically enhanced with carpets, selective lighting etc.. He said that the basis of assessment adopted in Dromoland Castle, i.e. 7% return on capital, is widely quoted as a basis of assessing N.A.V.'s on hotels.

Oral Hearing:

The oral hearing took place in Dublin on the 14th January, 1994. Donal O'Donnell, Barrister-at-Law instructed by Holmes O'Malley Sexton, Solicitors appeared on behalf of the appellant and Aindraís O'Caomh, Barrister-at-Law instructed by the Chief State Solicitor appeared on behalf of the respondent. Mr. Des Killen of Messrs. Donal O'Buachalla & Company Limited, gave evidence assisted by the financial and other managers of the appellant company and indicated that having regard to the accounts of the company the subject hotel had not established its potential and projected trading pattern. The appellant's witnesses were candid about the fact that the target was to reach a turnover for the hotel which would justify the massive capital expenditure involved. It was common case among the parties that the turnover had not yet reached anything like what might give such a return.

Evidence was adduced to indicate the promotional efforts which were being made to place the hotel as a prime conference centre dealing to a large extent with high class corporate business. Mr. O'Donnell in opening the case had indicated that the investment in the hotel was motivated by the strong desire of the American principals to "do something for Ireland" and that perhaps the most stringent commercial criteria were not applied from the outset in deciding the scale of the investment in relation to the subject. Mr. O'Donnell again strongly pressed for the application of the formula applied in the Sheen Falls Hotel case in Kerry in relation to a newly constructed hotel which was aiming for a high turnover in the up-market area but which had not as yet been achieved.

Mr. O'Caomh backed-up by Mr. Conroy in evidence on the other hand argued that the premises ought to be valued on its potential and that the Tribunal ought to take an objective approach to value the premises for all time and could not take into consideration any teething troubles of such a premises. Mr. O'Caomh urged that this approach was not taken in relation to any other types of premises in the retail sector in particular and instanced the case of a new shop starting off in a shopping centre unit.

Findings:

The Tribunal notes that the Sheen Falls formula arose by way of a settlement, albeit prompted by the Tribunal. The Tribunal finds that in the case of most new hereditaments, their location, construction and intended use is such that a once and for all objective assessment of rateable valuation may be placed upon them with a degree of confidence that the emerging facts will to a satisfactory degree bear out the initial assessment of value. However, in the case of once-off major investments in the hotel industry it may be difficult to determine just

what the economic circumstances of the subject may be unless there is a record of trading in the particular location.

The subject is an isolated case situated outside of Limerick catering for a market which of itself has to be developed and nurtured by the promoters of the subject. The Tribunal is faced with the reverse of the Rosses Point hotel case: in that case, economic downturn forced the revision downwards. The Tribunal envisages that with determination and luck the promoters may be able to actually influence the economy surrounding the subject premises to justify a good return on the capital. However the timescale of this great endeavour poses difficulty in insisting that theoretical returns on capital invested should be applied immediately in relation to determining the valuation of the buildings involved in such a project. The respondent has acknowledged the unique nature of the subject by indicating that perhaps the Conrad Hotel in Dublin was the most suitable comparison. The other comparison urged by the respondent was Jury's Hotel in Limerick. The Tribunal accepts that Jury's Hotel would be used as a comparison by any person seeking to rent or purchase the subject and accepts that it is unlikely that the subject would be rented for any lesser sum than Jury's even on a current basis. The Tribunal considers that in all the circumstances the subject should be valued on a somewhat higher basis than Jury's. Notwithstanding the view of the Tribunal that frequent revisions are undesirable, the present valuation might well be reviewed in 3 years or so in the light of the development of the Irish and International market affecting the subject.

Accordingly, the Tribunal finds that the valuation of the subject ought to be and is £1,700.00. The land valuation of £5.75 is unchanged and is additional to the above figure of £1,700.00.

Appendix A

5.4.1 Conrad Hotel

Compare with subject premises as follows:-

T.O. Subject property

T.O. Conrad Hotel x NAV of Conrad Hotel

