Appeal No. VA97/6/007

AN BINSE LUACHÁLA

VALUATION TRIBUNAL

AN tACHT LUACHÁLA, 1988

VALUATION ACT, 1988

Kelly's Strand Hotel **APPELLANT**

and

Commissioner of Valuation **RESPONDENT**

RE: House, Hotel & Land at Map Reference 8, Townland: Dooganswarren, E.D. Rosslare, R.D. Wexford, Co. Wexford
Quantum - Method of Valuation for hotels

B E F O R E

Liam McKechnie - Senior Counsel	**Chairman**
Barry Smyth - FRICS.FSCS	**Member**
George McDonnell - F.C.A.	**Member**

JUDGMENT OF THE VALUATION TRIBUNAL
ISSUED ON THE 9TH DAY OF JUNE, 1999

By Notice of Appeal dated the 6th day of October 1997 the appellant company appealed against the determination of the Commissioner of Valuation in fixing a rateable valuation of £1,580.50 on the above described hereditament.

The Grounds of Appeal as set out in the said Notice of Appeal are that; "the valuation is excessive, inequitable and bad in law".

The appeal proceeded by way of an oral hearing, which took place on the 24th day of June 1998 at the offices of the Valuation Tribunal, Ormond House. The appellant was represented by Mr. P.J. Bannon FRICS, Senior Partner in Harrington Bannon, Chartered Valuation Surveyors with Mr. Adrian Power-Kelly FRICS also a Partner in Harrington Bannon and Mr. Jim Mularney, Accountant of Coopers and Lybrand, Chartered Accountants. The respondent was represented by Mr. Phil Colgan, the appeal valuer and Mr. Tom Cuddihy the revising valuer both of the Valuation Office. Also in attendance were Mr. Frank Gregg and Mr. Jim McAndrew also of the Valuation Office.

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

Material Facts agreed or found by the Tribunal

1. Valuation History

A rateable valuation of £725 was determined by the Circuit Court on appeal in 1986. In the 1994/3 revision the rateable valuation remained at £725. In the 1995/4 revision a rateable valuation of £1,580 was determined by the Commissioner of Valuation and this figure is the subject of the current appeal to the Tribunal. The effective date of valuation is the 10th November 1995.

2. Situation

The premises are situated on Strand Road, Rosslare approximately 14 kilometres (9 miles) south of Wexford town and 8 kilometres (5 miles) north of Rosslare Harbour but not on the main road between the two. Rosslare is a popular seaside holiday resort with very good facilities including golf.

3. Premises

The property comprises a hotel, which has been in the same family ownership for many years and has been developed over a period of 100 years on a relatively restricted site on the coast side of the roadway.

4. The accommodation briefly comprises;

Reception Area	**Ancillary facilities**
Bars	**Swimming Pools**
Large dining room	**Sauna**
Kitchens	**Squash Courts**
95 Bedrooms	**Tennis Courts**
Ball room/Function room	

The total floor area is 7,960 m^2 (85,707 sq.ft.).

5. The overall property is maintained to a very high standard with considerable annual expenditure.

6. Accounts

Full sets of accounts for years ended 31st December 1992 and 1993 and the 17 months ending 31st May 1995 were provided.

7. Operating Period

The hotel operates for nine months each year and is closed from early December to early March.

8. Occupancy Rates

Approximately 85%.

9. Grading

Four Star

Appellant's Case

Mr. Bannon in his evidence stated interalia;

1. The actual involvement of the Kelly family on a day to day basis in the management of the hotel, is an essential requirement for the clientele and the family input and goodwill associated with the Kelly name contribute significantly to the turnover figures.

2. The hotel offers package holidays on an all-inclusive basis and therefore there is limited opportunity to obtain any additional income.

3. It is a resort hotel and cannot cater for weddings or functions or conference business and in addition enjoys no passing trade as it is not on a national primary route.

4. Substantial national advertising is incurred every year.

5. Annual Maintenance Costs are very high to maintain the standards of the hotel and its four star rating.

6. The site suffers from coastal erosion and to combat this substantial Rock Revetments have been constructed.

7. The net bedroom cost is approximately £20 per person per night when the cost of food and facilities is deducted.

8. That the 94/4 revision of £725 was post completion of renovations in that period.

Mr. Bannon proposed two methods of valuation, which could be adopted in this case. Firstly the receipts and expenditure method (formerly accounts or profits basis) and secondly the comparative basis.

A detailed receipts and expenditure method of valuation was set out in full in his evidence. By this method Mr. Bannon indicated rateable valuations of £720, £536 and £526 averaging £594 say £600. Mr. Bannon proposed that an amount should be deducted from the net profit, to reflect the employment of alternative managers in place of the current proprietors Mrs. Breda Kelly and Mr. Bill Kelly both of whom work full time in the business and because directors fees/management expenses had been added back in arriving at the adjusted profit. He further stated that the tenants share in this instance should be 55% to reflect the “Kelly” input.

For the comparative method Mr. Bannon provided three comparisons namely the Great Southern Hotel, Rosslare Harbour, The Hotel Rosslare at Rosslare Harbour and the Ferrycarrig Hotel outside Wexford. Full details are in the appendix to this judgment. From these comparisons Mr. Bannon drew the following information from analysis of the R.V. and N.A.V. ;

The Great Southern Hotel

Rosslare Harbour –		
3 Star, 99 bedrooms	67,404 sq.ft. @ £2.44 p.s.f	R.V. £825

However the floor area of this comparison was disputed and it appears that the correct figure on which the revision was based was 54,096 sq.ft. and thus the analysis is £3.05 p.s.f.

The Hotel Rosslare,

Rosslare Harbour –		
3 Star, 25 bedrooms	21,703 sq.ft. @ £2.50 p.sf.	R.V. £270

The Ferrycarrig Hotel

3 Star, 39 bedrooms	43,538 sq.ft. @ £2.69 p.s.f.	R.V. £585
	(analysis of a profits method valuation)	

Based on the above comparisons Mr. Bannon applied £2.00 p.s.f. to the 85,707 sq.ft. of the subject premises giving an N.A.V. of £171,400 and thus an R.V. of £860.

In conclusion he offered the opinion that the R.V. should be £725, this based on the receipts and expenditure method producing a figure of £600, the comparative method resulting in a figure of £860 and the previous valuation determined by the Commissioner in 1994 of £725.

Mr. Jim Mularney, Accountant having taken the oath gave evidence in relation to the accounts and operating expenses of the premises. He said that;

(a) Building materials are a major annual expense and four full time maintenance men are employed for twelve months of the year and not just the nine months that the hotel is open.

(b) There is constant replacing of crockery, cutlery and glass ware and kitchen equipment.

He also clarified that the amount for director's remuneration added back in Mr. Bannon's receipt and expenditure valuation was included in the wages and salaries amount in the accounts. A field is let as caravan sites and produces an income of £24,300 per annum comprising 27 caravans at £900 per annum each and this figure is included in the sales figure in the accounts.

The Respondent's Case

Mr. Tom Cuddihy, Revising Valuer took the oath. He stated that when he called to the premises in January 1994 construction work was in progress and he did not carry out a detailed inspection. Pressure of work did not allow for a further inspection and he thus advised the Local Authority and suggested leaving the valuation of £725 stand and relisting the property for revision the following year.

Mr. Phil Colgan in his evidence stated interalia;

- That the subject property is the highest graded hotel in the Wexford area and in 1995 was voted the Egan Ronay Irish Hotel of the year.
- It provides a very high standard of accommodation and its principal customer base is Irish families with or without children.
- That closing for three months over the Christmas holiday period seemed to be ignoring an income potential.
- That the figures for repairs and renewals would be nearly equivalent to the replacement of the entire book value of the fixed asset every two years.
- That in VA94/1/015 – Glentworth Hotel, the Tribunal specified 30% as the appropriate figure for the tenant's share.
- That the Tribunal in the Rosses Point Hotel stated that the potential profit as seen from the hypothetical tenant's point of view is important and that this may be the actual profits or may be much greater than the actual profits.

- That in relation to his comparative evidence the Great Southern Hotel is the nearest and most suitable guide but it is not to the same standard as the appellant hotel being only three star compared with four in the subject and that Kellys has additional facilities and much higher standard of accommodation and they should be reflected in the rate p.s.f.

Mr. Colgan provided two methods of computing the N.A.V. and thus R.V.; The first based on the comparative method and the second based on the accounts method.

For the comparative method he provided five comparisons (full details of which are appended to this determination). His comparisons provided the following information;

Great Southern Hotel, Rosslare
3 Star, 99 bedrooms 54,096 sq.ft. @ £3.05 p.s.f.

Ferrycarrig Castle Hotel
3 Star, 40 bedrooms 43,538 sq.ft. @ £2.69 p.s.f.

Fitzpatrick's Shannon Shamrock
115 bedrooms 75,460 sq.ft. @ £3.70 p.s.f.

Sligo Park Hotel
Grade A, 89 bedrooms 55,800 sq.ft. @ £3.60 p.s.f.

Dromoland Castle
Grade 4, 73 bedrooms 94,650 sq.ft. @ £3.20 p.s.f.

From the above comparisons Mr. Colgan deduced that the appropriate rate p.s.f. for the subject premises was £3.61 which applied to a floor area of 85,707 sq.ft. gave an N.A.V. of £310,000 and applying the fraction of 0.5% an R.V. of £1,550 and adding domestic of £30, a total of £1,580.

Mr. Colgan also set out a calculation of rateable valuation based on the 1992-1995 accounts, which indicated an N.A.V. of £384,635 and thus an R.V. of £1,923.

Mr. Colgan took the tenants share as 40% of the net divisible balance and added back an amount for repairs and renewals.

In conclusion Mr. Colgan stated that the rateable valuation should be £1,580 which was clear from the comparative method and more than supported by his calculation based on the accounts.

Determination

This is one of the best known hotels in the country enjoying a substantial level of business and clientele loyalty.

The hotel has been in the same family ownership for generations and the family involvement is undoubtedly an integral part of its success. There has been a continuous programme of improvements and ongoing and expensive maintenance to retain and enhance the hotels reputation and standards.

The first in its field to offer a comprehensive all in package to this standard, there has been increased competition over the years encouraged by the success of this hotel. The finite limit to the accommodation and the number of people who can be appropriately looked after as well as the increased competition is reflected in a relatively static turnover.

The rateable valuation of £725 fixed on appeal in the Circuit Court in 1986 predates the current N.A.V. system of assessing rateable valuations. The Tribunal accepts the revising valuers evidence that when he called to the premises in January 1994 work was in progress and that he therefore recommended that the rateable valuation remain the same and the premises be relisted the following year and thus that the 1994/4 figure of £725 bore no relationship to any changes that had occurred since the 1986 Circuit Court decision and was for convenience left in position for a further year pending a revision once the works were completed.

The appellant's and respondent's valuers each provided two methods of valuation to ascertain the N.A.V. and R.V. in this case namely the receipts and expenditure method and the comparative method. Despite using the same methods however they come out at quite different figures.

On the receipts and expenditure method the major difference between the valuers relates to whether or not repairs and renewals should be added back to reach the adjusted profit and the appropriate percentage for tenant's share. In addition Mr. Bannon deducted an amount for the cost of employing alternative managers to the proprietors which deduction was not made in Mr. Colgan's figures. A further difficulty in relation to this method is that the accounts for the 17 month period ending 31st May 1995 includes a total period of five months during which the hotel was closed as opposed to the three months in the years ending 31st December 1992 and 1993.

In relation to the book value of the premises the annual amounts relating to repairs and renewals seem high and it does appear to the Tribunal that it probably includes amounts that are more correctly identified as capital improvements. No evidence as to what amount should be so attributed was presented and it is clearly not correct to add back the entire amount of repairs and renewals.

In relation to the tenant's share it is the view of the Tribunal in view of the involvement of the Kelly family and the goodwill attached to that and in order to value the premises rather than the business or goodwill that a relatively high figure for tenants share is appropriate. In our opinion a figure of 50% was correct in this case. We would also be of the view that the deduction of the cost of alternative management to the proprietors is appropriate.
Without adding back an amount for the capital improvements portion of the repairs and renewals figure because no such amount is available to us and adjusting the 17 month accounts to allow for the 5 months closure and taking the tenants share at 50% produces an N.A.V. of £160,000 and an R.V. of £800. Mr. Bannon kindly provided the Tribunal with a guidance note on the receipts and expenditure method of valuation for non-domestic rating paragraph 5.59 of that is headed "Stand Back and Look". In comparison with the rateable valuation of other hotels in the locality and elsewhere presented as comparative evidence the figure of £800 appears too low and is probably so because an amount should be added back out of the repairs and renewals figure.

The comparisons provided by the parties for the comparative approach ranged from £2.50 p.s.f. to £3.60 p.s.f. as detailed above. Despite this range Mr. Bannon applies a rate of £2.00 p.s.f. to the subject premises and Mr. Colgan £3.61 p.s.f. neither of which appears to us is supported by the evidence. The nearby comparisons of the Great Southern Hotel at Rosslare

Harbour at £3.05 p.s.f., The Hotel Rosslare @ £2.50 p.s.f. and The Ferrycarraig Castle Hotel @ £2.69 p.s.f. seemed to us the most appropriate although it should be noted the Ferrycarraig Castle Hotel figure is an analysis of an N.A.V. and R.V. based on the accounts method.

The subject premises is larger than any of the comparisons provided except Dromoland Castle which has the benefit of a golf course attached and the subject also operates for only nine months of the year because of climatic conditions and seasonal demand rather than any profligacy on behalf of the proprietors. In the circumstances therefore we feel that the Great Southern Hotel is the most appropriate comparisons and allowing for quantum and the seasonal nature of the subject premises but also its better facilities and amenities we feel that a rate of £3.00 p.s.f. is appropriate in this case and this applied to the agreed floor area of 85,707 sq.ft. gives an N.A.V. of £257,121 and thus an R.V., applying the fraction of 0.5%, of £1,285. Add to this a figure of £30 domestic gives a total R.V. of £1,315 and the Tribunal so determines.