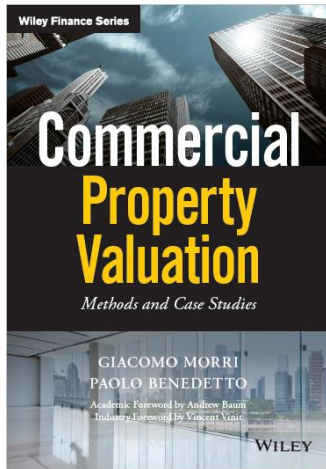


Commercial Property Valuation

Giacomo Morri & Paolo Benedetto

WILEY, 2019



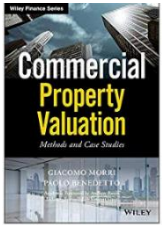
Hotel Appraisal

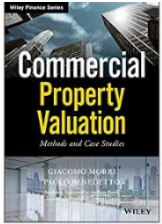
Chapter 11



Index

- Description of the Property
- Choice of the Valuation Method
- Market Analysis
- Valuation



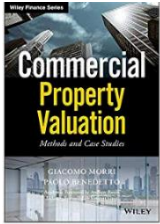


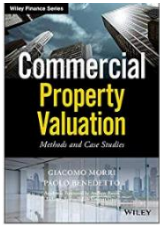
Description of the Property

- **The subject hotel enjoys an excellent location**, being located in the city centre of one of the primary UK cities outside London, near the business district and easily reached by several modes of transport. It also benefits from its proximity to all the major hospitality demand generators in the same area
- The subject property is a **four-star hotel** with 250 guest rooms, a café, a restaurant, a bar/lounge, 955 m² of meeting space, an indoor pool, an exercise room, a business centre, a gift shop, a guest laundry room and appropriate back-of-the-house facilities. The hotel is affiliated with an international hotels and resorts chain

Description of the Property

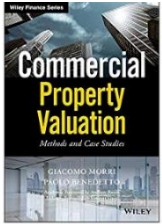
- Opened 10 years ago, **it has been well maintained since then**
- In general, **the property's premises appear to be very well suited for hotel use**
- **The building is straightforward in design and configuration**, permitting efficiency of operation and convenient guest and staff flow. The exterior design of the building is both modern and inviting and the interior finishes are of a high quality. The guest rooms are excellent in terms of size and decoration and the hotel's ancillary facilities are appropriate for the operation of a four-star, commercial, city centre hotel in the UK





Description of the Property

Guest Room Configuration	Number of Units Approximate Area		
Single	85	25	
Double	90	28	
Executive Suite	60	35	
Suite	15	40	
Total/ Weighted Average	250	29	
Food and Beverage Facilities	Location/ Floor	Seating Capacity	Approximate Area
Café Restaurant	Ground	125	200
Speciality Restaurant	Top Floor	80	120
Bar/Lounge	Ground	50	70
Total		255	390
Meeting and Banqueting Facilities	Location/ Floor	Maximum Capacity (Persons)	Approximate Area
Ballroom	Ground	400	500
Pre-Function Room	Ground	-	185
Board Room	Ground	20	40
Meeting Room 1	First	120	150
Meeting Room 2	First	60	80
Total		600	955
Car Parking	Approximately 75 underground spaces		
Leisure Facilities	Fitness centre with sauna, solarium and whirlpool spa; indoor swimming pool		
Other Facilities	gift shop Business centre		

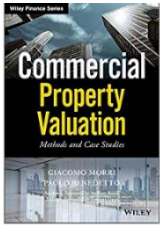


Choice of the Valuation Method

- **Being a Trade-Related Property, the most appropriate hotel valuation method is deemed to be the Discounted Cash Flow Approach (DCFA)**
- The evidence in the international markets, with numerous hotel buyers and sellers, indicates that the procedures used in estimating the value by the DCFA are preferred by most of the hotel investors
- Use of the Direct Capitalisation Approach is indeed limited to the valuation of hotels which present certain stability in the income generated and for which no major changes are expected over the years
- **The Direct Comparison Approach has some limited use in the estimate of the Market Value of a hotel** (differences in location, facilities, property rights)

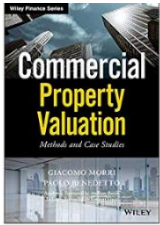
Market Analysis: Macroeconomic Climate

- The review of various national, regional and local economic data indicates that **the subject city benefits from strong levels of commercial room night demand generated from local businesses**, supported by modest numbers of leisure visitors
- **Specific local economic activity appears to be increasing** beyond general national levels owing to a combination of factors, including the ongoing development of good quality offices and business parks



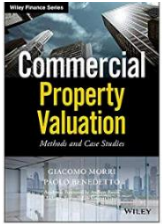
Market Analysis: Supply and Demand Analysis

- From an evaluation of the occupancy, rate structure, market orientation, chain affiliation, location, facilities, amenities, reputation and quality of the subject area's hotels, as well as the comments of management representatives, **two properties have been identified as primary competitors of the hotel. Including the subject hotel, these primary competitors have a total of 781 rooms**
- An additional 12 hotels are judged to be secondary competitors. Although the differences, they do compete with the hotel to some extent. The room count of each secondary competitor has been weighted to reflect the degree to which it competes with the hotel. The aggregate weighted room count of the secondary competitors is 740

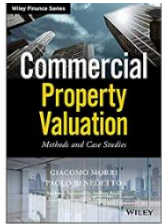


Market Analysis: Supply and Demand Analysis

- As well as analysing the existing supply of competitive hotel facilities, it is important to consider any new hotel Development Projects that may have an impact on the hotel's operating performance
- Hotel demand in the surroundings of the subject city is generated primarily by the following five market segments: **Commercial, Meeting, Incentive, Conference and Exhibition (MICE), Individual Leisure, Group Leisure, Airline**

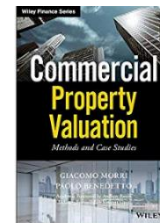


Market Analysis: Supply and Demand Analysis



Primary Competitors	Number of Rooms	Estimated Segmentation						Base Year Weighted Annual Room Count
		Commercial	MICE	Individual Leisure	Group Leisure	Airline	Total Comp Level	
Hotel	250	55%	15%	20%	5%	5%	100%	250
Primary Competitor #1	242	60%	10%	20%	5%	5%	100%	242
Primary Competitor #2	289	60%	10%	20%	5%	5%	100%	289
Subtotals/ Averages	781	58%	12%	20%	5%	5%	100%	781
Secondary Competitors	Number of Rooms	Estimated Segmentation						Base Year Weighted Annual Room Count
		Commercial	MICE	Individual Leisure	Group Leisure	Airline	Total Comp Level	
Secondary Competitor #1	143	55%	15%	15%	7%	8%	75%	107
Secondary Competitor #2	40	55%	8%	30%	0%	7%	75%	30
Secondary Competitor #3	182	55%	15%	20%	5%	5%	75%	137
Secondary Competitor #4	201	50%	20%	10%	10%	10%	75%	151
Secondary Competitor #5	40	60%	5%	20%	10%	5%	50%	20
Secondary Competitor #6	128	55%	15%	20%	5%	5%	50%	64
Secondary Competitor #7	142	40%	25%	25%	5%	5%	50%	71
Secondary Competitor #8	200	55%	15%	20%	5%	5%	25%	50
Secondary Competitor #9	68	50%	10%	25%	10%	5%	25%	17
Secondary Competitor #10	167	55%	15%	15%	10%	5%	25%	42
Secondary Competitor #11	94	55%	0%	15%	25%	5%	25%	24
Secondary Competitor #12	112	45%	20%	20%	10%	5%	25%	28
Subtotals/ Averages	1.517	52%	15%	18%	8%	6%	49%	740
Totals/ Averages	2.298	55%	13%	19%	7%	5%	65%	1.521

Market Analysis: Supply and Demand Analysis

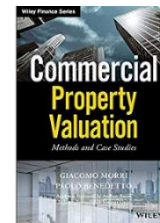


Proposed Property	Number of Rooms	Total Competitive Level
New hotel #1	128	100%
New hotel #2	220	25%
New hotel #3	123	25%
New hotel #4	110	25%
Total	581	

	Weighted Annual Room Count	Estimated Year (-2)			Estimated Year (-1)			Estimated Base Year		
		Average Rate	Occupancy	RevPAR	Average Rate	Occupancy	RevPAR	Average Rate	Occupancy	RevPAR
Hotel	250	£83	76%	£63	£84	75%	£63	£85	74%	£63
Primary Competitors (*)	781	£75	75%	£56	£78	76%	£60	£89	74%	£66
Secondary Competitors	740	£59	76%	£44	£60	75%	£45	£61	75%	£46
Totals/ Averages	1.521	£67	75%	£51	£70	76%	£53	£76	75%	£56

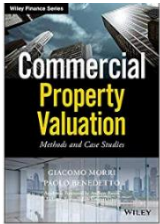
Market Segment	Market wide		Hotel	
	Accommodated Demand	Percentage of Total	Accommodated Demand	Percentage of Total
Commercial	229.455	55%	37.139	55%
MICE	57.552	14%	10.129	15%
Individual Leisure	77.990	19%	13.505	20%
Group Leisure	25.783	6%	3.376	5%
Airline	24.239	6%	3.376	5%
Total	415.018	100%	67.525	100%

Market Analysis: Forecast of Average Rate and Occupancy – Accommodated Demand



	Base Year	Year 1	Year 2	Year 3	Year 4
Commercial					
Occupied Room Nights	229.455	242.591	252.276	259.688	266.051
Residual Demand	4.589	0	0	0	0
<i>Accommodated Demand Growth</i>	-	5,7%	4,0%	2,9%	2,5%
MICE					
Occupied Room Nights	57.552	60.801	63.188	65.047	66.643
Residual Demand	1.151	0	0	0	0
<i>Accommodated Demand Growth</i>	-	5,6%	3,9%	2,9%	2,5%
Individual Leisure					
Occupied Room Nights	77.990	81.563	85.553	87.652	89.803
Residual Demand	780	0	0	0	0
<i>Accommodated Demand Growth</i>	-	4,6%	4,9%	2,5%	2,5%
Group Leisure					
Occupied Room Nights	25.783	27.259	28.851	29.545	30.256
Residual Demand	258	0	0	0	0
<i>Accommodated Demand Growth</i>	-	5,7%	5,8%	2,4%	2,4%
Airline					
Occupied Room Nights	24.239	25.093	25.721	26.364	27.023
Residual Demand	242	0	0	0	0
<i>Accommodated Demand Growth</i>	-	3,5%	2,5%	2,5%	2,5%
Totals					
Occupied Room Nights	415.018	437.307	455.588	468.296	479.776
Residual Demand	7.020	0	0	0	0
<i>Accommodated Demand Growth</i>	-	5,4%	4,2%	2,8%	2,5%
Available Room Nights per Year	555.220	573.081	583.220	613.565	660.285
<i>Available Room Night Growth</i>	-	3,2%	1,8%	5,2%	7,6%
Market wide Occupancy	75%	76%	78%	76%	73%

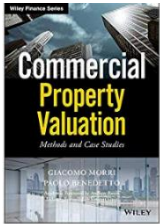
Market Analysis: Forecast of Average Rate and Occupancy Penetration factors in the base year

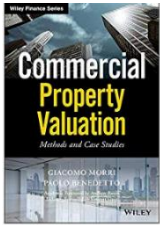


Property	Commercial	MICE	Individual Leisure	Group Leisure	Airline	Overall
Hotel	98%	107%	105%	80%	85%	99%
Primary Competitor #1	106%	70%	104%	79%	84%	98%
Primary Competitor #2	109%	72%	107%	81%	86%	100%
Secondary Competitors	95%	118%	94%	121%	116%	101%

Market Analysis: Forecast of Average Rate and Occupancy

- As a result of its varying levels of penetration among the five market demand segments, **the subject hotel achieved an overall penetration rate of 99% in the base year**
- **The hotel's forecast market share and occupancy have been based on its expected competitive position within the market**
- The projections of penetration, demand capture and occupancy performance for the subject hotel account for these types of adjustments to market share within the defined competitive market





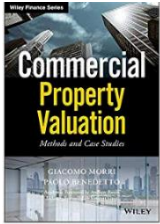
Market Analysis: Forecast of Average Rate and Occupancy

- Penetration factors drive the estimates of demand capture and occupancy for the subject hotel
- It has been chosen to use a stabilised occupancy level of 74%. The stabilised occupancy is intended to reflect the expected results of the property over its remaining economic life, given any and all changes in the life cycle of the hotel
- In conclusion, the hotel is expected to reach a stabilised level of penetration in **year 4, with an overall penetration of 102%**
- In forecasting average rate growth, a **base underlying inflation rate of 2%** has been used. Various market-specific and hotel-specific growth factors have been applied to the average rate of the respective demand segments

Market Analysis:

Forecast of Average Rate and Occupancy

Market segmentation forecast

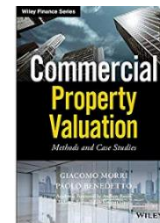


Market Segment	Base Year	Year 1	Year 2	Year 3	Year 4
Commercial	98,5%	107,4%	112,2%	111,7%	111,9%
MICE	107,1%	74,0%	73,8%	73,2%	72,9%
Individual Leisure	105,4%	101,0%	103,7%	105,2%	105,2%
Group Leisure	79,7%	88,0%	88,0%	88,1%	88,3%
Airline	84,8%	84,3%	84,4%	84,3%	84,4%
Overall Penetration	99,0%	99,0%	102,2%	102,1%	102,2%

Projected market mix of the hotel

	Base Year	Year 1	Year 2	Year 3	Year 4
Commercial	55%	60%	61%	61%	61%
MICE	15%	10%	10%	10%	10%
Individual Leisure	20%	19%	19%	19%	19%
Group Leisure	5%	6%	5%	5%	5%
Airline	5%	5%	5%	5%	5%
Total	100%	100%	100%	100%	100%

Forecast of occupancy of the hotel

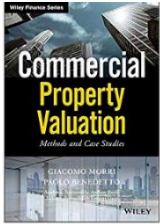


	Market Segment	Base Year	Year 1	Year 2	Year 3	Year 4
	Commercial					
	Demand	229.455	242.591	252.276	259.688	266.051
	Market Share	16,2%	17,1%	17,6%	16,6%	15,5%
	Capture	37.139	41.472	44.276	43.140	41.138
	Penetration	98%	107%	112%	112%	112%
	MICE					
	Demand	57.552	60.801	63.188	65.047	66.643
	Market Share	17,6%	11,8%	11,5%	10,9%	10,1%
	Capture	10.129	7.159	7.297	7.077	6.718
	Penetration	107%	74%	74%	73%	73%
	Individual Leisure					
	Demand	77.990	81.563	85.553	87.652	89.803
	Market Share	17,3%	16,1%	16,2%	15,7%	14,5%
	Capture	13.505	13.123	13.875	13.719	13.057
	Penetration	105%	101%	104%	105%	105%
	Group Leisure					
	Demand	25.783	27.259	28.851	29.545	30.256
	Market Share	13,1%	14,0%	13,8%	13,1%	12,2%
	Capture	3.376	3.818	3.973	3.870	3.690
	Penetration	80%	88%	88%	88%	88%
	Airline					
	Demand	24.239	25.093	25.721	26.364	27.023
	Market Share	13,9%	13,4%	13,2%	12,5%	11,7%
	Capture	3.376	3.370	3.397	3.307	3.152
	Penetration	85%	84%	84%	84%	84%
(a)	Total Room Nights Captured	67.525	68.942	72.817	71.113	67.756
(b)	Available Room Nights (365 days * 250 rooms)	91.250	91.250	91.250	91.250	91.250
(c) = (a) / (b)	Subject Occupancy	74%	76%	80%	78%	74%
(d)	Marketwide Available Room Nights	555.220	573.081	583.220	613.565	660.285
(e) = (b) / (d)	Fair Share	16%	16%	16%	15%	14%
(f)	Marketwide Occupied Room Nights	415.018	437.307	455.588	468.296	479.776
(g) = (a) / (f)	Market Share	16%	16%	16%	15%	14%
(h) = (d) / (f)	Marketwide Occupancy	75%	76%	78%	76%	73%
(i) = (c) / (h)	Total Penetration	99%	99%	102%	102%	102%

Market Analysis:

Projection of Income and Expenses

Forecast occupancy and average rate of the hotel

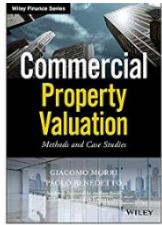


Year	Occupancy	Average Rate	RevPAR	Average Rate in Base Year Prices
Year 1	76%	£88	£67	£85
Year 2	80%	£90	£72	£86
Year 3	78%	£92	£72	£86
Year 4	74%	£94	£70	£86

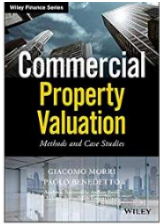
Projected average rate growth by market segment

Market Segment	Base Year	Projected Growth Rate			
	Average Rate	Year 1	Year 2	Year 3	Year 4
Commercial	£97	2,5%	2,5%	2,5%	2,5%
MICE	£86	2,5%	2,5%	2,5%	2,5%
Individual Leisure	£63	2,5%	2,5%	2,5%	2,5%
Group Leisure	£52	2,5%	2,5%	2,5%	2,5%
Airline	£63	2,5%	2,5%	2,5%	2,5%
Total	£85	3,3%	2,7%	2,4%	2,5%

Average rate forecast of the hotel by market segment



	Base Year	Year 1	Year 2	Year 3	Year 4
Commercial					
<i>Average Rate Growth</i>	-	2,5%	2,5%	2,5%	2,5%
Captured Room Nights	37.139	41.472	44.276	43.140	41.138
Rooms Revenue	£3.617.976	£4.141.159	£4.531.628	£4.525.751	£4.423.653
Average Rate	£97,42	£99,85	£102,35	£104,91	£107,53
MICE					
<i>Average Rate Growth</i>	-	2,5%	2,5%	2,5%	2,5%
Captured Room Nights	10.129	7.159	7.297	7.077	6.718
Rooms Revenue	£870.636	£630.774	£658.975	£655.123	£637.395
Average Rate	£85,96	£88,11	£90,31	£92,57	£94,88
Individual Leisure					
<i>Average Rate Growth</i>	-	2,5%	2,5%	2,5%	2,5%
Captured Room Nights	13.505	13.123	13.875	13.719	13.057
Rooms Revenue	£851.288	£847.862	£918.878	£931.260	£908.497
Average Rate	£63,04	£64,61	£66,23	£67,88	£69,58
Group Leisure					
<i>Average Rate Growth</i>	-	2,5%	2,5%	2,5%	2,5%
Captured Room Nights	3.376	3.818	3.973	3.870	3.690
Rooms Revenue	£174.127	£201.854	£215.254	£214.939	£210.081
Average Rate	£51,57	£52,86	£54,19	£55,54	£56,93
Airline					
<i>Average Rate Growth</i>	-	2,5%	2,5%	2,5%	2,5%
Captured Room Nights	3.376	3.370	3.397	3.307	3.152
Rooms Revenue	£212.822	£217.710	£224.961	£224.479	£219.318
Average Rate	£63,04	£64,61	£66,23	£67,88	£69,58
Total					
<i>Average Rate Growth</i>	-	3,3%	2,7%	2,4%	2,5%
Captured Room Nights	67.525	68.942	72.817	71.113	67.756
Rooms Revenue	£5.726.850	£6.039.359	£6.549.695	£6.551.552	£6.398.944
Average Rate (Before Discount)	£84,81	£87,60	£89,95	£92,13	£94,44
Average Rate Penetration	112,2%	113,1%	113,3%	113,2%	113,2%
Marketwide Average Rate Growth	-	2,5%	2,5%	2,5%	2,5%
Marketwide Average Rate	£75,57	£77,45	£79,39	£81,38	£83,41



Market Analysis: Projection of Income and Expenses

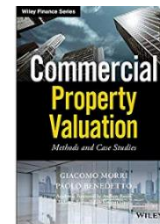
- The forecast of income and expenses is expressed in inflated pounds sterling as of the date of each projection year
- **The stabilised year is intended to reflect the expected operating results of the hotel over its remaining economic life**
- For the purposes of determining the hotel's Market Value, it is assumed that the hotel is sold as at the date of value
- Because the hotel is an existing one with an established operating performance, its historical income and expenses experience can serve as a basis for projections
- **Periodic replacement of FF&E is essential to maintain the quality**, image and income potential of a hotel. Based on industry experience a reserve for replacement of 3% to 4% of total revenue is generally sufficient to provide for the timely replacement of FF&E

Detailed forecast of income and expenses of the hotel

	Base Year (Historical Operating Results)				Year 1				Stabilised			
Number of Rooms	250				250				250			
Days Open	365				365				365			
Occupied Rooms	67.525				69.350				67.525			
Occupancy	74%				76%				74%			
Average Rate (£)	84,86				87,60				94,44			
RevPAR (£)	62,80				66,58				69,89			
Revenues	(£000)	% Gross	PAR (£)	POR (£)	(£000)	% Gross	PAR (£)	POR (£)	(£000)	% Gross	PAR (£)	POR (£)
Rooms	5.730	52,8%	22.922	84,86	6.075	53,6%	24.300	87,60	6.377	53,8%	25.508	94,44
Food and Beverage	4.470	41,2%	17.879	66,19	4.652	41,1%	18.607	67,08	4.839	40,9%	19.354	71,66
Other Income	659	6,1%	2.636	9,76	597	5,3%	2.387	8,61	628	5,3%	2.513	9,30
Total Revenues	10.859	100%	43.437	160,82	11.324	100%	45.295	163,28	11.844	100%	47.375	175,40
Departmental expenses (
Rooms	1.410	24,6%	5.639	20,88	1.436	23,6%	5.745	20,71	1.508	23,6%	6.031	22,33
Food and Beverage	3.110	69,6%	12.442	46,06	3.175	68,2%	12.699	45,78	3.339	69,0%	13.354	49,44
Other Expenses	358	54,3%	1.430	5,30	297	49,7%	1.187	4,28	314	50,0%	1.257	4,65
Total	4.878	44,9%	19.511	72,24	4.908	43,3%	19.631	70,77	5.161	43,6%	20.642	76,42
Departmental income	5.981	55,1%	23.926	88,58	6.416	56,7%	25.664	92,52	6.683	56,4%	26.733	98,97
Undistributed operating expenses												
Administrative & General	891	8,2%	3.562	13,19	883	7,8%	3.533	12,74	934	7,9%	3.736	13,83
Marketing	304	2,8%	1.215	4,50	471	4,2%	1.884	6,79	498	4,2%	1.992	7,38
Prop. Operations & Maint.	413	3,8%	1.650	6,11	442	3,9%	1.767	6,37	467	3,9%	1.868	6,92
Utilities	272	2,5%	1.086	4,02	294	2,6%	1.178	4,25	311	2,6%	1.245	4,61
Total	1.878	17,3%	7.514	27,82	2.090	18,5%	8.362	30,14	2.210	18,7%	8.841	32,73
Gross Operating Profit (GOP)	4.103	37,784	16.412	60,76	4.326	38,2	17.302	62,37	4.473	37,8	17.892	66,24
Management Fees	326	3,0%	1.303	4,82	340	3,0%	1.359	4,90	355	3,0%	1.421	5,26
GOP after management fees	3.777	34,784	15.109	55,94	3.986	35,2	15.943	57,47	4.118	34,8	16.471	60,98
Fixed expenses												
Property Taxes	228	2,1%	912	3,38	231	2,0%	924	3,33	245	2,1%	980	3,63
Insurance	32	0,3%	128	0,48	33	0,3%	132	0,48	35	0,3%	140	0,52
Incentive Management Fee	378	3,5%	1.511	5,59	399	3,5%	1.594	5,75	412	3,5%	1.647	6,10
Reserve for Replacement	326	3,0%	1.303	4,82	340	3,0%	1.359	4,90	355	3,0%	1.421	5,26
Total	964	8,9%	3.855	14,27	1.002	8,9%	4.009	14,45	1.047	8,8%	4.189	15,51
Net Operating Income (NOI)	2.814	25,9%	11.254	41,67	2.984	26,3%	11.935	43,02	3.071	25,9%	12.282	45,47

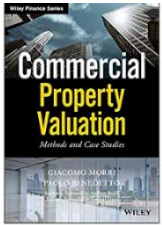
10-year forecast of income and expense of the hotel

	Year 1		Year 2		Year 9		Year 10	
Number of Rooms	250		250		250		250	
Occupied Rooms	69.350		73.000		67.525		67.525	
Occupancy	76%		80%		74%		74%	
Average Rate (£)	87,60		89,95		104,27		106,36	
RevPAR (£)	66,58		71,96		77,16		78,70	
Revenue	(£000)	% Gross	(£000)	% Gross	(£000)	% Gross	(£000)	% Gross
Rooms	6.075	53,6%	6.566	54,2%	7.041	53,8%	7.182	53,8%
Food and Beverage	4.652	41,1%	4.933	40,7%	5.342	40,9%	5.449	40,9%
Other Income	597	5,3%	619	5,1%	694	5,3%	708	5,3%
Total	11.324	100%	12.118	100%	13.077	100%	13.338	100%
Departmental expenses (*)								
Rooms	1.436	23,6%	1.496	22,8%	1.665	23,6%	1.698	23,6%
Food and Beverage	3.175	68,2%	3.297	66,8%	3.686	69,0%	3.760	69,0%
Other Expenses	297	49,7%	304	49,2%	347	50,0%	354	50,0%
Total	4.908	43,3%	5.097	42,1%	5.698	43,6%	5.812	43,6%
Departmental income	6.416	56,7%	7.021	57,9%	7.379	56,4%	7.527	56,4%
Undistributed operating expenses								
Administrative & General	883	7,8%	912	7,5%	1.031	7,9%	1.052	7,9%
Marketing	471	4,2%	487	4,0%	550	4,2%	561	4,2%
Prop. Operations & Maint.	442	3,9%	456	3,8%	516	3,9%	526	3,9%
Utilities	294	2,6%	304	2,5%	344	2,6%	351	2,6%
Total	2.090	18,5%	2.159	17,8%	2.440	18,7%	2.489	18,7%
Gross Operating Profit (GOP)	4.326	37,784	4.862	37,784	4.939	37,784	5.038	37,784
Management Fee	340	3,0%	364	3,0%	392	3,0%	400	3,0%
GOP after management fees	3.986	34,784	4.498	34,784	4.547	34,784	4.638	34,784
Fixed expenses								
Property Taxes	231	2,0%	236	1,9%	271	2,1%	276	2,1%
Insurance	33	0,3%	34	0,3%	39	0,3%	39	0,3%
Incentive Management Fee	399	3,5%	450	3,7%	455	3,5%	464	3,5%
Reserve for Replacement	340	3,0%	364	3,0%	392	3,0%	400	3,0%
Total	1.002	8,9%	1.083	8,9%	1.156	8,8%	1.179	8,8%
Net Operating Income (NOI)	2.984	26,3%	3.416	28,2%	3.390	25,9%	3.458	25,9%

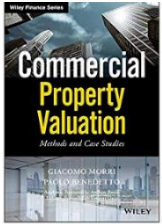


Valuation

- For the WACC, data for the debt component are calculated through interviews with hotel investors and banks. To reflect the appropriate rates and investment yields, the 10-year swap rate for pound sterling has been reviewed. A risk premium is then added to the yield: short-term interest rates at the valuation date in the UK are assumed at 7%. From this information and the perceived risk of the hotel's location, it is considered that a bank will lend up to 60% of the hotel's value as determined by this valuation (LTV)
- In order to estimate the value of the hotel's equity component, the loan to value ratio has been considered, together with the operational risk. Given the market conditions at the date of valuation, an equity investor is likely to require an equity yield rate of 20% for a hotel investment such as the subject property

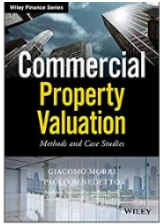


Valuation



- Inherent in this valuation process is the assumption of a sale at the end of an assumed 10-year holding period:10 the Terminal Value, has been calculated by capitalising the projected 11th year's Net Operating Income by an overall terminal cap rate. From this sale price, a percentage has been deducted for the seller's transaction costs and legal fees. On the basis of current yields for Comparable properties, a terminal cap rate of 7% has been estimated, while the seller's brokerage and legal fees have been assumed to be 1.5% of the sale price
- **Overall, therefore, the Market Value of the hotel can be quantified at £ 35,600,000, which equates £ 142,400 per room for the 250-room hotel**

Valuation



Year	Net Operating Income (£)	Discount Factor @ 10.7%	Discounted Cash Flow (£)
Year 1	2.984.000	0,9033	2.695.574
Year 2	3.416.000	0,8160	2.787.550
Year 3	3.333.000	0,7372	2.456.928
Year 4	3.071.000	0,6659	2.044.981
Year 5	3.132.000	0,6015	1.884.012
Year 6	3.195.000	0,5434	1.736.142
Year 7	3.258.000	0,4909	1.599.255
Year 8	3.324.000	0,4434	1.473.941
Year 9	3.390.000	0,4006	1.357.910
Year 10	53.088.000	(*) 0,3618	19.209.681
Estimated Market Value			37.245.974
<i>Less: Stamp duty @ 4.0%</i>			<i>1.489.839</i>
<i>Less: Legal fees @ 0.5%</i>			<i>186.230</i>
Estimated Market Value (rounded)			35.600.000
Reversion Analysis			
11th Year's Net Operating Income			3.527.000
Capitalisation Rate			7,0%
Total Sales Proceeds			50.385.714
<i>Less: Transaction Costs @ 1.5%</i>			<i>755.786</i>
Net Sales Proceeds			49.629.929



Property Finance

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