

Appeal No. VA89/0/149

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

Dromoland Castle Limited

APPELLANT

and

Commissioner of Valuation

RESPONDENT

RE: Licensed Hotel, Staff Quarters, Club House, Workman's House, Gate Lodge, Laundry, Offices and Land Co. Clare

Quantum - Method of valuation to be used to value new hotel in old castle

B E F O R E

Mary Devins

Solicitor (Acting Chairman)

Paul Butler

Barrister

Brian O'Farrell

Valuer

JUDGMENT OF THE VALUATION TRIBUNAL
ISSUED ON THE 13TH DAY OF FEBRUARY, 1990

By notice of appeal dated 14th August, 1989, the above appellant appealed to the Tribunal against the determination of the Commissioner of Valuation in fixing the rateable valuation of the above described property at £1,827 (Buildings £1,600).

The subject property is a Grade A* Hotel and is situated in West County Clare about eight miles north of Shannon Airport off the Galway - Limerick road.

Dromoland Castle Hotel is comprised of 73 bedrooms en-suite, reception, dining room, bar, conference centre, golf club house, staff rooms, stores and gate lodge. There is an 18 hole golf

course. It was originally built prior to 1686, demolished in 1826 and rebuilt in the Gothic style. It was the ancestral house of the O'Brien clan and stayed in that family until 1962 when it was sold for conversion to a hotel. The construction is of cut stone and asphalt.

Valuation History

The description of the premises was altered for valuation purposes in 1964 to "Licd. hotel, staff quarters, club house, workmans house, gate lodge, offs and land" and a valuation of £900 was placed on it. The property included 332 acres of land.

An additional £20 was added to the rateable valuation in 1966 in respect of a small extension including laundry, canopy and other minor extensions. The area of land was reduced to 295 acres - 2 roods - 12 perches. The property was again revised in 1967 and 1969 to value a new conference room and a small solarium and valuations of £975 and £990 were placed on it in these respective years.

In 1974 the property was again listed for revision leading to an agreed reduction to £950 prior to the hearing of the appeal in the Circuit Court.

In 1988 the property was listed to take account of an extension to the hotel and the construction of a link corridor. Following this revision the valuation was increased to £1,900 and was subsequently reduced on 1st appeal to £1,600. It is against this amount that the appeal lies before the Tribunal.

A written submission on behalf of the appellants was received in the Tribunal on the 27th November, 1989 from Mr. Desmond M. Killen, FRICS, ARVA, a fellow of the Society of Chartered Surveyors and a Director of Donal O'Buachalla & Co. Ltd. of 86 Merrion Square, Dublin 2. With regard to the 1988 revision Mr. Killen said that at 1st appeal stage discussions between the parties resulted in agreement on the following:

1.	Areas:	(a)	Hotel	4,840	
				3,002	
				676	
				275	8,793 m2
		(b)	Laundry		125 m2
		(c)	Club House		165 m2

(d)	Staff Rooms	710 m2
(e)	Stores (poor)	970 m2

2. The valuation to be attributed to (b), (c), (d), (e), the gardener's house and the gate lodge is approximately £125.
3. The appropriate fraction for conversion from N.A.V. to R.V. is 1/200.

No agreement was reached on the valuation to be attributed to the hotel (8,793 m2).

Mr. Killen said that he is advised that the Castle Hotel and grounds (375 acres) and the Clare Inn were acquired in 1987 for a total consideration of £5.5 million which was apportioned by a firm of professional valuers as follows:

Clare Inn		£1,000,000
Main Castle Hotel		£2,850,000
50 acres Amenity Land	£	£ 50,000
Fixtures and Fittings		£1,270,000
Golf Club House		£ 100,000
Land, 325 acres		£ 230,000

and that building construction work of £1.48 million was required to bring the building up to standard and that £1.5 million was spent on the provision of other items.

The building work and refurbishment were required to preserve the castle building and keep the accommodation up to required standards for an A Star Hotel.

Mr. Killen referred the Tribunal to the following legal references;

The preamble to the 1852 Valuation Ireland Act and Section 11 of that Act

Section 5 of the Valuation Act, 1986

Judgment of the Supreme Court in the Roadstone Ltd. V the Commissioner of Valuation 1956 and High Court judgment in the Rosses Point Hotel Company Ltd. V the Commissioner of Valuation 1987

Mr. Killen then outlined how the net annual value of the subject property might be arrived at using the following methods:

1. Rental Value

Mr. Killen is not aware of a hotel which is occupied under Lease.

This hotel comprising 73 en suite bedrooms provides excellent accommodation in the upper echelons of the hotel industry in Ireland. It seeks to cater for the top of the market and provide the service in keeping with such a market. In the absence of rental evidence, but having regard to the estimated N.A.V.s of other hotels, he submits that the N.A.V. is £220,000 p.a.

2. Profits Method

The hotel is promoted internationally and is regarded as a long term investment. On the basis of trading accounts the N.A.V. is Nil or a minus quantity.

3. Comparative Method

In keeping with the requirements of Section 5, 1986 Act, in the matter of "the valuations of tenements and rateable hereditaments which are comparable and of similar function and whose valuations have been made or revised within a recent period", he submits that there are a limited number of A Star hotels in the country. Two of these were subject of recent appeals to the Tribunal, wherein the valuations were affirmed, viz:

Hotel Europe, Killarney	R.V. £2,700
and	
Great Southern Hotel, Parknasilla	R.V. £560

Other comparisons in the Shannon area are:

<u>Hotel</u>	<u>R.V.</u>	<u>Grade</u>	<u>Bedrooms</u>	<u>Devaluation</u>	<u>Rate Per Bedroom</u>
Clare Inn	925	A	121	6,044m ² @ 15.5p	£ 7.65
Shannon Shamrock	1,000	A	103	5,672m ² @ 17.6p	£ 9.70

£1,092 R.V.
 Say £1,090 R.V. (N.A.V. £218,000)

Contractor's Theory

In the subject, there is a combination of:

apportioned purchase price	£2,850,000
plus building work	<u>£1,480,000</u>
	£4,330,000

Mr Killen stated that it is doubtful if there exists any entrepreneur who would build a hotel of the same construction and layout as the subject premises.

He stated that the present owners regard the subject as a long term investment, with an estimated 5% return.

£4,330,000 @ 5% = £216,500 N.A.V.
 = £ 1,080 R.V.

He submitted, therefore, that the N.A.V. of the hereditament is between Nil and £218,000.

In a written submission received on 27th November, 1989, on behalf of the Respondent Mr. Thomas D. Brannigan B.Agr.Sc.M.Sc., a valuer with 13 years experience in the Valuation Office outlined the valuation history of the subject property. He said that trade is aimed mainly at the wealthy American market and prices range from £110 - £170 (high season) for a standard superior bedroom to £230 per day for a suite in the high season.

Prior to 1987 the hotel had a closed season but, under new management, all year round trade is now in place. Bedroom occupancy from 1983 - 1986 averaged out at 80.3%. In 1987 the hotel closed for renovations and occupancy figures for that year would, therefore, not be realistic. Figures for 1988 indicate a bedroom occupancy of 67% and this must be deemed satisfactory. There is no conflict with the agents on this issue.

He said that the hotel is one of the finest hotels in rural Ireland, is very well located and is regarded as the showpiece hotel in Clare and possibly in the country.

He said that the Commissioner in arriving at a rateable valuation in the subject property used the rental evidence method as follows:

Purchase Price	=	2,801,842.00
Cost of improvement to non rateable items		770,000.00
Total	=	3,571,842.00
Less allowance for 49.7 acres (water & gardens)	=	20,000.00
Total	=	£3,551,842.00
Return on investment @ 9% = 11.1 years purchase		
Rental value = NAV = £3,551,842 @ 9%		
	=	£319,665.00
R.V. = NAV x 0.5% = Say		£1,600.00

Comment: Return on investment from 'Irish Hotel Industry Review '89 (page 33).

He stated that whereas 49.7 acres of land are included part of this is water and that £20,000 is a generous allowance for this element.

This method results in a valuation based on NAV and also retains the tone of the Lists. He offers a number of comparisons which are attached as Appendix A.

Oral Hearing

At the oral hearing which took place in Ennis, Co Clare, on the 29th November, 1989, Mr Des Killen appeared on behalf of the appellants. Mr Aindrias O'Caoimh B.L. (instructed by the Chief State Solicitor) appeared for the respondent.

Mr Killen elaborated on his written submission.

Mr Mark Nolan who had been in hotel management for 12 years and had worked in Germany and in Ashford Castle said that he was recently appointed as General Manager of the Dromoland Castle Hotel. He gave evidence to the effect that while there was a common perception that the

hotel catered for wealthy clients and it must therefore have wealthy profits, this was not the case although it was the intention eventually to bring this about. He said that the hotel catered for a small clientele and that there was increasing competition in this field such as Mount Juliet and Straffan House. He said that he was appointed to the post of General Manager to reverse a trend whereby the hotel was losing money. His short term target is that the hotel should reach a break even point in two to three years. He said it was essential for this that a large marketing effort be made and that overheads should be reduced. He outlined a number of ways to achieve this and other developments planned. He said that it would take a number of years for the advertising to result in the required increase in customers. He said that the bedroom occupancy rates were 60-70%.

Mr John O'Brien Financial Director of the operating company said that in addition to the purchase price a structural survey revealed that a lot of defects had to be remedied and extra bathrooms installed. Given the thickness of the walls in the castle this proved very costly.

He said that there were now 73 bedrooms as distinct from 77 when purchased, despite the huge expenditure. He said that while there was a 67% bed occupancy from January to October 1989, in November and December it was in the region of 30% giving an average of 50-55%. Mr O'Brien went through the accounts and highlighted sporting activities's expenses of £104,697 and estimates of £90-100,000 for maintenance and repair. He said that there were new competitors for the same market such as Mount Juliet, Adare Manor and Waterford Castle.

He said that the owners were a team of 50-60 Irish American investors who had appointed a New York based management company for the purpose of managing the venture. He said that Dromoland Castle Ltd was formed to acquire staff for the hotel. He outlined the joint marketing operation with Ashford Castle.

Mr Aindrias O'Caoimh queried the identity of the rated occupier. When it became clear to the Tribunal that the correct rated occupier could not easily be identified, the hearing was adjourned in order that the parties might resolve the matter.

At the resumed hearing which took place in Ennis, Co Clare on the 8th January, 1990 both parties stated that the question of the identity of the rated occupier had been agreed and the appellants were correctly described as Dromoland Castle Ltd. Mr Branigan stated that the most reasonable method to determine the correct rateable valuation for the property was to use the investment or contractor's method. He pointed out that the bedroom basis was invalid since no

two hotels are identical. Similarly, since only one year's accounts were furnished, this would be insufficient to assess market value.

Mr Branigan pointed out that if the Valuation Office had known at the time of 1st appeal that the actual figure spent on improvement was £1,480,000 and not £770,000 as they had since been informed, no reduction in valuation would have been made at that time.

He disagreed with Mr Killen that a yield of 5% was to be expected on this investment. Whereas Mr Killen stated that the owners of the hotel could not expect a return on their investment for some considerable time, Mr Branigan stated that a 9% yield would be the figure expected by businessmen of their experience.

Mr O'Caomh also referring to the question of expected return on investment, said that the owners of this hotel would realistically expect to achieve the highest possible return on their investment. He pointed out, too, that if the rateable valuation of this hotel were to be reduced, this would have a resultant effect on all similar hotels in the area.

The Tribunal is satisfied that the correct method of calculating the N.A.V. of the subject property is by using the "investment or contractor's method". It accepts that there is an absence of rental evidence for hotels. There are few, if any, hotels in the area which are directly comparable to this one. Most of the comparisons offered are relatively new and much larger than this older castle building and a square metre breakdown could be misleading. Similarly, to attempt to calculate the N.A.V. on a bedroom basis would not be of any benefit, unless there were other hotels of an identical nature to the subject. Trading figures for only one year were furnished by the appellants, and these are not deemed to be of assistance in assessing N.A.V.

Both parties have agreed the capital or market value of the premises at £4,280,000 i.e. the purchase price of £2,800,000 together with the cost of renovations at £1,480,000.

The Tribunal is aware that this hotel might well be described as one of the finest in the country. It provides first class accommodation aimed at the top of the market, is widely promoted internationally and is situated in an extremely advantageous location, close to Shannon Airport.

The Tribunal is not inclined to look on the intentions of the owners as being entirely altruistic and considers that a yield of 5% on their initial investment would not be considered satisfactory.

The fortunes of the hotel would appear to be very definitely climbing. All the evidence offered points to a successful, thriving venture.

Taking everything into consideration the Tribunal feels that the N.A.V. of the property is in or around £299,600. Applying the percentage of 0.5% which seems to be the agreed figure for this area, the Tribunal has decided that the correct rateable valuation is £1,500.00