Hotel market valuations must factor in upturn, says HVS

Hotels valued using traditional valuation methods that don't account for an upturn in the market and an owner's ability to refinance with improved credit facilities are potentially being undervalued by as much as 15-20%, according to hotel consultancy **HVS**.

In its report, The Art & Science of Hotel Valuation in an Economic Downturn, HVS outlines the credit and operating constraints that have put European hotel values under significant pressure over the past few years. The hotel consultancy says that more realistic valuations should account for an upturn in trading and improved loan conditions.

?We have adapted our valuation model to be able to factor in current and medium-term operating and lending conditions. This gives a fairer estimate of a true market value, rather than a ?distress' value based purely on trading and financing in the current market,? commented report co-author Sophie Perret, associate director, HVS London. ?Using the revised model would give buyers a more positive and longer term view of an asset and may encourage some owners to sell properties now, rather than wait for the economy to improve.?

The HVS valuation model is based on a 10-year leveraged cash flow and can build-in a refinancing of the hotel when lending conditions become more favourable, the loan-to-value ratio improves and investors are able to release some of the additional equity. This methodology is fully compliant with the principles set out in the RICS Red Book of Appraisal and Valuation Standards.

?This is a more flexible, realistic and transparent way to value quality hotels in uncertain times, taking into account current credit conditions in the short-term and a refinancing in the medium-term based on improved cash flows and the return of investor and lender confidence,? added Perret.

Using this enhanced new valuation model would potentially increase the value of a hotel. For example, a 250-room property with a typical 10-year cash flow projection would achieve a valuation of ?134,000 per room using valuation techniques based solely on ?distressed' operating and available lending conditions. But the same hotel could achieve a market value of ?157,000 per room using the HVS valuation methodology, which prevents undervaluing the asset by almost 15%.

?This methodology cannot be applied indiscriminately to every hotel,? concluded report co-author Ana Campos-Blanco. ?Those hotels whose trading levels are greatly depressed, for example, cannot avoid a ?distressed value' being applied to them for the time being.?

(ENDS)

For a complimentary copy of The Art & Science of Hotel Valuation in Current Times by Ana Campos Blanco and Sophie Perret visit http://www.hvs.com/Offices/London/?v=ar.

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About HVS

HVS is the world's leading consulting and services organisation focused on the hotel, restaurant, shared ownership, gaming and leisure industries. Established in 1980, the company performs more than 2,000 assignments a year for virtually every major industry participant. Through a worldwide network of 30 offices staffed by 300 industry professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. For further information regarding about our services, please visit www.hvs.com.