How to determine the value of a Hotel in 60 seconds

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Essentially, there are three broad approaches to Hotel Valuations:

1. **Income Capitalization Approach:** The value of an income-producing property is determined by the "present worth of future benefits" or a multiple of its net return. Within this approach, there are several techniques and considerations which we will not consider here as we want to concentrate on "quick and dirty" approaches.
2. **Cost Approach:** Mostly useful in determining if it's better to buy or to build. This approach is not heavily favoured because it does not consider income or economic factors, just the cost of buying an existing property vs building one.
3. **Sales Comparison Approach:** Is the most useful for our purposes here. It focuses on determining ranges and pricing momentum based on prior sales of comparable hotels.

Rules of Thumb for Valuing Hotels in 60 seconds

Room-Rate Multiplier

ADR or Average Daily Rate is one of the better known KPIs (Key Performance Indicators) of the hotel industry and this rule of thumb essentially assigns a worth of 1,000 times the ADR per room, or if you are familiar with the RevPAR (Revenue per Available Room) it also sets the value at 3.5 to 4.5 times the annual room revenues (RevPAR x # of Rooms x 3.5-4.5).

Value = ADR x 1,000 x Number of Rooms

An example would be if we had a hotel charging on average £140 per room/per night and a total of 35 rooms, that hotel would be worth roughly £4,900,000.

RevPAR is calculated by multiplying the ADR by the Occupancy % or by dividing the hotel's total room revenues by the number of rooms.

The glaring omissions of using a RevPAR multiple to value hotels are that it does not take into account CPOR (cost per occupied room) or revenues generated outside of rooms such as restaurants, events, parking, spa, etc. But if you have more than 60 seconds then you could calculate the ARPAR (Adjusted Revenue per Average Room) which takes both costs and additional revenues into account.

Price Per Room Sales Comparison

This technique allows you to compare apples to oranges (sort of) by breaking down historical hotel sales to a per room basis making possible the 'unfair' comparison of a 100 room hotel sale to a 35 room hotel sale, for example. Essentially all you need to do is divide the total sales price by the number of rooms to arrive at a PPR (Price Per Room) value.

PPR = Sale Price/Number of Rooms

An example would be if you were considering buying the 35 hotel we have been discussing and you know/discover that 6 months prior, just a few blocks away a much larger 100 room hotel sold for £14,500,000. This boils down to £145,000 PPR, so a 35 room hotel should be around £5,075,000.

The downside of this approach is that it assumes that all rooms are created equal, not considering very important factors such as the revenue each room generates, the quality of the construction and FF&E (Furniture, Fixtures & Equipment), something as subtl being shut down/mothballed due to the enactment of the nationwide restrictions during 2020 and 2021. These inevitably caused completion delays and cost increases. Hopefully, this is all behind us !!