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A critical review of the approaches and attitudes of South African property valuers towards the valuation of hotels under a contemporary management agreement.

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Abstract

This paper looks at the attitudes and approaches of South African property valuers to the valuation of hotels as an asset class. The paper focuses on the impact of a shift towards management agreements in the sector. Management agreements are a relatively new tenure agreement in South Africa's hotel sector, and although these grew in popularity globally in the 1970's and 1980's, the sanctions which prevented multinational companies wanting to do business in South Africa, allowed local hotel groups to grow in the absence of the world's leading lodging companies. South African property valuers were less exposed to the evolving valuation frameworks and best practice approaches, in the absence of these global companies. The shift towards management agreements in the sector is important because the tenure structure does not encumber the owner of the property with a easily determinable future income stream, instead the owners distribution is determined by the prevailing performance of the hotel business operating from the asset, and hence the value is predicated on this more variable income stream.

The empirical study that was undertaken surveyed members of the South African Institute of Valuers. The findings present the first comprehensive look at valuation of hotels as an asset class in South Africa; and shows that almost half of property valuers in South Africa perceive themselves to be competent in valuation hotels under a management agreement whilst also holding the perception that there is not a significant difference in the required approach for valuing a hotel under a management agreement. The results of a hypothetical case study within the survey presented a divergent view of competency, with low levels of full competency demonstrated.

The study brings much-needed perspective on the sector at a time where management agreements are becoming more prevalent, and investors are looking to valuers for strategic insight and assurance around the asset class.

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Chapter One Introduction and Problem Statement

1.1 Introduction

Hotels are often viewed as symbols of exotic getaways, lavish lifestyles and the venues for high-level delegations seeking to address important global issues. However, hotels serve a far broader purpose, enabling global business activity and serving as a "home-away-from-home" for millions of people whose business and social activities take them away from their primary residence. JLL Hotels and Hospitality Group state that global hotel transaction value reached $60 billion in 2014 (JLL, 2015). With this significant flow of global capital into the sector, it is important to assess the value of assets within this real-estate class.

The process of globalisation has played its part in the proliferation of the hotel industry and by extension, the importance of prescribing value to hotels. According to Srivastava (2013), globalisation has led to a significant increase in the number of global hotel customers. People travel not only for holidays but business, health, religious and various other purposes, which have exponentially increased the size of the global hotel market (Srivastava, 2013). The increase in tourism and business travel in recent decades has prompted growth in national and international hotel chains and brands (Nilsson *et al.* (2001).

According to the International Valuation Standards ("IVS"), hotels fall under the rubric of "trade related property". Trade related properties are "any real property designed for a specific type of business where the property value reflects the trading potential for that business" (IVSC, 2007). For this study, a prescriptive definition of what constitutes a hotel is not required, since the framework for valuing a hotel is not dependent on the size, quality, facility mix or brand of the hotel. However, the IVS does state that hotel properties are designed for a specific type of business, and therefore a guesthouse would not qualify as a hotel under this definition since these are often residential properties that are being used to offer paid accommodation (IVSC, 2007).

Hotels are not the only property type that falls into this rubric; healthcare property and bars, clubs and certain types of leisure property are also generally considered to be trade-related property. Therefore some of the findings for the hotel sector in this study are overarching for the broader trade-related property category. The IVS surmises that

the common element between these property types is that they comprise buildings or structures that are purpose-built for a specific type of business activity. Because the building can only be used for that activity, the value of the property interest is usually intrinsically linked to the trading potential for that activity in that location, unless some alternative use is more valuable (IVSC, 2007). Herein lies an important feature of this study, namely the nature of the business being run at a property and how it is linked to the value of the property, in the case of this study, a hotel.

French (2004) argues that, typically, a hotel property can only be used as a hotel unless extensive alterations are done; therefore the value of the building will be a function of the trading performance of the business operating from it. By this argument, one could also state that a modern office building will likely only be used as an office. However, the key difference being that there are a wide variety of potential tenants in different sectors that can manage a range of business activities from the same office.

The South African hotel industry is quite different from its global counterparts, particularly in the area of tenure trends and ownership models. The emergence of the sector during the isolationist era of apartheid is one of the primary reason for this trend. This trend and the nature of the sector will be discussed in this paper as context for the environment that hotel valuations are undertaken and the possible divergence from global best practice when it comes to valuing these assets. Rushmore (1984) encapsulates the intricacies of the relationship between the hotel business and the hotel value, by stating that "Appraisers soon learn that lodging facilities are more than land, bricks, and mortar; they are retail oriented, labour-intensive businesses necessitating a high level of managerial expertise. In addition, hotels require a significant investment in personal property (furniture, fixtures, and equipment) that have a relatively short useful life and are subject to rapid depreciation and obsolescence. All these unusual characteristics must be handled properly during the hotel valuation process in order to derive a supportable estimate of market value" (Rushmore and Rubin, 1984). This study seeks to assess the approach and attitudes that South African valuers have towards the "unusual characteristics" that Rushmore refers to.

1.2 Background to the study

The property valuation profession has evolved significantly over time, driven by the advent of new technologies, and the need to adapt to a changing built environment (Gilbertson and Preston, 2005). The growth in global estate and its importance within global capital markets has also prompted the need for property valuers to constantly evolve and collectively improve their ability to assure the sector. The real estate sector is also closely linked to the broader financial market, thus increasing its importance in the context of the global economy.

One of the areas where property valuers have had to adapt in the field of hotel valuations, particularly given the evolution of tenure structures between owners and operators. These structures can broadly be divided into two types of tenure agreements, each with various sub-tenure types.

- Fixed leases: These tend to guarantee a certain amount of income and are often set to increase in line with inflation; for the purposes of this study, we will term these Fixed Income Tenure Agreements ("FITA").
- Variable Income Tenure Agreements ("VITA"), a term coined for the purposes of this study, to include both variable leases and Hotel Management Agreements ("HMA"). This is a very important area of this study, with the focus of HMAs forming the primary focus of the study.

Hudson (2010) states that during the past couple of decades, many global hotel chains have changed their business strategy by selling off their properties and expanding into the hotel management or franchising business. This strategy has been termed by the industry as an "Asset-Light" strategy. In the 1980s, brands such as Marriott International, Hilton Hotels and Resorts, Starwood Hotels and Resorts and, later, Accor Hotels and Resorts, began disposing of hotels they owned in order to concentrate on the more profitable and less capital intensive business of operating hotels for management fees (Hudson, 2010). Through such an arrangement, separate owners enjoy the direct profits generated by these operators who were running their hotels for them.

Deroos (2010) points to the fact that certain variable leases are typically based on a percentage of revenue generated by the hotel business, and thus payments are not contingent on the operators management of expenses and this, therefore, does mitigate some of the owners operational risk exposure. Some operators would sign a fixed and variable lease, whereby a portion of income to the owner is fixed with the balance linked to operational performance. The exposure of owner earnings is the defining feature that distinguishes the FITA and VITA. For the purposes of this study, we have focused on HMAs as the preferred VITA as opposed to a fixed and variable lease, as the HMA structure is far more common globally. Due to this popularity, much of the literature is in turn focused on the valuation techniques, approaches and skills required to value a hotel under an HMA.

According to deRoos (2010), a fixed lease or an HMA provides substantial differences in the allocation of financial risk and control between the operator of the hotel and the owner of the hotel. Fixed leases ensure a predictable return, however, with less control over the activities undertaken by the tenant at a property. With an HMA, owners have the ability to apply a more active asset management approach, but critically, the owner would take more operational risk and shares in the upside and downside of the business run from their property. HMAs are therefore a strategic tool to allow for expansion for operators, without exposing themselves to the risk of real estate ownership. Further to this, a lease will encumber a company's balance sheet with a liability, whereas a management agreement will not (deRoos, 2010).

HMA's were popularised in the 1980s, a time when South Africa was still under the political system of apartheid. There were strong international sanctions which peaked during the 1980s (Tucker, 1986). Rogerson states that the isolationist effect created a conducive environment for a number of local hotel management companies to emerge, many of which favoured an owner operator model, a contrasting position to the "asset light" trend that was becoming the norm in many mature economies.

Despite the end of international sanctions on South Africa in the early 1990s, the majority of hotels in South Africa remain owned and operated by the same company (Rogerson, 2011), many of these companies have significant exposure to the casino industry, such as Sun International and Tsogo Sun. The association with the casino sector is quite important; as the limited availability of casino licenses in South Africa

has allowed these companies to flourish in a less competitive environment. However, without a pipeline of new casino licenses, these companies have had to expand elsewhere, namely outside of South Africa or into the hotel sector. The need to deploy these profits has meant that these companies prefer to own their hotels. Even today, local owner occupiers are the largest owners of hotel real estate in South Africa (Rogerson, 2012). The owner operator model is, therefore, a VITA, with the owner still receiving a return based on the performance of the asset.

The second largest category of hotel owners in South Africa is larger institutions and property companies who own hotels but importantly do not manage them. The majority of these owners prefer to provide a lease for their hotels, ensuring that as much of the operational risk is passed onto the tenant. This model is more conventional for South African real estate investors, as it is the same model that would typically be used for offices, residential and industrial property letting. However, as more international hotel companies have looked to enter South Africa, they have looked to do so with their preferred operating model, HMAs (Rogerson, 2012). Given that fixed leases are common throughout South Africa for other types of property, it is likely that valuers will be more competent at valuing hotels with a fixed lease structure, versus those under a VITA. However, this will be investigated in the empirical study.

This valuation profession in South Africa is legislated under the ambit of the South African Property Valuations Act, No 17. of 2014 ("the Act"). The valuation of hotels in South Africa is therefore also governed by the Act. The Act gives the South African Council for the Property Valuers Profession ("SACPVP"), the responsibility of registering and regulating property valuers (SACPVP, 2015). Therefore, registered valuers who undertake hotel valuations in South Africa do so under the regulation of the SACPVP and, as such, this body is responsible for assessing their competency for undertaking a valuation of a hotel.

An important responsibility of the SACPVP is to regulate the progression of valuers from their period of training through to professional competency. The culmination of this training process, which involves both theoretical and practical training, qualifies a valuer as a Professional Valuer. Therefore the process to achieve this level of professional competency should prepare valuers with the necessary skills and

understanding required to value the types of property which are permitted by the SACPVP's Identification of Work (SACPVP, 2011).

In South Africa, any Professional Valuer who is registered with the SACPVP is deemed able to value a hotel whether there is an HMA, variable or fixed lease in place, without the supervision of any person, regardless of whether they have any prior experience in dealing with the tenure type in question. Globally, this same challenge has been addressed by the emergence of specialist hotel valuers (Jackson, 2008), and it is appropriate and important to assess the situation in South Africa, given that VITAs, and more specifically HMAs are a far more recent trend.

This global hotel valuation framework identified in the literature is to some extent a theorised approach; however there is consensus around two key requirements for valuing a hotel, namely: to understand the underlying business associated with the hotel; and that the Discounted Cash Flow ("DCF") technique is the primary method for valuing a hotel where the income is variable (Rushmore and Rubin, 1984; deRoos and Rushmore, 1995; Sayce, 1995; Nilsson *et al.*, 2002). This framework will be a key focus area within the literature review section of this study, as it will provide an important construct for how hotels under a VITA are valued globally. The framework from the literature will allow for an empirical assessment of the approach South African valuers take to be benchmarked against the global hotel valuation framework.

According to Walsh and Stanley (1993), hotel valuations are often more complex than valuing other forms of real estate. This sentiment forms part of the narrative around hotel valuation in this study. However, complexity is a too subjective a basis of assessment; and is not the focus of this study. This study instead focuses on the differences in approach required for hotel valuations under a VITA and the attitudes of South African valuers towards these approaches.

1.3 Problem statement

South Africa's hotel sector has been slower to adopt the usage of HMA's due to the international isolation within which the sector developed. This is problematic for property valuers needing to adhere to strict global standards, while globally valuers have been exposed to these agreements for a lot longer. Understanding the operations of a hotel business is very different to the traditional set of skills that property valuers are expected to possess (Rushmore, 2008). Valuers who have not invested time in understanding the way in which a hotel operates, will not be suitably equipped to project the performance of the hotel, and by extension derive a sound valuation.

The literature remains limited in the area of South African valuers prescription of the approaches identified in the literature. What is, however, apparent from the literature review, is that the process to become a Professional Valuer in South Africa is possibly flawed in the sense that a Professional Valuer can qualify to value a hotel without having to have prior experience in hotel valuation.

The second important issue that was highlighted by Mooya's (2015) survey, which challenges South African valuers application of the DCF method. This critique is particularly apt for the current study due to the literature's strong reference to this technique being prescribed as the primary method for valuing a hotel.

1.4 Research Hypotheses

The research hypotheses to be tested in this study are:

- South African property valuers are not fully competent in understanding the complexities of a hotel business, which misaligns with global best practice when a VITA is in place.
- South African property valuers will perceive themselves to be competent at valuing hotels with a VITA in place, however, l not demonstrate competency in the empirical part of this study.

1.5 Research Objectives:

The three research questions are as follows:

- The primary objective of the study is to evaluate the extent to which South African property valuers understand the complexities of the hotel business, with the recent shift towards HMA's in South Africa having happened without any research into whether valuers were prepared for this.
- The secondary objective of the study is to explore the relationships between the profile of South African property valuers (SACPVP registration, formal hotel valuation training, and professional hotel valuation experience) and comprehension of the complexities of the hotel business.
- The third objective of the study is to investigate to what extent South African property valuers' assessment of their competencies correlates with the competency level demonstrated in this study.

1.6 Research Questions

Comprehension of complexities of the hotel business

- To what extent do South African valuers understand the fundamentals of the hotel business?
- To what extent do South African property valuers identify the impact that a management agreement or any other variable income tenure agreement has on the approach to valuing a hotel?

- To what extent do South African valuers understand the steps required to project the performance of a hotel?

Profile of South African hotel valuers

- What is the profile (SACPVC registration level, professional experience in hotel valuation, and professional training in hotel valuation) of property valuers who are undertaking hotel valuations in South Africa?

Profile of South African hotel valuers and relationship to comprehension

What is the nature of the relationships between the comprehension of hotel business complexities (operationalised as 'demonstrated competency') and (a) SACPVP registration level (b) professional experience in hotel valuation (c) training in hotel valuation?

- Are higher levels of demonstrated competency associated with higher SACPVP registration levels?
- Are higher levels of demonstrated competency associated with more professional experience in hotel valuation?
- Are higher levels of demonstrated competency associated with more training in hotel valuation?

Self-perceived competence and demonstrated competency

- How competent do South African property valuers perceive themselves to be at valuing hotels with a variable income tenure agreement?
- Are higher levels of self-perceived competency associated with higher levels of demonstrated competency?

1.7 Significance of Study

There is currently very limited research into the area of South African hotel investment, with no research undertaken on the valuation of the asset class. The study will provide a starting point that can guide future investigations into the competencies of South African property valuers in the hotel sector, particularly as the sector matures and HMAs become more prevalent. This will advance the academic knowledge of hotel valuations in South Africa and could help identify whether there are areas in which

further professional training may be warranted. This could also assist in promoting hotel valuation as a speciality competency in South Africa.

1.8 Structure of the Study

The study sets out to layer existing academic literature with an empirical study, designed to specifically address the problem statement above and the research above questions. Chapter 2 provides the theoretical base layer of the study, with a review of academic literature in the fields of hotel valuations and the competency levels of property valuers in South Africa. The second layer. Chapter 3 reviews the available research design instruments and research approaches to establish a framework for the empirical study that is required to assess the hypotheses. The results of this empirical study are presented in Chapter 4, before being the subject of discussion in Chapter 5. Chapter 6 aims to reconcile both the existing literature review and the empirical study into a concise and applicable answer to the research questions, and thus yield a successful study.

Chapter Two Literature Review

2.1 Introduction

The central point of the literature review is the theoretical construct of what constitutes an appropriate hotel valuation in the contemporary South African real estate market. The literature presented in this section broadly outlays important aspects of a theoretical framework for optimal hotel valuations, before narrowing the focus of the literature to the area of property valuation in South Africa; and the approach and attitudes that South African valuers have when valuing a hotel under a VITA.'

2.2 Hotel Sector Evolution

The concept of a VITA has been explained in Chapter 1 of this study. However, it is important to preface any further discussion with a review of this term and the evolution of hotel ownership and tenure trends globally and in South Africa in more detail. According to deRoos (2010), before the 1950s, hotel management companies owned their hotels outright, making the "owner operator" model the only ownership model prior to this period (deRoos, 2010). Then during the 1950s, a new trend emerged, whereby hotel management companies began to separate the ownership and operational elements of their hotels. According to deRoos, these early agreements favoured the operators significantly and gave independent owners very little recourse in the event of poor operator performance (deRoos, 2010). Subsequently, these early agreements took almost three decades to evolve into a model that gained traction amongst owners. During the 1980s and 1990s, this trend became widespread globally, spurned on by the use of HMA's. deRoos (2010) cites the resulting events of the real estate crash of the late 1980s as an important period for this evolution. During this period there were a number of court cases where contestation resulted from bankruptcy proceedings between hotel owners and operators. Courts favoured hotel owners, thus setting a precedent for a more attractive model for hotel owners to use (deRoos, 2010).

Since this period, HMA's have continued to evolve and have remained the preferred model for hotel owners and operators globally. The separation of interests for owners and operators has a direct bearing on the nature of income and fees earned by these parties (deRoos, 2010). Under this model, the hotel management company operates the hotel business, while providing supervision, expertise, established methods and

procedures. The operator runs the hotel for a fee based on the terms negotiated with the owner (Sayce, 1995; Harper, 2008; deRoos, 2010). In principle, the agreement aims to maximise the return on investment for both the operator and the owner; placing the operational risk of profit and loss on the owner; which can affect the asset value in a positive or negative way, depending on the quality of the operating company and the market conditions (Bader and Lababedi, 2007). The popularity of HMAs has enjoyed significant growth, with the American Hotel & Lodging Association estimating that there are 800 management companies managing 12,000 properties worldwide. More than one-third of these (4,370 hotels) were managed by the nine largest hotel companies 2006 (AH&LA, 2009). What is critical to note is that all of these nine companies have a strong preference to not own their hotels (deRoos, 2010).

The evolution of the hotel sector in South Africa has influenced the ownership structure significantly. Tucker (1986) states that international sanctions imposed on South Africa created an environment where local groups were able to thrive in an uncontested environment but were also removed from the emerging global trends. Rogerson (1990) notes that the Southern Sun Group of hotels was able to dominate during the 1970s and 1980s. Southern Sun was created in 1969 on the back of a South African Breweries diversification program. The group grew quickly and, according to Rogerson (1990), had a network of 24 hotels in different areas of South Africa by 1973, all of which were owned and managed by the company. Rogerson states that by the 1980s there were a number of new hotel groups emerging in South Africa, while still under the effects of international sanctions. The most prominent of these groups was the Protea Hotel Group and City Lodge Group, which began operations in 1984 and 1985 respectively. When apartheid ended in the early 1990's, a significant majority of hotels were owned and operated by local management companies, with only Protea Hotels Group beginning to look at HMA's and franchises as a means for expansion during this period (Rogerson, 2013).

The South African hotel sector, therefore, has various unique attributes that are due to the sector's growth during the isolation of apartheid. For example, there are proportionally far more hotels in South Africa that are leased, contrary to global norms, whereby the majority are on operated under a HMA (Rogerson, 2012). This trend is

material to this study, given that a tenure agreement determines the type of valuation methodology and approach valuers should take to valuing a hotel.

This trend is changing in South Africa, with an increased presence of global management companies looking to enter the market, bringing with them their preferred model, HMA's (Karrim, 2014).The growth of the South African tourism sector and the economy since the end of apartheid has opened up the sector for foreign company participation, particularly those looking to assert a presence in the rest of Africa (Rogerson, 2011). According to Rogerson, the sector has evolved significantly since the end apartheid, with a shift towards larger hotels, which require specialist management as (Rogerson, 2012), as is evident in the table below.

Table 2.1: Number of rooms by different size category (1990 vs 2010

Year	1-50 rooms	51-250 rooms	More than 250 rooms
1990	15,658	18,566	7,526
2010	15,412	45,398	12,442

Source: Rogerson (2012)

An important feature of the South African industry is the slow growth in institutional investor interest for hotels as an asset class. According to an interview conducted by Rogerson with Deborah Sampson, management agreements mean that the risk is perceived to be higher for the owner (Sampson, 2012). This sentiment is expressed in a number of the other interviews conducted by Rogerson (2012). A study by De Loor (1995) identified that the majority of institutional property investors in South Africa did not consider hotels as suitable for their portfolios (De Loor, 1995), which is an important baseline study for the evolution of the sector.

According to Nelson, even today the majority of hotels in South Africa remain owned by private companies rather than institutions (Nelson, 2012). Institutional ownership of hotels in South Africa is also lower to that which is currently represented in North America, Western Europe or Australia. Currently, the situation in South Africa is that there is only one listed fund which is dedicated to hotel real estate (Rogerson, 2012).

Rogerson (2012) states that South Africa exhibits both common patterns and differences in relation to hotels as an asset class compared to advanced economies, such as relatively poor level of understanding of hotels by institutional investors, a

perception that there are higher levels of investor risk in hotels compared to other traditional property classes, knowledge gaps in relation to appropriate monitoring or benchmarking of the hotel property market, and a failure to establish boundaries between hotels as property or a business in the mind of an investor (Rogerson, 2012).

There is a consensus among a number of authors that the South African hotel sector is maturing and beginning to display closer correlation to global trends. The industry is a fast-changing one, and the strong hotel sector growth on the African continent has ushered in a wave of global operator interest from the likes of Carlson Rezidor, Starwood, Hilton, and now Marriot through their acquisition of Protea Hotels. South Africa has proven to be an important gateway to the African continent for these global players, and their presence will fuel the appetite for investment from global investment players into the sector (Godwin, 2014). This shift has fundamental impacts for hotel valuation in South Africa, with the combination of increased institutional participation of presence of HMA's requiring more and more hotels under VITA**'s** in South Africa to be valued. Institutional players tend to place a greater amount of importance on accurate valuations relative to private and individual owners (Gilbertson and Preston, 2005)**.**

2.3 Why do hotel valuations matter?

Property is a fundamental underpinning of the global financial system, with the substantive pronouncement of value a requirement to ensure that the broader financial system is correctly understood. Gilbertson and Preston (2005) present the following reasons for correctly valuing property: banks use property as collateral for loans; shareholders invest in quoted companies and the companies themselves that become vulnerable to take-overs and properties they own are not regularly and correctly valued on the companies balance sheet; house-buyers; future pensioners whose savings are invested by funds; and whole economies that depend on stable banking systems (Gilbertson and Preston, 2005). Property is, therefore, a lifeblood of the financial sector and requires not only accurate valuations but also a consistent approach to valuations, across all property types, including hotels.

According to French (2004), there are a number of different uses for hotel valuations. These include transaction advice for buyers and sellers of hotels; secured lending assessments of value for banks and other financial lenders; property taxation since taxation is often based on the notional rental value of the property; listed company reporting requirements; internal decision making within an organisation; and making the requisite deductions so as to have the adjusted accounting basis to quantify the level of tax paid by the company. The use of valuations are broad and as our financial systems have matured and become more complex, so too has the importance of proper valuations increased.

The approach to valuing hotels has been undergone much evolution, particularly in the early 1990s, following a period of where HMA's gained popularity and the United Kingdom hotel industry was subjected to a number of serious valuation controversies, for example, the severely reduced valuation of Queens Moat House, which gave rise to considerable debate concerning the underlying methodology of hotel valuations as business entities (Nilsson *et al.*, 2002). This resulted in the publication of a number of guidelines and recommendations, notably from the Royal Institution of Chartered Surveyors ("RICS"), the British Association of Hospitality Accountants (BAHA) and the advent of specialist hospitality valuation firms (Nilsson *et al.*, 2002). The approach valuers take to valuing a hotel has been influenced by their external environment and

as discussed in Chapter 1, the environment in which the South African hotel sector grew was very isolated from many of the global trends (Tucker, 1986; Rogerson, 2013).

While hotels make up a relatively small portion of global and South African real-estate, this does not diminish their importance as a sub-asset class within the countries financial system. In an age of increased scrutiny around correctly applying accounting and financial standards it is critical that elements of the financial system are correctly represented (Gilbertson and Preston, 2005). The contagion effects of the Global Financial Crisis proved that no country is truly disconnected from the global financial system, and South Africa is no different in the need to accurately reflect the value of any asset, and valuers need to adapt their approaches if a shift in the sector occurs, such as the one towards a preference to variable income tenure agreements.

2.4 The Global Framework for Hotel Valuation

The framework for hotel valuation is a theoretical construct that is applied by industry practitioners and enjoys consensus in the literature. It must be explicitly stated that although there isn't complete agreement on every element of the process, there is consensus on the major elements of the approach, with different proponents endorsing nuances within the framework (Allen, 2013). According to the Rigley, valuers need in depth knowledge of the hotel sector as a whole, as well as the local knowledge of the specific market that may influence trading performance (Rigley, 2012).

The depth of knowledge required to value a hotel is a key area that is discussed in Chapter 2. However the ability to follow the prescribed process to value a hotel under an HMA is considered more measurable in the context of this study. The reason being that the distinction of what constitutes a "good valuation" is a contentious theoretical area, since accuracy and the correct process may not align. For example, a valuer may have the intrinsic skill to arrive at the same value, through intuition, which a different valuer attains through a perfect application of the appropriate methodology. For this reason, the study focuses on whether South African valuers adhere to the processes and methodologies, and not their inherent hotel valuation ability.

2.4.1 Methodological approaches for hotel valuations

The academic and professional valuation community has identified a number of different methods for the valuation of hotels, with consensus around the majority of elements within the approach to valuing a hotel. There is also consensus among a number of the authors cited within this literature review that consideration has to be given to nuances between the theoretical context of hotel valuation and the practical application (Rushmore and Rubin, 1984; Rushmore, 1992a; deRoos and Rushmore, 1995; Rushmore and Goldhoff, 1997; Rushmore and DeRoos, 1999; Nilsson *et al.*, 2002; French, 2004).

There are three methods which are presented in the literature as being suitable for valuing a hotel, namely the cost approach, sales comparison approach and the income capitalisation approach (Nilsson *et al.*, 2002), with the income capitalisation method, in turn, having three sub-methods. The literature and various industry bodies agree that the preferred approach and method to valuing a hotel is the income capitalisation

technique (Rushmore and Rubin, 1984; Nilsson *et al.*, 2002; French, 2004). However, most of the authors qualify this position by stating that it is important to supplement the process with other approaches as a means of validating the results of the income capitalisation approach (Rushmore and Rubin, 1984; RICS, 1994).

The Cost Approach: The cost approach essentially captures asset replacement, or rebuilding costs less an allowance for depreciation. It is therefore not concerned with what the market is prepared to pay for an asset, or the value of future net income that a hotel may generate (Stefanelli, 1982). Furthermore, Sikich also indicates that the use of this method requires subjective depreciation estimates (Sikich, 1993).

Jackson states that the cost approach is a physically orientated estimate of the value of an asset, which focuses on the replacement of the asset and not the earning potential (Jackson, 2008). According to Lesser, the challenge with this approach is that it does not reflect the income and performance dynamics of the hotel. Thus ignoring the value of the hotel regarding property and business (Lesser, 1992). There is merit in using this cost approach to estimating the value of newly constructed hotels and is seldom given much weight as a valuation technique beyond this point (Sikich, 1993).

Sales Comparison: The sales comparison approach relates to the propensity of the market to pay a certain fee for a comparable hotel property, without considering the cost of replacing the asset or the future income that is likely to be generated by the hotel (Sikich, 1993). Hotels are heterogeneous and rarely have a similar number of rooms, common area ratios to rooms, quality grading, food and beverage facilities, and this limits the effectiveness of this technique. The technique fails to compensate for the degree to which properties are valued at different stages in a market cycle, and the cyclical market performance that characterises hotel markets, thus limiting the accuracy of this technique (Rushmore, 1992b; Fu *et al.*, 2013).

Income Capitalisation: According to deRoos and Rushmore, the Income Capitalisation Technique is based on the premise that the value of a property is a function of the financial return of the underlying business (deRoos and Rushmore, 1995). The approach is generally considered to be the most appropriate method for hotel valuations (Rushmore and Rubin, 1984; Rushmore, 1992b; 1992a; Menorca, 1993; Sikich, 1993; Mellen and Castro, 1994; Canonne, 2003)

The Income Capitalisation technique is further divided into four main methods, namely the single capitalisation rate methodology ("SCR"), in South Africa the locally appropriate term is the direct capitalisation technique ("DC"), Discounted Cash Flow ("DCF"), simultaneous valuation formula ("SVF") and band of investment method ("BIM") (Nilsson *et al.*, 2002).

- **The Direct Capitalisation or SCR** methodology is determined by using one year's net income and dividing it by the 'capitalisation rate' (Sayce, 1995). Novelli and Proctor indicate that the capitalisation rate is based on recently sold hotels (Novelli and Procter, 1992). However, according to Jackson, this is problematic in markets void of the requisite number of hotel transactions (Jackson, 2008). South Africa is a market that sees very few hotel transactions (Rogerson, 2012; Karrim, 2015). Where a hotels income is income is fixed in nature, this technique tends to be more appropriate (Sayce, 1995). Mooya (2015) found that this technique was the most widely used amongst South African property valuers for non-residential properties.
- **Discounted Cash Flow:** The DCF technique differs from the SCR technique significantly. The DCF takes cognisance of future hotel performance as opposed to only a single year's performance (Fu *et al.*, 2013). Essentially the value of the hotel is based on a series of forecasted Net Operating Income ("NOI") amounts, that are then discounted back to a net present day value (Nilsson *et al.*, 2002). Alternatively, as Braeley and Meyers out it, the DCF method "converts the anticipated future benefits of a hotel into a forecast of present value, and involves discounting procedures which incorporate the risk associated with these cash flows (Brealey *et al.*, 2003). Of the various income capitalisation techniques, the DCF is the preferred method to value a hotel (Rushmore, 1992a; Menorca, 1993).
- **Simultaneous valuation theory or SVF:** This technique is similar to the DCF above technique, in that it capitalises an income stream of the investor. However, in discounting this to a present-day value, the SVF uses a mortgage equity technique, essentially taking into account interest rate, amortisation term of any loans, and the prevailing Loan-to-Value ratios, as opposed to only using a standard discounting procedure to present value to estimate market value (Rushmore, 1992b).

It is notable that a rule of thumb has also emerged in contemporary hotel valuation theory, called the "ADR Rule of Thumb". It has been popularised in much of the American-based literature and states that a hotel is worth 1,000 times its ADR on a per-room basis (Rushmore, 1992b; O'Neill, 2003). According to O'Neill (2003), there are more sophisticated ways of valuing a hotel. However, executives, investors and even appraisers use this technique frequently. A study by O'Neill proved that the technique could be used as a guideline in the United States at the time of the study (O'Neill, 2003). O'Neill used an index that was drawn from more than 1,000 actual hotel transactions to form a database of 327 transactions. O'Neill found that through regression analyses, ADR is the single best predictor of overall hotel selling prices, including NOI. The results of this study are presented in Table 2.1 below

Table 2.2: Determinants of Hotel Sale Value

Variable	Regression coefficient	Standardized beta coefficient	t-statistic	Overall F value	Degrees of freedom	Significance
ADR	0.790	0.889	34.892	1217.440	1.324	P < .001
NOI	0.689	0.830	14.996	667.180	1.324	P < .001
Occupancy	0.160	0.400	7.859	61.762	1.324	P < .001
Sale Date	0.023	0.151	2.755	7.591	1.324	P < .01
Age	0.002	-0.039	-0.648	0.420	1.324	P < .01

Source: (O'Neill, 2003)

The largest inhibitor to using this rule is that the ADR multiplier would need to be adjusted in nominal terms and as inflation changes, so too should the ADR. The rule of thumb has had little research undertaken on it outside the United States and the literature on topic implies that the simplicity of the technique does not compensate for a valuers lack of proficiency with the income capitalisation techniques. Valuers should first and foremost apply the DCF method to value a hotel, before applying a number of the other techniques as a reference to confirm that the income capitalisation approach has yielded the correct value, before considering a rule of thumb technique as a further check. Subsequently, in a South African context, such an informal technique would not have suitable base of evidence to establish such an index multiplier and would still be a supplementary method to confirm the results of the income capitalization technique.

2.4.2 Critique of techniques

The major critique levelled against using the Direct Capitalisation technique in isolation is the lack of comparable hotels available (Sayce, 1995). In a market such as the United States of America, the availability of market data, such as hotel transaction indexes, make the Direct Capitalisation method a more relevant technique. However, in South Africa their illiquid market means there is an acute lack of similar information, making it almost impossible to apply the Direct Capitalisation rate and Sales Comparison technique accurately. Mature markets that may currently have a high level of comparative transactions may indeed go through periods of lower transactional volume, at which point this technique becomes less appropriate (Allen, 2013).

The Direct Capitalisation technique also fails to account for the timing of where a hotel is within a supply and demand cycle. In a market such as South Africa, which has a relatively low supply base, new hotels have a larger impact on occupancy than in more mature markets, and thus this has to be taken into account to get a more accurate valuation (Allen, 2013; Karrim, 2015).

Damodaran provides a basis from which much of the criticism of the DCF method emanates. He states that "valuations are neither the science that some valuers make it out to be nor the objective research for true value that some would like it to be. The models used for valuations may be quantitative, but the inputs are speculation. Thus, the final value obtained from these models is affected by the bias that all interested parties bring into the process." (Damodaran, 1996, page 2)

The subjective nature of valuation inputs occupies a large piece of the literature in this area. However, almost all the authors who offer a critique of the DCF method when it comes to valuing a hotel, still conclude that the DCF method remains the best method for valuing a hotel (Martin and Skolnik, 1993; Peto *et al.*, 1996; Drury and Tayles, 1997; Verginis and Stephen Taylor, 2004; Pike and Neale, 2006).

What is a common thread within the criticism of the DCF method, is that despite the critique, a properties value cannot be separated from the future cash flow generation potential, and that the DCF method should still be the primary method to value a hotel under a VITA, with the support from one of the other methods. (Rushmore, 1992b; BAHA, 1993; RICS, 1994; Nilsson *et al.*, 2001; Harper, 2008; Jackson, 2008; Fu *et al.*,

2013). Thus the criticism is in effect that there is potential for incorrect input assumptions and not the fundamentals of the method, with the RICS (1992, 1994) recommending that the DCF method should be the primary valuation method because it is technically superior to other valuation methods.

2.4.3 Perceptions of the DCF Method

In a survey conducted by Verginis and Taylor found that 71% of respondents felt that the DCF method was the most appropriate method to value a hotel, with 25% indicating that it should be the primary method, with support from other approaches (Verginis and Taylor, 2004).

These research findings are further investigated by an additional statistical test, namely a one-way ANOVA. This test was conceived to compare the perceptions of the respondents based on their demographic characteristics, namely education, occupation, country of residence, experience with hotel valuations and age group. The only area where significant differences were identified among respondents was in the area of education.

The findings reported here provide the first empirical evidence that has been presented in this study which suggests that hotel executives, valuers and lenders support the orthodoxy as to the superiority of the DCF method of valuation when undertaking hotel valuations globally (Verginis and Taylor, 2004).

2.4.4 Projecting the Hotel Business:

French (2004) concludes his review of specialised property valuation by stating that in the case of trade related property, property valuers have to analyse value from first principles, by identifying the value of the business (French, 2004). Verginis further highlights this point by stating that hotels are usually bought and sold as fully equipped operational business entities (Verginis and Taylor, 2004). Hotels fall under the rubric of trade related property due to the property constituting an integral part of the business (French, 2004), with various services offered by the hotel business such as food and beverage generating significant revenue in addition to the sale of rooms (French, 2004).

Projecting the performance of the hotel business is the recommended approach to attaining free cash flows, which will represent the owner's income (Sayce, 1995; Rushmore and Goldhoff, 1997; Harper, 2008) According to French it is important to formulate a model that accounts for the underlying fundamentals of the hotel business. The underlying fundamentals which French refers to are the income and expenditure associated with the hotel business. Valuers need to adapt not only their way of thought but also their valuation models to account for these fundamentals (French, 2004). The Guidance note 1 of the RICS Appraisal and Valuation Standards or commonly referred to as the "Red Book" points to the operational entity's importance when valuing a hotel (RICS, 1994).

According to French, the room charge is only one of the revenue components associated with a hotel. What is important to note is that generally, larger hotels have a greater variety of income generation. Typically hotels offer food and beverage, entertainment, conferencing and spas, all of which generate additional, and often substantial, income for the business and by extension value to the property (French, 2004).

The performance of the hotel business needs to be understood, and this is not without its challenges. Much of the criticism above of the DCF method was directed at the subjective nature of the inputs. Proponents of the income capitalisation approaches generally counter this critique by agreeing that the subjective inputs are problematic, but state that in the absence of a superior means to quantify the value of the future income, this presents a stronger case for consummately understanding the fundamentals of the hotel business when undertaking projections (Rushmore, 1992a; 1993; Harper, 2008).

According to Rushmore, hotel markets are highly cyclical, with investor returns a function of occupancies and room rates, as the primary revenue metrics (Rushmore, 1992). Harper echoes similar sentiment when stating that the hotel business is cyclical, with the performance of the hotel a function of external factors, including but not limited to, currency fluctuations, wars, interest rates, tourism cycles, terrorist acts as well as more general economic cycles (Harper, 2008).

According to Nilsson, it is important to consider changes to the market in which a subject hotel is located as part of the valuation process, as these can have a significant impact on hotel value (Nilsson *et al.*, 2002). A review of the external supply and demand dynamics are therefore an intrinsic part of valuing a hotel under a VITA.

The cyclicality of the hotel industry causes hotel profits and values to increase and decrease rapidly as occupancies and room rates increase and decrease (Rushmore and Goldhoff, 1997), with the most common driver of hotel performance is typically the economy (Nilsson *et al.*, 2002). Hotel real estate is often considered to be affected quicker by a downturn in the economy, compared to other types of real estate. The presence of a lease effectively delays the effects of a decline in demand, whereas, in the case of a hotel, the decline in demand is almost immediate (Nilsson *et al.*, 2001). According to Sayce, this cyclicality is a common feature and complicates the valuation process. Hotel profits and values rise and fall rapidly as occupancies, and room rates increase and decrease (Sayce, 1995). The projection of future hotel performance and the outcome of a valuation can therefore not be separated. Menorca states that if demand was to decline or for that matter increase, due to a change in the economy, this will have an effect on future demand and thus affect the value (Menorca, 1993).

According to Harper, valuers must find a way to assess the competitive supply in the area (Harper, 2008). Hotels are deemed to be competitive based on the existing trading profile. Valuers also need to take particular cognizance of future supply that will impact the performance of the subject hotel. Harper states that if the "supply of hotels in a particular market segment changes, it is likely to influence the trading potential of the subject hotel" (Harper, 2008). Although establishing what new developments are planned is relatively easy, and can be done by valuers speaking to property developers, hotel operators, planning councils etc, establishing what the likelihood of these hotels opening can be fairly difficult. While valuers should also assess the number of

companies in a node, changes to the economic profile of a region, change in transport infrastructure and inward investment (Harper, 2008).

According to Fu, hotel rooms are rented daily, which increases the risk associated with the property class and commands higher rates of return. Payroll costs and benefits can account for as much as 40% of a hotel's expenses. Affiliation and management has a strong impact on operations and therefore, on value. The combination of factors that are associated with projecting hotel businesses as complicating the valuation process (Fu *et al.*, 2013). According to the ex CEO of Hospitality Property Fund, Gerald Nelson, hotels are a hybrid asset class in South Africa and are not only the property business and are also a hospitality business (Nelson, 2012).

Harris asserts that it is typical for valuers to look at the last three years of a hotels performance to establish the appropriate trends, although Harris states that averaging these years does not constitute a sufficient basis for future projections. Brown highlights that when a valuation is undertaken with accounts that are prior to the date of valuation, they would require a forward projection of the performance of the hotel, which is often fraught with difficulty. Therefore where possible the valuation should be based on the most updated set of accounts (Harris, 1998). However, the projection of the hotel's performance as the basis for the DCF valuation method is required and, as cited by the various authors, is a difficult process (Verginis and Stephen Taylor, 2004; Harper, 2008). Skolnik and Barber ascribe accuracy within the DCF methodology as a function of the time and effort valuers spend in defining these subjective inputs (Martin and Skolnik, 1993); Rushmore even warns that the subjective nature of the assumptions allow for the process to be manipulated in order to satisfy third party pressure (Rushmore, 1993).

The demand side is only one aspect for consideration, with hotel occupancy a function of the additional supply that will enter the market during the forecast period as well. Valuers need to investigate what hotels may be developed and assess what the impact on occupancy of the market in which the hotel they are valuing is located (Harper, 2008). Harper concludes his chapter on understanding the trading potential of a hotel by stating that valuers need to completely understand the trading history of the hotel before they can determine the future trading potential for the hotel as it may be that the strategy for the hotel is substantially different from the current operation. Regardless of

this, it is still important to know how the property has been trading, so that the impact upon the market perception of the hotel can be qualified. It is important to find out as much as possible about the hotel through the inspection, analysing the market, reviewing of the historical trading accounts and holding detailed discussions with the management of the hotel (Harper, 2008).

An issue for South African owners, according to Rogerson (2012), is the lack of market intelligence to use as a benchmark for their hotel's performance relative to the sector, with only the Smith Travel Research ("STR") Global indexes available. STR Global provides an indexed view of the two key performance metrics, namely Occupancy and ADR throughout South Africa and this is one of the few sources of market intelligence that is available to property valuers. Rogerson (2012) goes on to further state that "critical information relating to, for example, comparative room rates, hotel running costs and geographically differentiated data on the sector is lacking. Accordingly, from an institutional investors point of view, it was observed that it is better to avoid hotel ownership as there are too many risks to be able to value them accurately as it is a highly specialised area" (Rogerson, 2012). This comparative information is a critical tool for a valuer to use, with Harper (2008) citing the need to undertake proper market research to establish how the subject hotel is performing relative to the market. This requires that possible valuers request as much market information that the subject hotel's owners have available.

2.6 The South African Valuer Landscape:

The South African Council for the Property Valuers Profession ("SACPVP") is a statutory body, which is given authority by the Property Valuers Profession Act (Act No 47 of 2000) ("the Act"). The SACPVP's mandate is to provide an oversight function in order to protect the public in all matters relating to property valuation in South Africa (SACPVP, 2004).

The SACPVP is empowered by the Act to oversee the registration of professionals who would undertake hotel valuations for the industry. The Act defines the various qualifications and competencies of registered valuation persons, and it empowers the SACPVP to enforce these distinctions, designations and the broader policy that is defined in the Act. Thus the SACPVP and the Act, inter alia determine on what basis someone can value a hotel.

Section 27 of the Act deals with identification of work, and states that "the SACPVP must consult with all voluntary associations, any person, any body, or any industry that may be affected by any laws relating to "built environment" professions regarding the identification of the type of property valuation work which may be performed by persons registered in any of the categories referred to in section 19, including work which may fall within the scope of any other profession regulated by the professions" (SACPVP, 2011).

The SACPVP has three levels of professional registration, which provides a framework for South African valuers to have their experience and competency measured against. The identification of work is then predicated on the level of competency that a valuer has been awarded. The three levels are Candidate Valuer, Professional Associate Valuer and a Professional Valuer (SACPVP, 2011).

The IVS Committee provides its guidance on the qualification criteria for valuers globally, which states that a valuer should possess the necessary qualifications, ability and experience to execute a valuation as well as being licensed to do so. Specifically, valuers should meet the following criteria (IVSC, 2007):

- A valuer has obtained an appropriate degree or diploma at a recognised centre of learning, or an equivalent academic qualification;

- A valuer has suitable experience and is competent in valuing in the market and category of the asset;
- A valuer is aware and understands, and can correctly employ, those recognised methods and techniques that are necessary to produce a credible valuation;
- A valuer is a member of a recognised national professional valuation body;
- A valuer pursues a programme of professional learning throughout his or her career; “

The SACPVP subscribes to these guidelines and has aligned their objectives, however in the context of this study, the statement by the IVS that says a valuer should have “suitable experience and is competent in valuing in the market and category of the asset” (SACPVP, 2011), is important to explore further. This competency in a category would, therefore, extend to hotels, with SACPVP registered Professional Valuers, therefore, needing to be competent and have experience with hotels as a category before being competent enough to value a hotel to comply with the IVS guidelines. Section 19 of the Act states that the SACPVP must assess the practical experience of a candidate valuer and candidates are required to submit a form, wherein points are allocated to the types of property that have been valued during their candidacy (SACPVP, 2011). Table 1 below (SACPVP, 2011) presents the minimum competencies required by South African property valuers. Valuers are required to meet targets in terms of total points scored, number of types of property valued and number of purposes for which property is valued.

Table 2.3: Minimum Competencies Required

Profession	TOTAL SCORE	No. of types of Property	No of purposes for which property is valued
Single Residential Assessor	35	1	1
Professional Associated valuer	80	1	1
Professional Valuer	190	10	5

Source: SACPVP (2011)

Therefore in order to reach the status of a Professional valuer, one should accumulate 190 points and be able to value ten different types of properties for five different purposes. A schedule of the respective points is presented below in Table 2 (SACPVP, 2011).

Each designation carries with it a defined process which candidates must undertake before being accredited. In the case of a Professional Valuer, candidates are required to have completed an accredited educational program as a Candidate Valuer, while having practiced as a Professional Associated Valuer for a period of three years, then submitting a record of valuation work performed under the guidance of a mentor, before finally having an interview with a representative of the SACPVP. A candidate is then required to write an admissions examination (SACPVP, 2011).

Table 2.4: Weighting for different types of properties valued for different purposes

		Purchase, sale and capital gains tax	Rental determination	Mortgage bonds & Ssecurity	Investments: pension funds, etc	Leasebacks	Land Bank	Expropriation & land restitution	Endowment	Compensation: town-planning schemes	Rating	Deceased estates	Financial statements	Insurance
		00	01	02	03	04	05	06	07	08	09	10	11	12
Vacant single residential land	01	5	4	3	8	8	0	12	2	5	1	2	3	0
Vacant general residential land (flats)	02	75	60	45	120	120	0	180	30	75	15	30	45	0
Single dwellings	03	25	20	15	40	40	0	60	10	25	5	10	15	5
Blocks of flats	04	75	100	75	200	200	0	300	50	125	25	50	75	20
Individual single residential units (sectional title & share block)	05	25	20	15	40	40	0	60	10	25	5	10	15	5
Sectional title schemes & share block schemes	06	150	120	90	240	240	0	360	60	150	30	60	90	20
Timeshare schemes	07	200	160	120	320	320	0	480	80	200	40	80	120	20
Leasehold	08	175	140	105	280	280	0	420	0	175	35	70	105	20
Vacant business land	09	100	80	60	160	160	0	240	40	100	20	40	60	0
Business properties	10	175	140	105	280	280	0	420	70	175	35	70	105	20
Vacant industrial land	11	50	40	30	80	80	0	120	20	50	10	20	30	0
Industries & warehouses	12	150	120	90	240	240	0	360	60	150	30	60	90	20
Potential township land	13	150	120	90	240	240	0	360	60	150	30	60	90	0
Partially developed townships	14	250	200	150	400	400	0	600	100	250	50	100	150	0
Agricultural holdings (small holdings)	15	50	40	30	80	80	20	120	20	50	10	20	30	5
Servitudes	16	150	120	0	240	240	30	360	0	0	30	60	90	0
Land on which mines are situated	17	175	140	105	280	280	70	420	70	175	35	70	105	20
Farms	18	175	140	105	280	280	70	420	70	175	35	70	105	10
Special type properties	19	175	140	105	280	280	70	420	70	175	35	70	105	20

Source: SACPVP (2015)

Hotels fall under the rubric of special type properties in the SACPVP definition. Thus hotels are not individually considered as a property type that valuers are required to have specific experience in. Profession Valuers only need to prove their competency in

10 of the 19 different property types listed in Table 2.5 above. According to the SACPVP, "an aggregate of all blocks, to a maximum of 100 valuations per block is used to assess the experience of a person. The aggregated amount is divided by 100 to determine the weighted score" (SACPVP, 2011). Valuers are also required to undertake various CPD training programs in order to maintain their status (SACPVP, 2015).

The Professional Valuer is the most comprehensive designation for a property valuer in South Africa, allowing a valuer to undertake the broadest scope of property valuations. The Professional Valuer can prepare and draft reports, and to determine a valuation amount for properties which require valuation (SACPVP, 2011). The process aims to assess a valuers experience by using a uniform measuring system. However, what is evident from the process is that valuers are not required to have experience in all of the different property types. On qualification as a Professional Valuer, there is no restriction placed on them in terms of the types of property that they can and cannot value.

Herein lies an important aspect of investigation within this study, which is whether the valuation of a hotel requires a unique set of skills and experience and whether the fact that some valuers would be able to qualify as a Professional Valuer without having previously had any experience of valuing a hotel. Importantly, the skills required could be transferable from one of the ten property types that Professional Valuers are required to have experience in, and this has to be assessed.

Despite general advances in the field of property valuation, there remains a lack of consistency in the regulation of property valuation professionals. Gilbertson and Preston point to the fact that in certain countries, property valuers are only required to go through a licensing procedure (Gilbertson and Preston, 2005). The absence of a prescribed university degree is not reserved for smaller, less mature property markets either. France, for example, only requires valuers to undertake an informal training procedure, while in Australia, Great Britain, New Zealand, Québec, and Sweden, valuers are only required to have a diploma (Canonne, 2003). Until 2013, property valuers in South Africa were not required to have a formal university degree. There is, therefore, a defined educational stratum within the South African valuation industry, with most younger, ipso facto junior valuers having a degree, and older, ipso facto senior valuers having a national diploma (Mooya, 2015). In the context of this study,

this points to an inconsistency in the educational qualifications within the industry and the possibility that certain transferable skills and competencies may be held within one level of the property valuer community as opposed to another, such as for example a Professional Valuer.

Mooya (2015) identifies four key trends regarding the profile of the South African valuation industry which provides important context. He found that:

- Most valuers work in smaller firms, with over 60% of all businesses employing five or fewer valuers.
- Banks and other financial institutions are the primary sources of valuation business in South Africa, with 47% of valuations driven by these institutions.
- Residential property is by some margin the most frequently valued property type in South Africa, which given the volume of residential property is understandable.
- By extension of residential property being the most commonly valued property, the associated technique, the Sales Comparison Technique is the most commonly used technique, with only 2.7% of valuers not proficient with this method.

Mooya (2015) refers to the profile of the "typical valuer" as someone who is likely to be heavily involved in the valuation of residential property for lending purposes. He suggests that the reliance on the price sensitive banking sector, together with the increased usage of Automated Valuation Models has contributed to downward pressure on fees and subsequently profitability. These pressures form an interesting context particularly due to the number of small businesses involved in valuation and the high entrepreneurial levels, possibly prompting valuers to undertake valuations in asset classes that they are unfamiliar with out of financial necessity.

Harper (2008) and Rushmore (Rushmore and DeRoos, 1999) point to the process and methodology as being critical to a hotel valuation. Thus it is not simply about the skills required to understand the hotel business, but whether the actual steps are followed. Valuers in South Africa may have the innate ability to value hotels with a high degree of accuracy without actually following the process prescribed. Jonker doubts that South African valuers do follow this same approach which he refers to as having been prescribed in an American textbook (Jonker, 2014).

Having provided an overview of the South African property valuation environment as well as a detailed analysis of the accepted framework for optimal hotel valuations, it is important to now narrow the focus towards a South African context and analyse available literature that has been undertaken into property valuation in South Africa, and more specifically hotel valuation.

2.7 The Attitudes of South African Valuers to the DCF Method:

As has been established earlier in this chapter, the DCF method should be the primary method for valuing a hotel. Subsequently, a review of the literature which analyses the proficiency of South African valuers using the DCF method is important. Although this does not provide any insight into whether a valuer understands the hotel business and is able to follow the process of appropriately undertaking research to forecast the performance of the hotel business, it does provide a basis to assess a valuer's prescription to the methodological process or at least the primary method recommended to value a hotel.

Mooya (2015) surveyed South African property valuers who are registered with the SACPVP. The study identifies areas where the national valuer education curriculum is deficient. The study does so by comparing the self-assessment of valuers as well as of the assessment of employers of valuer's competency with the DCF method. Therefore the study is an important link with the assessment of valuers' competency around the valuation methodology prescribed in the literature.

A stark finding from the study is that almost 40% of respondents have never used the DCF method, (Mooya, 2015). The finding is significant in the context of this study as it highlights that there is an acute lack of proficiency with the valuation method prescribed by the literature and various governing bodies, such as the RICS and BAHA, as the primary method to value a hotel. Such is the gravity of this finding that it is possible to assert that the South African property valuers who indicated that they are not proficient with the DCF method, are unlikely to able to value a hotel under a VITA based on the global framework for hotel valuation. The overall proficiency of valuers with each of the techniques is presented in Table 2.6 below (Mooya, 2015).

Table 2.5: South African Valuer Proficiency with Valuation Methods

Method	Not proficient in method (%)	Inadequate training (%)	Require further training (%)
Accounts	70.1	73.1	79.4
Residual	26.5	41.9	64.5
DCF	22.1	41.1	66.7
Cost	20.8	33.8	53.3
Direct capitalization	11.3	19.0	43.1
Sales	2.7	9.2	29.8

Source: (Mooya, 2015)

The majority of interviewed valuers (66.7%) indicated that they require further training on the DCF method, whereas only 22.1% of respondents indicated that they are not proficient with the DCF method. Although this is a significant finding, it is likely that this cohort of valuers primarily values residential property, which does not rely on this valuation technique (Mooya, 2015).

According to Mooya (2015), 64% of respondents to the survey indicated that their education adequately prepared them for the profession. Although education is only one component of a valuer's progression towards professional competency, it is an important one. This finding indicates that South African valuers feel unprepared when it comes to different methodologies and requirements of the profession.

The survey conducted by Mooya (2015) then sought to assess the competency of valuers from their employer's perspective. This yielded a more critical assessment, with over 62% of employers indicating that they were "not satisfied" with their employee's competency. In fact, the study found that only 1% of respondents indicated that they were "very satisfied" with their employee's competencies, and only 3% of employers indicated that they perceived no weaknesses. On the contrary, the biggest perceived area of weaknesses are an inability by employees to undertake market research (34.8%), followed by weaknesses in the application of valuation methods (31.8%) and valuation

report writing (22.7%) (Mooya, 2015). Rushmore (1992b) and Harper (2008) stress the importance of market research for hotel valuations.

The above analysis provides a very good assessment of South African property valuer's comfort and competency when it comes to using the primary hotel valuation technique, the DCF method. However, as previously mentioned, the ability to follow a process that is aligned with global best practice to project the cash flow of a hotel business is the key area under assessment in this study.

Jonker states that in agreement with the literature in this area, that an income capitalisation approach is a correct method to valuing a hotel in South Africa, however, it "becomes substantially more complicated and is based entirely on different norms than any other income producing property. I have little doubt that the correct approach to this problem is entirely foreign to virtually all South African valuers and jurists" (Jonker, 2014).

Jonker refers to an American textbook, which sets out the framework for hotel valuation that was set out earlier in this chapter, from which he concludes that "I submit that the bulk of the prescriptions in this textbook is applicable to the valuation of larger hotels in South Africa and until this approach is followed I fear that all valuations of modern hotels are incorrectly executed in South Africa." Thus according to Jonker, the increased presence of larger hotels that are subject to HMA's has not seen an adaption by South African valuers in their methods and approach to hotel valuations (Jonker, 2014).

Jonker (2014) therefore provides a strong critic of South African valuers ability to follow the framework for valuing a large modern hotel. Herein is the fundamental research question that emanates from Jonker's assessment of the industry. There is no available research or literature that disputes Jonker's claims, or the research question outlined in Chapter 1 of this study, which the empirical study in this study will look to establish.

2.8 Conclusion

In conclusion, the literature does present a strong case for a defined approach the valuation of hotels as well as a methodological approach to gathering the market and operational performance data to be able to make an informed forecast. The literature also inextricably links the need to understand the business fundamentals of a hotel in order make the informed forecast. Most of the authors go further to argue that although the fundamentals of the income capitalisation approach may not be too dissimilar to those used for other commercial property valuations, the approach to valuing a hotel with the DCF approach involves the consummate understanding of the hotel business in order to forecast the cash flow that is used in the DCF method (Rushmore, 1992b; 1992a; Walsh and Staley, 1993; deRoos and Rushmore, 1995; Rushmore and Goldhoff, 1997; Rushmore and DeRoos, 1999; Nilsson *et al.*, 2002; Harper, 2008; Reichardt, 2011; Fu *et al.*, 2013).

Thus there exists a unique set of skills, with a number of specific activities that must be undertaken within the process (Harper, 2008). The literature remains limited in the area of South African valuers prescription of the approaches identified in the literature. What is, however, apparent from the literature review, is that the process to become a Professional Valuer in South Africa is possibly flawed in the sense that a Professional Valuer can qualify to value a hotel without having to have prior experience in hotel valuation. The question around whether the skills required for hotel valuation are transferable from experience in other areas of property valuation is not one that has been dealt with specifically

The second important issue that was highlighted by Mooya's (2015) survey challenges the ability of South African valuers application of the DCF method. This critique is particularly apt for this study due to the literature's strong reference to this technique being prescribed as the primary method for valuing a hotel.

These questions need to be considered in the context of the evolution of the hotel sector from one which attracted very few VITA's, such as HMAs, to one which is becoming increasingly aligned with global trends (Rogerson, 2013). Jonker's (2014) concerns about whether the process followed by South African valuers aligns with global best practices is therefore becoming more and more pertinent as the industry evolves. Herein

lies the fundamental basis of the research question within this report and the basis for further future academic research within this report.

Chapter Three: Design and Empirical Study

3.1 Introduction

Chapter 3 presents the research approach that has been used for this study. First, the research methodologies and methods are presented, followed by a justification of the methodology and method chosen for the present study. The research design of the empirical study is then detailed, including the sampling and data collection methodologies, the research instruments (the semi-structured survey and case study), and the data analysis methods (descriptive and inferential).

3.2 Research Methodology and Methods

Leedy and Ormrod (2005) assert that the selection of a research methodology and methods should be determined by the nature of the research problem and the skills of the researcher. Heppner and Heppner (2004) argue that the researcher should spend significant time and thought on method selection as this impacts the course of the entire study and its findings. Howell (2013) defines research methodology as a general research strategy that outlines how the research is going to be carried out and identifies the methods to be used in it. The methodology can be described as a systemic theoretical positioning that does not set out to provide solutions but rather orients the research within a particular theoretical model, paradigm or research approach. The methods, which are described in the methodology, usually specify how a data or a certain result is to be calculated (Walliman, 2010). Methods outline how that methodology is going to be implemented and aim to provide research findings. Research methods are the tools, processes, or ways through which the researcher obtains the data. Research methodology provides the theoretical underpinning for understanding which method is best to use (Heiman, 2001). Choosing the appropriate research methodology and methods is critical to the study.

3.3 Research Methodology

There are three predominant types of research methodology – qualitative, quantitative and mixed methods (Hanson *et al.*, 2005). Qualitative research can generally be defined as exploratory research that seeks to identify and describe new actions, beliefs, feelings, thoughts and perceptions or to provide a more in-depth and multifaceted analysis of them (McMillan and Schumacher, 1993; Creswell, 2003). Qualitative research is typically rooted in strong theoretical areas and seeks to gain a deeper understanding of these thoughts, opinions, or problems. Qualitative research tends to ask open-ended, unstructured or semi-structured questions and usually uses approaches such as focus groups, individual interviews or participant observation. Qualitative research designs usually use small sample sizes, and data is analysed in a subjective, interpretive and semiotic manner. The advantage of qualitative research is that it can have a relatively short execution time while requiring fewer participants or in-depth exploration. The limitations of qualitative research are that it difficult to make generalised findings from the data, with insights often limited to preliminary and subjective understandings (Creswell, 2003; Hair, 2007).

Quantitative research is used to look for explanations, patterns, and predictions through quantifying the problem and producing statistical data (Creswell, 2003). Quantitative research aims to establish, confirm, or validate relationships between variables that are relatively easy to make generalized findings for the greater population (Howell, 2013). Quantitative research is typically descriptive, correlational, or predictive. Quantitative research approaches are usually structured, such as surveys, polls, or interviews with primarily close-ended questions (Jackson, 2009). Quantitative research usually uses far larger samples compared to qualitative research, and data is analysed using statistical and descriptive methods that provide associations and relationships with variables. The advantage of quantitative research are that it rings with it the enhanced chance of obtaining concrete and factual findings due to the ability to generalise on a broader population (Creswell, 2003). The limitations of quantitative research approaches would be the time taken to obtain large sample sizes and that statistics may not allow for a deeper and more creative interpretation of the information.

A mixed methods research design incorporates aspects of both quantitative and qualitative research methods (Creswell, 2003) For example; a mixed method approach

may use both questionnaires and focus groups. This is sometimes referred to as being a "pragmatic approach" as it allows the researcher to use the methods that appear to be best suited to the research problem without getting caught up in the philosophical theory (Teddlie and Yu, 2007). Many researchers argue that qualitative and quantitative methods should be viewed as complementary, not rival, methods; utilization of a mixed methods approach enables researchers to draw on the strengths of both methods while potentially cancelling out the bias inherent in any particular source, researcher or method (Denzin, 1978). Rossman and Wilson (1985) argue that there are three reasons to use mixed methods: to enable confirmation or corroboration of each other through triangulation, to provide richer data through more complex data analysis, and to initiate new modes of thinking by attending to paradoxes that emerge from the two data sources. The use of mixed methods research has become increasingly common and gained strong support (Campbell and Fiske, 1959; Tashakkori and Teddlie, 2003; Bryman, 2006), and it is now recognised as the third major research approach or research paradigm (Johnson *et al.*, 2007).

The present study is best suited to a mixed methods approach as it aims to assess the nature of relationships between variables through quantifying levels of competency (Hair, 2007). The research questions (outlined in Chapter 1) are primarily confirmatory predictive which also supports the use of quantitative analysis (Leedy and Ormrod, 2005). Additionally, the study aims to gather information about a large population, which is best done through quantitative approaches. Furthermore, the researcher's ability to work directly with participants is low and hence cannot employ approaches that require in-person interaction with participations, as typically used in qualitative research, such as focus groups or unstructured face-to-face interviews. The present study employed a cross-sectional research design in which data collection occurred at a single time point. All measures need to be self-reporting.

Although the vast majority of the research approach was quantitative, including a few open-ended questions enhancing the richness of the data collected. These open-ended questions were brief and instructive, geared towards asking participants to generate answers rather than select from a multiple choice list. These questions were scored numerically and therefore are not considered a qualitative method. All the data will be analysed using quantitative statistical analyses, complemented with some descriptive

information. Having determined that a quantitative research approach is to be used, the method of data collection needs to be laid out.

3.4 Research Design

There are many ways in which data can be collected. Three of the major types of research methods are experimental, surveys, and case studies (Hepper and Hepper, 2004; Jackson, 2008). All three of these research methods are frequently used in quantitative research (Jackson, 2008).

Experimental methods involve controlling and manipulating variables. The researcher isolates and controls every relevant variable or condition that may influence the events being investigated and then observes the effects when a condition is changed. Experimental methods ask whether a relationship can be produced, not just found (Howell, 2013). Researchers argue that experimental methods have the strongest reliability and validity, as the research environment can be more controlled (Jackson, 2008). However, it can also produce artificial results, and the personal bias of the researcher may intrude.

Surveys and case studies are often considered forms of descriptive or correlational research methods as they involve observation of relationships or behaviours in order to describe and analyse them, without manipulating any variables of interest (Heiman, 2001). Surveys and case studies are a passive type of research, where the researcher measures variables in order to establish whether a relationship can be found, but the data cannot allow for conclusions regarding the directionality of the relationship (Howell, 2013). In survey research, participants answer questions that are administered through interviews or questionnaires (Jackson, 2009). Survey research has several advantages but also some disadvantages. Surveys can access a broad segment of a population, as they can be administered telephonically or by mail or email. Using large population sizes enhances reliability, validity, and generalizability (Hepper, 2004). However, given that surveys are often administered indirectly (e.g. through email) or in mass situations (eg. handing out to a group of people), and not administered in a very direct, individual, or personal manner, participant response rates can be low. Surveys can also be particularly prone to volunteer bias, where people who opt to participate in the study may have certain characteristics that could confound correlations, for example, higher social status or intelligence (Heiman, 2001).

Case studies are also common forms of correlational methodologies. A case study is an in-depth study of an individual, group, behaviour, or event. The main advantage of a case study is that it can offer rich data. Case study research can also often lead to developing testable hypotheses (Jackson, 2009). However case studies have two weaknesses – expectancy effects and atypical individuals. Expectancy effects occur when the researcher has underlying biases that might influence how the research is designed or conducted (Jackson, 2009). Typical individuals can be a problem in case study research as describing an atypical individual could yield data that has poor reliability, validity, and generalizability (Heiman, 2001).

The present study seeks to gather data about the community of South African hotel property valuers as it currently is. The present study is not attempting to implement any intervention and measure the outcomes, and hence it cannot be considered an experimental research. Rather, the research design of this study is considered to be non-experimental and does not involve any manipulation of variables (Heiman, 2001). The study aims to investigate the nature of the current competencies of South African property valuers and explore the relationships between competencies and the profile of those professionals currently valuing hotel property. Therefore, the present study is considered to be a correlational research methodology. No correlations between the variables are currently known, and hence the study aims to explore possible correlations and does not seek to make attempts to predict behaviour or events

The research aims of this study focus on gaining an understanding of the profile and competencies of South African hotel property valuers. Hence the study is interested in gathering data from as many individuals as possible in order to get a sense of the entire population. Thus the present study seeks to gather data that can be generalizable rather than in-depth data focused on one or few hotel property valuers. Furthermore, due to the logistical and financial constraints on the current research, it is necessary to collect data within a short time-frame. Given that data is needed from a large number of participants, it is not reasonably feasible to conduct individual interviews. Therefore, using an online survey is the best form of data collection for the present study. An online survey offers the best means to obtain a wide range of data from a large population of participants that can be analysed to provide the initial exploratory findings that this study seeks to do.

The present study employed a cross-sectional research design in which data collection will occur at a single time point. The research design is considered to be descriptive or nonexperimental, as it will not involve a controlled experimental intervention or manipulation of variables (Heiman, 2001). Rather, the study seeks to investigate the nature of the current competencies of South African property valuers and explore the relationships between competencies and the profile of those currently valuing hotel property. All variables were assessed using self-report measures and analysed using quantitative statistical analyses, complimented with some descriptive information.

3.4.1 Research Sample

The selected sample for the study is members of the South African Institute of Valuers ("SAIV"), this is the most influential and most prominent body that valuers in South Africa belong to, and thus represents the appropriate population group to focus on.

According to Salant and Dillman "Occasionally… A census is the only way to get accurate information, especially when the population is so small that sampling part of it will not provide accurate estimates of the whole" (Salant *et al.*, 1994). However, Field (2005) states that it is more suitable to use a sample group if the population is (1) large and (2) homogeneous in nature. The SAIV can be reasonably considered to meet the first criteria as there are 1,600 available email addresses for members of the SAIV. It is then also important to consider whether the SAIV can be reasonably considered to be a homogenous population.

There are no criteria for joining the SAIV beyond being a registered property valuer, and individuals join for the membership benefits that include being added to an online membership list that the public can use when looking for a valuer, discounted fees for workshops and conferences, and access to the professional online material. So, all members of the SAIV can be expected to have successfully reached a minimum standard of competency and to, therefore, be occupationally homogeneous in formal valuation training. However, it is possible that individuals who choose to join the SAIV may possess particular personal characteristics that non-SAIV property valuers do not, for example, SAIV members may have higher levels of ambition or have a different average age. However, this study focuses on occupational capabilities, not personal characteristics. Therefore although it will be important to consider these possible sample differences when analysing the data, the potential sampling bias is not

considered to be problematic enough to warrant needing to do a census. Therefore the occupational homogeneity of the target population combined with the limited resources available for this research (time, financial, and labour) suggest that adopting a survey of the sample instead of a census method is acceptable and more suitable for the current study's research aims.

Analysis of the sample, including size and any bias, was conducted as part of the data analysis in Chapter 4 and the implications of any biases were considered and discussed in Chapter 5.

3.4.2 Research Instruments

An electronic survey was developed using the website Survey Monkey (www.surveymonkey.com). This tool is widely used at various levels of professional and academic research and has been designed to allow a flexible approach to structuring questions in a way that eases the time burden on research participants. The electronic survey consists of a questionnaire and case study and is provided in Appendix A. The survey was distributed by way of an email with an HTML link to the unique URL that directed the respondent to the Survey Monkey website. This study was approved by the Universtiy of Cape Town's Ethics. Respondent's consent was obtained electronically when the participant consented to participate in the survey.

There are no established instruments to measure the variables (demonstrated competency, i.e. understanding the complexities of a hotel business), relevant to this study. Therefore I have had to design an instrument for this purpose. The instrument used (questionnaire and case study) has not been externally validated which does raise an important limitation of this study with regard to reliability and validity of the instrument and potential results. However, this will be dealt with in the discussion of results and conclusion sections of the report. Since the current study aims to provide initial exploratory findings, in an area where there is no existing research, the development and use of a new instrument is unavoidable.

3.4.3 Assessment Framework for case study

Before presenting the results of the empirical study in Chapter 4, it is important to present the basis for determining the correctness of questions set out in the survey. The following scenario was posed to participants:

> *"The hypothetical subject property is a 200 room 4-star hotel that opened in 2010 prior to the World Cup in Sandton, Johannesburg. The hotel has minimal conference facilities and one all day dining restaurant. A listed REIT who requires a valuation of the subject property owns it. The Marriott International group manages the hotel under a hotel management agreement. i.e. the owner pays the operator to manage the hotel on their behalf, with the balance of the hotel profit being the owner's dividend."*

Firstly, the reference to a case study should not be confused as the research approach, as the case study approach was dismissed in Chapter 3. It describes a sub-format within the survey approach that was selected within the research design. The case is set to provide a scenario, albeit hypothetical, of what would constitute a more common profile of a hotel under an HMA in South Africa; and therefore the property represents a fairly typical VITA in principle.

The inclusion of the hypothetical case study was intended to assess the approach that valuers would take to valuing a hotel under an HMA and by extension, a VITA. A competency score was then derived that was based on the number of correct versus incorrect answers that were given. The material clues that were provided were:

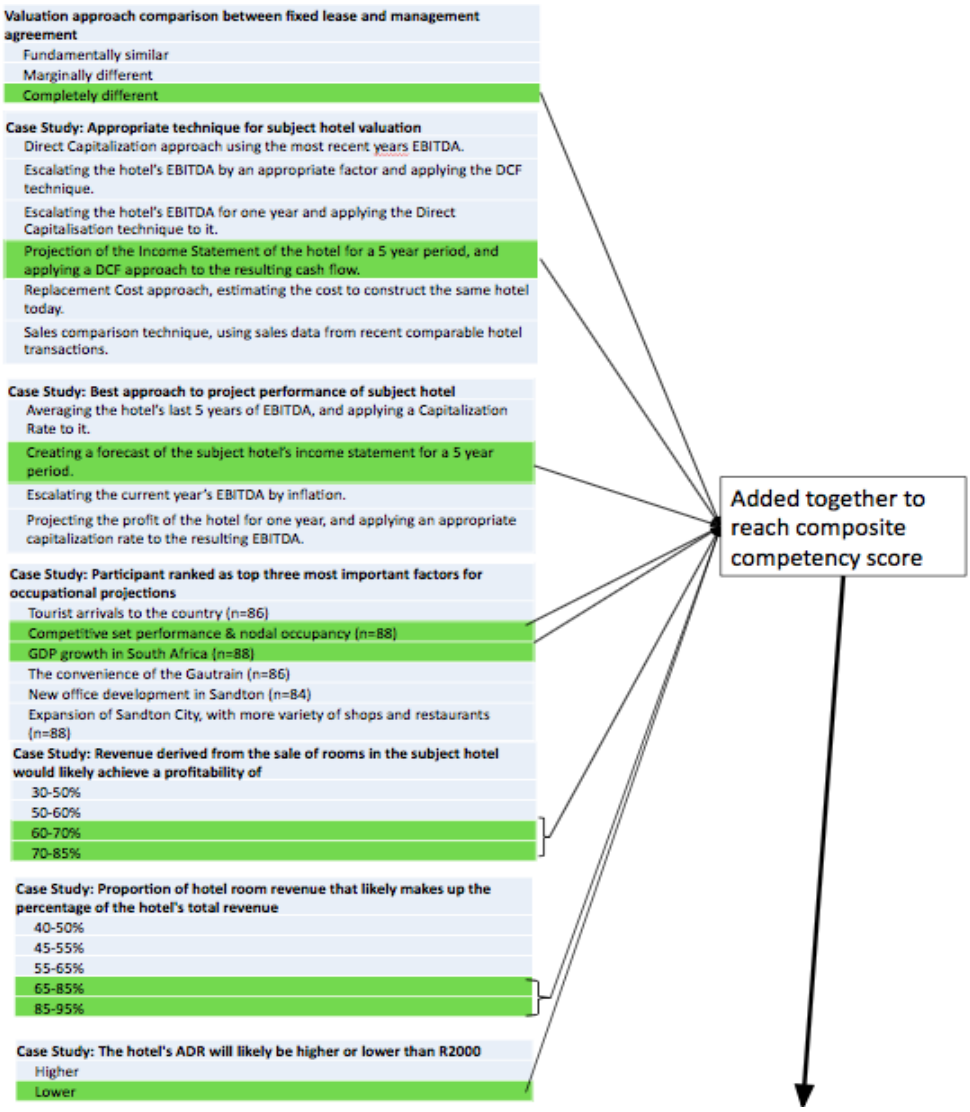
- The size of the hotel, which should provide the respondent with context to what the typical cost structure and profitability profile would be. At 200 rooms, the hotel would be able to achieve relatively strong economies of scale.
- The hotel is located in Sandton, a primary commercial node in South Africa. Most property valuers and real estate professionals in South Africa should be familiar with Sandton, even if their focus is specific to other areas. The questions were not however geared to test any specific market intelligence that would relate to Sandton and not other hotel markets in South Africa.

Each question was supported by a number of multiple choice options. The seven questions posed within the survey that was included in this assessment framework were:

- In your opinion, the approach to valuing a hotel that is managed under a fixed lease compared to under a management agreement is;
- What is the most appropriate technique to value the Subject hotel;
- What approach best describes how you would project the performance of the subject hotel;
- Please rank the following from most important to least important in terms of factors to consider when projecting occupancy for the hotel;
- From your experience, hotel room revenue would likely make up what percentage of the subject hotels total revenue;
- From your experience, revenue derived from the sale of rooms in the subject hotel would likely achieve a profitability ratio of;
- From your experience, the Hotel's ADR will likely be higher or lower than R 2,000.

Due to the exploratory nature of the study, there needs to be some further context provided into this scoring system before the presentation of results in Chapter 4. The responses that are determined to be correct either align with the framework outlined in Chapter 2 or relate to specific aspects and factors that valuers would have encountered when valuing a hotel under an HMA in South Africa. In the case of the latter, although it can be argued that only one of the available answers is correct, a more conservative approach was taken with two responses deemed to be correct in some cases, due to no prior established assessment framework in this area. Image 3.1 below provides a visual representation of this application.

Figure 3.1: Competency Assessment Framework



Question 1 states that "in your opinion, the approach to valuing a hotel that is managed under a fixed lease compared to under a management agreement are "Fundamentally similar", "Marginally different" or "Completely different". The distinction between marginally different and completely different is interesting to note, however difficult to draw any substantive pronouncements on in isolation, as the scale difference between "marginally" and "completely" is not quantifiable within the exploratory nature of the research. This is a limitation of quantitative analysis and the study as a whole, however, the consideration of the processes to be "marginally different" does reflect a perception that the process is not encumbered by unique technical rigour or procedural differences

compared to other real-estate valuations, and therefore the required skills are perceived to be largely transferable, which is a different view to that presented in Chapter 2.

Question 2 asks "'what is the most appropriate technique to value the subject hotel". In Chapter 2, it was established that the primary approach to valuing a hotel would be the income capitalisation technique, with the primary sub-method agreed to be the DCF approach and therefore option 2 represents the correct answer.

Question 3 asks "what approach best describes how you would project the performance of the subject hotel". This is a follow-on question from Question 2, and all of the available answers are related to establishing the hotel's Earnings Before Income, Depreciation and Amortisation ("EBITDA"). The incorrect options include increasing the current years EBITDA by inflation, averaging the last five years EBITDA's and undertaking a one-year profit forecast. However, as was also established in Chapter 2, undertaking the DCF approach that was cited as correct in Question 2, requires projecting the performance of the hotel for at least another five years. Therefore Option 2 represents a correct answer.

Question 4 asks the respondent to rank the following from most important to least important in terms of factors to consider when projecting occupancy for the hotel" The available answers are as follows:

1 = Tourist arrivals to the Country

2 = Competitive Set performance & Nodal occupancy

3 = GDP Growth in the Country.

4 = The convenience of the Gautrain.

5 = New office development in Sandton.

Six = Expansion of Sandton City, with more variety of shops and restaurants

A correct answer was deemed to be one that ranked either option 2 or option three as either the first and second most important factors to consider. The subject hotel is located in Sandton and primarily relies on demand from the domestic corporate market as opposed to the leisure market. GDP growth for the country will provide a good measure of potential growth in corporate activity; and is used as a measure of demand growth in corporate centric hotel nodes, at the very least as an adjustable base.

Therefore it would be one of the two most important considerations from the list above. The competitive set performance and nodal occupancy is a very important measure to consider, as once a valuer understands this they will be able to determine the demand pattern for the broader node and how the subject hotel is performing relative to this node. It may suggest that the subject hotel is over or underperforming its competitive set and once the particular set of reasons for this are isolated, the valuer can make an opinion as to whether these may remain or be overcome. The other options are interesting points to note and will all be important considerations for a valuer. However, these would likely have less of a material impact to the two correct answers.

Question 5 asks the respondent "from your experience; hotel room revenue would likely make up what percentage of the subject hotels total revenue". The subject hotel was selected to be a 4-star hotel, positioning it between a 3-star and a 5-star hotel, with the intention being to present a very typical case, to avoid any misinterpretation of the information at hand. The hypothetical hotel has minimal conference facilities and only one all day dining restaurant, meaning that it would unlikely generate an extraordinary level of food and beverage revenue or other revenue, which would more likely be associated with a large conference orientated hotel.

Room Revenue in a 4-star hotel of this size without large conferencing facilities in South Africa conservatively makes up between 65% or revenue and 80% of revenue. Hospitality Property Fund ("HPF"), the only hotel focused REIT on the Johannesburg Stock Exchange, publishes a consolidated income statement in their integrated report. This is presented in Table 5.1 below, the weighted revenue component associated with rooms revenue for the portfolio between 2011 and 2015 was 62.1%. This portfolio includes a number of the large conferences focused hotels such as the Westin Cape Town and Mount Grace Country House and Spa, which generates a higher portion of non-room revenue, and inversely a lower portion of room revenue relative to the subject hotel. In 2015 there was a large increase in food and beverage revenue in this HPF portfolio, which was attributable to the inclusion of the Birchwood Conference Centre in the portfolio (see Table 5.1), with this hotel generating a very high portion of food and beverage revenue. Subsequently, this portfolio represents a very good sample for a hotel that would have a higher portion of food and beverage revenue and a lower portion of room revenue than the subject hotel would achieve. The correct bracket that has been set is either option 3 or option four, i.e. 55%-65% or 65%-85%, thus essentially

widening the bracket to between 55% and 85%. Given the aforementioned case for HPF, this band represents a conservative measure of what is correct.

Question 6 follows on from Question 5 and asks the respondent "from your experience, revenue derived from the sale of rooms in the subject hotel would likely achieve a profitability of". Table 5.1 below shows that the HPF portfolio has achieved rooms department profit of between 76% and 78% between 2011 and 2015, and thus this very narrow band for a fairly large portfolio suggests that this level is a well-established basis for valuers of hotels in South Africa to have established. Option 4, between 70% and 85% in itself would be a very conservative bracket to consider as correct, however, due to the exploratory nature of the study and the establishment of this assessment framework, responses between 60% and 85% have been deemed to be correct.

Table 3.1: Fixed and Variable Lease Portfolio Income Statement in USALI Format

R ' 000	2 011	%	2 012	%	2 013	%	2 014	%	2015	%
Rooms	342 055	61%	541 909	63%	606 867	64%	765 235	65%	886 832	59%
Food & beverage	152 796	27%	248 488	29%	270 937	29%	334 500	28%	515 527	34%
Spa and Beauty Salon	9 482	2%	17 899	2%	15 318	2%	16 228	1%	17 125	1%
Golf and Safari	3 063	1%	14 559	2%	13 287	1%	16 163	1%	19 812	1%
Other	54 331	10%	39 408	5%	42 087	4%	46 879	4%	60 222	4%
Revenue	**561 726**	**100%**	**862 264**	**100%**	**948 497**	**100%**	**1 179 004**	**100%**	**933 664**	**100%**
Rooms	260 362	76%	415 560	77%	466 279	77%	595 233	78%	690 446	78%
Food & beverage	40 206	26%	82 325	33%	90 325	33%	110 576	33%	206 513	40%
Spa and Beauty Salon	3 233	34%	5 139	29%	5 049	33%	5 188	32%	5 389	31%
Golf and Safari	261	9%	3 484	24	3 205	24%	3 468	21%	6 393	32%
Other	44 361	82%	23 761	60	18 473	44%	19 589	42%	24 922	41%
Departmental Profit (% of Departmental Revenue)	**155 502**	**28%**	**233 542**	**27**	**253 155**	**27%**	**312 740**	**27%**	**381 192**	**41%**
Administration & General	64 982	12%	96 794	11	108 112	11%	123 893	11%	151 742	16%
Sales & Marketing	40 158	7%	60 831	7	65 097	7%	85 360	7%	102 451	11%
Heat, Light & Power	22 079	4%	37 788	4	40 452	4%	51 881	4%	63 516	7%
Repairs & Maintenance	27 984	5%	38 111	4	39 495	4%	51 605	4%	63 483	7%
Other hotel expenses	155 202	28%	233 524	27	253 155	27%	421 313	36%	552 471	59%
Management Controllable Profit	193 220	34%	296 744	34	330 177	35%	421 313	36%	552 471	59%
Fixed Expenses	104 185	19%	92 772	11%	99 677	11%	139 836	12%	193 208	21%
Management & Incentive Fees	50 109	9%	113 112	13%	131 904	14%	165 350	14%	200 686	21%
EBITDA	133 147	24%	205 885	24%	231 580	24%	305 186	26%	393 894	42%

The final question that was asked was whether the hypothetical subject hotel's ADR would be higher or lower than R 2,000. STR Global reported that the Year-to-Date ADR of the 4-star hotel market in Sandton in June 2016 is R1,057 (STR, 2016), substantially below the R 2,000 boundary established in the assessment framework, which is therefore very conservatively weighted in favour of supporting competency. The premise of the question was not to test whether a valuer could off hand recall the exact ADR that the market is achieving, but rather to test whether they were comfortable enough with the term Average Daily Rate, and understood that this was a weighted net rate that is exclusive of VAT, breakfast charges and the various discounts that are applied to certain segments such as larger companies, tour operators etc. Thus it is not the rate that guests would pay on average. Cape Town achieves the highest Average Daily Rates in South Africa, driven by the higher weighting of overseas leisure demand (Karrim, 2014), with the Cape Town 4-star market achieving an ADR of only R1,300 (STR, 2016). Thus the location of the hotel in Sandton, and a valuers familiarity with a market such as Cape Town, would still not support a different answer. Therefore there is confusion around the term Average Daily Rate, which is a commonly used term in the literature and prescribed in the USALI.

3.5 Measurement of Variables

3.5.1 Profile of Property Valuers: Registration, Experience and Training

A short questionnaire was used to obtain information on the professional profile of participants. Information gathered included their SACPVP registration level, nature of hotel valuation experience (team/individual, the purpose of valuation, tenure structure of hotels valued), and quantity and nature of received training in hotel valuations.

Operationalization and Scoring

1. SACPVP registration level was scored between 1 and 3, where 1 is the lowest level of registration and 3 is the highest level of registration. The levels were defined as follows: 1 = Candidate Valuer, 2 = Professional Associated Valuer, and 3 = Professional Valuer.
2. Hotel valuation experience was assessed in terms of quantity and nature
   a. Quantity was assessed numerically where 0 = never valued hotel, 1 = valued one hotel, and so on.
   b. Nature was assessed in terms of three characteristics:

      (1) Whether a hotel was valued as part of a team or the participant alone or both; this will be scored as 0 = team, 1 = individually and 2 = both.

      (2) Whether the valuer had undertaken a hotel valuation involving a variable income tenure agreement; this will be scored as 0 = no and 1 = yes.

      (3) What the purpose of the valuation was; this was scored as 1 = Lending, 2 = Possible transaction, 3 = Fiduciary requirement, 4 = Internal reporting, 5 = Rates and taxes dispute, and 6 = Other.
3. Received hotel valuation training was assessed in terms of quantity and nature
   a. Quantity was assessed numerically where 0 = no training and 1 = received training.
   b. Nature was assessed numerically where 1 = formal short course, 2 = component of a university course, 3 = on the job training and 4 = other.

3.5.2 Self-perceived Competency

Data on participants' self-perceived assessment of their competency in valuing hotels with variable income tenure agreements was collected through a multiple choice rating question.

Operationalization and Scoring

Participants were asked to rate their competency on a scale from 1 (strongly agree that I am not competent) to 5 (strongly disagree that I am not competent).

3.5.3 Demonstrated Competency

The participants' understanding of the intricacies of the hotel business and required approach to undertaking a valuation with a variable income tenure were assessed through a multiple choice rating question and a case study.

Operationalization and Scoring

1) Participants were provided with a short description of a fictional hotel with an HMA and asked to answer a series of nine multiple choice and open-ended questions designed to assess the extent to which the participant understands the complexities of the hotel business and the approach required to value the subject hotel in the case study. The answers to seven of the nine questions were used in the competency above framework and answers provided were used to categorise participants into four levels of demonstrated competency: 1 = Fully competent, two = Mostly competent, 3 = Partially competent and 4 = Incompetent.
2) The participant's responses to these questions (both closed and open-ended) were assigned a score of '0' if they are incorrect or '1' if they are correct. There are seven questions that will be used to develop this score, one of which is split into two parts, resulting in a maximum score of 7. The scores for each response will be summed to obtain a 'composite competency score', and the scores were grouped into four levels of demonstrated competency as follows:
    - Fully Competent was considered to be 7 or 7 out of
    - Mostly Competent required answering 5 or 6 out of 7 correct

- Partially Competent required answering 4 out of 7 correct
- Incompetent required answering 0-3 out of 7 answers correct.

3.5.4 Data Analysis

The data were analysed quantitatively using SPSS. Descriptive and inferential statistics were employed to describe and analyse the variable data, which addressed the research questions outlined in Chapter 1.

3.5.5 Descriptive Statistics

Descriptive statistics were conducted on each of the measures. Categorical variables are described using proportions and compared using Pearson's chi-square test or Fischer's exact test for sparse data. Continuous variables are described using means and standard deviations (parametric data) or medians and interquartile ranges (nonparametric data) (Field, 2012).

3.5.6 Inferential Statistics

Chi-squared tests were conducted on the variables to determine whether there are any significant relationships between the variables. If numbers are too small for a chi-square test (i.e. if the cell is less than 5) a Fischer Exact test will be conducted instead. Relationships will be considered statistically significant if the p-value is less than 0.05. Ordinal logistic regression, or proportional odds model, will be used to investigate relationships between the predictor variables (the variables describing the participants' profile) and the composite competency score levels). Ordinal logistic regression was used as the outcome variable of participant competency is based on four variables that are ordered. For these models, odds ratios and 95% confidence intervals were presented for both the unadjusted model (i.e. one predictor variable in the model) and the adjusted model (with multiple predictor variables).

The findings of these inferential analyses was then interpreted to address the research aims and questions of the study.

The results of the study are presented in the next chapter.

3.5.7 Use of the Research

The audience of the completed study are members of the valuer community in South Africa, the South African Council for the Property Valuation Profession ("SACPVP"), owners of hotels, and lending institutions who provide finance for hotel transactions.

The raw physical data will be stored in a secure location with access restricted to the researcher and his supervisor. The electronic form of the data will be password protected; only the researcher and supervisor will have access to the password. In accordance with general practice, the data will either be destroyed two years after completion of the study or six years after the study publication, depending upon whether and how soon after completion of the study any publication of material takes place.

3.5.8 Ethics

There are no anticipated risks for participants of the research. The instruments employed are minimally non-invasive. Additionally, the instruments are completed individually and anonymously, which removes any potential participant concern or anxiety regarding embarrassment of being identified. Participants were fully informed about the nature and requirements of the research before they decide whether to participate, and participation is entirely voluntary. There are no anticipated risks to the researcher. The ethics guidelines and processes prescribed by the University of Cape Town were complied with for this study. As responses are anonymous, there is no risk of the respondents competency being exposed, which could impact on their standing in the professional communitee.

Chapter Four: Presentation of Results

4.1 Introduction

This chapter documents the quantitative analysis of the survey which was undertaken in support of the research. It presents findings around the characteristics, experience, attitudes and approach of South African property valuers to the valuation of hotels.

The survey was sent to a database of members of the South African Institute of Valuers ("SAIV"), a voluntary organisation aimed at promoting the professional interests of the property valuation profession in South Africa. The samples is considered to be sufficient in size and characteristics, with the discrepancy between those who began the survey and those who completed it was analysed for selection bias within this chapter.

The survey is broadly broken down into two parts, with the first part (Questions 1 to 10) assessing the profile (characteristics, prior valuation experience and training) of hotel valuers in South Africa (see Appendix A).

The questions posed to the participants around this case aimed to assess whether the approach that they would take to a hypothetical hotel valuation for a property encumbered by an HMA aligns with the framework set out in Chapter 2, and therefore demonstrate valuer's level of competency and associated attitudes to this process, with Jonker (2014) stating that he doubts that this is the case.

Responses to each question were determined to be either correct or incorrect based on the criteria referenced above. A correct response was assigned the value of '1' while an incorrect response was '0.' These responses were then summed together to form a composite score that could range from 0 (no correct responses) to 7 (all correct responses). Scores of 0-3 were categorised as 'Not competent,' a score of 4 was 'partially competent,' 5-6 was 'mostly competent' and 7 as 'fully competent' (Figure 4.2). This score is referred to as the 'composite competency score.'

4.2 Sample Profile

One hundred and eighty nine persons in the SAIV elected to participate in this survey. The database used contained 1,186 members, and subsequently, 15.9% of them participated in our study. Almost two in three participants were Professional Valuers

(112, 59.3%), 59 (31.2%) were Professional Associate Valuers, and 18 (9.5%) were Candidate Valuers (Table 4.1). As discussed in Chapter 2, these levels of professional association provide an important basis on which to assess the competency of Professional Valuers, who are more experienced and are expected to have a higher level of proficiency (Mooya, 2015).

Of the 189 participants, 131 (69.3%) reported that they had previously valued a hotel before and, of these, over half (72, 55.0%) reported having valued more than 5 hotels during their careers (Table 4.1). Additionally, most respondents reported having only ever valued hotels as individuals compared to in a team environment (76, 58.0%). Of those who reported having valued a hotel before, most indicated that the reasons for the valuations were to support a loan application, or for lending (71, 54.2%), possible transactions (43, 32.8%), rates and taxes disputes (31, 23.7%) and internal reporting (24, 18.3%). Over half of those who reported having previously valued a hotel reported that they had valued hotels with a management agreement in place between the owner and the operator (69, 52.7%) while 51 (38.9%) indicated that they had never done so.

Among the full sample (n=189), 84 (44.4%) indicated that they had received some training in hotel valuation in the past, while 79 (41.8%) indicated that they had not received any training (Table 4.1). 26 (13.8%) participants did not respond to the question regarding training. The proportion of valuers who received training increases to 59.5% when only looking at those who indicated that they had valued a hotel previously. Seven valuers indicated they had valued a hotel in the past but had not received training to do so.

Most of the training received was on-the-job training (55, 65.5%), followed by formal short courses (24, 28.6%) followed by a component of a university course (19, 22.6%; Table 4.1). Informal training and seminars/workshops were reported by 7 (8.3%) and 9 (10.7%) of the survey group. Training can subsequently be divided into two broader categories, formal and informal, with formal training including formal short courses, a component of a university course and seminars and workshops. Informal training would then constitute on-the-job training and informal training. Most respondents indicated that they had received the broader sub-categorisation of “informal training” (62, 73.8%).

Table 4.1: Sample profile: valuation characteristics, experience and training

	n	%
South African Council of Property Valuers Profession registration type (n=189)		
Candidate Valuer	18	9.5
Professional Associated Valuer	59	31.2
Professional Valuer	112	59.3
Previously valued a hotel (n=189)		
No	57	30.2
Yes	131	69.3
Missing	1	0.5
Number of hotels valued (n=131)		
1	3	2.3
2	14	10.7
3-5	32	24.4
5+	72	55.0
Missing	10	7.6
Valuation done as part of a team or individually (n=131)		
Team only	16	12.2
Individually only	76	58.0
Both team and individually	29	22.1
Missing	10	7.6
Purpose of valuation (n=131)		
Lending	71	54.2
Possible transaction	43	32.8
Fiduciary requirement	12	9.2
Internal reporting	24	18.3
Rates & Taxes dispute	31	23.7
Expropriation	2	1.5
Insurance	1	0.8
Rental	1	0.8
Liquidation	1	0.8
Valued a hotel with a management agreement in place between owner and operator (n=131)		
No	51	38.9
Yes	69	52.7
Missing	11	8.4
Training related to hotel valuations (n=189)		
No	79	41.8
Yes	84	44.4
Missing	26	13.8
Nature of training (n=84)		
Formal short course	24	28.6
Component of university course	19	22.6
On-the-job training	55	65.5
Informal	7	8.3
Seminar/workshop	9	10.7

Majority of the respondents have previously valued a hotel (131, 69.3%), however, of these respondents, 52.7% (69) reported having previously valued a hotel under an HMA. This is significant, as only 36.6% of all 189 respondents have therefore been exposed to a valuation of a hotel under an HMA. This demonstrates that it is not yet a common activity for property valuers in South Africa to undertake relative to other asset classes. However this exposure rate is still high considering that the popularity of HMAs is still emerging, and hotel properties are not as frequently valued by property valuers. Whether a respondent had previously valued a hotel was found to be associated with the valuer registration level (p<0.0001; Table 4.2).

Table 4.2: Nature of Prior Hotel Valuation

	Previously valued a hotel				
	Yes (n=131)		**No (n=57)**		
	n	**%**	**N**	**%**	**p-value**
Candidate Valuer	6	35.3	11	64.7	<0.0001
Professional Associated Valuer	34	57.6	25	42.4	
Professional Valuer	91	81.3	21	18.8	

Among those who had previously valued a hotel (n=131), there was no statistically significant association with valuer registration and experience with valuing a hotel under an HMA (p=0.8859; Table 4.3). Of the respondents who indicated that they had valued a hotel before, the majority reported that they had valued more than five hotels (55.0%), highlighting that there is possibly a concentration of hotel valuations amongst a group of valuers who have more practical experience than others. The majority of valuers who have valued more than five hotels are, as to be expected, Professional Valuers (59.5%). No association was observed between valuer registration and the number of hotels previously valued (p=0.3321) or the type of valuation experience (p=0.3916).

Table 4.3: Prior hotel valuation experience by valuer registration

	Candidate Valuer		Professional Associated Valuer		Professional Valuer		
	N	**%**	**N**	**%**	**N**	**%**	**p-value**
Previously valued a hotel under a management agreement							
Yes	3	60.0	17	53.1	49	59.0	0.8859
No	2	40.0	15	46.9	34	41.0	
Missing	1		2		8		
Number of hotels valued							
1-2	1	20.0	5	15.6	11	13.1	0.3221
3-5	3	60.0	7	21.9	22	26.2	
5+	1	20.0	20	62.5	51	60.7	
Missing	1		2		7		
Manner of valuation							
Individually only	2	40.0	5	15.6	9	10.7	0.3916
Team only	2	40.0	19	59.4	55	65.5	
Both	1	20.0	8	25.0	20	23.8	
Missing	1		2		7		

Most respondents (54.2%) cited that their hotel valuations had been for lending purposes, with banks having requested a formal valuation of a hotel that they had either provided a loan for or were considering providing a loan for (Table 4.4). Of the respondents who indicated that they had done at least one hotel valuation for the purposes of lending, 61.4% (43) indicated that they had also previously valued a hotel under an HMA.

Only 2 respondents cited “expropriation” as the purpose of a valuation they had done, while only 1 respondent cited “insurance”, “Rental” or liquidation” respectively, which would have expected to have higher frequencies relative to expropriation.

Table 4.4: Purpose of Prior Hotel Valuation

	Overall		Previously valued a hotel under a management agreement			
			Yes		No	
Purpose of valuation	**n**	**%**	**n**	**%**	**n**	**%**
Lending	71	54.2	43	61.4	27	38.6
Possible transaction	43	32.8	28	65.1	15	34.9
Rates & Taxes dispute	31	23.7	17	54.8	14	45.2
Internal reporting	24	18.3	17	73.9	6	26.1
Fiduciary requirement	12	9.2	10	83.3	2	16.7
Expropriation	2	1.5	2	100.0	0	0.0
Insurance	1	0.8	0	0.0	1	100.0
Rental	1	0.8	1	100.0	0	0.0
Liquidation	1	0.8	1	100.0	0	0.0

The highest portion of respondents cited that they had received training in hotel valuations (44.4%), while 41% of respondents cited that they have not (Table 4.1). Of the respondents that indicated that they had not received training in hotel valuations, 62.0% of these respondents indicated that they had valued a hotel before, with 46.9% indicating that they had valued a hotel under an HMA before (Table 4.5). Prior training in hotel valuations was statistically associated with having previously valued a hotel (p=0.0005) and was approaching significance when considering those who have valued a hotel under an HMA (p=0.0519).

The training that respondents have received can be divided into five categories (Table 4.5). Within each training approach, more than two-thirds of all respondents indicated that they had previously valued a hotel under an HMA; however, only one training type, On-the-job training, was significantly associated with experience valuing a hotel using this methodology (0.0492).

Table 4.5: Prior Training in Hotel Valuations

	Previously valued a hotel					Previously valued a hotel under a management agreement*				
	Yes (n=121)		No (n=42)		p-value	Yes (n=69)		No (n=51)		p-value
Training related to hotel valuations										
Yes	72	85.7	12	14.3	0.0005	46	64.8	25	35.2	0.0519
No	49	62.0	30	38.0		23	46.9	26	53.1	
Nature of training**										
Formal short course	-	-	-	-		14	66.7	7	33.3	0.3495
Component of university course	-	-	-	-		11	68.8	5	31.3	0.3282
On-the-job training	-	-	-	-		34	68.0	16	32.0	0.0492
Informal	-	-	-	-		5	83.3	1	16.7	0.2390
Seminar/workshop	-	-	-	-		4	80.0	1	20.0	0.3931

*Among those who had previously valued a hotel
**Among those who reported receiving training in hotel valuation

4.3 Self-Perception of Competency in Hotel Valuations

Participants' in the Survey were presented with the following statement:

> *"I currently do not feel that I can value a hotel that has a management agreement in place between the owner and the operator, meaning that the income to the owner is variable and based on the performance of the hotel in coming years."*

Respondents were asked which statement best reflects their position on the above statement. The majority of respondents (87, 46.0%) disagreed to some extent with this statement, implying that they perceived themselves to have the requisite competency (Table 4.6). There were 23% of respondents who agreed with the statement, implying that they did not feel competent to undertake such a valuation, with 16.9% of respondents neither agreeing nor disagreeing with this statement. This indicates that almost half of respondents feel comfortable valuing a hotel under an HMA while almost a quarter of respondents do not.

Table 4.6: Self-Perception of Competency in valuation of a hotel under a management agreement (n=189)

	N	%
Strongly agree	5	2.65
Agree	39	20.63
Neither agree nor disagree	32	16.93
Disagree	66	34.92
Strongly disagree	21	11.11
Missing	*26*	*13.76*

Almost 1 in 5 respondents (18.2%) who had previously valued a hotel indicated that they strongly disagreed with the statement, implying that they did not feel comfortable valuing a hotel under a management agreement (Table 4.7). In contrast, 2 in 5 (40.5%) of those who have not previously valued a hotel indicated that they did not feel comfortable performing a hotel valuation under these conditions. Similarly, 14.9% of those with prior hotel valuation experience indicated that they felt comfortable valuing a hotel with an HMA (i.e. they strongly disagreed with the statement) in comparison to 7.1% of those with no prior experience. These differences were statistically significant (p=0.0083).

Although not statistically significant, there were similar trends amongst those who have prior experience in valuing a hotel under an HMA, with 20.3% indicating they felt comfortable with the process in comparison to 7.8% who had not performed this function previously (p=0.0665). Among those who had received training before, 18.1% felt comfortable valuing a hotel under an HMA (disagreed or strongly disagreed with the statement) compared to 12.2% of those who had not received training (p=0.6363, Table 4.7).

Table 4.7: Self-Perception of competency in valuation of a hotel under a management agreement by prior experience and training

	Self-perceived competence in hotel valuation										
	Strongly agree		Agree		Neither agree nor disagree		Disagree		Strongly disagree		
	n	%	n	%	n	%	n	%	N	%	p-value
Previously valued a hotel											
Yes (n=121)	2	1.7	22	18.2	24	19.8	55	45.5	18	14.9	0.0083
No (n=42)	3	7.1	17	40.5	8	19.0	11	26.2	3	7.1	
Previously valued a hotel under a management agreement*											
Yes (n=69)	2	2.9	8	11.6	13	18.8	32	46.4	14	20.3	0.0665
No (n=51)	0	0.0	14	27.5	11	21.6	22	43.1	4	7.8	
Previously received training on hotel valuation*											
Yes (n=72)	1	1.4	10	13.9	15	20.8	34	47.2	12	16.7	0.6363
No (n=49)	1	2.0	12	24.5	9	18.4	21	42.9	6	12.2	

*Among those who had previously valued a hotel

4.4 Perceptions of Approach to Valuing a Hotel under a Lease versus a Management Agreement

Respondents expressed a relatively even mix of opinions regarding whether the approach to valuing a hotel under a fixed lease is similar to the approach required for valuing a hotel under an HMA. There were 30.2% of respondents who stated that the approach is completely different, with 32.8% of respondents citing that the approach is only marginally different (Table 4.8) and a quarter (23.3%) indicated that the approaches were fundamentally similar.

Table 4.8: Valuation approach comparison between a fixed lease and management agreement (n=189)

	N	%
Fundamentally similar	44	23.3
Marginally different	62	32.8
Completely different	57	30.2
Missing	26	13.8

When comparing participants prior experience and training with their attitudes toward the valuation approaches, we see that there are no statistically significant differences in how respondents view the valuation approach depending on whether they had previously valued a hotel (p=0.6593, Table 4.9), or previously valued a hotel under an HMA (p=0.9838) or previously received training on hotel valuation (p=0.8926).

Table 4.9: Valuation approach comparison between fixed lease and HMA by prior experience and training

	Fundamentally similar		Marginally different		Completely different		
	n	**%**	**N**	**%**	**n**	**%**	**p-value**
Previously valued a hotel							
Yes (n=121)	33	27.3	48	39.7	40	33.1	0.6593
No (n=42)	11	26.2	14	33.3	17	40.5	
Previously valued a hotel under a management agreement*							
Yes (n=69)	19	27.5	28	40.6	22	31.9	0.9838
No (n=51)	14	27.5	20	39.2	17	33.3	
Previously received training on hotel valuation*							
Yes (n=72)	19	26.4	28	38.9	25	34.7	0.8926
No (n=49)	14	28.6	20	40.8	15	30.6	

*Among those who had previously valued a hotel

4.5 Case Study Results

Part two of the survey presented respondents with the hypothetical case outlined in Section 4.1.

Only 88 (46.6%) of the 189 respondents elected to participate in the case study, and subsequently, the study has needed to ascertain whether there was selection bias, i.e. was the sub-sample who responded to the case study different to the larger sample about the characteristics of the participants. We compared the two samples (full sample, n=189; case study sample, n=88) about their characteristics, prior experience and training to determine whether any selection bias existed in the case study sample. The samples are similar with regard to valuer registration, experience and training with the following differences (Table 4.10): A slightly higher proportion of participants who had previously valued a hotel responded to the case study questions compared to those in the larger sample population (81.8% vs 69.3% respectively). Proportionally, slightly more participants who had valued a hotel with an HMA answered the case study questions compared to the larger sample (61.1% vs 52.7% respectively). Proportionally, slightly more participants who had received training related to hotel valuations answered the case study questions compared to the larger sample (55.7% vs 44.4% respectively). Therefore valuers felt more engaged to continue with the survey if they felt their experience was likely to empower them to undertake the survey.

Table 4.10: Comparison of full sample and sub-sample to investigate selection bias

	Full sample (n=189)		Case study sample (n=88)	
	n	**%**	**n**	**%**
South African Council of Property Valuers Profession registration type				
Candidate Valuer	18	9.5	5	5.7
Professional Associated Valuer	59	31.2	29	33.0
Professional Valuer	112	59.3	54	61.4
Ever valued a hotel				
No	57	30.2	16	18.2
Yes	131	69.3	72	81.8
Missing	1	0.5	0	0.0
Number of hotels valued				
1	3	2.3	2	2.8
2	14	10.7	7	9.7
3-5	32	24.4	19	26.4
5+	72	55.0	44	61.1
Missing	10	7.6	0	0.0
Valuation done as part of a team or individually				
Team only	16	12.2	13	18.1
Individually only	76	58.0	42	58.3
Both team and individually	29	22.1	17	23.6
Missing	10	7.6	0	0.0
Purpose of valuation				
Lending	71	54.2	45	62.5
Possible transaction	43	32.8	27	37.5
Fiduciary requirement	12	9.2	8	11.1
Internal reporting	24	18.3	17	23.6
Rates & Taxes dispute	31	23.7	15	20.8
Expropriation	2	1.5	1	1.4
Insurance	1	0.8	0	0.0
Rental	1	0.8	0	0.0
Liquidation	1	0.8	1	1.4
Valued a hotel with a management agreement in place between owner and operator				
No	51	38.9	28	38.9
Yes	69	52.7	44	61.1
Missing	11	8.4	0	0.0
Training related to hotel valuations				
No	79	41.8	39	44.3
Yes	84	44.4	49	55.7
Missing	26	13.8	0	0.0
Nature of training				
Formal short course	24	28.6	13	26.5
Component of university course	19	22.6	10	20.4
On-the-job training	55	65.5	34	69.4
Informal	7	8.3	4	8.2
Seminar/workshop	9	10.7	6	12.2

Table 4.11 indicates the participants' detailed responses to the seven case study questions and Table 4.12 listed the frequencies of correct versus incorrect responses for

each question. The context of what is determined to be correct versus incorrect is discussed in Chapter 3. There were 58 respondents (65.9%) who incorrectly chose one of the inappropriate techniques to use for the subject hotels valuation.

Over a third of the 88 respondents correctly indicated that the appropriate technique to use for the subject hotel valuation would be the projection of the income statement of the hotel for a 5 year period, and applying a DCF approach to the resulting cash flow (30, 34.1%). The remaining 58 (65.9%) incorrectly chose one of the other options. When asked to choose the best approach to forecast the performance of the subject hotel, almost half of the participants correctly indicated that creating a forecast of the hotel's income statement for a 5 year period was the best approach (40, 45.5%).

In Question 5, two of the five percentile ranges between 40% and 95% presented for the proportion of hotel room revenue that would likely make up the percentage of the hotel's total revenue were considered correct, namely: 65-85% and 85-95%. Over half, or 56.8%, of respondents, got this answer correct. When asked about the profitability that the revenue derived from the sale of rooms in the subject hotel would like to achieve, only 18, or 20.5%, of the respondents correctly indicated that it would likely be between 60% and 85%. There were 59.1% (52) of participants indicated correctly that the hotel's ADR would likely be lower than R2,000. When respondents were asked to rank the factors to consider when projecting occupancy for the subject hotel, 68.2% and 47.7% correctly listed competitive set performance and GDP growth in South Africa within their top three most important factors, which was determined to represent a correct answer (for more detail, see Figure 4.10). Lastly, participants were asked to list five items that a valuer should request from the owner in order to value the subject hotel. If a respondent listed that they should request historical accounts they were determined to have indicated a crucial component of valuing this hotel under a management agreement. Respondents who correctly answered this used a broad array of terminology, with various alternative phrases collectively considered as correct. The basis for this was not to test the respondent's use of terminology, but rather to ascertain whether respondents understood that connection that was needed to be made between understanding the historical financial performance of the hotel and undertaking a valuation of it. Seventy-nine (89.8%) of the respondents indicated this item.

Table 4.11: Participants responses to the case study questions (n=88)

	n	%
Appropriate technique for subject hotel valuation		
Direct Capitalization approach using the most recent years EBITDA.	25	28.4
Escalating the hotel's EBITDA by an appropriate factor and applying the DCF technique.	9	10.2
Escalating the hotel's EBITDA for one year and applying the Direct Capitalisation technique to it.	12	13.6
Projection of the Income Statement of the hotel for a 5 year period, and applying a DCF approach to the resulting cash flow.	30	34.1
Replacement Cost approach, estimating the cost to construct the same hotel today.	1	1.1
Sales comparison technique, using sales data from recent comparable hotel transactions.	11	12.5
Best approach to project performance of subject hotel		
Averaging the hotel's last 5 years of EBITDA, and applying a Capitalization Rate to it.	24	27.3
Creating a forecast of the subject hotel's income statement for a 5 year period.	40	45.5
Escalating the current year's EBITDA by inflation.	3	3.4
Projecting the profit of the hotel for one year, and applying an appropriate capitalization rate to the resulting EBITDA.	21	23.9
Proportion of hotel room revenue that likely makes up the percentage of the hotel's total revenue		
40-50%	5	5.7
45-55%	9	10.2
55-65%	24	27.3
65-85%	41	46.6
85-95%	9	10.2
Revenue derived from the sale of rooms in the subject hotel would likely achieve a profitability of		
30-50%	46	52.3
50-60%	24	27.3
60-70%	13	14.8
70-85%	5	5.7
The hotel's ADR will likely be higher or lower than R2000		
Higher	36	40.9
Lower	52	59.1
Participant ranked as top three most important factors for occupational projections		
Tourist arrivals to the country (n=86)	55	64.0
Competitive set performance & nodal occupancy (n=88)	60	68.2
GDP growth in South Africa (n=88)	42	47.7
The convenience of the Gautrain (n=86)	29	33.7
New office development in Sandton (n=84)	36	42.9
Expansion of Sandton City, with more variety of shops and restaurants (n=88)	38	43.2
Participant indicated historical accounts as an important item to request when valuing the hotel		
Yes	79	89.8
No	9	10.2

Figure 4.1: Factors to consider when projecting occupancy of subject hotel

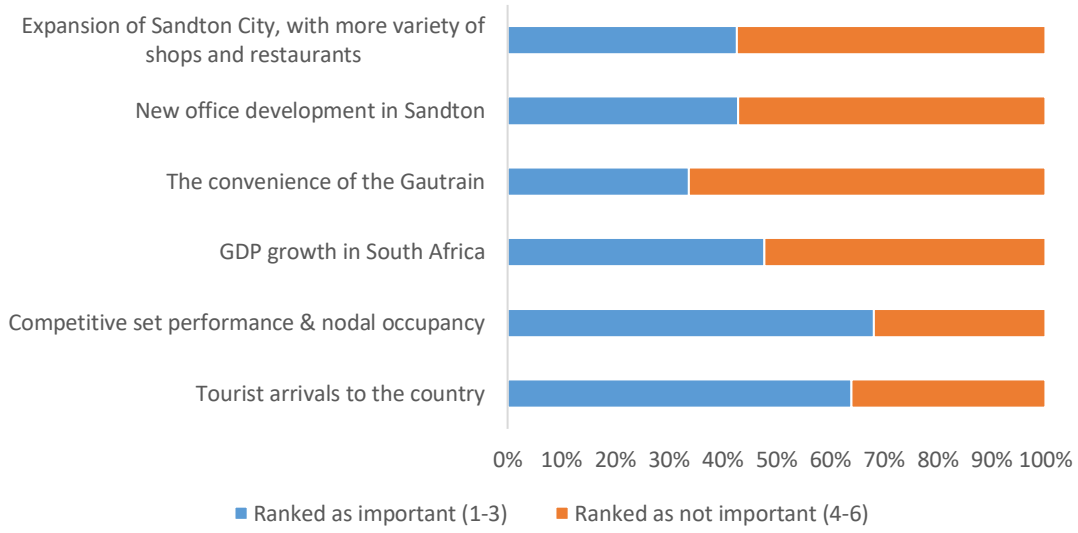


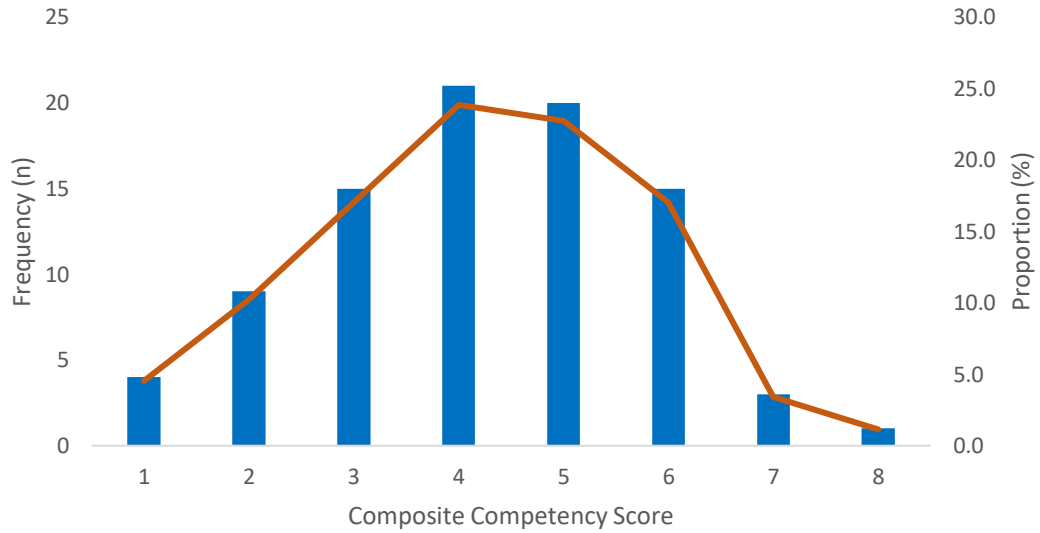
Table 4.12: Proportions of correct responses to case study questions

	Correct		Incorrect	
	n	%	n	%
The appropriate technique for subject hotel valuation: Projection of the Income Statement of the hotel for a 5 year period, and applying a DCF approach to the resulting cash flow.	30	34.1	58	65.9
The best approach to project performance of subject hotel: Creating a forecast of the subject hotel's income statement for a 5 year period.	40	45.5	48	54.5
Proportion of hotel room revenue that likely makes up the percentage of the hotel's total revenue listed as 60-85%	50	56.8	38	43.2
Revenue derived from the sale of rooms in the subject hotel would likely achieve a profitability of 65-95%	18	20.5	70	79.5
The hotel's ADR will likely be lower than R2000	52	59.1	36	40.9
Competitive set performance & nodal occupancy listed as important (in top three)*	60	68.2	28	31.8
GDP growth in South Africa listed as important (in top three)*	41	46.6	47	53.4
Participant indicated historical accounts as an important item to request when valuing the hotel*	79	89.8	9	10.2

*See Figure 4.10 for more detail on these responses

The median competency score was 4 (Interquartile Range: 3-5). Figure 4.11 shows the distribution of competency scores amongst the participants (see Figure 4.1 for an explanation of how the scores were calculated). Almost a third of participants scored a 3 or below, classified as "not competent". Almost 1 in 4 participants (23.9%) scored a 4, which was classified as "partially competent" while almost 4 in 10 (39.7%) were grouped as "mostly competent" with a score of 5 or 6. Only 4.5% (4) participants scored a 7 or 8, classifying them as "fully competent."

Figure 4.1: Distribution of composite competency scores for the eligible participants (n=88)



Chi-square tests were used to investigate whether any associations existed between the composite competency categories (not competent, particularly competent, mostly competent and fully competent) and the valuer profile (characteristics, experience and training) (Table 4.13).

Although we see a slightly higher proportion of Professional Valuers achieving full competency (5.6% versus 3.4% and 0.0% for Professional Associate and Candidate Valuers respectively), this association is not statistically significant (p=0.9083). A similar trend is seen for those who have valued a hotel – a higher proportion of those who have ever valued a hotel achieve mostly or full competency (48.7% versus 37.9% or those who have not valued a hotel); however, this is also not significant (p=0.3995). The number of hotels valued, the type of valuation dynamic (team vs individual), and whether a valuer has previously valued a hotel with an HMA demonstrate similar trends, but none are statistically significant (p=0.2606, 0.1769 and 0.3633 respectively). Whether a valuer has received any training on hotel valuations was the only factor to have a significant association with their competency level, indicating that training potentially does affect competency level (p=0.0050). This association is not seen with the type of training (e.g. formal short course versus no formal short course).

Table 4.13: Competency based on case study responses by participants' characteristics, experience and training

	Not (1-3) n=28		Partially (4) n=21		Mostly (5-6) n=35		Fully (7-8) n=4		p-value
	n	%	n	%	n	%	n	%	
South African Council of Property Valuers Profession registration type (n=189)									
Candidate Valuer	2	40.0	0	0.0	3	60.0	0	0.0	
Professional Associated Valuer	10	34.5	7	24.1	11	37.9	1	3.4	0.9083
Professional Valuer	16	29.6	14	25.9	21	38.9	3	5.6	
Ever valued a hotel (n=189)									
No	7	43.8	5	31.3	4	25.0	0	0.0	0.3995
Yes	21	29.2	16	22.2	31	43.1	4	5.6	
Number of hotels valued (n=131)									
1	1	50.0	0	0.0	1	50.0	0	0.0	
2	4	57.1	0	0.0	3	42.9	0	0.0	0.2606
3-5	8	42.1	5	26.3	5	26.3	1	5.3	
5+	8	18.2	11	25.0	22	50.0	3	6.8	
Missing	7		5		4		0		
Valuation done as part of a team or individually (n=131)									
Team only	3	23.1	0	0.0	9	69.2	1	7.7	
Individually only	12	30.0	9	22.5	16	40.0	3	7.5	0.1769
Both team and individually	5	29.4	6	35.3	6	35.3	0	0.0	
Missing									
Valued a hotel with a management agreement in place between owner and operator (n=131)									
No	11	39.3	6	21.4	9	32.1	2	7.1	0.3633
Yes	10	22.7	10	22.7	22	50.0	2	4.5	
Missing	7		5		4		0		
Training related to hotel valuations (n=189)									
No	16	41.0	3	7.7	19	48.7	1	2.6	0.0050
Yes	12	24.5	18	36.7	16	32.7	3	6.1	
Missing									
Nature of training (n=84)									
Formal short course	2	7.1	5	23.8	5	14.3	1	25.0	0.2765
Component of university course	2	7.1	2	9.5	5	14.3	1	25.0	0.4762
On-the-job training	9	32.1	12	57.1	11	31.4	2	50.0	0.1958
Informal	1	3.6	1	4.8	2	5.7	0	0.0	1.0000
Seminar/workshop	2	7.1	3	14.3	1	2.9	0	0.0	0.4174

An unadjusted logistic regression was performed with the participant's characteristics used as predictors, or independent variables, and the composite competency score presented as an outcome or the dependent variable. Table 4.14 presents the unadjusted odds ratios against a 95% confidence limit for each predictor and the outcome. None of the predictors were statistically significant in the unadjusted models, as shown by the 95% Confidence Index limits being on either side of '1.'

In the multiple logistic regression model, the valuer registration type, hotel valuation experience and training variables were included in the model. This is done to account for confounding with the other variables. The only predictor that was statistically significant was the variable that looked at the dynamics of the valuation experience –

i.e. did the valuer have experience doing hotel valuations as part of a team, individually or both. A valuer has 7.4 times the odds of being fully competent if he/she got their valuation experience as part of a team versus the combination of team and individually (OR 7.43; 95%CI: 1.60-34.41; Table 4.14). This result should be interpreted with caution due to the wide confidence interval which indicates that the estimate is not a precise one.

Table 4.14: Adjusted Logistic Regression with Odds Ratios for composite competency score

	Composite Competency Score*					
	Unadjusted			Adjusted		
	OR	95% CI limits		OR	95% CI limits	
South African Council of Property Valuers						
Profession registration type						
Candidate Valuer	1.08	0.20	5.80	0.94	0.06	14.28
Professional Associated Valuer	0.83	0.36	1.90	1.23	0.46	3.29
Professional Valuer	1.00			1.00		
Ever valued a hotel						
No	0.44	0.16	1.20	0.41	0.14	1.21
Yes	1.00			1.00		
Number of hotels valued						
1-2	0.31	0.08	1.20	0.15	0.03	0.81
3-5	0.36	0.13	1.00	0.24	0.07	0.85
5+	1.00			1.00		
Valuation done as part of a team or individually						
Team only	3.51	0.87	14.18	7.43	1.60	34.41
Individually only	1.31	0.47	3.70	1.88	0.63	5.62
Both team and individually	1.00			1.00		
Valued a hotel with a management agreement in place between owner and operator						
No	0.55	0.23	1.32	1.02	0.37	2.86
Yes	1.00			1.00		
Training related to hotel valuations						
No	0.91	0.42	1.96	1.37	0.51	3.67
Yes	1.00			1.00		

*Logistic regression comparing competency score categories "Partially competent," "Mostly competent," and "Fully competent" to category "Not competent."

Chapter Five: Interpretation of Results

5.1 Introduction

This chapter presents the analysis of the survey results that were noted in Chapter 4. It presents findings, key trends and interpretation of this information concerning answering the research questions and hypothesis identified in Chapter 1. The Chapter also sets forth a basis of findings that can be used in future studies into this area.

5.2 Profile and Attitudes of Valuers

It was established in Chapter 2 that based on the "Identification of Work" document from the SACPVP; Professional Valuers registered with the SACPVP are empowered to value hotels, with this studies findings confirming that they do indeed undertake hotel valuations regardless of the tenure structure (SACPVP, 2011).

The research found that valuers at every professional level had been exposed to the area of hotel valuations, however as is to be expected, more experienced Professional Valuers have had far more exposure to the asset class. Considering that Candidate Valuers are generally new to the profession, they still had a very high exposure rate to an asset class that is not as frequently valued in South Africa as other asset classes. That being said, in Mooya's (2015) survey, he found that "other property types" of which hotels would be included, are the second most valued segment in South Africa after residential property. This finding in Mooya's study is particularly significant in the context of this study, as it reiterates that valuers in South Africa are responsible for valuing a very broad mix of properties, each with their nuances and intricacies. While this study has focused on hotel valuations, there are trends that can be associated with other real-estate asset classes that are less frequently valued and fall into the category of "other property classes". Therefore similar questions to the research questions of this study could be posed of other asset classes that are less frequently valued. In the case of this study, 69% of respondents (n=131) indicated that they had valued a hotel, and thus the hotel valuer population represents a high portion of the broader valuation community.

The exposure of South African valuers to hotels provides the first layer of insight required, however as discussed throughout the study, the encumbrance of a hotel under a fixed lease does not necessarily require the same adherence to the framework that was laid out in Chapter 2. This is because, in the case of a fixed lease, it is essentially the covenant of the lease and the ability to service the prescribed rental payments that is being valued in this scenario. Thus provided that the lease payments can be made, the value of the property is linked to the nature of the lease. With this in mind, the second layer of the study will narrow its focus to understanding the valuation of hotels where the value is linked to the performance of the hotel business, i.e. under an HMA.

It is interesting to note that the majority of the survey respondents who have previously valued a hotel have also valued a hotel with an HMA in place. Therefore, there is a relatively high portion of the sample that has valued a hotel under a VITA. Herein lies an important subset of the population to analyse and to understand, as it allows for a better understanding of valuer's attitudes and approaches to the shift towards HMA's that the industry is witnessing. A higher portion of respondents that had valued a hotel before indicated that they had received some hotel specific training prior to doing so. Based on the findings of Chapter 2, the literature sets out a clear case, which valuing a hotel under an HMA requires a thorough understanding of the underlying hotel business. One would, therefore, assume that the narrower set of valuers who have been exposed to a valuation with an HMA, would have a higher level of training, This was not the case and the smaller subset of valuers who have been exposed to HMAs received less hotel specific training than the broader set who had previously valued a hotel.

Formal training, as defined in Chapter 4, accounted for 42% of valuer training in this area. Due to this constituting a baseline study, further research into the nature of this training would allow for a more comprehensive understanding of it, however despite relatively few hotel focused valuation courses and seminars being available in South Africa, there was, in fact, a high propensity for undertaking training, even if it was primarily "On-the-Job" training. The compulsory CPD training point system is likely to enhance respondents awareness and familiarity with continuous training.

Of the respondents that indicated that they had previously valued a hotel, majority of these indicated they had valued more than three hotels, with a particularly high portion (61%) having valued more than five hotels. Thus within the cohort of active hotel

valuers, there is a high level of hotel valuation experience and most active valuers having undertaken a relatively high number of valuations.

Majority of hotel valuations were undertaken individually (58.0%), with only 12.2% or valuations being undertaken in a team only. Mooya's (2015) research found that 60% of valuers were part of businesses smaller than five valuers, with a large portion of these presumed to be individuals practising alone, and thus the potential to work in a team on a hotel valuation is not even possible. Mooya (2015) further reflects on the downward pressure on rates and profitability in the industry as being an important prism through which to analyse the profession. This could be a contributing factor for certain findings in this study, with a hypothesis being that valuers need to undertake valuations individually due to the resource allocation associated with a team of valuers being less financially viable. There are however no material implications of valuers practising alone, particularly with regards to the alignment with the framework identified in Chapter 2 and there is also no basis to imply that a team effort is more effective than an individual effort. However, given that this is an exploratory study, establishing information such as this provides important context for future research into the hotel and other asset classes valuations that are less frequently undertaken. There is likely to be a link between the external pressures on the profitability of small valuation businesses and the willingness to undertake valuations within asset classes that valuers are less familiar with. However, this was not proven empirically through this study.

Majority of respondents (54.2%) cited that the primary purpose for their hotel valuations were for lending or collateral purposes, which also aligns with Mooya's (2015) findings. Valuation fees are primarily influenced by the banking sector, which is, in turn, renowned for its price sensitivity (Mooya, 2015). The inability to commit sufficient resources and time to allow for an alignment with the framework presented in Chapter 2 would result from this trend. There is an area for future research which looks into the drivers and challenges associated with valuing specialist real-estate classes in South Africa.

Valuations that provide support for a possible transaction were the second most frequently undertaken hotel valuation, with 32.8% of respondents primarily mandated for this purpose. It is likely that there are a higher proportion of institutional investors that are requesting these valuations, as these often support an investment committee's

decision (a subcommittee of a company's board of directors that is tasked with evaluating investment opportunities). However, this was not proven through any substantive basis in the findings of this study.

Rogersons (2012) and Nelson's (2012) view that larger institutions do not understand hotels as an investment class in South Africa supports the position that institutions are relying on valuations to determine fair pricing levels and debt covenants for hotel assets they acquire, consider for disposal or provide debt to. Therefore the position of Gilberston (2005), that valuers should be providing a strategic function in assisting with real estate decisions appears to be true for hotels in South Africa. This is a positive trend and validates the role played by property valuers when their clients are not as familiar with a particular asset class. Critically, however, the focus of this narrative should shift towards assessing the competency of these valuers, as the purpose of these valuations is substantive. Companies are entrusting valuers for sound opinion, and thus in some respects, a circular effect is evident, with better quality valuations leading to institutional comfort with the asset class and thus deployment of capital and increased liquidity, which would prompt more valuations to be commissioned.

This strategic support to institutions will likely promote the evolution towards HMAs, as the structure brings with it higher uncertainty for investors and lenders in South Africa (Karrim, 2014). The associated variability of income is a divergence from many institutional mandates, which favour certainty of income, underpinned by a fixed lease and a strong balance sheet. Supporting this evolution would, therefore, require valuers to have a sound understanding of the framework presented in Chapter 2 and the ability to support the process in the same strategic function that Gilbertson (2005) refers.

The majority of respondents (60.3%) indicated that there was a difference in the way they would approach a fixed lease hotel valuation and an HMA valuation, while 30.2% stated that the approach would be "completely different". 32.8% stated that it was "marginally different". A number of respondents (22%) felt that they neither disagreed or agreed with the above statement. A possible reason for this would be a lack of knowledge around hotel valuations, or what the process and methods are. Thus respondents were unsure whether they had these or not.

Harper (2008) and Rushmore (1992b) are both advocates of a thorough and quite specific research process to support a hotel valuation, to ensure that the input

assumptions are grounded in as much relevant data as possible. Admittedly this would be prescribed as a best practice activity for valuing any real-estate class, however, as Rushmore states, valuers quickly learn that hotels are more than "land, bricks and mortar". Stating that they are retail orientated, labour intensive businesses needing a high-level of managerial experience and that these characteristics are unusual and must be handled properly to derive an estimate of value (Rushmore, 1993).

The next layer of research is to assess respondents self-perception of competence for valuing a hotel under an HMA, with this then linking to the empirical assessment of valuer competency, as well as the attitudes of valuers towards contemporary HMA associated hotel valuations. Of those valuers who have valued a hotel before, 60.4% either felt they were competent or strongly felt that they were competent. This proportion, however, increases to 66.7% when isolating respondents who have previously valued a hotel under an HMA. There should be a direct link between these two variables, and the 14.5% of valuers who do not perceive themselves to be competent should not have undertaken these hotel valuations. Therefore it was likely that there were specific drivers and circumstances that motivated these respondents to undertake these valuations in the past. The aforementioned external pressures on the profitability of small valuation businesses in the sector are likely to have been a contributor to this trend. However, this was not empirically proven within this study. Assessing whether financial gain was a driver of perceived competency and willingness to take on hotel valuations was not possible within the ethical boundaries and scope defined within this study, however it is a pertinent area of research within a broader study that focuses on the extent of self-regulation in the industry, particularly when it comes to asset classes that valuers are less familiar with.

We have now established certain key trends around the profile of hotel valuations and valuers in South Africa. Which to surmise, it is evident that there is are a high portion of valuers who have previously valued a hotel, with about half of these having been exposed to valuations of a hotel under an HMA or 36.6% of the total valuer sample. The way in which these valuations were undertaken aligns with broader real estate trends in South Africa, i.e. most hotel valuations were completed alone, likely due to the high number of entrepreneurs practising alone and the low rates imposed on the sector by the primary driver of property valuations in South Africa, the banking sector.

Training in hotel valuation is relatively common and statistically associated with having previously undertaken a hotel valuation, with much of this hotel specific training having been informal in nature.

Valuers do generally perceive that there is a difference between valuing a hotel under an HMA compared to a fixed lease, however approximately half of these only felt it was marginally different, which does not fully reflect many of the authors in the literature who tend to make a case for it being a more significant difference (Rushmore, 1992a; deRoos and Corgel, 2003; Harper, 2008; deRoos, 2010). Measuring the qualitative difference in the extent to which these approaches differ is challenging, however still provides an important subtext for understanding the attitudes of property valuers to the shifting dynamics affecting the sector.

This profile provides the basis for the final layer of the empirical study, an assessment of the competency from a research instrument that was designed for the purposes of this study. The design is not without its limitations, and these will be discussed in detail in this chapter. However, it provides exploratory baseline information regarding the alignment of the approach taken by property valuers in South Africa to the framework for valuing a hotel under an HMA that was established in Chapter 2.

5.3 Hypothetical Case Study and Competency Assessment

Almost a third of participants achieved a score that classified them as “not competent”, 23.9% were then classified as partially competent, 39.7% as mostly competent and only 4.5% being classified as fully competent.

Although responses to the hypothetical case study have been collectively analysed as an assessment of competency, it is worth noting a few aspects of the answers to individual questions. The most correctly answered question-related to which elements respondent should request from the owner prior to starting the valuation, with 89% of respondents citing the need for historical accounts. This was arguably the easiest question to answer, with respondents only having to identify one correct answer, whereas the literature prescribed a more comprehensive list of items that valuers should possibly request.

Respondents listed a broad array of elements they would request from an owner. These answers were categorised into 46 different categories; historical accounts were, however, the most cited piece of information. Respondents cited several variances to the term historical accounts, such, “Audited Financial Statements”, “Management Accounts”, or “Historic Financials” and “income and expenses detail”. Only 11% of respondents did not request historical information. Harper (2008) and Rushmore (1992a) indicate that this information is an important basis for understanding the underlying business operated from a hotel.

Information about the hotel’s occupancy was the second most requested piece of information, with 33.5% of respondents citing this. The Management Agreement was the third most cited piece of information, with 30.7% of respondents citing this. Both these pieces of information are considered to be important by Harper (2008) and Rushmore (1992b).

25.6% of respondents indicated that the hotels rack rates should be requested, which is the official or advertised price of a hotel room, on which a discount is usually negotiable, some respondents referred to these as “room rates” or “room rental charges”, “room tariffs” and “room cost”. While pricing information is important; Average Daily Rates are the net rate that is achieved is more important metric for valuers to understand. However this is often presented within various pieces of

information that were collectively termed “Historical Accounts”, and thus this has not been deemed to be an omission of information. Only 4 respondents cited ADR information specifically.

What was interesting to note was that 17.8% of respondents would have requested a management forecast for multiple years. This could be an interesting finding and raises possible areas for future research. How this is interpreted would depend a lot on how the forecast is then used. It could be a prudent request from a valuer, as hotel managers would understand the intricacies’ of their hotel business very well and when presented in the form of a forecast could be a very valuable tool for a valuer. However, valuers should not rely on this as the sole basis for their forecast. Valuers should interrogate this forecast intensely, and then use this as a rough guide for their forecast. The reason that this is important is that the hotel managers interests may not be aligned with a fair value calculation, and they, or their owners, may try to influence the direction of the valuation through an inflated or deflated forecast. Rushmore (1993) refers to this as a risk with the DCF technique for hotel valuations, and valuers need to be mindful of this risk and ensure that any information that is received is credible and accurately reflects market conditions.

When asked what the best technique to value the subject hotel was, the most commonly selected answer was the correct one, which was that valuers should project the income statement for a 5 year period and apply the DCF technique to the resulting cash flow. While this is positive, there were 64.9% of respondents that selected the incorrect approach, many of them (55.6%) did not identify the DCF method at all. This is interesting to note against the backdrop of Mooya’s (2015) findings, that only 63.5% of property valuers in South Africa felt proficient to undertake a DCF analysis, with almost 40% of valuers having never used the DCF method before. This is significant given increased importance of this method and also the wide consensus in literature that this should be the primary technique relied upon for hotel valuations (RICS, 1994; Rushmore and Goldhoff, 1997; Rushmore and DeRoos, 1999; Rushmore and MAI, 2004).

There were 42% of respondents that indicated that one of the two approaches associated with the Direct Capitalisation technique was the correct approach to valuing the subject hotel. Mooya (2015) found South African valuers to be far more proficient in this

technique, with only 13.3% of respondents in his survey indicating that they had never used the Direct Capitalisation technique before. Respondents non-selection of the DCF approah thus is possibly explained by this trend, with valuers avoided the DCF method due to a lack of comfort. As established in the literature, the Direct Capitalisation approach does not allow for the variable nature of future income to an owner (Martin and Skolnik, 1993; Sayce, 1995; Nilsson *et al.*, 2001; Rushmore and MAI, 2004), with the effects of a supply and demand not being accounted for either (Harper, 2008) and the technique is far more appropriate for a fixed lease. Thus, in support of Mooya's (2015) findings, and a key conclusion from Chapter 2 of this study, there is a clear lack of proficiency with the primary method recommended for valuing a hotel, as well as a lack of acceptance in South Africa that this is, in fact, the primary method that should be used to value a hotel.

There were 13.5% of respondents who indicated that the sales comparison technique and replacement cost techniques were optimal. While these techniques are appropriate for valuing a hotel from the literature; it is very clear that they should only be supporting methods to an income capitalisation method, or more specifically the DCF approach. They are also problematic in a market such as South Africa where there are relatively few open market hotel transactions (Karrim, 2014). Mooya (2015) points to the fact that a number of valuers primarily focus on residential valuations and this is possibly a reason for poor comprehension of the DCF method. It is possibly this cohort of valuers that selected the Sales Comparison technique given that their primary focus is valuation.

Having previously valued a hotel did not result in respondents having a higher likelihood of selecting the correct approach, with only 31.9% of respondents who had valued a hotel before selecting the correct approach. Respondents that have valued more than three hotels in their career were more likely to select the correct approach, however still primarily selected a different approach. Even respondents who have valued more than five hotels in their career, still primarily chose the incorrect approach (68.2%). The most concerning finding in this regard is that respondents who confirmed that they had valued a hotel with an HMA in place, still primarily selected the incorrect approach, with only 36.4% of these respondents selecting the correct approach.

Respondents were then asked what percentage of the subject hotel's "Room revenue", a term used within the Uniform System of Accounts for the Lodging Industry ("USALI") would make up total revenue. The question aims to assess whether valuers understand the underlying fundaments of the typical business that is being run at the subject hotel.

Question 6, asking about the profitability of this room revenue, i.e. the departmental room profit was the least accurately answered question. Only 20.5% of respondents correctly identified one of the two correct responses. This was concerning, with the correct responses effectively ranging from 60% to 85%, a very broad range considering that the Hospitality Property Fund portfolio has achieved a departmental room profit between a narrow band of 76% and 78% between 2011 and 2015. There were also no options that were higher than 85%, and thus incorrect answers were only those that were lower than 65%.

There were 59% of respondents correctly identified that the ADR of the subject hotel should be lower than R2,000, and thus it represents one of the better-answered questions in the hypothetical case study. It would be interesting to note in future research whether this would have been different with a lower boundary, say R1,500.

While the assessment of group competency is the primary outcome of this section, there needs to be a deeper exploration of competency at professional levels. The hypothesis in this regard would be that a Candidate Valuer with no hotel experience or training would not be expected to be perceived as competent on any relative scale, whilst a Professional Valuer who has a valued more than 5 hotels, some of which under a HMA, would be expected to achieve a high level of competency. There was however only one independent variable that had a statistical association with full competency, and that was whether valuers had received training in hotel valuations (p=0050).

If we isolate the "not competent" category or those respondents that scored less than 3 out of 8, it is very surprising that 22.7% of these valuers have previously valued a hotel with an HMA in place. Based on the results of this study, these respondents would unlikely have applied a process that aligns with the recommended framework in Chapter 2 for these valuations. It also concerns that of the valuers that have previously valued a hotel under an HMA; more were not competent than were fully competent hotel valuers.

This is the most significant finding in relation to the industry, as it proves that there are valuers who are actively valuing hotels under a HMAs who do not understand the fundamental principles of hotel valuation.

The exploratory nature of the study and the scoring mechanism to assess competency has its limitations, and this will hopefully form the basis to assess valuer competency in further academic studies, particularly those focused on less frequently valued asset classes. The conservative approach to defining competency was necessary due to this being an initial baseline study, and future research into this area would likely look to apply a more prescriptive application of global best practice into hotel valuations. However, the current study still showed that there are poor levels of competency regardless of the conservative scoring mechanism. A more narrow approach to this scoring mechanism could be contested in such an exploratory study, while this conservative approach has given a greater sense of comfort when answering the research questions.

5.4 Competency

A low level of competency is reflected from the assessment tool, with only 4.5% of valuers defined as fully competent, i.e. they were able to correctly answer 80% of the questions. Previously we assessed the possibility of selection bias within this sub-sample, with no material selection bias evident and the sub-sample is reflective of the total sample. There were no significant competency associations with any of the independent variables; however, this is not considered a limitation of the study. The hypothetical case study is also not considered as the only assessment tool for answering the research questions, with insight gained from the literature, as well as other areas of the empirical study offering insight towards answering these questions.

Professional Valuers are characterised as partially or mostly competent, with 64.8% of Professional Valuers defined between these two competencies intervals, while 29.6% of Professional Valuers are defined as not competent in hotel valuation. Having valued a hotel before, although statistically not significant, still increased the chances of achieving a higher competency level as one would expect, with 65.1% of these

respondents being partially or mostly competent. It is important to remember, that only half of the valuers that have valued a hotel had done so with an HMA in place, and valuers who have not been exposed to such an agreement would not necessarily have undertaken some of the same processes presented in the framework in Chapter 2. Thus the lack of competency for this sub-set of valuers does not necessarily carry the same material consequences. Even when valuers who have undertaken a number of valuations, say more than 5, they still scored poorly. However, once again these valuations were not necessarily done on a hotel with a VITA in place, and this is therefore not a critique of this cohort in isolation. That being said, as HMA's and other VITA's become more popular in South Africa, it is only a matter of time before this cohort of valuers is exposed to them, at which point their level of competency would need to be improved.

As was described in Chapter 2, the South African hotel market has emerged from oversupply conditions that negatively impacted performance from 2009, with the market now performing more strongly. This stronger performance has prompted the next development supply cycle to begin (Karrim, 2014), with many of the new hotels likely to either be owner operated or operated under an HMA Valuers who have yet to be exposed to these agreements and were not considered to be fully competent would need to engage in the literature and training available to improve their level of competency. It is likely that valuers who at least perceived there to be a difference in approach to valuing a hotel under an HMA, would likely be more responsive to this adaption, whilst those who don't consider there to be a significant difference will likely perceive their competency level to be sufficient and the required skills to be transferable.

It is therefore only once we narrow the sample fully to those who have previously undertaken a hotel valuation that is under an HMA; that we can reflect on some of the valuations undertaken to date in the sector. We can critique valuers who have undertaken valuations of hotels under an HMA previously and still scored poorly. Similarly to the broader set, only 4.5% of valuers who have valued a hotel under an HMA were fully competent, with most (72.7%) valuers either partially or mostly competent.

This presents a narrative of general competency, but not the strong proficiency that is being targeted by regulatory groups such as the RICS and IVS, and which many of the authors suggest is required in a world characterised by increasingly complex financial systems.

5.5 Research Questions & Hypothesis Testing

1) *Comprehension of complexities of the hotel business*
    - Question 1.1: To what extent do South African property valuers identify the impact that an HMA or any other variable income tenure agreement has on the approach to valuing a hotel?
    - Answer 1.1: Only 30.2% of valuers perceive that there is a large difference to valuing a hotel under an HMA and a fixed lease.
    - Question 1.2: To what extent do South African valuers understand the steps required to project the performance of a hotel?
    - There are poor levels of understanding when it comes to following the prescribed process that is laid out in Chapter 2 of the study. Only 45.5% is correctly identifying the necessity of projecting the income statement of the hotel in order to quantify the value of the anticipated future earnings of the hotel owner.
2) *Profile of South African hotel valuers*
    - Question 2.1: What is the profile (SACPVC registration level, professional experience in hotel valuation, and professional training in hotel valuation) of property valuers who are undertaking hotel valuations in South Africa?
    - Answer 2.1: Valuations are being undertaken by all professional. Hotel valuations are however concentrated amongst Professional Valuers as expect, with Professional Associate Valuers and Candidate Valuers requiring the assistance of Professional Valuers. Hotel valuations are also concentrated amongst valuers who have undertaken five or more valuations.
3) *Profile of South African hotel valuers and relationship to comprehension*
    - Question 3.1. Are higher levels of demonstrated competency associated with higher SACPVP registration levels?

- Answer 3.1: We see a slightly higher proportion of Professional Valuers achieving full competency (5.6% versus 3.4% and 0.0% for Professional Associate and Candidate Valuers respectively), this association is not statistically significant (p=0.9083).
- Question 3.2: Are higher levels of demonstrated competency associated with more professional experience in hotel valuation?
- Answer 3.2: A higher proportion of those who have previously valued a hotel are mostly or fully competent (48.7% versus 37.9% or those who have not valued a hotel); however, this is also not significant (p=0.3995). The number of hotels valued, the type of valuation dynamic (team vs individual), and whether a valuer has previously valued a hotel with an HMA demonstrate similar trends, but none are statistically significant (p=0.2606, 0.1769 and 0.3633 respectively).
- Question 3.3: Are higher levels of demonstrated competency associated with more training in hotel valuation?
- Answer 3.3: This is the only factor that was found to be associated with levels of competency was whether a valuer had received any training on hotel valuations, indicating that training does affect competency level (p=0.0050). This association is not seen with the type of training (e.g. formal short course versus no formal short course).

4) Self-perceived competency and demonstrated competency

- Question 4.1: How competent do South African property valuers perceive themselves to be at valuing hotels with an HMA?
- Answer 4.1: The majority of respondents (87, 46.0%) perceived themselves to have the requisite competency to value a hotel under an HMA. There were 23% of respondents who agreed with the statement, implying that they did not feel competent to undertake such a valuation. 16.9% of respondents indicated that they neither agreed or disagreed whether they were competent. Subsequently, almost half of respondents feel comfortable valuing a hotel under an HMA while almost a quarter of respondents do not.

The research hypotheses to be tested in this study were:

- Part 1: South African property valuers are not fully competent in understanding the complexities of a hotel business, which misaligns with global best practice when a VITA is in place.
- Part 2: South African property valuers will perceive themselves to be competent at valuing hotels with a VITA in place, however not demonstrate competency in the empirical study.

It is, therefore, true that South African property valuers are not fully competent in understanding the complexities of a hotel business, which misaligns with global best practice when an HMA is in place. Moreover, although South African property valuers with higher levels of demonstrated competency will, in turn, have higher SACPVP registration levels, professional experience in hotel valuation and training in hotel valuation are not associated with full competency. The second part of the hypothesis was not proven to be true; since 46.0% of respondents perceive themselves to be competent at valuing hotels with an HMA in place and not a majority as was stated in the hypothesis. The empirical study found that 44.3% of respondents were mostly or fully competent, and thus these two levels are highlighted

Chapter Six: Conclusions and Recommendations

6.1 Introduction

Chapter 4 and 5 present the results and interpretation of the empirical study; the results were used to establish all hypothesis testing and completion of the mixed method analysis used in the study. Chapter 6 provides a conclusion of these results and the study as a whole. The growth in popularity of HMAs in South Africa has yet to see South African valuers aligning their approaches to industry best practice and prescribed approaches. Owners are looking to valuers to provide them with strategic guidance from these valuations.

The shift in tenure structures is a sign of an evolving real-estate sector in South Africa, with a slow adoption of this strategy evident amongst institutional investors as well, who despite identifying that hotels that are owned under an HMA carrying increased risk through operational exposure, this is the primary model that large international hotel management companies will consider; and most appropriate way to leverage off their significant brand equity and distribution channels that they are providing a platform.

6.2 Summary of the Study

The study has set out to better understand the valuation of hotels in South Africa, against a backdrop of the more recent adoption of HMA's in South Africa. The literature describes the South African real-estate sector as a mature one, dominated by large institutions and REITs, who have a strong preference for the security of income and are risk averse by nature.

The study finds that valuers in South Africa are not well positioned at this current time to follow the framework set out in Chapter 2 of this study, and this compromises their ability to provide direction to investors looking to deploy capital into the sector. The study also found that even valuers who have undertaken valuations of hotels under an HMA before, are very seldom competent.

6.3 Research Objectives

The research objectives were achieved due to the study establishing the first real understanding of hotel valuations in South Africa. Despite the infancy of the research area, the study established a baseline for the sector. Although not a primary research objective, this study also presents a further insight into how valuers adapt to a changing environment, such as the evolution of hotel tenure agreements from fixed leases to HMA's.

All four research questions and all seven sub-questions were empirically answered, and thus the research objectives were met, as these questions specifically addressed the Problem Statement and Hypothesis. Although it provides new empirical data for researchers to undertake future hotel valuation related studies, the findings can be used more broadly than this, with studies that look at understanding the valuation of specialist asset classes in South Africa being able to use the results of this study.

6.4 Conclusions

6.4.1 Recommendations

It is recommended that the SACPVP look reassess their guidelines to make provision for specialist valuation competencies. It is also recommended that the SACPVP introduce a process whereby valuers wanting to undertake a hotel valuation where the hotel is encumbered by a VITA, undertake a specialist certification to qualify to value a hotel under this tenure agreement.

The SACPVP should aim to educate valuers on the difficulty of valuing specialist asset classes, and highlight and profile firms that are specialists in certain areas, such as hotels, as this will allow valuers to partner with other firms on projects and in doing so ensure that these skills are transferred.

6.4.2 Opportunities for Future Research

The study has yielded several areas for future research, with this research being broadly categorised into two sub categories, namely hotel valuation and specialist asset valuation.

- Hotel Valuation research that is aimed at assessing the competency levels of valuers when valuing a hotel that is encumbered by an HMA, particularly in emerging markets, where there are proportionally fewer hotels with such a tenure agreement.
- In terms of specialist asset valuations, certain findings can be extended and built on for researchers looking to assess whether the current legislation in South Africa provides a framework that is too wide, with too many types of property for valuers to be expected to assess.
- There is an opportunity to further explore the impact of price sensitivities on the quality of valuation, particularly the impact of Automated Valuation Models that reduce the human input. One could assess the quality of candidates that are attracted to the profession and whether the impact of lower fees has detracted highly skilled individuals.

APPENDIX A: Questionnaire.

The survey will be distributed by way of an email with an HTML link to the unique URL that will direct the respondent to the Survey Monkey website. The email will contain the following explanation:

Subject Line: Hotel Valuation

Dear Property Valuer

As an MSc Property Studies student at the University of Cape Town, I am required to undertake a research thesis. The topic of my thesis seeks to explore the valuation of hotel property in South Africa.

I have provided a link to a survey that I have structured to be as brief and simple as possible for your convenience. The survey has been tested to take between 5 and 10 minutes, with all responses conducted under complete anonymity and confidentiality.

Your participation in the study would be both sincerely appreciated and valuable for the academic community to better understand your profession.

PART A: PARTICIPANT EXPERIENCE AND TRAINING

Q. #	Question	Response
1.	In terms of the South African Council of Property Valuers Profession, are you registered as a:	□ 1 = Candidate Valuer □ 2 = Professional Associated Valuer □ 3 = Professional Valuer
2.	a) Have you ever valued a hotel?	□ 0 = No [If NO proceed to Q3] □ 1 = Yes □ 1 = 1

	b) IF YES: How many hotels have you valued?	□ 2 = 2 □ 3 = 3-5 □ 4 = 5+
	c) IF YES: Did you value the hotel as part of a team or individually?	□ 1 = Team □ 2 = Individually
	e) IF YES: Please can you describe the purpose of the valuation?	□ 1 = Lending □ 2 = Possible transaction □ 3 = Fiduciary requirement □ 4 = Internal reporting □ 5 = Rates and taxes dispute □ 6 = Other _____
	f) IF YES: Have you ever valued a hotel with a Management Agreement in place between the owner and the operator?	□ 0 = No □ 1 = Yes
3.	Please read the following statement and indicate how much you agree with it: I currently do not feel that I am able to value a hotel that has a management agreement in place between the owner and the operator, meaning that the income to the owner is variable and based on the performance of the hotel in coming years.	□ 1 = Strongly agree □ 2 = Agree □ 3 = Neither agree nor disagree □ 4 = Disagree □ 5 = Strongly disagree
4.	In your opinion, the approach to valuing a hotel that is managed under a fixed	□ 1 = Fundamentally similar □ 2 = Marginally different

	lease compared to under a management agreement are:	□ 3 = Completely different
5.	a) Have you ever received training on how to undertake hotel valuations? b) IF YES: what was the nature of this training	□ 0 = No □ 1 = Yes □ 1 = Formal short course □ 2 = Component of university course □ 3 = On the job training □ 4 = Other

PART B: CASE STUDY

Instructions: Please indicate your answers to the following questions based on the information provided in the case study.

The hypothetical Subject property is a 200 room 4-Star hotel that opened in 2010 prior to the World Cup. The hotel has minimal conference facilities and one all day dining restaurant. A listed REIT who requires a valuation of the Subject property owns it. The Marriott International group manages the hotel under a. i.e. the owner pays the operator to manage the hotel on their behalf, with the balance of the hotel profit being the owner's dividend.

Questions as follows: (Answer key at end)

Q. #	Question	Response
6.	What is the most appropriate technique to value the Subject hotel?	□ 1 = Direct Capitalization approach using the most recent years EBITDA. □ 2 = Projection of the Income Statement of the hotel for a 5 year period, and applying a DCF approach to the resulting cash flow. □ 3 = Sales comparison technique, using similar size hotels of a similar quality in the same location that have been transacted. □ 4 = Replacement Cost approach, estimating the cost to construct

		the same hotel today. □ 5 = Escalating the Hotel's EBITDA by an appropriate factor and applying the DCF technique. □ 6 = Escalating the Hotel's EBITDA for one year and applying the Direct Capitalisation technique to it.
7.	What approach best describes how you would project the performance of the subject hotel:	□ 1 = Escalating the current years EBITDA by inflation. □ 2 = Creating a forecast of the subject hotels income statement for a 5 year period. □ 3 = Projecting the profit of the hotel for one year, and applying an appropriate capitalization rate to the resulting EBITDA. □ 4 = Averaging the Hotels last 5 years of EBITDA, and applying a Capitalization Rate to it.
8.	In your experience, explain how the supply and demand dynamics of the market affect how the subject hotel should be researched.	_____
9.	Please rank the following from most important to least important in terms of	□ 1 = Tourist arrivals to the Country □ 2 = Competitive Set performance & Nodal occupancy

	factors to consider when projecting occupancy for the hotel:	□ 3 = GDP Growth in the Country. □ 4 = The convenience of the Gautrain. □ 5 = New office development in Sandton. □ 6 = Expansion of Sandton City, with more variety of shops and restaurants
10.	Please list 5 items that a valuer should request from the owner to value the Subject hotel	1. _____ 2. _____ 3. _____ 4. _____ 5. _____
11.	From your experience, hotel room revenue would likely makes up what percentage of the subject hotels total revenue?	□ 1 = 40-50% □ 2 = 45%-55% □ 3 = 55% - 65% □ 4 = 65%-85% □ 5 = 85% - 95%
12.	From your experience, revenue derived from the sale of rooms in the subject hotel would likely achieve a profitability of:	□ 1 = 30-50% □ 2 = 50%-60% □ 3 = 60% - 70% □ 4 = 70%-85%

13.	From your experience, the Hotel's ADR will likely be higher or lower than R 2,000	□ 1 = Higher □ 2 = Lower

1.1 ANSWER KEY (Part B)

6.	What is the most appropriate technique to value the Subject hotel?	□ 2 = Projection of the Income Statement of the hotel for a 5 year period, and applying a DCF approach to the resulting cash flow.
7.	What approach best describes how you would project the performance of the subject hotel:	□ 2 = Creating a forecast of the subject hotels income statement for a 5 year period.
8.	In your experience, explain how the supply and demand dynamics affecting the subject hotel should be researched. Correct response deemed to be a reference to 2 of the 3 reference points.	Reference to the following approaches: 1) Establish market occupancy and therefore quantify amount of hotel demand in terms of rooms being sold for a period. Then project/forecast growth in hotel market demand (i.e. room nights sold) for a period. 2) Quantify when new hotels will enter the market, i.e. additional supply. 3) Project subject hotels relationship relative to the market occupancy which was

		derived by point 1 and point 2 above
9.	Please rank the following from most important to least important in terms of factors to consider when projecting occupancy for the hotel: Correct Ranking deemed to be positioning options 2, 3 and 5 above 4, 1 and 6. Beyond this, positioning deemed to be too subjective.	□ 2 = Competitive Set performance & Nodal occupancy □ 3 = GDP Growth in the Country. □ 5 = New office development in Sandton. □ 4 = The convenience of the Gautrain. □ 1 = Tourist arrivals to the Country □ 6 = Expansion of Sandton City, with more variety of shops and restaurants
10.	Please list 5 items that a valuer should request from the owner to value the Subject hotel (Correct answer = 5 of the 9 options selected)	1. Hotel Management Accounts for historical period of at least two years and the current year. 2. Hotel Management Agreement with the operator. 3. Smith Travel Research ("STR") Competitive Set Report, or similar reference to a market report for the node. 4. Staffing structure details such as payroll. 5. Latest budget or forecast undertaken by the hotel management. 6. Guest feedback reports 7. Marketing strategy for the hotel 8. Capex plan for the hotel. 9. Details of Food and Beverage revenues,

11.	From your experience, hotel room revenue would likely makes up what percentage of the subject hotels total revenue?	□ 4 = 65%-85%
12.	From your experience, revenue derived from the sale of rooms in the subject hotel would likely achieve a profitability of:	□ 4 = 70%-85%
13.	From your experience, the Hotel's ADR will likely be higher or lower than R 2,000	□ 2 = Lower

APPENDIX B: ETHICS APPROVAL

EBE Faculty: Assessment of Ethics in Research Projects

Any person planning to undertake research in the Faculty of Engineering and the Built Environment at the University of Cape Town is required to complete this form before collecting or analysing data. When completed it should be submitted to the supervisor (where applicable) and from there to the Head of Department. If any of the questions below have been answered YES, and the applicant is NOT a fourth year student, the Head should forward this form for approval by the Faculty EIR committee: submit to Ms Zakiya Childe (Zakiya.childe@uct.ac.za); New EBE Building, Ph 021 650 5739). Students must include a copy of the completed form with the dissertation/thesis when it is submitted for examination.

Name of Principal Researcher/Student: Wayne Craig Godwin **Department:** Construction Economics & Management

If a Student: **Degree:** MSc Property Studies **Supervisor:** Manya Maoyi

If a Research Contract indicate source of funding/sponsorship:

Research Project Title: A Critical Review of the Approaches and Attitudes of South African Visitors towards Valuing Hotels under a Contemporary Management Agreement

Overview of ethics issues in your research project:

Question 1: Is there a possibility that your research could cause harm to a third party (i.e. a person not involved in your project)?	YES	NO ✓
Question 2: Is your research making use of human subjects as sources of data? If your answer is YES, please complete Addendum 2.	YES ✓	NO
Question 3: Does your research involve the participation of or provision of services to communities? If your answer is YES, please complete Addendum 3.	YES	NO ✓
Question 4: If your research is sponsored, is there any potential for conflicts of interest? If your answer is YES, please complete Addendum 4.	YES	NO ✓

If you have answered YES to any of the above questions, please append a copy of your research proposal, as well as any interview schedules or questionnaires (Addendum 1) and please complete further addenda as appropriate.

I hereby undertake to carry out my research in such a way that

- there is no apparent legal objection to the nature or the method of research; and
- the research will not compromise staff or students or the other responsibilities of the University;
- the stated objective will be achieved, and the findings will have a high degree of validity;
- limitations and alternative interpretations will be considered;
- the findings could be subject to peer review and publicly available; and
- I will comply with the conventions of copyright and avoid any practice that would constitute plagiarism.

Signed by: Wayne Craig Godwin

	Full name and signature	Date
Principal Researcher/Student:	Wayne Craig Godwin Signed	24/01/2016

This application is approved by:

Supervisor (if applicable):	Signed	7/03/2016
HOD (or delegated nominee): Final authority for all assessments with NO to all questions and for all undergraduate research.		04/04/2016
Chair : Faculty EIR Committee For applicants other than undergraduate students who have answered YES to any of the above questions.		

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