



Guidelines on Valuation Methodology for Hotels and Motels

Introduction

These guidelines are to be used when assessing hotels and motels for rating and taxation purposes.

They need to be used in conjunction with the *General Provisions Specialist Guidelines*, which refer to the general requirements, legislation and procedures.

Definition

The following definitions are land use terms.

- **Hotel** – Land used to sell liquor for consumption on and off the premises. It may include accommodation, food for consumption on the premises, entertainment, dancing, amusement machines and gambling.
- **Motel** – Land used to provide accommodation in serviced rooms for persons away from their normal place of residence and where provision is made for parking guests' vehicles convenient to the rooms.
- **Residential hotel** – Land used to provide accommodation in serviced rooms for persons away from their normal place of residence. If it has at least 20 bedrooms, it may include the sale of liquor for consumption on or off the premises, function or conference rooms, entertainment, dancing, amusement machines and gambling.
- **Gambling premises** – Land used for gambling by gaming or wagering and where there is the ability to receive a monetary reward.
- **Function centre** – Land used by arrangement to cater for private functions and in which food and drink may be served. It may include entertainment and dancing.
- **Clubs** – Land used by members of a club or group, members' guests, or by the public on payment of a fee, for leisure, recreation, or sport, such as a bowling or tennis club, gymnasium and fitness centre. It may include food and drink for consumption on the premise and gaming.
- **Nightclub** – A building used to provide entertainment and dancing. It may include the provision of food and drink for consumption on the premises. It does not include the sale of packaged liquor, or gaming.

Other definitions and industry terms

- **Hotel premises** – Land and improvements, which may be operated as a licensed premises, must comply with the relevant Acts and its use must accord with relevant planning laws. The operator of a licensed premises must be licensed pursuant to the *Liquor Control Reform Act 1998*.
- **Licence** – The licence is granted to the operator and transfers with the operator but specifies the actual property (hotel). The local council controls the liquor licence plans (council is likely to specify operating times), which are also reviewed by Consumer Affairs Victoria, the authority responsible for fair trading in Victoria.
- **In-going premium** – The terminology applied to the capital payment made by a tenant purchasing a leasehold interest. This premium represents the value of the business inclusive of licences, goodwill, operating plant, equipment and chattels.
- **Marriage value** – Represents the amount that someone would pay to obtain the property and business as opposed to the one or other interest.
- **Gambling** – Strictly regulated by age in all Australian jurisdictions. A person must be 18 years of age to gamble in hotels, clubs or casinos or to buy lottery products.

Additional Victorian legislation and cases applicable to hotels and motels

The following Acts are also relevant to this topic:

- ❖ *Liquor Control Reform Act 1998*
- ❖ Liquor Control Reform Regulations 1999
- ❖ Liquor Control Reform (Prescribed Class of Premises) Regulations 2008
- ❖ Liquor Control Reform (Prohibited Supply) Regulations 2005
- ❖ *Gambling Regulation Act 2003*
- ❖ Gaming Machine Entitlement Allocation and Transfer Rules (the Rules)
- ❖ Gambling Regulation Regulations 2005
- ❖ *Gambling Regulation Amendment (Licensing) Act 2009*
- ❖ *Casino Control Act 1991*
- ❖ *Retail Leases Act 2003*
- ❖ *Food Act 1984*

Court cases

The following is a court case applicable to hotel and motel valuations.

Tooheys Limited (Appeal No. 86 of 1924) v The Valuer-General (New South Wales)
[1924] UKPC 113

Hotel U.V [Unimproved Value] - value of a licence must not be considered part of the U.V.¹

Palace Hotel (Hawthorn) Pty Ltd v Commissioner of State Revenue [2004] VSC 137

STAMP DUTY - Transfer to lessee of freehold interest in licensed premises - Consideration for transfer less than the market value - Whether duty is to be assessed on value of freehold or on combined value freehold and business - Goodwill - *Stamps Act 1958*, s.63(3)(b)(i)(B)

¹ Petherick p 28

Other relevant material:

Gaming Machines

In April 2008, the Victorian Government announced that a new venue operator model would be introduced in 2012.

In June 2009, the *Gambling Regulation Amendment (Licensing) Act 2009* came into operation formalising the announcement and setting out the regulatory framework for the 2012 industry arrangements.

To operate gaming machines under the new arrangements, eligible clubs and hotels had the opportunity to purchase 10-year gaming machine entitlements through either a [Pre-Auction Club Offer](#) and/or the 2010 [Gaming Auction](#).

As part of the new arrangements, a gaming machines entitlements transfer scheme commenced on 21 September 2010 facilitating the transfer of gaming machine entitlements from one venue operator to another by providing access to the trading market².

The new gaming machine arrangements will come into effect on 16 August 2012.

Venue operators will assume responsibility for the ownership and operation of gaming machines. The venue operator must hold a gaming machine entitlement for each machine in operation.

A register of allocated gaming machine entitlements is available on the Victorian Commission for Gambling Regulation (VCGR) website <http://www.vcgr.vic.gov.au/> > Licence Information > Venue Operators > Gaming entitlements. Licence information for current gaming operators is also available at the same website: Licence Information > Venue Details.

- Liquor guides and publications under Consumer Affairs Victoria>Liquor>Forms Fees and Publications - www.consumer.vic.gov.au
- Australasian Gaming Council - Research and Publications - www.austgamingcouncil.org.au
- Victorian Commission for Gambling Regulation - Gaming Expenditures on a monthly and municipal region basis - www.vcgr.vic.gov.au
- Department of Justice Victoria - Liquor Licences Online - check the details of any licensed premises in Victoria, building plans may also be purchased - www.liquor.justice.vic.gov.au
- Liquor Licences online - www.liquor.justice.vic.gov.au
- Australian Hotels Association - www.ahha.com.au

Most major hotels and motels have their own website.

² <http://www.gamblinglicences.vic.gov.au/gaming-machines/about-gaming-machines.html>.

Identification of properties

To appropriately categorise hotels and motels in a municipality, refer to the Australian Valuation Property Classification Codes (AVPCC) available at www.dse.vic.gov.au/valuation.

The suggested categories are as follows:

1. **Pubs (AVPCC 240.2)** - A 'public house' commonly known as a pub is an establishment where alcohol is served commercially in accordance with trading licences. Food, entertainment and accommodation are usually provided at varying degrees. Pubs should be divided into having:
 - a) Gaming (AVPCC 241)
 - b) Non-gaming (AVPCC 240.x or 240.2)
2. **Motels (AVPCC 230.3)** - The word motel, originally an abbreviation of Motor and Hotel or Motorists' Hotel, refers to a type of hotel in the form of a single building of connected rooms with doors that face a parking lot. Motels principally cater for accommodation. The facilities and standard of accommodation range significantly.

The *RACV Accommodation Guide* with star ratings is the accepted industry standard for this category.

The lower end of the market is commonly known as 'backpackers' and is **not** covered by these guidelines.

3. **Hotels Residential (AVPCC 230.2)** - Multi-storey hotels where the majority of turnover is from accommodation. The star rating is usually three to five stars e.g. Sofitel, Hyatt etc..

The *RACV Accommodation Guide* with star ratings is the accepted industry standard for this category.

Serviced apartments are a different category of accommodation and are **not** covered by these guidelines.

4. **Conference Centres (with accommodation) AVPCC 240.9** - Conference centres in this category are buildings that are exclusively hired for private business and/or social events with accommodation facilities. Typically, the facility provides room hire, furniture, overhead projectors, stage lighting and sound systems in conjunction with accommodation, meals and alcoholic beverages.

Reception centres, which usually don't include accommodation, are **not** covered by these guidelines.

5. **Licensed Clubs (AVPCC 240.5)** - Land used to sell liquor for consumption to club members on or off the premises (for drinking on the premises or to take away) and guests of members and authorised gaming visitors (for drinking on the premises only). It may include accommodation, food for consumption on the premises, entertainment, dancing, amusement machines and gambling.
 - a) Club-Gaming-stand alone (AVPCC 242)
6. **Nightclub (AVPCC 240.8)** - A building used to provide entertainment and dancing. It may include the provision of food and drink for consumption on the premises. It does not include the sale of packaged liquor, or gaming.

Rental questionnaire – specific rental and trading requirements applicable to hotels and motels

In addition to the general requirements for rental information, the following is a guide to the specific information required for hotels and motels.

Hotels

Property data

1. Hotel name _____
2. Owner occupied/leased _____
3. Licence no. _____
4. Licence type _____

Gross turnover – Last three financial years

Please specify if financial data is per annum per week

Trading components	Year end 30/6/20__	Year end 30/6/20__	Year end 30/6/20__
Food			
On-premise beverage			
Off-premise sales			
bottle shop			
liquor barn			
Gaming commissions to hotel			
Gaming commissions to hotel (TAB/Keno)			
Accommodation			
Room hire - function			
Sundry revenues			

Components – Last three years

Components	Year end 30/6/20__	Year end 30/6/20__	Year end 30/6/20__
Gaming - no. of machines			
Total no. of rooms for accommodation			
Occupancy rate of rooms			
Average room rate			
AAA star rating/ Self-assessed rating			

Third party leases

Are there any third party leases associated with the property such as telecommunication facilities, outdoor advertising signs, takeaway food etc.?

Yes No

If Yes, please provide the data requested under occupancy lease particulars (refer to *General Provisions for Specialist Guidelines*).

Motels, Residential Hotels and Conference Facilities

Gross Turnover – Last three financial years

Please specify if financial data is per annum per week

Trading components	Year end	Year end	Year end
	30/6/20__	30/6/20__	30/6/20__
Accommodation			
Food/beverage (including room hire)			
Sundry items			
▪ Telephone			
▪ Broadband/movies commission			
▪ Guest laundry			
▪ Miscellaneous			
Other			

Components – Last three years

Components	Year end	Year end	Year end
	30/6/20__	30/6/20__	30/6/20__
Star rating			
Total no. of rooms for accommodation			
Occupancy rate of rooms			
No. of restaurants			
Seating capacity per restaurant			
No. of conference/function rooms			
Average room rate			
AAA star rating/ Self-assessed rating			

Third party leases

Are there any third party leases associated with the property such as telecommunication facilities, outdoor advertising signs, takeaway food etc?

Yes No

If yes, please provide the data requested under Occupancy Lease Particulars (refer to *General Provisions for Specialist Guidelines*).

Property inspection – specific requirements applicable to hotels and motels

1. Inspect premises including condition, renovations and suitability of the building.
2. Availability of facilities to the site:
 - number and type of bars i.e. public, lounge, beer garden, smoking areas;
 - number and types of food i.e. bistro/restaurant/takeaway;
 - bottle shop i.e. drive-through/takeaway;
 - accommodation – number and standard of rooms;
 - entertainment – type and frequency;
 - function/conference rooms;
 - gaming – number of machines;
 - general layout and suitability of fit out, such as placement of kitchen and amenities, bars etc.
3. Valuer to determine if the lease is under the *Retail Leases Act 2003*.

Methodology

➤ Site value

The usual factors in assessing site value such as land area, frontage, topography, shape, location, accessibility, exposure, proximity to public transport and amenities etc. should be taken into consideration.

The site value of a parcel with or without a planning permit should be assessed having regard to highest and best use. The valuer should consider the:

- current use assuming a permit would be granted,
- the potential use given the underlying zoning of the land.

The market value should be assessed having regard to comparable sales of similar zoned land with similar attributes and development potential.

Refer to *General Provisions for Specialist Guidelines*.

➤ Capital improved value

The primary approach used is capitalisation of market rent. The primary evidence to use is recent sales of comparable properties, analysed by category, to indicate appropriate market rentals and capitalisation rates.

When analysing sales and applying rents and cap rates in categorising hotels and motels, it is important that the valuer applies like with like. The following table should be used when applying rents and cap rates (refer to 'Identification of Properties' on page 5):

- pubs with gaming;
- pubs without gaming;
- hotels residential;
- motels;
- conference centres (with accommodation);
- clubs; and
- nightclubs.

In assessing the rent, the valuer needs to determine the hotel/motel facilities and apply a rental value per component.

The information in the following examples are not indicative of any market information; the income, rents and rates are for example purposes only.

Example A – Pub with gaming

Site value

Based on zoning and usual land considerations \$2,000,000

Capital improved value

	Trade per week	Rent ratio	Rent p.a.
Food	\$40,000	7.0%	\$145,600
On-premise beverage	\$40,000	7.0%	\$145,600
Off-premise beverage (bottle shop)	\$60,000	4.0%	\$124,800
Accommodation	\$20,000	16.0%	\$166,400
Room hire	\$10,000	15.0%	\$78,000
Gaming	\$50,000	17.0%	\$442,000
Total weekly turnover	\$220,000		
Total gross rent			\$1,102,400 p.a.
Less outgoings (land tax)			\$50,000 p.a.
Net rent			\$1,052,400 p.a.
Council rates			\$55,000 p.a.
EAV			\$1,107,400 p.a.
CIV by capitalisation			
Net rent			\$1,052,400
Cap rate		7.0%	
CIV			\$15,034,286
CIV (rounded)			\$15,000,000
Assessment	SV	CIV	NAV
	\$ 2,000,000	\$ 15,000,000	\$ 1,100,000

Example B – Hotel with a fast food outlet under a separate lease

Site value

Based on zoning and usual land considerations \$1,650,000

Capital improved value

Hotel *			\$660,400 p.a.
Fast food			\$130,000 p.a.
Total gross rent			\$790,400 p.a.
Less outgoings			\$65,000 p.a.
Net rent			\$725,400 p.a.
Council rates			\$35,000 p.a.
EAV			\$760,400 p.a.
Cap rate			7%
CIV			\$10,362,857
CIV (Rounded)			\$10,300,000
Apportioned CIV – Hotel			\$ 8,600,000
Apportioned CIV – Fast food			\$ 1,700,000
Assessment	SV	CIV	NAV
Hotel	\$ 1,380,000	\$ 8,600,000	\$ 635,000
Fast food	\$ 270,000	\$ 1,700,000	\$ 125,000

* The hotel gross rent would be calculated the same as per Example A (less gaming)

Example C - Motel ★★☆☆ star rating with 50 rooms

Site value

Based on zoning and usual land considerations \$2,000,000

Capital improved value

Category - motel

	Trade per week	Rent ratio	Rent p.a.
Rooms (50 rooms x 7 nights @ \$150 per night) Occupancy 70%	\$36,750	20.0%	\$382,200
Food	\$12,000	7.0%	\$43,680
Beverage	\$5,900	7.0%	\$21,476
Sundries - (Incl. telephone, broadband commission, movies commission, room hire, guest laundry etc.)	\$2,000	5.0%	\$5,200
Total weekly turnover	\$56,650		
Total gross rent			\$452,556 p.a.
Less outgoings (land tax)*			\$50,000 p.a.
Net rent			\$402,556 p.a.
Council rates			\$55,000 p.a.
EAV			\$457,556 p.a.
CIV by capitalisation			
Net rent			\$402,556
Cap rate		8.0%	
CIV			\$5,031,950
CIV (rounded)			\$5,000,000
Assessment	SV	CIV	NAV
	\$ 2,000,000	\$ 5,000,000	\$ 450,000

* Assumes *Retail Leases Act 2003* applies.

Note - Cap rate is derived from sales analysis.

Example D – Residential Hotel ★★★★★ star rating with 100 rooms

Site value

Based on zoning and usual land considerations \$2,000,000

Capital improved value

Category – residential hotel

	Trade per week	Rent ratio	Rent p.a.
Rooms (100 rooms x 7 nights @ \$250 per night) Occupancy 70%	\$122,500	25.0%	\$1,592,500
Food	\$45,000	7.0%	\$163,800
Beverage	\$25,500	7.0%	\$92,820
Sundries - (Incl. telephone, broadband commission, movies commission, room hire, guest laundry etc.)	\$10,000	5.0%	\$26,000
Total weekly turnover	\$203,000		
Total gross rent			\$1,875,120 p.a.
Less outgoing (land tax)			\$50,000 p.a.
Net rent			\$1,825,120 p.a.
Council rates			\$125,000 p.a.
EAV			\$1,950,120 p.a.
CIV by capitalisation			
Net rent			\$1,825,120
Cap rate		7.0%	
CIV			\$26,073,143
CIV (rounded)			\$26,000,000

Assessment	SV	CIV	NAV
	\$ 2,000,000	\$ 26,000,000	\$ 1,950,000

Notes:

- This is a guideline only and the valuer needs to be mindful of the quality and rating of the hotel as the business components may vary significantly.
- The *Statutory Valuation* excludes the business interest and chattels (including soft furnishings).
- Cap rate is derived from sales analysis.

Example E – Conference facility with 30 rooms

Site value

Based on zoning and usual land considerations \$2,000,000

Capital improved value

Category – conference facility

	Trade per week	Rent ratio	Rent p.a.
Rooms (30 rooms x 7 nights @ \$130 per night) Occupancy 40%	\$10,920	20.0%	\$113,568
Food	\$20,000	7.0%	\$72,800
Beverage	\$15,000	7.0%	\$54,600
Sundries - (Incl. telephone, broadband commission, movies commission, room hire, guest laundry etc.)	\$5,000	5.0%	\$13,000
Total weekly turnover	\$50,920		
Total gross rent			\$253,968 p.a.
Less outgoing (land tax)*			\$50,000 p.a.
Net rent			\$203,968 p.a.
Council rates			\$15,000 p.a.
EAV			\$218,968 p.a.
CIV by capitalisation			
Net rent			\$203,968
Cap rate		7.0%	
CIV			\$2,913,828
CIV (rounded)			\$2,900,000
Assessment	SV	CIV	NAV
	\$2,000,000	\$ 2,900,000	\$ 215,000

* Assumes *Retail Leases Act 2003* applies

Note – Cap rate is derived from sales analysis.

Clubs and nightclubs

The same methodology for pubs applies to clubs and nightclubs – refer to Example A.

Summation

The highest and best use of the property may not be the existing use of the property. In this instance the capitalisation approach may not be the most appropriate method of value; the valuer may need to use the summation method as the primary method of valuation.

The summation method may also be useful as a check method to assist in determining the highest and best use of the property.

➤ **Sales Analysis**

- Determine what is actually sold. Is the business/investment value included in the sale or just land and buildings?
- The Victorian Commission for Gambling Regulation website at www.vcgr.vic.gov.au (Research & Statistics > Gaming Expenditure > Regional Statistics) provides research by municipality on gaming expenditure.

Note: These statistics are not split between clubs and hotels.

- When researching sales and/or rental properties, the Internet can be useful to identify available services and facilities. Most major hotels and motels have their own websites, which can be valuable sources of information.

Useful sites -

Visit Victoria - www.visitvictoria.com.au

Travel Victoria - www.travelvictoria.com.au

OzHotels - www.ozhotels.com.au

Pubs for Sale - www.pubsforsale.com.au

Wotif - www.wotif.com

DTZ - www.dtz.com.au

ALE Property Group - www.alegroup.com.au

CRE Website (selling agent) - www.crebrokers.com

- Australian Bureau of Statistics (ABS) Publications - www.abs.gov.au

Note: Operators of tourist accommodation (motels and some hotels) are required by legislation to lodge quarterly survey data with the ABS.

Industry information

The information in the following examples are not indicative of any market information, the income, rents and rates are for example purposes only.

Notional pub valuation

Trading attributes

Revenues	\$ p.a.	\$/week	Rental factor	Rental
Bar sales	780,000	15,000	8.0%	62,400
Bottle shop sales	1,560,000	30,000	4.5%	70,200
Food sales	624,000	12,000	8.0%	49,920
Accommodation	130,000	2,500	20.0%	26,000
Gaming	1,144,000	22,000	18.0%	205,920
TAB commissions	130,000	2,500	5.0%	6,500
Keno commissions	26,000	500	5.0%	1,300
Sundries	39,000	750	10.0%	3,900
Total revenue	4,433,000	85,250		426,140
Net operating profit	\$1,063,920	24.0%	40.0%	425,568
Adopted rental	\$425,000			

Notes:

- All revenues are adopted net of GST.
- Sundries include commissions from pool tables, video machines, juke boxes etc.
- Net operating profit is also commonly called the EBITDA (earnings before interest tax depreciation and amortisation).
- Rental is assessed both on the basis of turnover and net operating profit factors.
- Lease term assumed to be 20 years plus.

Valuation

Freehold going concern - land, buildings, operating plant and equipment, licences, goodwill and chattels (excludes stock at hand).

Methodology - capitalisation of the net operating profit

Net operating profit	\$1,063,920
Capitalised at @	12.0%
Indicated value :	\$8,866,000

Freehold interest (includes fixtures) - land, buildings, fixtures and which includes goodwill pertaining to the site or location

Methodology - capitalisation of the net rental

Rental	\$425,000
Capitalised at @	7.0%
Indicated value :	\$6,071,429

Business interest - operating plant and equipment, licences, business goodwill and chattels (excludes stock at hand)

Net profit after rental	\$638,920
Capitalised at @	25.0%
Indicated value :	\$2,555,680

In theory : freehold going concern = freehold interest (FI) + business interest (BI)

Above calculations

Freehold going concern	\$8,866,000
Sum of FI + BI	\$8,627,109
Variance	\$238,891

This variance is often called the 'Marriage Value'; it represents the amount that someone would pay to obtain the property and business as opposed to the one or other interest.

Types of liquor licences - the following table lists the types of liquor licences available and summarises when they apply.

Type of licence	Business intention	For these types of businesses or events
On Premises Licence	Supply liquor to customers for drinking on the premises	Restaurants, bars and cafes
Packaged Liquor Licence	Supply liquor to customers to take away	Retail liquor stores and supermarkets
General Licence	Supply liquor to customers for drinking on the premises, and to take away	Pubs, hotels and taverns
Full Club Licence	Supply liquor to members, guests and gaming visitors for drinking on the premises, and members to take away	Clubs only (especially those with gaming facilities)
Renewable Limited Club Licence	Supply liquor to members and guests for drinking on the premises	Clubs only
Temporary Limited Licence	Temporary or short-term supply of liquor to customers or club members for drinking on the premises	For persons or organisations holding one-off events, such as a ball or presentation night, a one-off event requiring an extension of trading hours, or a series of events over a limited season, such as a theatre production or racing carnival
Renewable Limited Licence	Supply liquor to customers for drinking on the premises to take away in circumstances where the supply is substantially restricted or limited in some way (e.g. range of products, customers, hours, size of premises or means of delivery)	Bed and breakfasts, caravan parks, small wineries, Internet vendors, and other businesses (for example, florists or gift-makers)
e-Retail Licence	Supply liquor to other liquor licensees to on-sell to their customers	Wholesalers, producers, brewers and liquor importers
Vignerons Licence	Produce liquor from fruit grown on the premises, and then supply the liquor from the premises for drinking or taking away or elsewhere to other liquor licence holders	Larger winemakers who produce liquor from substantially their own fruit (other requirements also apply)
BYO Permit	Allow customers to bring their own liquor and drink it on the premises.	Restaurants and clubs that do not intend to hold a liquor licence

Accommodation star ratings

The Australian STAR Rating Scheme has been around since the 1950s. It is operated on behalf of Australia's auto clubs e.g. the RACV AAA Tourism Pty Ltd, a company owned by the auto clubs that manage the day-to-day running of the scheme. The stars are a registered trademark of AAA Tourism.

The classifications shown below have been sourced from the RACV website and are included in the *RACV Accommodation Guide* (Edition 83). The AAA rating system for all types of accommodation consists of a rating from one to five stars within the following classifications –

Hotels and Pubs

Hotels usually offer a large range of sole occupancy rooms in a multi-storied layout. Hotels often contain bars, cafes and restaurants and/or offer room service meals.

Pubs are essentially the same as a hotel, providing licensed bar and meal facilities on site.

Apartment Hotels

Apartment hotels offer self-contained units with one or two bedrooms or suites, a dining area with cooking facilities and may also provide meals and drinks from outlets within the complex that may or may not be operated by the listed property.

Resorts

Like a small town; provides sleeping, eating, drinking, shopping and recreational needs.

Motels

Motels or Motor Inns offer studio-style rooms with private bathrooms and car parking. They can offer meals to guests and sometimes include a function centre.

Self-catering

A self-catering property is one that offers guests all they need to cook their own meals. Types of accommodation can include apartments, serviced apartments, holiday units, cottages, house, villas and chalets.

Bed and breakfast/Guesthouses

A bed and breakfast can either be self-catering or serves breakfast as part of the tariff.

A guesthouse is a bed and breakfast but must have a minimum of five rooms, a dedicated lounge Area and a dining room.

Tourist/Caravan parks

A caravan park provides facilities for caravans on powered or unpowered sites. They can also include camping areas and self-catering cabins.

Houseboats

Floating accommodation with sleeping area and self-catering facilities.

Backpackers

Backpackers accommodation provides a mix of dormitories and private rooms, some with en suites.

While there are some common standards between different accommodation categories, there are also unique standards.

One star offers clean, basic accommodation while five stars indicates accommodation offering exceptional standards leading to international standards.

The Australian STAR Rating Scheme provides ratings for the 10 accommodation categories. Rating definitions for hotels, apartment hotels and motels are as follows:

Hotels

Star number	Definition
★★★★★	The benchmark in Australian accommodation. Outstanding establishments characterised by luxury appointments offering an exceptional standard of facilities, furnishings and guest services. Twenty-four hour room service, housekeeping, portage, valet parking and secretarial services.
★★★★	Very well appointment accommodation reflecting stylish décor throughout and a high standard of facilities and guest services. Must provide en suites to all rooms, air-conditioning, 16-hour room service and housekeeping.
★★★	Well appointed and comfortable accommodation providing an emphasis on style with a good range of facilities. Décor may be slightly dated but still well maintained and in good condition. May provide some business facilities.
★★	Basic accommodation with clean and reasonably well maintained range of facilities. Generally en suites to all rooms.
★	Very simple and clean, no-frills style accommodation with limited room facilities and often a shared bathroom.
☆	A half STAR is awarded to properties that provide a more extensive range of facilities.

Apartment hotels

Star number	Definition
★★★★★	Outstanding establishments characterised by luxury appointments offering an exceptional standard of facilities, furnishings and guest services. Twenty-four hour room service, housekeeping, dishwasher, valet parking in-house laundry and secretarial services.
★★★★	Very well appointed accommodation reflecting stylish décor throughout and a high standard of facilities and guest services. Minimum of 16-hour room service and housekeeping plus air-conditioning.
★★★	Well appointed and comfortable accommodation providing an emphasis on style with a good range of facilities and services.
★★	Basic accommodation with clean and reasonably well maintained range of facilities and guest services.
★	Very simple and clean, no-frills style accommodation with cooking facilities but limited room facilities.
☆	A half STAR is awarded to properties that provide a more extensive range of facilities.

Motels

Star number	Definition
★★★★★	Outstanding establishments characterised by luxury appointments offering an exceptional standard of facilities, furnishings and guest services. Twenty-four hour reception, room service and secretarial services.
★★★★	Very well appointed accommodation reflecting stylish décor throughout and an extensive array of facilities including air-conditioning and generally restaurant and cable television.
★★★	Well appointed and comfortable accommodation providing an emphasis on style with a good range of facilities which may include a swimming pool and cable television. Décor may be slightly dated but still well maintained and in good condition.
★★	Basic accommodation with clean and reasonably well maintained range of facilities.
★	Very simple and clean, no-frills style accommodation with limited room facilities.
☆	A half STAR is awarded to properties that provide a more extensive range of facilities.

The Uniform System of Accounts for the Lodging Industry

The publication *Uniform System of Accounts for the Lodging Industry* (USALI) - Tenth Revised Edition, is the industry standard for international hotels.

The Financial Management Committee of the American Hotel and Lodging Association (AH&LA), in conjunction with the Hospitality Financial and Technology Professionals (HFTP), published the tenth revised edition of the USALI in 2006. The first edition of the USALI was published in 1926 by the Hotel Association of New York City.

The purpose of the first USALI was to establish a uniform responsibility accounting system for the lodging industry.

Changes were made by the AH&LA and HFTP in order to keep pace with the evolving business environment (i.e. condo hotels, internet wholesales, resort fees), as well as provide clarification to ambiguous guidance found in the ninth edition (i.e. allowances, attrition and cancellation fees, definition of available rooms).

An example of annual accounts for a hotel is provided on pages 20 to 22.

NOTIONAL HOTEL - UNIFORM SYSTEM OF ACCOUNTS - HOTEL FINANCIAL SUMMARY – ANNUAL RESULTS (\$A)

	Seasons				
Period beginning	Jul-05	Jul-05	Jul-06	Jul-07	Jul-07
Period ending	Jun-06	Jun-06	Jun-07	Jun-08	Oct-07
Months	12	12	12	12	4
Room inventory	118	84	84	84	84
Room nights available	43,064	30,576	30,576	30,585	10,386
Room nights Occupied	36,066	23,636	26,200	27,343	8,889
Occupancy	83.75%	77.30%	85.69%	89.40%	85.59%
Average daily rate A\$	96.47	132.35	145.44	163.64	158.01
Room yield (RevPAR) A\$	80.79	102.31	124.62	146.29	135.23
Total revenue per occ room	133.67	200.42	213.80	238.08	235.83
Guest density					

	<i>Amount</i>	<i>Ratio</i>	<i>Amount</i>	<i>Ratio</i>	<i>Amount</i>	<i>Ratio</i>	<i>Amount</i>	<i>Ratio</i>	<i>Amount</i>	<i>Ratio %</i>
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		%		%		%		%		%
REVENUE										
Rooms	3,479,266	72.2%	3,128,206	66.0%	3,810,485	68.0%	4,474,350	68.7%	1,404,524	67.0%
Food	800,097	16.6%	820,302	17.3%	923,638	16.5%	1,123,444	17.3%	344,669	16.4%
Beverage	331,933	6.9%	614,386	13.0%	693,098	12.4%	720,000	11.1%	265,989	12.7%
F & B other	33,863	0.7%	50,805	1.1%	53,060	0.9%	60,790	0.9%	28,116	1.3%
Telephone	37,723	0.8%	33,400	0.7%	28,488	0.5%	32,556	0.5%	8,076	0.4%
Minor other departments	137,975	2.9%	86,678	1.8%	88,517	1.6%	93,444	1.4%	43,746	2.1%
Rental & other Income	0	0.0%	3,455	0.1%	4,322	0.1%	5,121	0.1%	1,200	0.1%
TOTAL REVENUE	4,820,857	100.0%	4,737,232	100.0%	5,601,608	100.0%	6,509,705	100.0%	2,096,320	100.0%

DEPARTMENTAL COSTS & EXPENSES

Rooms

Payroll	620,297	17.8%	706,266	22.6%	833,864	21.9%	882,334	19.7%	314,077	22.4%
Other	876,199	25.2%	345,198	11.0%	408,583	10.7%	412,987	9.2%	143,763	10.2%
Total room costs	1,496,496	43.0%	1,051,464	33.6%	1,242,447	32.6%	1,295,321	28.9%	457,840	32.6%
Rooms profit	1,982,770	57.0%	2,076,742	66.4%	2,568,038	67.4%	3,179,029	71.1%	946,684	67.4%

F & B

Cost of food sold	245,432	30.7%	259,428	31.6%	307,506	33.3%	387,990	34.5%	110,113	31.9%
Cost of bev sold	112,825	34.0%	204,580	33.3%	215,073	31.0%	234,776	32.6%	77,662	29.2%
Payroll total	731,419	62.7%	627,393	42.2%	712,124	42.6%	746,998	39.2%	266,043	41.6%
Other	108,652	9.3%	65,897	4.4%	78,117	4.7%	82,115	4.3%	30,266	4.7%
Total F & B costs	1,198,328	102.8%	1,157,298	77.9%	1,312,820	78.6%	1,451,879	76.2%	484,084	75.8%
Food & beverage Profit	-32,435	-2.8%	328,195	22.1%	356,976	21.4%	452,355	23.8%	154,690	24.2%

Telephone

Cost of sales	14,800	39.2%	30,474	91.2%	30,069	105.5%	37,997	116.7%	7,678	95.1%
Payroll	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Other	15,860	42.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total telephone costs	30,660	81.3%	30,474	91.2%	30,069	105.5%	37,997	116.7%	7,678	95.1%

Telephone profit	7,063	18.7%	2,926	8.8%	-1,581	-5.5%	-5,441	-16.7%	398	4.9%
MOD										
Cost of sales	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Payroll	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Other	59,592	43.2%	9,304	10.7%	14,043	15.9%	15,111	16.2%	0	0.0%
Total MOD costs	59,592	43.2%	9,304	10.7%	14,043	15.9%	15,111	16.2%	0	0.0%
MOD profit	78,383	56.8%	77,374	89.3%	74,474	84.1%	78,333	83.8%	43,746	100.0%
ROI										
Cost of sales	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Payroll	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Other	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total ROI costs	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
ROI profit	0	0.0%	3,455	100.0%	4,322	100.0%	5,121	100.0%	1,200	100.0%
TOTAL OPERATING COSTS	2,785,076	57.8%	2,248,540	47.5%	2,599,379	46.4%	2,800,308	43.0%	949,602	45.3%
GROSS OPERATING INCOME	2,035,781	42.2%	2,488,692	52.5%	3,002,229	53.6%	3,709,397	57.0%	1,146,718	54.7%

UNDISTRIBUTED OPERATING EXPENSES

Administration and general

Payroll	223,504	4.6%	74,870	1.6%	110,778	2.0%	122,665	1.9%	42,376	2.0%
Other	181,546	3.8%	343,404	7.2%	410,804	7.3%	433,211	6.7%	154,598	7.4%
Total A & G costs	405,050	8.4%	418,274	8.8%	521,582	9.3%	555,876	8.5%	196,974	9.4%

System fee	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
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Sales & marketing

Payroll	39,669	0.8%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Other	58,371	1.2%	233,996	4.9%	246,047	4.4%	267,445	4.1%	84,907	4.1%
Total S & M costs	98,040	2.0%	233,996	4.9%	246,047	4.4%	267,445	4.1%	84,907	4.1%

Energy	164,971	3.4%	177,068	3.7%	191,291	3.4%	211,088	3.2%	67,079	3.2%
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Repairs & maintenance

Payroll	88,037	1.8%	44,194	0.9%	54,821	1.0%	58,997	0.9%	19,579	0.9%
Other	169,218	3.5%	114,676	2.4%	124,999	2.2%	143,914	2.2%	58,578	2.8%
Total R & M costs	257,255	5.3%	158,870	3.4%	179,820	3.2%	202,911	3.1%	78,157	3.7%

HOUSE PROFIT	1,110,465	23.0%	1,500,484	31.7%	1,863,489	33.3%	2,455,490	37.7%	719,601	34.3%
OVERHEAD EXPENSES										
Management fee – base	0	0.0%	47,450	1.0%	55,952	1.0%	65,097	1.0%	20,936	1.0%
Management fee – incentive	0	0.0%	87,230	1.8%	199,576	3.6%	239,039	3.7%	104,508	5.0%
Property insurance	48,247	1.0%	39,348	0.8%	47,114	0.8%	48,776	0.7%	14,822	0.7%
Property rates & taxes	142,422	3.0%	84,036	1.8%	85,307	1.5%	87,999	1.4%	29,633	1.4%
Body corporate levies	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Other non-operating expenses	0	0.0%	4,486	0.1%	4,680	0.1%	5,512	0.1%	1,440	0.1%
F F & E reserve	120,000	2.5%	118,626	2.5%	139,881	2.5%	162,743	2.5%	52,340	2.5%
Total overhead expenses	310,669	6.4%	381,176	8.0%	532,510	9.5%	609,166	9.4%	223,679	10.7%
NET OPERATING PROFIT	799,796	16.6%	1,119,308	23.6%	1,330,979	23.8%	1,648,120	25.3%	495,922	23.7%