

# Hotel Property Valuation in a Pandemic Economy: A Strategic Study of Imo Concorde Hotel Owerri in 2020

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## Abstract

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Of all classes of real estate, the hotel property is so unique in character and structure that assigning a value becomes the most intriguing aspect of the profession of Estate Surveying and Valuation. The uniqueness of the property rests partly on its distinctive outlay as against the business potential. Incidentally, most valuations of this property rely on the propensity of the property to produce acceptable returns to pay off the cost of investment and the management. Being that as it may, the quantum of externalities that play varying roles in shaping the final value of a hotel property is such that any professional must be careful not to circumvent even the minutest of considerations. It is all too known that the value of real estate rises and falls with the character of the neighbourhood and region where it is located. Hotels values are not different and in addition rise and fall with the whim of fashion and the fortunes of the region of location. This study examined not just the different methods and approaches to the valuation of a hotel property but also explored the benefits of other micro economic parameters that play significant roles in establishing the basis of any monetary index that could be referred to as value by conducting a comprehensive review of the hotel itself in comparison with its competitive market to confirm whether the hotel is under- or over-performing against its competitors the intention being to have a grasp of the income-generating ability of the property upon which the application of a capitalization rate will convert the estimated cash flows into an estimated value. Though a 5-star hotel was used as case study, the outcome is applicable to all hotels carrying on business in Nigeria and other parts of the world. The study recommends among others that Estate Surveyors and Valuers involved in the valuation of hotels need to be skilled in reading financial statements and translating them into stabilized net-operating income because as much as hotel properties are physically different, in different locations, and with different management; volatility of the hospitality market and the external factors are bound to affect value. The study revealed that in so much as the travel patterns of lodgers were affected by the COVID-19 pandemic bringing with it a crash in the income generating potential, the value of hotels were not so affected especially with relation to furniture, fittings and equipment.

**Keywords:** *Valuation, Hotel, Property, Profession, Investment, Competitors*

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## **Background to the Study**

The hotel is a place of rest; an accommodation for weary travelers and a place of fun and entertainment. Many writers have tried at different times and fashions to describe the hotel as an industry. They forget that it is first of all a property and a business. Clearly so any attempt at explaining what the hotel is without reference to the building the houses and accommodates the enterprise and which in all honesty forms the basis of the business will fail so short at the explanation. According to Murray (2019) the hotel is an establishment providing accommodation, meals, and other services for travelers and tourists. This notion of the hotel finds expression when we consider the background and ideology surrounding the word hotel as derived from the French *hôtel* (coming from the same origin as hospital), which referred to a French version of a building seeing frequent visitors, and providing care, rather than a place offering accommodation. A cursory expedition of the gospel of St. Luke 10: 25 – 37 explained perfectly the nature and status of the hotel during the time of Jesus.

*<sup>33</sup> But a Samaritan, as he traveled, came where the man was; and when he saw him, he took pity on him. <sup>34</sup> He went to him and bandaged his wounds, pouring on oil and wine. Then he put the man on his own donkey, brought him to an inn and took care of him. <sup>35</sup> The next day he took out two denarii and gave them to the innkeeper. 'Look after him,' he said, 'and when I return, I will reimburse you for any extra expense you may have.'*

From the foregoing, the “inn” served the purpose of the hotel as a place where people are cared for, for recompense in the form of charges, fees, and costs. Hotels as we know them today only started to appear around the 18th century, although the beginning of the hospitality industry goes all the way back to the ancient Greek and Roman culture. The lodgings were being built next to the thermal baths, in the resort towns, and on the routes popular amongst the government officials. Similar locations were popular on the routes of the caravans of the Middle East. Their purpose was nearly the same that is to provide accommodation and food for the travelers. Back then mostly the rich, the traders and the politicians were the main customers for the early “hoteliers”.

With the rise of the Christianity in the Middle Ages however came the increase in the popularity of the monasteries and abbeys. These offered bed and supper to all the travelers not just a select few like politicians and rich noble men. It was at these times that the “inn” grew in Europe with small rooms, often for share, taverns, stables and houses of the owners all in one place originally designed for as lodgings mostly for pilgrims. By the 17th century, the coaching inns became very popular with responsibilities of hosting travelers, offering them food, changing their tires and tending to their horses. When the rich started to travel more, creating income for the inn owners they started designs with much more luxurious circumspect and as demand rose, what we call the hotel industry today started to be. Today's hotels are a myriad of sophistry embedded in luxurious enterprises and a litany of businesses not just for the hotel as an entity but also an hegemony of other entities.

## **Investment in Hotel**

Whenever investment is mentioned, people's minds are eager to reflect on profit. While investment may be associated with profit, the basics of the term involve the use of indirect

process to obtain a higher output (Okoronkwo, 1997). The indirect process may involve saving or expending of capital to obtain higher productivity which may be in the form of increased output, improved production methods or replacement of obsolete equipment. Generally, investment acts as catalyst in economic development with the objectives of profit maximization, wealth maximization and or social optimization (Onuoha, 1997).

Every hotel is an investment consisting principally of land and buildings. However they are unique real estate investments as they contain many elements not typically found in other income producing properties. These characteristics affect both the risks and benefits associated with hotel investments and demonstrate their highly specialized nature. Land represent not more than 20% Of the total investment of a hotel. Improvements in the form of buildings, permanent equipment, parking areas, pool, etc may take about 35% while other unique investment elements include

- a) Furniture, Fittings and Equipment essential to the operation of a hotel where the quality often influences the class of hotel.
- b) Management and Personnel required in specialized areas such as food and beverages, accounting, marketing and engineering.
- c) Inventories and working capital though may not be necessary when estimating the market value since they do not necessarily change hands except on special requests.

### **Imo Concorde Hotel Owerri**

The Imo Concorde is a five star hotel at Owerri Imo State. The hotel was once referred to as the “pearl of the East” with its magnificent architecture and unique location. As a first class prestige hotel, the building is of great significance to the people of Imo State. The hotel was designed in such a way to provide ancillary services including substantial shopping facilities for mutual attraction of business and improved economies. The development of leisure and recreational facilities also attracts business to the hotel and increases the custom at restaurants and bars. Halls and conference rooms are replete with state of the art equipment for international excellence. The public rooms, dining, banquet and night club hall constitute a substantial and attractive feature of the hotel having been designed and developed to allow for natural ventilation in the event of air conditioning failure. The main hotel building in a medium rise economic development with bedrooms in two separate but linked blocks of 120 rooms each. This resulted in two bedrooms blocks of 7 floors each. In addition there is the ground and first floors that contain such accommodation as reception, executive offices, casino/night club, and restaurant, shopping arcade, kitchen and workshops.

There are 4 categories of rooms: twin bedded rooms for either single or double occupancy; double rooms with double beds each for double occupancy; suites comprising a double room with a lounge; presidential suite comprising bedrooms with extended bathrooms, office, lounge, dining area, a bar, kitchenette and a separate guest toilet. All bedrooms were originally fitted with high quality rug carpet but later changed to glazed floor tiles; curtains and furniture, air conditioners, telephone, television and radio.

The location of Imo Concorde hotel at Owerri the capital of Imo State made it the focal point for a good deal of the activity of the State and provides services to all nooks and crannies of the

state. As a result its services are improved by such facilities as Sam Mbakwe International cargo airport, Port Harcourt International Airport and the ultra modern facilities at Ogata Lake resort.

**Fig. 1:** Imo Concorde Hotel Owerri



**Source:** Field work (2020)

### **Hotel Property Valuation**

#### **a) Demand and Supply of Hotel Accommodations**

Hotels operate in a real estate market place as they jostle and compete for clients and visitors. This is premised on the fact that a greater share of the market will affect the income and expenditure patterns of every hotel and hence the value. As a result therefore, valuations surveys are conducted based on the principles of demand and supply. With particular reference to hotels, demand represents the total number of persons expected to utilize a hotel facility while supply refers to the number and type of competitive lodging accommodations located within the catchment area. Two types of demand must be distinguished for a clearer understanding of the concept of demand here required –micro and macro. While micro demand is the demand originating within the a limited geographical area such as a town or city, macro demand is much more broader in scope and takes into account both national and international movement pattern.

Supply in hotel valuation and assessment also has two dimensions – micro and macro. Micro supply represents all competitive lodging accommodations and facilities within catchment area of a particular hotel whereas macro supply include all lodging facilities that are likely to take part in sharing the market available.

The assessment of the interplay of supply and demand of hotel accommodations has the intention only to help in gauging the occupancy rate which is the ratio of rented or used or occupied lodging spaces to the total number of available spaces. The use of occupancy rate is prevalent in evaluating hotel and resort properties. The determination of occupancy rate is often the final and most important step in the market survey sequence. Interviews, questionnaires and the use of available data and survey from established institutions are some of the techniques employable in the determination of occupancy rate.

**Table 1: Overnight Travel (type of Accommodation)**

Type of accommodation	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)
Private Homes	23	20	21	23	25
Hotels	65	66	63	60	58
Others	12	14	17	17	17
	100	100	100	100	100

**Source:** Field work

The table revealed that people spent more nights away from home per average trip. This is attributable to the services available in hotels and the comfort associated with many hotels who are strive to provide the best for a greater share of the customer patronage.

**Table 2: Travel Pattern**

Nature of Travel	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)
Business Related	23	22	20	23	21
Visit Friends/Relations	15	18	23	25	28
Pleasure Related	42	44	37	35	37
Others (Miscellaneous)	20	16	20	17	16
	100	100	100	100	100

Table 2 shows that 2016 was the watershed when the highest point of pleasure related seekers utilized lodging facilities. It was a year of fair economic conditions in Nigeria and the middle of a political calendar in Nigeria. Thus the greatest proportion of occupancy of hotels within the time of study derived from business and pleasure related travels.

**Table 3: Competitive Lodging Facilities**

No.	Hotel	Rate	Type	Quality	Management
A	Protea Hotel	Luxury	Commercial	High	Competent
B	All Seasons' Hotel	Luxury	Commercial	High	Competent
C	Villa Garden Hotel	Luxury	Commercial	High	Competent
D	Bon Hotels	Luxury	Commercial	High	Competent
E	Imo Concorde Hotel	Luxury	Commercial	High	Competent

Within the catchment area a number of other competitive lodging accommodations were identified. These hotels are also favoured by most users and many time preferred. The difference among these is the period/year of construction and the ownership structure. While Imo Concorde Hotel is the oldest among these hotels and under the ownership of Imo State government, these competitive lodging facilities are owned by corporations.

Hotels are capital intensive investments. Therefore, the following factors were used in evaluating the rate and quality represented in Table 3; quality of architecture, construction and decoration; allocation of space; size of public areas and quest rooms; quality of mechanical equipment such as lifts; quality and type of amenities; quality of food and beverages and quality of service.



It is the aggregation of foregoing factors and influences that determine the occupancy rate that is, the number of rooms occupied per night when compared to the number of rooms available. The study was explored data from Owerri Chamber of Commerce, Industry, Mines and Agriculture (OCCIMA); planning and Statistics departments of Owerri Municipal Council, Owerri West L.G.A. and Owerri North L. G. A.; in addition to the Ministry of Commerce, Industry and Tourism. Data obtained showed that the occupancy of hotels in Owerri is well pronounced on weekends (Friday – Sunday) essentially owing to weddings, seminars, weekend escapes, etc. By dividing the total demand among all competitive lodging facilities, an estimate of the market share of Imo Concorde hotel was ascertained as 11%. For other services like hiring of halls and ceremonial places, a 4% rate was established.

### **Valuation Process**

The process of estimating the worth of a property is known as valuation. Valuation methods fall into three approaches – market data approach, cost approach and income approach. Market data approach is conceptually founded on the principles of substitution and establishes the value of a property by comparing and establishing the prices that similar properties command in concluded sales deals. Adjustments are made for dissimilarities which may come about as a result of differences in term, age, condition, layout, construction, equipment, size or external economic factors. Although market data approach may provide highly supportable estimates of market value for flats and bungalows it does not seem to be of much help where more complex properties like hotels are involved (Bonbright, 1937)

The Cost approach sometimes also referred to as the summation approach estimates market value by computing the current cost of replacing the subjects improvement and then subtracting any depreciations that may arise as a result of physical, functional and or economic obsolescence. Whatever is obtained is summed with the cost of the land with its local content to provide an estimated value of the property. The cost approach is not useful in the valuation of Resting on the economic principle of utility and substitution, the Income approach is invaluable in the valuation of income yielding properties of which the hotel is one. The approach converts anticipated future benefits into estimates of present value by the employment of discounting procedure. Ifediora (1991) insists that the method is most appropriate in the valuation of hotel since every purchase of interest is an investment.

However Okoronkwo (1997), had argued that in periods of crises and market unsustainability the use of income approach must be weighed against the backdrop of existing economic circumstances immediately prior to the period. His argument rests on the fact that though the value of hotels depends primarily on the income realizable from occupancy the period of investigation must go back for at least five (5) years.

The fundamental of the income approach according to Britton, Davis and Johnson (1989) is to find the annual income which the property will produce, to multiply this by a developed years purchase (YP) which reflects the various investment risk components and arrive at the capital value which in all respects and circumstances reflects the value of a hotel property. One subjective factor in the valuation of hotels is the remuneration of the operator often referred to as tenant's remuneration. This is precisely where the degree of efficiency of management plays

a significant role in the whole valuation exercise. Westbrook (1973) explains that a tenant who would enjoy a higher return from harder work and more direct supervision would be prepared to pay a higher rent than that which emerges from analysis of the accounts of the enterprise. Thus, the higher the quality of management, the greater the rate attributable to tenants remuneration.

Notwithstanding the foregoing, the Valuer is expected to develop a capitalization rate that will reflect the various investment risks. This could be achieved by combining the weighted average of the rate of return (cost) demanded by financiers with the dividend requirement of equity where applicable. For the valuation of Imo Concorde hotel, a rate of 18% was derived on a capital cost of 60% loan and 40% equity.

**Table:** Capitalization Rate through Weighted Average Cost of capital

Type of capital	Proportion	Cost of capital	Weighted Rate of capital	Weighted Cost of capital
Loan	0.60	0.20	0.12	
Equity	0.40	0.15	0.06	0.18 x 100
	1.00		0.18	18%

Capitalization rate could also be developed from market research. What is necessarily done is to evaluate the terms and conditions of actual market sales and other market data. This normally reflects the market rate only where the Valuer thoroughly screened concluded transactions and the motives of the parties involved to ascertain whether the rate derived represents market transactions. (A summary of the valuation of Imo Concorde hotels is annexed as Appendix A.)

### **Corona Virus Pandemic and the Impact on Hotels**

The World Health Organization (2020) defines Corona viruses as a large family of viruses that are known to cause illness ranging from the common cold to more severe diseases such as Middle East Respiratory Syndrome (MERS) and Severe Acute Respiratory Syndrome (SARS). Believed to have been developed in Wuhan district of China the disease has spread to all parts of the world causing dislocations in the economy of nations. Healy (2020) asserts that despite President Trump's statements that the virus was released from a laboratory in Wuhan, scientist say the evidence points to a natural origin.

The American Hotel and Lodging Association "State of the Hotel Industry 2021" report showed that the corona virus pandemic has been devastating to the hospitality industry and is not likely to abate soon. With nearly 4 million jobs lost compared to the same time in 2019 the accommodations sector faces an 18.9% unemployment rate, according to the Bureau of Labor Statistics. In addition, half of hotel rooms are projected to remain empty in 2021. Business travel, which comprises the largest source of hotel revenue, remains nearly nonexistent.. Among frequent business travelers who are currently employed, 29% expect to attend their first business conference in the first half of 2021, 36% in the second half of the year and 20% more than a year from now. Business travel is not expected to return to 2019 levels until at least 2023 or 2024.

Leisure travel is expected to return first, with consumers optimistic about national distribution of a vaccine and with that an ability to travel again in 2021. The report found that heading into 2021, consumers are optimistic about travel, with 56% of Americans saying they are likely to travel for leisure or vacation in 2021. While 34% of adults are already comfortable staying in a hotel, 48% say their comfort is tied to vaccination in some way.

The resurgence of COVID-19, the emergence of new strains, and a slow vaccine rollout have added to the challenges the hotel industry faces with travel demand continuing to lag normal levels. According to Fact Sheet (2020) the hotel industry experienced the most devastating year on record in 2020, resulting in historically low occupancy, massive job loss, and hotel closures. Hotels were one of the first industries affected by the pandemic after travel was forced to a virtual halt in early 2020, and it will be one of the last to recover. The story is the same in Nigeria. The pandemic was as devastating to the hotel industry in Nigeria as it was elsewhere in the world.

### **Conclusion and Recommendations**

Concerning the value of a hotel property, it could be argued and indeed right to state that values of hotels will only be affected by the pandemic for all valuations assignments undertaken beginning 2020. The reason for this is the fundamental process of tracking records for a past five years' period to conduct a valuation exercise. An assignment undertaken in 2020 will only take cognizance of hotel records from 2015-2019, a period when the effect of the pandemic was not yet felt.

It could as well be stated that though hotel property revenues have been impacted by the pandemic, not all items of hotel property are affected. These include but not limited to furniture, fixtures, fittings and equipment. These properties exhibit some form of latent durability in times of uncertainty and in consequence are not so easily affected by pandemics. They are essential investment elements in a hotel as their quality often influences the class of hotel. Owing to the fact that hotels are properties with high investment risks with high profit margins, people are naturally attracted to it for investment purposes only. It is however advised that unless the quality of management is high the profit earning potential of the enterprise is most likely to be low.

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