The Valuation of Holiday Hotels. A Case Study of Negril, Jamaica

Tina Beale (Jamaica)

Key words: Valuation;

SUMMARY

Introduction Beach erosion is an environmental problem which has resulted in devastating effects to Jamaican settlements within the last 50 years. This issue has manifested as a result of both man-made and natural causes, thus increasing her vulnerability to tropical cyclones and sea level rise. In light of this, the paper discusses/analyzes the valuation approaches used in valuing hotels and presents a more explicit approach for valuing holiday hotels. Significance Negril, known for its white sand beaches, is Jamaica's third largest resort area. It is protected under the Natural Resources Conservation Act 1991 (NRCA) and has the highest rate of beach erosion in Jamaica. In fact, Environmentalists have predicted that by 2060 Negril will have little or no beaches left. Without beaches, then hotels will have no value and the domino effects will be a reduction in the foreign exchange earned by Jamaica, less employment for Jamaicans, a change in land use for hotel properties and a higher risk profile of legal interests in hotel properties. Research Questions The research questions used were: 1. What impact does beach erosion have on hotel values? 2. How does man by his ingenuity address this phenomenon 3. How can the market for hotel investment be maintained? 4. How does the operational cost of Hoteliers equate into value? Results The research revealed the following: 1. Hotels in Negril suffer from a high level of depreciation in the form of beach erosion which is not accounted for in the Profits Method of Valuation. 2. Data implies that Hoteliers pay vast sums of money to dredge seas on an interim basis to replace the sand that has being lost, as a result of beach erosion. 3. The current practices used in valuing hotels, focuses primarily and uses profits earned to determine the value of these properties. The current valuation methodology does not account for the reduced remaining useful of hotels affected by beach erosion. Conclusion The Profits Method does not adequately account for all factors which affects the value of holiday hotels. A more explicit approach is required which takes into consideration the remaining useful life of the investment and its impact on security of tenure. It is believed that this can be best accomplished by developing a methodology which merges the Discounted Cash Flow Technique with the Mineral Valuation Approach, in order for value to be the outcome of all factors affecting holiday hotels.