

# The valuation of holiday hotels: Negril, Jamaica

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## The Role of Jamaica's Coastal Ecosystem

- ▶ Coral Reefs play an integral role in supplying beach and sand material and protecting the shoreline.
- ▶ Ecosystem degradation is a contributing factor to increased local vulnerability
- ▶ Scientific evidence shows that over the past 40 years Jamaica's north coast experienced irreversible shoreline erosion.
- ▶ By 2060 ASLR and wave surges will have a devastating impact on the north coast

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## Negril in context

- ▶ Negril has been experiencing irreversible shoreline retreat within the last 40 years, with average beach erosion rates ranging from 0.5 - 1 metre per annum over the period 1968-2006.
- ▶ RIVAMP also reported that many of Negril's shorelines have limited defense strategies to combat the rate of shoreline retreat. It has also been expressed that since 1990, the rate of beach recovery after the occurrence of natural disasters has dwindled significantly.

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# The Valuation of Hotels on the Basis of Accounts

- ▶ Analysis of Accounts – Ratios
- ▶ Estimate of maintainable future income
- ▶ The Capitalisation Process: market forces will determine the capitalisation rate that is applied to profits.

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## Margaret's Bay, 1980 after the passage of Hurricane Allen



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## Margaret's Bay, June 1969



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## Determination of a Cap Rate

Currently, cap rates for hotels are determined  
Based on market forces and the security of  
Income associated with the asset.

In light of the rapid rates of erosion, this  
phenomena cannot be ignored as Holiday  
Hotels will have no value without beaches.  
How can this be resolved?

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# Value Trends of Commercial Properties


- ▶ Commercial property values tend to increase when there is a threat to the security of tenure– usually as a result of obsolescence.
- ▶ Currently, the ARY is used as the cap rate – issues of the yield rate being an implicit measure.
- ▶ Aspects of current hotel valuation exercise such as goodwill and tenant's share are subjective & based on valuer's perception



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## Proposed Way Forward

- ▶ Determination of Sector Risk – calculation of the rate of beach erosion in hotel resort areas across the island and total sand coverage
- ▶ Calculation of Property Specific Risk–rate of beach erosion in location vs total sand coverage of the location or the total cost of dredging and replacing sand in comparison to the property's value.
- ▶ Calculation of the investor's equated yield (from the SRR & PSRR)
- ▶ Application of the EY in a DCF Approach



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# Conclusion

- ▶ Data suggests that Jamaica's beaches will be Reduced significantly by 50%.
- ▶ With reduced shorelines, the attraction towards Holiday Hotels will decline and will affect the value of these properties.
- ▶ Explicit valuation approaches are more suitable for the valuation of hotels.



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## THE END

### Thank You!!

### QUESTIONS ARE WELCOMED



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