6 Disposal guide

This chapter deals with the disposal of a hotel or resort. It covers what is involved in the process of selling a hotel, how the sales price can be enhanced to ensure maximum value is realised, when is the best time to sell a hotel, how to choose the best agent and marketing strategies.

The process of selling a hotel

Hotels and resorts are usually sold as operational entities. As such, all operational agreements made with the previous owners are passed on to new owners to be honoured. This includes, for example, new bookings, equipment hire and staff contracts. This makes the sale of a hotel different from typical property transactions, where the property is sold without such complications.

Typically, staff and customers can get nervous if they know a hotel is being sold, especially if they find out secondhand, rather than from the owner themselves. As such, it is very important to work out how to address the issue of the sale process with the key customers and staff. If key staff leave, or bookings are not made, it will have a negative impact on the price obtained for the property, as well as on the earnings generated before the sale completes.

In addition, the hotel requires stock to function. This is usually audited on the day of handover, and a separate amount of money is paid to cover this, over and above the agreed sale price. This is not standard for property transactions, but is absolutely vital to both the buyer and the seller if the property is to continue trading as well as it should. If a fair price were not paid for the stock, then the seller would try to reduce the stock on site, which could lead to shortages and potential customer complaints. This would impact on trading for the buyer. As the income earned from the hotel remains with the seller until it is transferred, this lower income would also hurt the current owner as well.

It is also worth considering the impact of sale upon a franchised or managed property. Typically, there are clauses contained in various agreements that mean the transfer of these rights is not automatic, and the sale can be halted if the wrong person looks to buy the property. Alternatively, there may be a right for the management company to terminate the management contract and claim compensation in such an event.

Agree what is required, fees and terms and conditions

The first step is for the owner and their agent to determine what is actually required, and then to agree fees and the terms and conditions of the instruction. It might be at this stage that it becomes apparent that a sale may not be in the best interests of the owner, or that a different approach may realise more value from the asset. It might, for example, become apparent that holding the property for a short while as changes are made to the business would allow the property to be sold for significantly more.

It is vital that the terms of the agreement between the owner and the agent are agreed and are very clear from the outset.

The agreement may be for sole or multiple agency, it may be an off-market transaction or a full marketed campaign, and in certain circumstances certain buyers may be excluded from the process. It is important that all parties agree at the outset if the process is to be relatively trouble-free and uncomplicated.

Undertake the initial due diligence to ensure the property will attract potential buyers

The due diligence work that is essential at the beginning of the sales process will include a full inspection of the property, so that 'the good, the bad and the ugly' of the property are known to the agent. Opportunities to enhance trade will be discovered, as will defects or potential future problems.

Any defects can then either be addressed, or potential solutions can be considered, so that the financial impact of such problems does not result in too low an offer.

The next step is to review the data, including details on the title (preferably a report on the title), statutory documentation (including planning records), financial records and employment data. Any licences, subleases or agreements with third-party operators will also be reviewed for their impact on the potential profitability, as well as looking at how these agreements may appeal or deter potential purchasers from buying the property.

Any treasure hunting opportunities should be sought and considered as to how they will best help sell the property.

Agree the sales process

The disposal method and process will be agreed, whether private tender, informal or formal tender of auction.

The specific marketing strategy, and potential buyers, will be discussed in detail, with a particular plan designed and followed by the parties.

One specific area that needs careful consideration is the choice of a 'guide price', which is outlined later in this chapter.

Preparation of the supporting materials

This involves the production of any marketing collateral (including brochures and advertisements) and preparing the 'data room'. A data room is typically an online area where access can be granted to specific parties so they can fully evaluate the opportunity, while still retaining a level of confidentiality for the seller. Typically, it will include legal documentation (leases, title documentation, operating agreements, statutory licences and consents, for example), financial reports (with full historic and budget management accounts), a property's details (floor plans, surveys, reports, valuations, photographs), general market information (data on the local area and local market) and employment sector details (staff details and sample contracts).

Marketing

The next stage of the sale process is to run the marketing campaign along the agreed lines, making any changes to the initial strategy as are required to help ensure the highest and best price is achieved.

Ideally, the marketing campaign will generate strong interest from at least three or four parties, resulting in a bidding war, to drive the price above the initial offers received.

Review offers and determining the most suitable buyer

The next step is to review all offers and determine which offer is the most favourable to the seller. This may be the highest offer, the quickest or the offer that has the least risk (an unconditional offer, or an offer from a reliable source).

Certain buyers have a reputation for offering the highest bid and then at the due diligence stage reducing their bid to much lower levels. The risk of 'chipping', as it is sometimes known, can lead to certain buyers' offers being excluded from the process at the outset.

Completing the transfer

Typically, the seller will provide an exclusivity period (if not entering a contract race) to the purchaser, while they work through the due diligence for financial, legal, valuation and condition. A contract race is when an agreement is made to sell a property to whichever potential buyer can exchange and complete the transaction quickest. This will involve more than one party spending significant amounts of money on due diligence, and is only usually possible when a property is particularly desirable to investors, or when the seller offers to reimburse the losing parties of their costs if another party completes ahead of them.

The next stage is to exchange contracts with an agreed completion date (and deposit paid). There will usually be a stock audit on the day of handover, with an additional sum paid on the basis of actual stock, prior to the completion of the transfer.

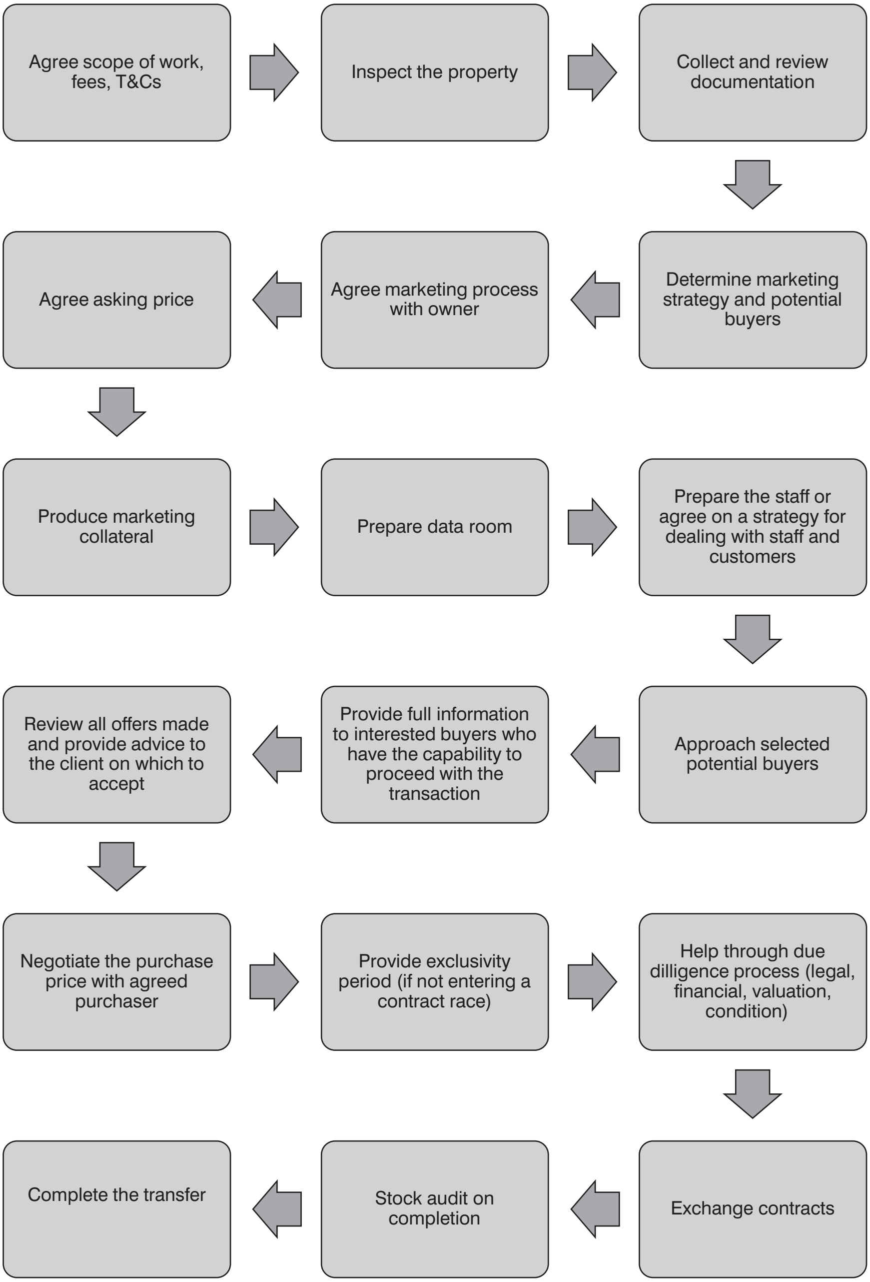

Figure 6.2 Process of a hotel sale from an agent's perspective