How to MAXIMISE the from your

Melia Tortuga, Sal, Capo Verde

Hotels are one of the most glamorous real estate investments, attracting a wide range of owners for a number of reasons, not always based on direct commercial returns. **By David Harper**

Hotels have been seen as a necessary first step to attracting wider international investment into a country, as without a decent base to stay international investors are less likely to attend business meetings. The question is how to ensure that any new hotel being built maximises its potential and adequately rewards the developers.

The right product

Is it the right product in the right place? Creating the right property (including quality, size and ancillary facilities) is one of the most important steps to ensuring you can maximise your investment returns. There is no substitute for good professional advice early on. The cost of an initial feasibility study is NEVER wasted.

The right brand

Instructing an international operator to manage a hotel can have a significant impact on the returns you make from your investment. During development it can lead to funding being available and sometimes being cheaper.

Brands can usually improve performance, increasing revenue production, whilst also using their size to generate cost savings thereby improving the owners return. When the hotel is finally sold it usually attracts a higher multiple of earnings if it is internationally branded (and therefore a higher price). However, if it is "the wrong brand", or in the "wrong structure", it could have a negative impact on operational earnings potential and the capital value of the asset.

Right structure

If a brand is the best option then consideration must be made whether to structure the partnership in terms of a lease

returns
hotel investment

Mount Meru Hotel, Arusha, Tanzania

Gambia - Kombo Beach Resort Hotel

management agreement or a franchise agreement. The ideal choice will depend upon the investor's long term strategy and the prevailing market conditions. Professional advice must be taken at this stage, as the devil is definitely in the detail. If care is not taken over every clause contained in an agreement, then it could have a direct impact on the trading income earned and on the sale price of the asset.

"Ensure trading is optimised throughout holding period"

Assuming that the hotel is not being operated by the owner then it usually proves prudent to employ an asset manager to liaise with the operating company on your behalf. It is important not allow basic repairs to be neglected. If the property is not kept in good repair it has an impact on both trading and capital value, and that impact is always greater than the short term savings generated by under-investing in the fabric of the hotel.

Ensure a smooth exit

An experienced agent should be instructed to sell the property. That agent must be competent in the specific location, with the type of property and with the type of structure being sold.

It is essential that all the due diligence paperwork is collated ahead of going to market. Nothing stops a very keen potential buyer having an interest in a possible transaction than having to wait for the paperwork to review. **A+**

David Harper is a director at Leisure Property Services, one of the only consultancies specialising in hotel transactions in Africa. He is the author of "Hotel Valuation for Investors" and the hotel valuation section of ISURV, the subscription website of the Royal Institute of Chartered Surveyors (RICS), providing best practice advice for chartered surveyors.