

When you SHOULD sell your hotel

Okay, so you've developed your hotel. Now you need to maximise your investment and ensure the best and most profitable exit strategy.

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There has been a spike in hotel developments across the continent as clearly indicated by the annual pipeline study by W Hospitality Group. The key question is when should you sell your interest in the property, and how can you ensure your returns are maximised? At Hotel Partners Africa we recommend that owners/developers plan for their exit at the very beginning. There should always be a clear plan when the first steps are being taken to buy or develop a hotel, even if it needs to be highly

flexible, to ensure that everything is in place to help maximise the investors' returns.

Timing

The optimum time to sell a hotel (on a micro level) is when a hotel first reaches a stable trading level. The first 3-5 years after opening usually see trade at the hotel move towards its optimum level, and once the peak trading has occurred that is when the pricing will be strongest. Selling before the hotel peaks will mean that the pricing will be lower

than it would be later.

However it is also important to look at the wider macro-economic and political situation – if there are changes imminent that may detract from or improve the investment climate these need to be factored in to ensure the price is as high as possible.

Changes in supply and demand also need to be considered. If a new airport is being constructed it might be prudent to wait until the positive impacts have been felt. Alternatively if a new hotel is

planned that will take away some business it might be worth selling before it has an impact on the desirability of your property.

Improving the price buyers will pay

However long you intend to own the hotel it is important that trading should be optimised. Having the best manager will be important in this regard, as indeed can be having the optimum brand for the property and location. Assuming that the hotel is not being operated by the



Mauritius Hotel



Mozambique Hotel



Radison Nigeria

owner then it usually proves prudent to employ an asset manager to liaise with the operating company, to ensure the owners' interests are upper-most in the manager's thoughts. The asset manager will review performance, budgets, marketing plans, maintenance schedules and capital investment programs to ensure everything is being done to enhance the owner's returns. It is important not to allow basic repairs and maintenance to be neglected. If the property is not kept in good repair it can have 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.

Ensuring a smooth exit

When disposing of the hotel, an experienced specialist hotel agent will be best placed to secure a quicker sale at the best possible price. The agent must be competent in the specific location, with the type of property and with the type of structure being sold. Generally the

best agents will only work on a sole agency basis, to ensure they can fully control the disposal process, thereby enhancing the chances of a successful transaction.

It will also be important that the property is marketed to the correct people. There is no point, for example, in advertising a property to international buyers when non-locals cannot own property in that country. In addition, certain types of properties and structures attract certain types of buyers.

There is one final point to mention: if advising on hotel transactions over the past 15 years has taught me nothing else, it is that 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. It is imperative to the success of a transaction to be able to follow up such interest immediately to build the momentum in the transaction, so it can be pushed through to a successful conclusion. ■

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