



Checklist for selling your motel

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Checklist for selling your motel

The purpose of this document is to elaborate on some points raised in an article, [Preparing Your Motel for Sale](#), or can be emailed to you on request.

This checklist is not able to provide all of the answers in detail, otherwise it would need to be a book. The intention is to raise the questions which need to be asked, or bring to your attention some matters which need to be attended to. Some of these issues may require outside advice and your Broker at Coffeys is happy to assist in that regard.

A number of matters should be addressed, or at least thought about, well prior to the selling process. One question is, when should we start thinking about preparing for sale? The answer to that - from the day you take over.

Everything you do to improve the profitability and appeal of the business in terms of your own operating revenues and lifestyle will ultimately add value when the time comes to sell.

The categories for attention are broken into various sections. Broadly, these relate to the physical presentation of the property, matters relating to the lease (obviously not applicable in the case of a freehold sale), figures and accounts & profitability, pricing to go to market and the actual listing process.

The subjects are presented in more or less chronological order. The lease issues for example are best dealt with as soon as possible, as changes required to the lease (if any) can be problematic if left too late. Figures are of course always a work in progress and a good history is helpful there, so these need to be kept in mind all the way through your ownership in terms of ultimately selling.



Length

Is the length of the lease considered (by the market) long enough to be attractive? A good time to address the length of the lease can be at a rent review. This is one of the few times where the lessee has a bargaining chip and, if it is feasible to concede a rental increase, this is often a good time to try to negotiate a lease extension or at least a favourable option to extend the lease at an agreed price in the future. This can be a complex process and Coffeys are happy to offer further advice on the subject at the time. An article going into more depth on why the landlord should be inclined to extend the lease, other than just for payment is available at coffeys.co.nz/News-Articles/Lease-Values-Extensions/

Rent Review

Is a rent review due around the time of sale? You don't want to be in the middle of a rent review when you go to the market. As referred to in the Financial Information section below, keeping potential buyers waiting for any reason is not advisable. Buyers are not likely to want to go straight into a potentially contentious rent review at the time of purchase and possibly get off on the wrong foot with the landlord. The buyer also needs to know with some certainty what the rent will be and therefore what the profit of the operation will be.

Maintenance

If the lease has a maintenance schedule (which most of them do apart from some very old leases), is the building due for painting (interior and/or exterior) either at the time of sale or soon after? A purchaser or their solicitor may pick up on this when reading the lease, so if maintenance is required this may be factored in to the price they are prepared to offer. If it is going to cost you money either way, it may be better to carry out the maintenance or painting first and therefore enhance the look of the property which may result in a better price.



Maintenance Fund

Do you have a maintenance fund and if so is there any residual in the fund or has it all been spent? Depending on the type of maintenance fund and also the maintenance requirements of the property, sometimes there are significant funds in the maintenance account at the time of sale. If this is the case, it pays to point that out in your promotional material as it is certainly a selling point.

Right of Refusal

Most (but not all) leases provide for the landlord to have first right of refusal to buy back the lease at the time of sale. Have your lease checked to see what applies in your case. (Where this clause may be found in the lease can vary, so it is not always straightforward to determine.) The amount of time the landlord has to decide also varies, anything from two weeks up to several months. Hopefully, if the landlord does not wish to consider buying the lease back, they may provide an early waiver on request.

It pays to consult the landlord early (unless you have a reason not to), so that you know that they will be available to deal with this matter when needed. It is probably helpful if this request does not come out of the blue for them. The landlord needs to understand at that stage that the declining of their first right of refusal to buy back the lease is a separate process to their rights to approve the assignment to the buyer. (This is a separate subject and as part of the selling process itself is not covered by this checklist.)



Financial Information

Revenue and profitability are the key drivers of value and this may be the single most important aspect to get right.

Cash

To keep some cash away from the bank can be false economy in terms of the selling process. It seems fair to assume that cash taken out of the business is unlikely to be used to pay any of the expenses, perhaps with the exception of labour in some cases. It follows that whilst every dollar that is taken may equate to a small percentage of revenue, it could well be 100% profit off the bottom line. There are many factors which influence the rate of return applied to a business's profit to arrive at its value, in motels it is likely that every dollar of profit translates to anything from \$3.50 to \$5.00 of sale price. Sale price is generally treated as tax paid capital.

Operating Costs

Don't be too concerned about extraordinary or non-recurring operating costs affecting your bottom line for selling purposes. When presenting your business for sale your accountant or your motel broker will prepare an analysis of the figures in order to illustrate the profitability of the business under "average efficient management". This is not to attempt to enhance the picture unrealistically, but to bring if necessary the running costs into line with other businesses on the market which may not face some of your extraordinary costs. For example, motels are generally accepted as being operated by two full time working proprietors, with cleaners being employed as required. If one partner was to work elsewhere full time, the business would bear a higher than average wage cost and this should be factored back into the equation for sale purposes. (Additionally interest, depreciation, amortisation and any other non-cash items are generally removed from the equation in the sale of a motel.)



Financial Information

Accounts

Do you have a Statement of Financial Performance (Profit and Loss Statement) prepared for the end of the last financial year? If it is within a couple of months of your balance date (usually 31st March) then it would be understandable that a profit & loss report may not be available. Accountants can take considerable time to finalise their client's accounts and this is okay with IRD, but if you are going to the market to sell, it is not realistic to expect purchasers to proceed without the latest financial statements. Many motels operate under a computer cashbook system these days, so if a Profit & Loss Statement is not available then a draft Cash Flow Statement from the computer cashbook can be helpful as an interim measure. (Your motel broker should know how to present this information in a meaningful way.)

Up to Date GST Returns

GST Returns are not always that helpful in establishing expenses, this is because they will not include wages, but also they may include some capital purchases which are not necessarily operating costs. The GST Returns though are normally a fairly accurate indication of the total turnover of the business. There is usually no reason why the returns up to and including the previous GST accounting period would not be available. This is particularly important if you are well into your financial year and your balance date Profit & Loss Report is now getting a little old.



Financial Information

Monthly Occupancy Rates, Revenues & Room Yields

Most reservation systems are able to produce these reports. Purchasers love to ask about occupancy rates, it sounds like a very reasonable question. Some operators say “you can’t bank occupancy” and that revenue figures are all that matter. Having occupancy information does serve other purposes though. These include giving a good idea as to trends throughout the year and also the room yield and occupancy being achieved. A purchaser can sometimes determine whether they think there is room for growth of a motel business by assessing the relativity of the room rate achieved to the occupancy being achieved. Even if you don’t agree with this, our experience has taught us that it is better to provide genuine buyers with the information they ask for as this keeps them happy and keeps the process moving.

Have The Information Readily Available

This can not be over-emphasised. If the selling process stalls whilst awaiting information which is slow in being furnished, purchasers can at best start considering other options and in some cases become suspicious of the reasons for the delay. Whilst there may be no basis for such suspicion, perception is very important. If at all possible, have all of this information ready to go or readily accessible upon request.



Property Presentation

Property Maintenance

Most of the matters discussed to this point need to be thought about and taken care of in advance. The presentation of the property however can possibly be attended to closer to the time of going to the market, if such improvements are necessary. (On the other hand, enhancements to the presentation and facilities of the property are best implemented as early as possible during your ownership, in order that they may have a positive effect on revenue and profitability.) Minor defects seen daily by the operator can sometimes be overlooked, so ask your motel broker or even a regular friendly guest to comment on anything that could do with a tidy up. Particular attention should be paid to small but obvious defects which have a negative effect on presentation but can be remedied relatively easily.

Landscaping

Many operators understand that gardens and landscaping are high on the list of reasons why guests choose particular motels, so the presentation to a purchaser is equally important. Lawns, gardens and general exterior appearances can often be improved in a cost effective way and have a big influence on the overall look and feel.



Property Presentation

Owners' Residence

This is an aspect which is often overlooked by the business person, understandably because the residence does not generate any revenue. Apart from having an impact on your personal comfort, the presentation of the living quarters can have a big bearing on the purchase decision. It is unlikely that a purchaser will buy a motel business solely because they like the owners' accommodation, however it is not uncommon for a purchaser to decide not to buy the business because they feel that the residence is unsuitable. Certainly there may be aspects to the residence which cannot be changed or improved, but a think about any areas that can be, or at least presented in their best light. Good living and working areas are an attraction and if possible some sort of private outdoor area is desirable.

List your Improvements

Buyers may not notice what has been done to a property, but they do seem to observe what needs doing. Whilst there may always be things that need doing, it can be a good idea to keep a list of the improvements that have been made during your time of ownership and this could be updated as you go. The list may include improvements or enhancements and maintenance carried out, however it could also include non-physical items such as marketing initiatives, website improvements, networking arrangements or any other initiatives that will have a positive influence on the business.



The Listing Process

An article with a more comprehensive discussion on the listing process is available at coffeys.co.nz/News-Articles/Agency-Agreements, some main points are as follows.

Assessment of Value

Do you want to list your business or do you want to sell it? There is a difference. If looking for a totally independent opinion, a registered valuer's report can be very helpful, if it is provided by a valuer with relevant and recent experience in your particular industry niche. This will be an expense, but if the valuer's conclusions support your expectations it can be a very useful selling tool. This is optional though and a skilled and experienced motel broker should be able to provide you with realistic assessment of market value and back that up with recent sales evidence.

Obtain a Market Appraisal

Choose an agent or broker and ask them to provide a current market appraisal. As part of the listing process this is now a legal requirement under the Real Estate Agents Act 2008. Unfortunately it appears that this requirement is not always being met, so if your agent or broker is not providing you with an appraisal backed up with market evidence, then ask them why.

Don't be fooled by someone who tries to "buy the listing". Sometimes an inflated appraisal may be offered in order to entice the client to list with that agent or broker. This is something to be wary of as listing at an inflated asking price is likely to end in lost opportunities and frustration at best. The best opportunity to sell is when a listing is fresh to the market. Ensuring that an accurate market based appraisal is provided should to some extent regulate this.



The Listing Process

Type of Agency

Decide whether you are going to appoint a sole agent or go with general agencies. If providing a sole agency you need to be aware of when that agency expires and what steps are required to be taken should you wish to appoint other agents or brokers at some future date, assuming the property/business has not sold by then. (For more detail on this aspect, see the article referred to above.)

Signing the Agency

An additional REAA requirement introduced in April 2013 is that the agent recommend that you seek legal advice before signing any documentation. This applies to all matters pertaining to real estate, not just Sale & Purchase Agreements. You may wish to have your lawyer peruse the agency agreement before signing, but if confident of your own ability to understand the document, be sure to read it. Don't hesitate to ask questions if anything does not make sense.



The intention of this document is to provide an overview of the matters to be considered as far as preparation for selling and going to the market. The selling process is in itself a totally separate topic and presents more complexities and variations beyond the scope of these notes.

Any questions or comments on any of this information are always welcome. We are constantly looking for ways to add value to the industry, so if any suggestions can be received towards that end we would be happy to have them.

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