Bedding
DOWN THE MOTEL SECTOR

THE MOTEL SECTOR HAS UNDERGONE SIGNIFICANT CHANGE RECENTLY – HOWEVER, SOME STANDOUT SALES POINT TO POTENTIAL FOR GROWTH AND FOR ADDING VALUE TO THIS IMPORTANT ACCOMMODATION CATEGORY.

THE WIDER VISITOR ACCOMMODATION sector in New Zealand is currently in a state of flux given the economic and social implications of the COVID-19 situation.

These are not normal times and we are not back to business as usual – the sector's new reality is challenging for even the experienced operators but is not putting off new entrants to the market.

The yo-yoing between alert levels since March this year has not helped the sector as a whole, as uncertainty and mixed messaging over inter-regional travel has translated into cancelled bookings on top of the systemic loss of international traveller dollars due to ongoing border closures.

The motel accommodation sub-sector has a couple of different drivers at work outside of the pandemic handbrake, and while there are some evident inventory issues to be addressed, fundamentally, a motel's capacity to provide stable incomes for investors, landlords, owner-occupiers or operators – remains.

Wayne Keene, Bayleys' national director Hotels, Tourism & Leisure, says motel accommodation has been squeezed in this changing market but where there is change, there is opportunity.

"Motel businesses have provided reliable incomes to operators for decades and essentially, I don't see that changing now and in the future – albeit, there's a bit of dust to settle first.

"The fact remains that there is less available room inventory on a nightly basis now than there was two years ago and only some of that can be directly attributed to the pandemic fallout.

"There has been very little new-build development within the motel sector in recent years, largely due to rising land costs in key locations and a 'best and highest use' formula tending to dictate high-density residential for these sites.

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"Meanwhile, the availability of existing stock for the tourist and domestic holiday market has been markedly constrained by the Government's initiative to commission hundreds of motels nationwide into emergency housing as the public housing waitlist grows."

Keene says the biggest opportunities lie in new development of 4-star motel accommodation – where there is an identified gap in inventory – and in upgrading older motel properties that are showing signs of age to make them more profitable.

"New, high-specification purpose-built properties attract fresh business at the expense of existing facilities and contribute to rising room rates in those regions.

"Motel accommodation really resonates with independent New Zealander travellers in particular, along with those international tourists who favour the self-catering option with car parking at the door.

"However, so much of the country's motel inventory has been taken out of circulation for Government emergency housing initiatives which diminishes choice and given the economy and the social factors at play today, I think we have to accept that this is now a long-term reality."

Those existing motel businesses that have contractual arrangements with the Ministry for Social Development (MSD) will be able to capitalise on better occupancy, whilst achieving better revenue per available room (REVPAR) than otherwise likely with annualised market demand.

"But this more contrived occupancy will have a flow on effect downstream should the operator wish to sell the business, as funders are looking at emergency housing businesses quite differently to the more usual holiday or corporate traveller market-responsive inventory.

"Goodwill has always been an important and compelling part of a motel's return-on-investment equation and with emergency housing use, this is dissipating – or at the very least, clouding the issue."

Bayleys national director of valuations and advisory, Carl Waalkens, says purchasers will be pricing in the risk to future cashflows.

"If the Government agreements are only on a short-term basis, more weighting will be applied to the stability of future income streams.

"This will likely reduce the net profit multipliers pushing up yields over business transactions as purchasers' appetite for risk in the current environment dissipates.

"This could be somewhat offset by the low interest rate environment and limited high yielding investment stock available for well-capitalised investors.

Parklane Motel, Auckland


Brightwater Motor Inn

"From a valuation perspective, despite a lack of transactions to benchmark underlying assumptions, adopted yields and discount rates have trended upwards compared with this time last year."

Keene says those motels that have some rooms set aside for social housing and others for general public accommodation are facing a juggle that requires sensitive management in some instances and then there is the challenge around making-good any damage, which is covered by MSD.

Regardless of headwinds in the market, Bayleys has fielded strong enquiry and completed numerous transactions on motel land and buildings, motel going-concerns, management rights businesses and holiday park properties since the pandemic lockdowns

"There is investor demand and appetite and financiers have told me in recent weeks that for a deal to be backed, it would need to establish – along with the usual checks like up-to-date verified accounts – a report showing the allocation of domestic versus international travellers."

Keene says in the small-medium segment of the motel market, most interest traditionally comes from localised investors and buyers although, with the investor hunt for income in full swing around the country, they're fielding enquiry from other parts of New Zealand, too.

"HISTORICALLY, DOMESTIC TOURISM HAS HELPED SUPPORT THE TOURISM INDUSTRY THROUGH OTHER GLOBAL ECONOMIC DOWNTURNS AND WE EXPECT PENT UP DEMAND WILL SEE PEOPLE WANT TO TRAVEL."

WAYNE KEENE, BAYLEYS' NATIONAL DIRECTOR HOTELS, TOURISM & LEISURE

"In the motel sector, there's not a lot of interest from offshore and of the most recent 17 transactions the Bayleys Hotels, Tourism and Leisure team has done, only one was an offshore purchaser."

Four sizeable motel asset sales – one in Auckland and three in Taupo – completed by Bayleys Hotels, Tourism & Leisure after level three restrictions were lifted at the end of April, is a clear indication that investors and operators have confidence in the future of New Zealand's tourism accommodation sector.

The three-storey 32-unit Parklane Motor Inn on Auckland's North Shore was hotly contested and was eventually bought for $11.5 million sight-unseen by an offshore investor with existing property interests in Asia, Australia and Europe. Sited on 3,116 square metres of land, the new owner intends refurbishing the Motor Inn and improving its market appeal further.

In Taupo, the high-profile freehold land and two-storey buildings housing the 24-unit Karaka Tree Motel in Taupo sold for $2.8 million.

The commercial accommodation business (only) associated with the lakefront upmarket boutique motel business, The Cove, also sold – for a confidential price – with the lease in place until 2047; as did the land and buildings sustaining the 11-unit Executive Motel in the Taupo town centre with a 16-year lease in place.

Keene says Taupo has been a standout in the market both from an occupancy and sales volume perspective.

"Taupo can rely on visitors from Auckland and north, Bay of Plenty, Hamilton, Manawatu, and Hawke's Bay.

"There are around 2.4 million people to draw on in the catchment within a four-hour drive in any direction from Taupo.

"That's powerful and largely accounts for the upwards of 70-percent occupancy figures recorded in the Central Plateau region according to Accommodation Data Programme preliminary figures in June."

Keene says domestic tourism will need to prop up the motel sector in the absence of international visitors and with restrictions on nationwide movements relaxed, it is hoped that the corporate market will also return to the regions.

"Kiwis, by default, are certainly travelling internally in great numbers and as a consequence, strong occupancy rates were seen in the Bay of Islands, the central region, Queenstown and Dunedin motels once the country entered level one COVID-19 conditions.

"There was a hiccup nationwide as Auckland went back into level three as so much of the country's population resides in that extensive region, however, we expect occupancy to rebound as people feel more confident to book ahead and plan domestic trips.

"Historically, domestic tourism has helped support the tourism industry through other global economic downturns and we expect pent up demand will see people want to travel – firstly reconnecting with family and friends before moving on to purely leisure/recreational travel."

In the South Island's Nelson-Tasman region, Gill Ireland of Bayleys' Hotel, Tourism & Leisure team says there's a shortage of motel property and businesses for sale, fuelled partly by increased awareness of the region as a visitor destination.

"Initially, when the COVID lockdowns were imposed, some motelliers were quite worried and thinking that they wouldn't be able to ride out the disrupted cycle, but they're thinking twice now.

"June, July and August were great months from an occupancy and revenue standpoint as domestic travellers started moving about again, especially over the school holidays, and forward bookings were encouraging.

"When Auckland went back into lockdown in August, things stalled somewhat but I think Kiwis have a new appreciation for what is on their doorstep and, in the absence of overseas travel for the foreseeable future, they're exploring more of this country."

Ireland says the Nelson-Tasman region has traditionally been the favoured playground for Cantabrians but now, the appeal has spread.

"There's a real buzz around Nelson and people are discovering the benefits of holidaying here year-round.

"It's an easy drive to Marlborough, 1.5 hours to the Rainbow ski fields and an hour to the Abel Tasman National Park so lots of recreational bases are covered within a manageable radius.

"Plus, Nelson Airport has undergone a $32 million transformation making it a fabulous gateway to the wider region."

Ireland has been involved with some significant transactions in the last six months, including many facilitated during New Zealand's first-wave COVID-19 period.

Deals include the sale of the Brightwater Motor Inn as a freehold going concern; the sale of the commercial accommodation business associated with the Harbourside Motor Lodge; the freehold going concern Beachcomber Motor Inn near the beach in Tahunanui, plus another freehold going concern expected to settle mid-September.

"Investors in the land and buildings also recognise the inherent underlying land value associated with accommodation businesses which tend to be very well-located close to main infrastructure and attractions," says Ireland.

"This underpins the value of any business operating from the site and also gives some flexibility around future usage given the documented shortage of residential rental stock."

Ireland has also noted an upswing in enquiry from ex-pats and others domiciled off-shore who are looking for home and income opportunities and see a motel going-concern as a potential way to secure their economic future.

"It's a case of 'buying themselves a job' in many instances and with on-site accommodation part of most packages, it's a very appealing option.

"The low interest rate environment that we currently have is conducive to those looking to get into business – as long as the financials stack up and there's a solid plan in place going forward."


Karaka Tree Motel, Taupo

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GILL IRELAND, BAYLEYS NELSON


Beachcomber Motor Inn