

## PREPARING YOUR MOTEL BUSINESS FOR SALE

When we wish to sell something, it makes sense to present it in its best light. We would not normally try to sell a house or a car for example, without having it clean and tidy and attending to any minor but obvious defects. This will apply also to the sale of a motel and the physical presentation can be attended to close to the time of going to the market. On the other hand, issues relating to financial accounts, leases and any other types of documentation, need to be thought about in advance.

Most moteliers these days, operate by way of lease. The lease is obviously very important and defects in it can be most detrimental to the selling process. If examination of the lease is left to the last minute, it can often be too late to effect any desired improvements. Consult early with someone who has good expertise in your industry, usually either an experienced motel broker or a lawyer who more or less specialises in this area. It may be possible to rectify some shortcomings in the lease. We often find it frustrating for example, when we are approached by motelier with a relatively short lease to sell, who has recently undergone a rent review. Landlords rely on rental increases to improve capital value. The rent review is an ideal time to bring in the length of the lease, or other matters, as a bargaining chip in the review process. Often a good deal can be struck to lengthen the lease in return for conceding a rental increase (assuming that it is viable to do so). Once the review has passed, the opportunity is lost. There are a number of other issues relating to leases, the scope of which is beyond these notes, so an expert eye at the early stage may bring to your attention issues which need addressing.

Financial performance is the main criteria for valuing any business. The bottom line profit is the main element which determines value. It is often heard when selling that a certain amount of cash has been taken out, "so really the picture is better than it looks". This usually has little if any influence on a purchaser and none on the purchaser's accountant, valuer and bank. Cash taken out may be a small percentage of revenue, but it is a much larger percentage of the profit. Whilst it seems attractive to save GST and income tax, it may be false economy. The value of motel lease is usually based on a capitalisation rate of 20% to 25% of bottom line profit. (There are a number of variables which determine the exact rate.) This means that every dollar of profit is multiplied by four or five to determine the value of the lease. So think ahead and start thinking about the bottom line.

Keep a record of recent improvements to the business, be they physical improvements, or promotional and marketing initiatives put in place. These could include website development, networks set up with other operators or wholesalers and anything which may enhance future prospects. People looking to buy usually only see what needs doing and are oblivious to what has been done. It pays to bring it to their attention.

Finally, think about anything which may cause a hold up in the sale process. Have all of your documentation ready, including statements of financial performance, GST returns and, if a part way through a financial year, recent trends as they relate to the comparable period in the previous year, especially if those are upward. Your motel broker will always try to paint the latest and greatest picture, assuming it is heading in the right direction.



Consult the landlord. Even if this is not legally required in the early stages (which it usually is), it is a courtesy and paves the way for a smoother transaction later on. If purchasers are kept waiting too long for vital information it can be off putting and many times the sale collapses before the information is available. One excellent document to have on hand if possible is a valuer's report on the business. Assuming this supports the asking price, it is helpful to have an opinion from an independent person supporting what is on offer.

Remember a business will undergo a great deal of scrutiny from the intending purchaser and their professional advisors. It pays to keep this in mind when thinking about how it will be presented.

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For further information on how we can assist you in selling your business, contact Coffeys anytime on 0800 263339 or [info@coffeys.co.nz](mailto:info@coffeys.co.nz).

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