“Room to improve”: achieving a successful sale of your accommodation business.

With New Zealand’s booming tourism sector, and despite the impact of Air BnB, the country’s accommodation occupancy rates have been steadily growing in recent years. (Latest figures from Stats NZ show national guest nights were up 4% for the year ended May 2017 – with growth occurring across all 12 regions).

This makes it an attractive time to buy, and therefore sell, your accommodation business.

In this article, KPMG Senior Manager Suneil Connor outlines some key considerations when preparing for sale.

What’s unique to this market?

While most of the general principles of selling apply to accommodation businesses – there are a few special considerations. For instance, the majority of accommodation businesses are leasehold properties rather than freehold.

“It’s absolutely critical that you have everything in order when it comes to your lease agreement,” says Suneil.

“A secure and well-structured lease, with a decent period left to run, will be one of your strongest assets come sale time.”

The other key issue is seasonality. Not many accommodation businesses have rock-steady occupancy all year-round; there are usually marked peaks and troughs according to the seasons, holiday periods, special events etc.

“Your prospective buyer will want to understand the full picture regarding seasonal occupancy; as this will impact the level of working capital they’ll need coming into the business.”

Here are some key areas to focus on:

1. Financials.

“As with any business sale, purchasers want clarity around what they are buying,” Make sure you can present clean and normalised accounts for at least three years.” says Suneil.

One of the first things a purchaser will ask is about your occupancy rates and trends – so it pays to be well-prepared.

“We suggest you provide a simple table which shows your different room types, prices and occupancy; which the buyer can verify as part of their due diligence. As well as getting an insight into room yield and occupancy rates, the buyer will be looking for opportunities for growth.”

Another factor that may come under the spotlight during due diligence is whether your point-of-sale booking system matches your profit-and-loss statement. Any undeclared cash payments could be detrimental to the sale.

Finally, if you own living space is on the same premises as your business, your annual accounts will factor in the “cost of domestic establishment”. For sale purposes, normalised accounts would exclude this figure.

2. The lease agreement.

The terms of your lease will be critical to a buyer. (So even if you’re not thinking of selling in the near future, you should bear this in mind each time you re-negotiate the lease).

“Don’t leave this until the last minute,” advises Suneil.

“With specialist advice, you may be able to rectify any shortcomings or negotiate a more favourable lease agreement.”

Ideally, at the time you present your business to the market, your lease will still have a reasonable time to run. At the very least, it’s a good idea to have a letter of intent from the landlord that indicates their willingness to renew.

In addition, your buyer will want some certainty around future rent costs.

“Again, that’s a matter of timing. You won’t want to be in the throes of a rent review negotiation while your business is on the market – and your new buyer won’t want to step straight into that either.”

5. Staffing.

There are a couple of specific considerations relating to staffing for accommodation businesses, says Suneil.

For instance, it is generally accepted that motels are operated by two proprietors, who work in the business full-time; with cleaners employed as required.

"So if you were paying a manager to run the business, that would be considered an extraordinary expense, and we would remove their wages from the equation when assessing profitability."

Under New Zealand employment law, people who work in cleaning, catering, laundry and care-taking are classed as 'vulnerable workers'. This means they have the right to transfer over to the new business owner/employer on their existing terms and conditions. Be sure to understand the obligations to your staff when it is time to sell.

6. Management rights.

Finally, there will be additional considerations – and potential complications – if your business is under a 'managed apartment' structure, where the apartments are part of a letting pool.

The body corporate may have the power to veto a potential sale; or individual title-holders can pull their apartment from the letting pool.

"Good communication is critical in these cases," says Suneil.

"Make sure you've established good relationships with the unit title holders, and the body corporate Chair. Let them know at an early stage if you are thinking of selling, and keep the lines of communication open."

Your pre-sale checklist:

- Can you present a set of clean and normalised accounts for at least three previous years?
- Will your current lease be attractive to the market (and if not, can you rectify it)?
- Can you provide a spreadsheet showing your occupancy rates (and yields) by room type?
- Does your point-of-sale booking system match your profit-and-loss statement?

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