Whether to purchase a

Leasehold Motel Business

or a

Freehold Motel Business

Your decision will be influenced on the information given to you. ***The most important factor is to have that information verified***. If the financial figures show a poor yield being below the industry averages it is obvious that the asking price is too high. This area should be referred to an ***experienced financial advisor*** to assist you in analysing the potential of the business.

Finance or borrowing structure is important and is geared with the returns. To successfully finance any motel I believe you ***must not borrow beyond 60%*** of the purchase price. (Some Banks will lend up to 40%-50% of the value of leasehold) The motel must be able to pay off a 10 year loan period – **very important.**
If the business does not produce the required net return to meet your financial situation you should not proceed any further without specialised advice.

When you buy a freehold motel you are buying a registered title and business. Buying a leasehold ***is buying a lease*** being the business usually prepared by the Lessor's Solicitor. This document is open to interpretation and ***you require an experienced Solicitor to make sure the conditions of the lease are in keeping with the business sold.***

The main points to look for are term of lease, ***option to purchase***, annual rent increases to CPI and ***reviews to market every 5 years.*** If there are no reviews to market, say every 5 years and the lease is subject to CPI the rental could grow out of proportion to the net profit. In some country towns the motel income cannot meet the CPI growth and every 5 years this is adjusted to that factor. If trading drops due to bad management no concession can ever be allowed for that.

Why buy a leasehold?:
For the high return on the money invested. You can earn in excess of 28% net return for your efforts. Some coastal motels have sold for a lot less than this on a lifestyle dream. I believe 22% net should be the minimum for a well maintained Coastal motel.

You purchase a lease for any number of years, usually the full term of an original lease is 25 years. The leases are usually drafted in 5 x 5 year terms to reduce the impact of Stamp Duty.

By purchasing a lease, in most cases you ***inherit every cost as if you owned the freehold***. The only thing you don't pay for is the structural repairs or maintenance of the building and site.

When you inspect the motel do it in accordance with **"Motel Inspection Guidelines"** you have to assess the financial aspects of the motel.
Refer to our special Assessment Report, which is provided when you choose a motel to purchase.
The following safeguards should be assessed when considering a purchase of a leasehold motel:

1. **The annual rental must be less than 47.5% of the freehold net profit.**
2. Confirm that the expense ratio to turnover is within the accepted range stated in the report
3. Ascertain the net yield to be in excess of 22% Coastal and 28% Inland
4. We provide a report in "Assessing a Leasehold Motel Rental" showing growth patterns of an acceptable lease.
5. Remember in some cases the lessee reimburses the lessor all lease transfer expenses. In our new leases we recommend that the lease preparation costs be split between the parties
6. **If the motel does not have a proven annual growth of at least 1.5% the CPI growth of the rental will reduce the net profit after rent. Refer to "Assessing a Leasehold Motel Rental Report"**

If you have got this far and you decide to purchase the next level is a **"physical and financial due diligence"** whereby a person of accounting and motel experience is summoned.
RD 2/7/05

If you do your homework motel leaseholds will work for you