



OUR VIEWS

Those of you with cash that you want to get a better return on than putting it in the bank, may be considering purchasing a motel. Motel investment is more complex than typical residential or commercial property investments and for this reason more frequently requires the skills and research abilities of an expert.

A motel is a business and property investment that has three different forms of ownership;

1. The land and buildings with an entitlement to receive rental for the term of the lease.
2. The lease of the motel business (leasehold interest) that includes; chattels, fixtures and fittings and goodwill. The lessee pays a rental under the terms of the lease to the owner of the land and buildings.
3. As a going concern property investment that includes both 1 and 2 above.

As a marketable property, motels are traded on their ability to produce income. Maintaining the return on investment and value, is dependent on getting the optimum rent possible when this is set and reviewed.

Leasehold interests (2 above) are the most frequently traded. An important part of the motel's profitability is making sure the expenses are realistic, as the more profitable the business the higher the sale price and value.

Motel performance varies greatly due to factors such as; the lessee, location, age of the buildings and their condition, occupancy rates, the lease term, the management of expenses, food and bar facilities, and the lessee's expertise and approach to managing the business. Setting a rental requires a clear understanding of these influences and how they can be applied. Operating expenses and rentals are not publicly available and obtaining this information requires contacts within the industry. They provide information that forms the basis on which rents are set. Understanding this information is necessary so that the value of a motel business can be accurately assessed.

Andrew Hyder, our specialist motel valuer, with clients all over the Lower North Island, has acquired considerable skill and knowledge about the motel business over the past 18 years. In this time he has built a wide network of contacts and a database of motel information that is essential in working out what are fair rents, purchase prices and current market values across the three facets of motel ownership. He is increasingly being used for valuations in this area and in fixing and negotiating motel rentals.

Motels can be rewarding investments and businesses, but not all are. If you are going to be involved we highly recommend using a Registered Valuer familiar with this sector of the market. Their research should be able to help you with industry trends, prices, rents, profitability of a motel lease, and a surprising amount of detail on the key success factors in this industry.

Appraisal Property Consultancy Limited

Registered Valuers
Property Consultants

6 Burgess Road
Johnsonville
P.O. Box 13 608
Wellington 6044

Phone: 04 939 6346

Fax: 04 939 6349

E-mail:

contactus@appraisal.co.nz

WE'RE ALSO ON THE WEB
WWW.APPRAISAL.CO.NZ

(BOOK YOUR VALUATION ONLINE)

OUR SERVICES

- Current market valuations & Mortgage valuations
- New & existing residential
- Apartments
- Commercial
- Industrial
- Motel, hotel & motor camp
- Subdivisional land
- Rural lifestyle blocks
- Reinstatement Insurance
- Project management
- Strategic property advice
- Property portfolio management
- Acquisition & disposal expertise
- Specialist tenancy and property negotiations



Brian Mudge
Director
Registered Valuer
DDI: 04 939 6348
MOB: 021 226 3630
brian@appraisal.co.nz



Andrew Hyder
Registered Valuer
DDI: 04 939 634
MOB: 021 470 442
andrew@appraisal.co.nz



Max Meyers
Registered Valuer
DDI: 04 939 6352
MOB: 027 283 3830
max@appraisal.co.nz



Hilary Johnson
Administration Manager
PH: 04 939 6346
hilary@appraisal.co.nz



Diane Horton
General Manager
PH: 04 939 6346
MOB: 021 317 788
diane@appraisal.co.nz



Appraisal is proud to be a member of Valgroup.

Valgroup is a New Zealand wide network of independent valuation and property consultancy practices.

Uniting over 60 property professionals in 23 offices across NZ, no matter where your property project is based Valgroup can assist with valuations and consultancy.

Valgroup can also work across national property portfolios to ensure that you are getting local knowledge and experience of the market.

Through this affiliation, Appraisal has access to current market information no matter what the level of enquiry - be it an oyster farm or a Mega market.

MARKET COMMENTARY

Last month we reviewed the prospect of the Wellington residential market bottoming out and the change from the decline of 2007/8. This month the QV and REINZ information confirms this trend is underway, even if we are not out of the woods yet.

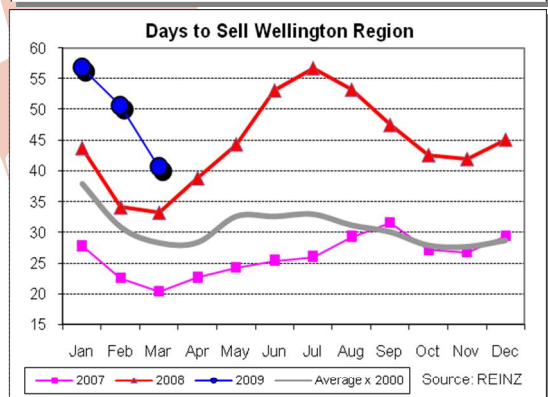
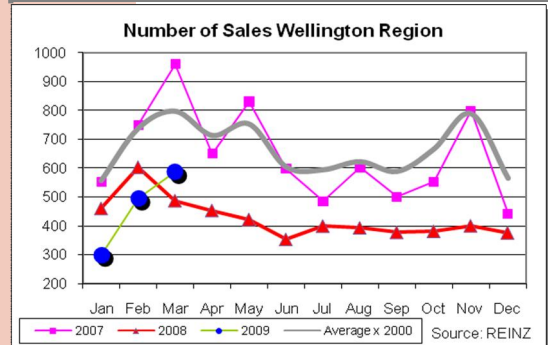
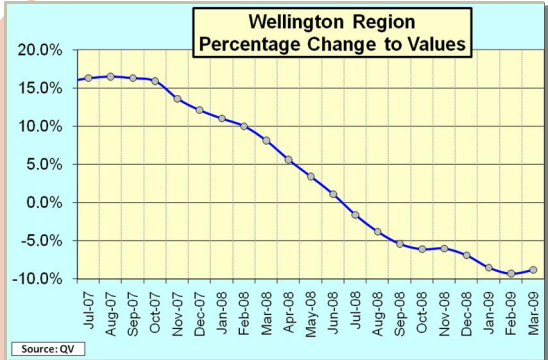
The decline is well measured in QV's chart, but the important clue is the hook+ that has developed in the last two months. Because these figures measure change over the last year they muffle what's happening now. The hook is starting to look significant as it starts to head out of the decline.

The Real Estate Institute figures are more revealing. They show a pattern is evident nationally, but in Wellington some areas appear to be further into the change.

This month the increase in sales and the decline in selling times is pronounced and continues last month's trend. While still below normal levels they are heading past where we were last year.

March typically has a high number of sales and the quickest selling times. Unlike last year, the market now is more closely followed the typical year trend, a considerable improvement on overall results from 2008. There are differences between areas, e.g. Western Wellington has a lower number because of what appears to be a shortage of listings.

Selling times are an important measure of the demand for property and therefore the strength of the market. In the chart opposite the start of the decline was in July/August 2007 when the days to sell started increasing against the trend peaking in August 08 and again in January this year. These times are now heading back to normal with some areas showing this very strongly. Western Wellington was 57 days in January, 32days in February and 22days in March.



Taking the trend from these three measures and at the local level, together with our local knowledge, we believe the market is clearly indicating a change from the recent declines. Over the next few months we expect many, but not all areas or market sectors to bottom out.

VALUING WHAT'S NOT THERE

We are often asked to value property to finance a project where the owner or bank want to know what it will be worth when it's finished. This is known as valuing on an "as if complete basis". Most frequently this is for a new house, but also includes extensions, alterations, and even landscaping. For commercial property it could be to extend the office area or build a new warehouse.

There are a few points to bear in mind in these situations that help to understand the valuation.

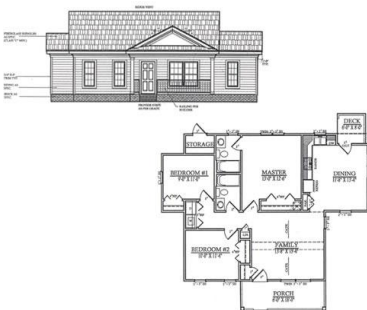
The valuation can be done before or after the work has started and it is assumed that the work is completed. The valuer needs a clear definition of the work to be done (preferably from plans and specifications of the proposed work). The valuation is at the date the property was inspected.

Before and after valuations will tell you the added value to the property. If the cost is significantly higher than the added value the project may not be viable and this is a very useful check to make.

The cost/value balance can be improved by careful cost management. Using high cost fittings can add substantially to cost but not to value. Conversely cheap fittings may detract.

Once the valuation is completed, we can report on progress. This is the "before" value plus the proportion of value added by the work completed as at the date of inspection. It does not account for the new market conditions, just what has been put in place.

At the end of the project we should be asked by the lender to confirm the job has been completed according to the original plan on which the valuation



COST OF BUILDING, VS THE VALUE OF WHAT IT WILL BE WORTH WHEN BUILT.