

Courtesy of : [acomnews](http://acomnews.com)

Motel Passive Investments

Monday, 12 December 2011 06:41

Written by Andrew Morgan, Queensland Tourism and Hospitality Brokers



There was a time not so long ago when only previous motel owners or operators were interested in considering motels as passive investment opportunities.

They knew the industry, they understood how a motel was operated and they knew travellers always require accommodation, no matter what the reason for their travel was, work, leisure, etc. The wider investor market had not considered investing in motels and not having any history or dealings within the motel industry was not all that interested.

The late 1990s saw interest building in the motel industry as a passive investment opportunity from the broader market. Investors, who had previously invested in residential, commercial or industrial properties, were now looking at the benefits a motel investment offered and asking themselves why they hadn't considered a motel sooner.

Some of the benefits that attract the interest of the investor market are:-

- **High investment returns** – Investors have achieved excellent returns on passive investment motels over the years. Market net returns on passive investment motels are currently at about 9% - 9.5% on capital invested. Interest rate increases over the past year have affected these returns which had been as low as 8% – 8.5% in and around 2008. Interest rate increases previously had resulted in upward pressure on these yields however demand for motels now is keeping yields relatively stable at present.
- **Low risk factor** – Motels have proven themselves over the years to be very low risk investments. Solid and consistent occupancy rates and moderately increasing tariffs in most areas have resulted on the back of growing demand for accommodation. There have been only a handful of motel businesses that have been in the hands of liquidators since the mid 90s confirming their resilience and strength of the wider Queensland accommodation industry.
- **Fully tenanted** – Further on from the last point, one way or another, a motel property that is leased almost always has a lessee. If a lessee/operator was to close the doors of the business the mortgagee would almost always appoint an operator to reopen until the business was sold. I can only recall seeing a motel without an operator once in the past 16 years and it was reopened within a week by the liquidator. That is a very good record for any industry.
- **Freehold tenure/increasing land values** – Freehold tenure and the ownership of a tangible product, being a commercial property. Motels are generally located on busy main roads that are inevitably valuable blocks of freehold land.
- **Solid building structure** – Motels are typically of brick/block construction and this type of structure requires minimal ongoing works.
- **Outgoings** – Generally within motel leases the lessee pays all outgoing. Outgoings paid by the lessee include, but are not limited to, property rates, insurances, repairs and maintenance and electricity. Leases were originally set up this way so that the lessee had control of his/her own business and did not have to go to the property owner every time they needed a light bulb changed. The lessor may be responsible for a few items such as land tax (unless included as an outgoing) and structural repairs. This of course is different for each property as it depends on what the terms of each lease are.
- **Building allowance/tax benefits** – Relatively young buildings or those that have undergone major refurbishments (capital works) will have some level of building depreciation or write off allowable. Typically a hotel, motel or guest house may be written off on the basis of either 2.5% or 4% per annum over a set time period. Therefore if construction costs/capital works were \$1 million then the annual tax benefit may be \$25,000 - \$40,000 in this example. This will vary for each property however the tax benefits in many cases can be of major benefit to the property owner.