OWN A ROOM IN YOUR FAVOURITE BRANDED LUXURY HOTEL

SECTIONAL TITLE OWNERSHIP PROVIDES AN OPPORTUNITY TO OWN INDIVIDUAL ROOMS IN A HOTEL WITHOUT THE RESPONSIBILITY OF OPERATING THE HOTEL

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Ever fancied a room at the Ritz or the Fairmont? Well, increasingly people around the world are able to own their own hotel room. Sectional Title Ownership provides the opportunity to own individual rooms in a hotel, but not the responsibility of operating the hotel on a day-to-day basis.

Sectional Title Ownership

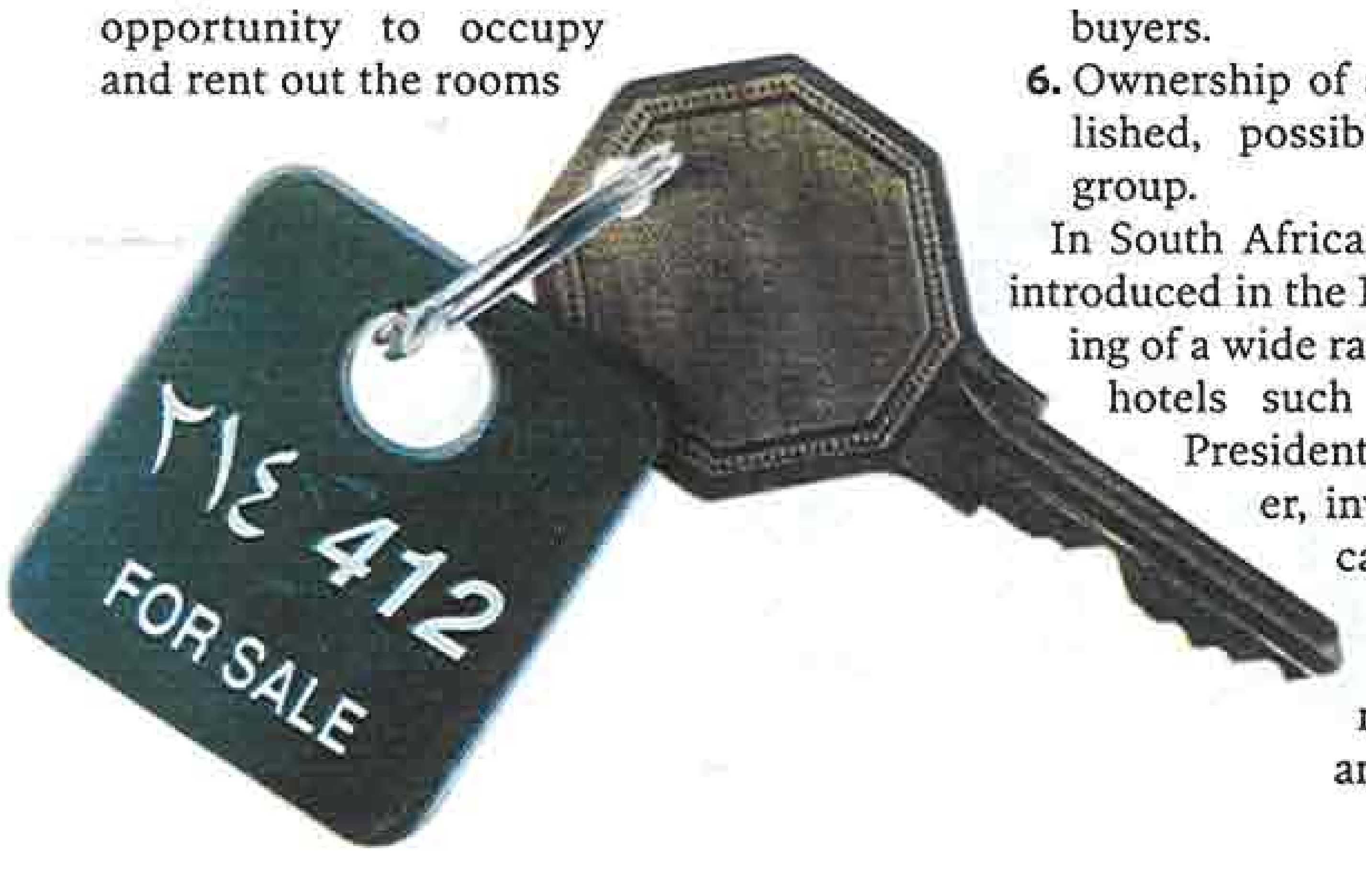
The idea behind sectional title development is that a hotel is divided into sections (rooms), which are available for sale by way of sectional title. The common property — such as stairways, public areas and lifts — will be owned by all section owners equally. In addition there are exclusive use areas, which have been demarcated and may only be used by the owner of a particular section, for instance, parking space.

But here is the attractive difference to a serviced apartment — the section title owner enters into usage and "rental pool" agreement with the hotel's operator who rents out the rooms on a daily basis.

The Concept

Investors in these schemes are not only interested in a good return; they also invest in a leisure "lifestyle". The room owner invests in a sophisticated hotel, with quality design, excellent facilities and service standards in a deluxe, four- to five-star hotel environment.

The properties are most likely boutique hotels or branded. The target market in terms of ownership would include wealthy, trendy and fashionable adults, couples and retirees, often with an interest in design, art and media. The developer can sell off the hotel property rooms based on long leasehold, which offers the room owners the opportunity to occupy and rent out the rooms over a long period.



The crucial elements in the contract for a sectional title would cover areas such as rights and usage of the room by the owners, mechanisms for service charges and rental revenues. The main contractual elements for owning a hotel room would include:

1. Type of contract (leasehold).
2. Selling price of room.
3. The standard of furnishing and equipment of each room.
4. Ability to resell at any time.
5. Usage rights of the owner, for instance 30 to 52 nights based on a points system. Each day of the week is allocated points, as there are varying patterns of occupancy.
6. Rental income, which could be between 25 to 50 per cent for each room.

There will be service charges for use of the room by the owner, annual fee, which will be levied for major works, and annual ground rent (leasehold).

The financing model is investor-friendly, as investors are not levied with monthly fees such as management, maintenance or replacement fees for fixtures, fittings and equipment (FF&E). Thus, after paying the purchase price, the investor has limited (annual) expenses.

In certain cases, some properties may guarantee a fixed annual income return from the hotel rental, regardless of the actual income and occupancy. The investors will therefore know in advance exactly how much they will earn, which in turn eases financing.

In short, the sectional title ownership gives the room owner:

1. A good return on investment.
2. Projected capital growth.
3. Projected income growth.
4. Significant savings on hotels.
5. Potential tax benefits for overseas buyers.
6. Ownership of a room in an established, possibly 'branded' hotel group.

In South Africa, sectional title was introduced in the 1990s with the opening of a wide range of sectional title hotels such as the Peninsula, President and Bantry. However, investors suffered because developers were overly optimistic about future returns (occupancy and room rates). In addition, those that borrowed heavily had to endure high interest rates translating into higher monthly mortgage repayments. In recent years a more investor friendly model has been introduced with minimum guarantees and no hidden charges.

For instance, the new four-star Island Club Hotel self-catering units, managed by Protea Hotels, cost between $111,000 and $237,000. The investors will earn a guaranteed rental of 5 per cent per year (net) for the first three years, regardless of the hotel's actual occupancy and four weeks free accommodation per annum.

In the UK, GuestInvest entered into agreement with Alias Hotels to offer 153 hotel rooms for sale at three different hotels in Cheltenham, Exeter and Manchester. The starting price for a hotel room is $254,000 on 99-year lease. The owner receives 45 to 50 per cent of hotel room income and can stay up to 52 nights a year for just $36. The table at left outlines a generic financial projection for the stablised year for a hotel by GuestInvest.

Will this phenomenon enter the Gulf region? Middle East Strategy Advisors (MESA) knows it already has, and believe that it will expand in the future, especially when the UAE introduces its new property law, which is expected soon.

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MODEL FOR A GUESTINVEST SECTIONAL TITLE OWNERSHIP

STABILISED YEAR US$		
ASSUMPTIONS		
Days in Year		365
Owners used nights		52
Room rate		253
Owners room night fee		-18
Ground rent		-453
CAPITAL EXPENDITURE		-905
Occupancy level		75%
% of revenue due to Owner		50%
Available room nights		274
Investment in room		425,350
CALCULATION		
Net room revenue generated		69,368
Revenue due to owner		34,684
Add: Opportunity Benefit from own use of unit		(941)
Total benefit to owner		(453)
Capital expenditure allowance		(905)
Net cash flow to Owner		32,385
Add: Opportunity benefit from own use of unit		13,177
Total benefit owner		45,562
Cost of room		425,350
Total cost		425,350
No Gearing - ROI		10.71%
EFFECT OF ADDING DEBT		
Level of debt Financing	65%	276,478
Equity	35%	148,873
Purchase price		425,350
Cost of debt financing assuming a rate at	5.5%	15,206
Geared (pure case flow ROE)		20%