Article Title
Hotel operator motives in UK sale and leaseback/management-back transactions

Citation

Abstract
Sale and leaseback has become a major financing method in the hotel industry in the UK over the last 10 years, followed more recently by sale and management-back. This article, using interviews with current practitioners, examines the motivations of owner/operators in adopting these methods, identifying differences from generic motives in previous literature relating to the subject. It finds that, because of the integral part that hotel properties play in the delivery of customer service there are differences of opinion on the benefits of such an approach and there is a need to adopt some different considerations in the decision to use this method of funding.

Methods
15 interviews were conducted. Interviewees included 6 senior executives, 3 investors in hotel property, 3 real-estate consultants, 2 lawyers specializing in the hotel industry, and 1 industry financial consultant. The choice of participants was purposive (*Saunders et al.*, 2003, p. 175).

Results
Almost all participants emphasised the pressure on quoted companies to separate property from operations confirming previous findings. This possible motivation seems to be less significant in the hotel industry. One participant suggested that, at least for the larger companies this was a motive in some of the earlier deals, but that later deals were more strongly influenced by the market pressures noted above. An examination of the patterns of transactions and the press releases of some operators suggested that they had come to share the market's view that separation of ownership and operation might be a viable operating strategy rather than just a funding issue. A variety of investors are entering the SLBT market and in this sense there is an opportunity to broaden the sources of funding. There was something of a divergence of opinion on this motive. Respondents from a real-estate background consistently reported that they were able to make sounder decisions regarding property, generally supported by banks and other investors. The hotel industry seems to differ from others in this respect. Hotel operators see location and presence in a market as a key strategy and seek long-term occupation. A number of participants pointed to the availability of funds for both SLBT and SMBT. A surplus of investment funds in Western economies and the uncertainties of the stock markets caused a search for safer homes and property ownership was seen as one of these. Hotels became a more profitable target for such funds. Participants reported that the
availability of such cheaper and affordable funds were one of the attractions to adopt SLBT, one company recently achieving multiples in excess of 20 times rent for standard leases.

**Conclusion**
The above analysis indicates that the motives suggested by Barris and others in other industries, whilst comprehensive in their coverage, could usefully be amended for an examination of the UK hotel industry. The changes are to some extent related to changes in the market over the last 4 years, others to the nature of the hotel industry. In particular, the increasing familiarity with SLBT and increased pressures from the market have led to a greater willingness to adopt these methods. This has combined with changes in the accounting rules and increasing sophistication of market analysis, that have made one of the main motives, improved gearing, for their adoption to be less relevant. However, the nature of the hotel industry and the relative importance of the assets themselves have resulted in a difference of emphasis in the motivations of hoteliers. Flexibility of occupation has less importance for them, rather the reverse. The main motives for adopting SLBT/SLMT have been found to be focussed on two key areas. Firstly, it has been pressure from the stock markets to improve shareholder value through an arbitrage of separate values and to return funds to shareholders. Secondly, operators have achieved cheaper funding as lease funds have become more attractive than borrowings due to their increased supply in the market. These two motives could be said to be common to all industries, though the capital (property) intensity of the hotel industry, as noted, makes them more pertinent. The use of management contracts seems to be specific to the hotel industry. The motivation for operators is partly strategic in separating property from operations, but also it provides more stable income flows and less risk. They effectively avoid the OBS financing problems noted earlier since the debt is removed from the company and not just the balance sheet, though variable rent clauses can also take SLBT funding, at least partly, off the balance sheet.