

Introduction

Welcome to the latest issue of MBA Focus, in which we cover the rise of online sales and the affects of the recession on the hotel industry.

In our first article, Neal Weekes analyses the growth in online sales and offers his viewpoint on why they are here to stay.

I am pleased to welcome the Head of Edward Symmons Hospitality and Leisure team, Nick Boyd, who makes a guest appearance in MBA Focus to present an overview of the effect of the recession on the hotel sector, and as always we include a whistle stop tour of MBA activity across the country.

Finally, we wish you all the very best season's greetings from the MBA team at Edward Symmons.

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Onwards and Upwards for Online Sales

Edward Symmons has experienced exponential growth in online auctions, holding 96 auctions online over the last year, up 61 per cent year on year. We estimate that the ratio of online to physical sales now sits in the region of fifty to one.

This growth has undoubtedly been accelerated by underlying economic factors, but it is underpinned by practical benefits which will ensure that the trend towards online auctions continues.

The major economic factors that can be seen to have contributed to the speed of the plant & machinery industry's adoption of online auctions are as follows:

There has been a sharp increase in demand for second-hand machinery with buyers from all sectors, even distinguished multi-national companies, reconsidering the second-hand option. This is both due to the increasing pressure to cut costs and to an increase in the availability of newer, higher-quality, second hand machinery on the market as a result of administrations.

The significant increase of machinery on the market as a result of insolvencies has also driven the timescales of machinery sales.

Although we continue to receive instructions from companies that are relocating, there has been a marked increase in instructions from administrators and liquidators, looking for a timely and efficient return.

Online auctions tap into a growing international audience attracted by the weaker pound. Interest from both European purchasers and emerging markets is sustaining values in second hand machinery where UK sales figures have diminished.

However, as powerful as the broader economic factors have been in accelerating the conversion to online auctions, they are unlikely to last forever. So what makes us so sure that online auctions will continue to make up such a dominant volume of machinery sales activity? We believe that the practical advantages which online auctions hold over onsite will ensure that the popularity of online auctions continues.

The practical attributes which have facilitated the shift to online auctions include: the increasing familiarity of online auction systems; the trust which auctioneers have built in the accuracy of their lot descriptions; and the intrinsic benefits online auctions hold for vendors. For example, having run online auctions for over 3 years, we now have targeted sector-specific UK and international databases, allowing us to market specific kit to the right people and secure quick, effective sales.

There are threats to confidence in the second-hand machinery market at the moment. Although prices for second hand-equipment have generally remained strong, the market is becoming increasingly volatile as specific sectors are affected by the ebb and flow of larger insolvencies flooding the market with second hand equipment.

Lack of finance is also an issue, with lenders favouring some sectors over others and, regardless of sector, certain big lot sizes that require external funding can struggle to secure a lender. However neither of these factors are linked to or affected by the move to online auctions.

There will no doubt always be onsite auctions, as the features of some asset classes necessitate onsite viewing. However online sales are not a passing craze, they represent a more efficient and effective vehicle for selling static plant. The auction houses that build the confidence of vendors and purchasers in online auctions, and who use and build strong and targeted international databases of purchasers, will fuel and support this market for UK machinery sales long after the current recession.

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What's been keeping us busy?

Corporate Recovery North West has managed the online auction of the assets of Embassy Racing, recouping more than £500,000 on behalf of KPMG. The sale, which took place in October, comprised 222 lots including four Le Mans prototype racing cars and a GT.

MBA Plymouth has secured the sale of five radio stations operated by South West Radio to Your Media Communications Group on behalf of Kirk Hills of Exeter. The team is also currently appointed on two other strong MBA cases: to sell the food manufacturing plant and machinery of Riviera Desserts, including a 4,500 sq ft production facility for Uniq Plc; and to sell a 160 year old horticultural nursery business, based in Somerset.

MBA London has sold a road sweeping business, Kent Sweepers Ltd, on behalf of Moore Stephens to three parties: one bought the business, the leased items and the goodwill of the contracts for £100,000; A sale of the business for the owned fleet has been agreed for £375,000 and an online sale was also held for the residual sweepers which sold for a total of £268,000 with private treaty sales of £73,000.

We assisted JCB finance in selling their fleet of telehandlers for circa £2.3m.

We also sold Forward Forklifts, a forklift truck rental business, for £110,000.

The Valuer's Perspective

Nick Boyd, Head of Edward Symmons Hospitality & Leisure team, considers the impact of the economic downturn on the hotel sector.

The period 2000-2007 saw a dramatic escalation in hotel values fuelled by increases in hotel earnings, a ready supply of relatively cheap debt and a broadening investor base. The nature of deals also changed, to include leased and managed hotels as well as unencumbered operational entities.

The market peaked in mid 2007, since when commercial properties have generally fallen in value by close to 45% (source: IPD). Over the same period, hotel values have fallen by between 30%-40% but continue to fall, albeit it at a declining pace, on the back of declining earnings. Leasehold interests in hotels have been particularly hard hit, with the value of many short leasehold hotels (those with an unexpired term of less than 35 years) all but wiped out.

Historically the hotel market had been viewed as cyclical and this factor was reflected in the returns investors sought and the rents hoteliers were prepared to commit to. However, as the economy continued to enjoy year on year growth in GDP, so many parties became convinced that cyclicality was no longer a material issue. For this reason, the risk profile of trading assets was largely ignored and bids for hotels were generally based on aggressive trading forecasts that only ever went up. Debt was readily available and by the time the market peaked, loan to value ratios of 85% were not uncommon.

Changing market conditions have led to a material shift in the assessment of risk by operators, investors and bankers. Fundamentals such as location, the suitability of the hotel to the market(s)

to which it is geared, sustainable earnings and capital expenditure requirements are again key determinants of value. Risk will once again be reflected in the return sought by an investor or the rental bid of an operator.

Despite the falls in value, there have been relatively few insolvencies in the hotel sector to date. The two highest profile casualties in the sector this recession have been Folio Hotels and the Real Hotel Company, which both foundered because of the onerous nature of the leases they had previously entered into.

Transaction activity has been muted since early 2008, due to ongoing concerns about the state of the economy, the difficulty in raising debt and the mismatch between the price expectations of vendors and purchasers. The few transactions to have occurred have generally involved distressed assets such as the Quality Hotel, Birmingham, Barnsley House Hotel in the Cotswolds and the New Connaught Rooms in Central London.

A small number of sales involving hotels in central London are due to complete shortly. This particular market appeals to an international audience and investor appetite will have been sharpened by the favourable exchange rate as well as a widespread view that the UK economy is now close to coming out of recession. The outlook for provincial hotels is more subdued and unlikely to improve significantly until debt becomes more plentiful and easier to source.

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