



## 11% Reversionary Investment For Sale – Uncapped RPI Increasing Travelodge Hotel Income

 Garrick Parade, Lord Street, Southport, United Kingdom, PR8 1RP

FOR SALE  PRIVATE TREATY

£ 4,162,000 Asking price

### Location



Southport is a large seaside town in Merseyside, located approximately 29 km (18 miles) north of Liverpool and 59 km (37 miles) north-west of Manchester.

The town benefits from good road communications being served by the A565, running south to Liverpool and north-east to Preston, and the A570 which links directly to Junction 3 of the M58 Motorway approximately 21 km (13 miles) to the south-east. In addition, Southport railway station provides regular direct train services to Liverpool and Manchester with a journey time of 45 minutes and 1 hour 12 minutes respectively. Liverpool John Lennon Airport is approximately 48 km (30 miles) to the north and Manchester Airport some 71 km (44 miles) to the south-east.

With 35 km (22 miles) of coastline, beaches, seaside amusements and many family attractions, Southport is a popular tourist destination. The town is also at the centre of England's Golf Coast and has hosted the Open Championship at the Royal Birkdale Golf Club.

## Summary

- Attractive hotel & retail/leisure investment
- Primarily (88%) let to Travelodge Hotels until March 2039 (15.75 years unexpired), plus landlord's option to extend by 3 years
- Lease to Travelodge Hotels provides for uncapped RPI rent increases
- Significant rent increase guaranteed at March 2024 rent review
- Tenant option to renew at lease expiry
- Travelodge has reported record financial results for 2022 with EBITDA increasing to £212.9m (2019: £129.1m)
- Additional income from two ground floor commercial units (Papa John's & Anytime Fitness)
- Well located in the town centre, close to the prime retail, leisure and tourist attractions
- £4,162,000, subject to contract
- 8.50% Net Initial Yield
- 11.0% minimum Net Reversionary Yield in 2024

## **Situation**

The subject property is prominently situated within the heart of Southport on Lord Street, one of the primary shopping streets within the town centre. The property is immediately adjacent to a Morrisons superstore and within easy walking distance from Southport train station, some 10 minutes to the north-east.

National high street brands along Lord Street include Bonmarche (adjacent), Argos, Starbucks, Beales Department Store and B&M Bargains. The town's other principal retailing thoroughfares, Chapel Street and Eastbank Street, are a short distance away and are home to occupiers including Primark, Marks & Spencer, Boots, Holland & Barrett and JD Sports.

The popular tourist attraction of Southport Pleasureland and Southport beach is less than 0.8 km (0.5 miles) to the north.

## **Description**

The subject property comprises a 101-bedroom Travelodge hotel arranged over part ground and six upper floors, along with two ground floor commercial units.

The front part of the property comprises a Grade II listed building incorporating 17 rooms. A modern 6-storey element to the rear constructed in 2014 accommodates the majority of the rooms.

The hotel is designed to the Travelodge brand specification and benefits from 10 car parking spaces to the rear.

## **Accommodation**

The property has been measured by BKR Floor Plans and provides the following accommodation:

**Travelodge**

<b>Floor</b>	<b>Sq M</b>	<b>Sq Ft</b>
<b>Ground Floor</b>	<b>84.63 sq m</b>	<b>911 sq ft</b>
<b>First Floor</b>	<b>748.40 sq m</b>	<b>8,056 sq ft</b>
<b>Second Floor</b>	<b>433.29 sq m</b>	<b>4,664 sq ft</b>
<b>Third Floor</b>	<b>307.78 sq m</b>	<b>3,313 sq ft</b>
<b>Fourth Floor</b>	<b>433.75 sq m</b>	<b>4,669 sq ft</b>
<b>Fifth Floor</b>	<b>433.75 sq m</b>	<b>4,669 sq ft</b>
<b>Sixth Floor</b>	<b>433.75 sq m</b>	<b>4,669 sq ft</b>
<b>Total Gross Internal Area</b>	<b>2,875.35 sq m</b>	<b>30,951 sq ft</b>

**101 Bedrooms****Papa Johns**

<b>Zone A</b>	<b>84.82 sq m</b>	<b>913 sq ft</b>
<b>Zone B</b>	<b>5.76 sq m</b>	<b>62 sq ft</b>
<b>Total Net Internal Area</b>	<b>90.58 sq m</b>	<b>975 sq ft</b>

**Anytime Fitness**

<b>Zone A</b>	<b>83.15 sq m</b>	<b>895 sq ft</b>
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<b>Zone B</b>	<b>49.61 sq m</b>	<b>534 sq ft</b>
<b>Zone C</b>	<b>66.42 sq m</b>	<b>715 sq ft</b>
<b>Remainder</b>	<b>259.66 sq m</b>	<b>2,795 sq ft</b>
<b>Total Net Internal Area</b>	<b>458.83 sq m</b>	<b>4,939 sq ft</b>

A set of floor plans is available to download and the measured survey report will be re-addressed to a purchaser at a cost of £1,145 + VAT.

## Tenure

Long leasehold for a term of 125 years from 7th October 2014 (in excess of 116 years unexpired). The current ground rent is **£89,087 per annum** and is reviewed five yearly, based upon increases in the Retail Price Index (RPI), capped and collared at 5% per annum and 2% per annum respectively. The next rent review is on 7th October 2024.

## Tenancies

### Hotel

The hotel is let to **Travelodge Hotels Limited** on effectively a full repairing and insuring lease from 7th March 2014, expiring on 6th March 2039, without breaks. Hence, **an unexpired term in excess of 15.75 years**. However, under the terms of an Option Agreement the landlord can require the term to be extended by a **further three years**.

The tenant has an option to renew the lease for a further 25 years from 6th March 2039, subject to five yearly tenant break options.

The lease is subject to rent reviews based upon increases in the Retail Price Index (RPI) **without any caps**. The current passing rent is **£410,417 per annum**. The next rent review is on 7th March 2024 and five yearly thereafter.

**Based upon the current Retail Price Index, a significant increase in rent will occur in March 2024.**

The tenant has the right to use 10 car parking spaces within the car park for use by customers and staff. The Landlord is entitled to charge for use of the car park at a maximum of £3 per space per night, subject to annual increases in line with inflation. Hence, a potential additional income of £10,950 per annum. Currently there is no car parking attracting an additional rent.

### Unit 1

The ground floor Unit 1 is let to **Papa John's (GB) Limited** for a term of 15 years from 22nd February 2016, expiring on 21st February 2031. There is a tenant's break option on 21st February 2026, subject to six months' notice. The lease benefits from five yearly open market rent reviews, the next being on 22nd February 2026. The current passing rent is **£14,000 per annum**.

There is an inherent defects exclusion in the lease.

### Unit 2

The ground floor Unit 2 is let to **Secondo Leisure Limited** (t/a Anytime Fitness), on assignment from DKR Land and Properties Limited, for a term of 15 years from 21st April 2017, expiring on 20th April 2032. There was a tenant's break option on 31st March 2020.

The lease benefits from five yearly rent reviews, the next being on 21st April 2025. The rent is reviewed to the open market rent, subject to a maximum rent of 127.6281% (5% per annum compound) of the annual rent payable prior to the review date.

The current passing rent is **£41,666.67 per annum**.

There is an inherent defects exclusion in the lease and a landlord covenant to be liable for inherent defects.

Therefore, an investor will benefit from a total gross income of **£466,083.67 per annum** and, after deduction of the head rent, a total net income of **£376,996.67 per annum**.

It is important to note that whilst the head lease rent increases are capped, there is no cap on the Travelodge increases in line with changes in RPI. **As a result, the potential exists for an increasing net income to an investor.**

## **Reversionary Income 2024**

Increases in the Travelodge income and the head rent are determined in accordance with the Retail Price Index.

(see [here](#))

The Travelodge rent review is determined by reference to the RPI figure last to be published before the rent review date of March 2024. Whilst it is likely that RPI will continue to increase between now and March 2024, the June 2023 figure calculates that the income will rise to **£544,583 per annum**.

The head rent increase in October 2024 is also based upon RPI. However, the increase based upon the June 2023 indice would be beyond the cap within the head lease. As a result, the head rent will increase in 2024 to **£113,700.05 per annum**.

**Therefore, the net income available to a purchaser (based upon the above comments) will increase in March 2024 to at least £511,163 per annum, reducing to £486,550.06 by October 2024.**



## Covenants

On 15th May 2023 Travelodge announced its trading update for the period ending 31st December 2022. **The company reported record financial results, significantly ahead of its previous best year in 2019.**

- Total underlying revenue up 25% to £909.0m (2019: £727.9m, 2021: £559.7m)
- Occupancy up 1.7pts to 81.8% (2019: 80.8%, 2021: 62.7%)
- Average room rate up 23.9% at £64.31 (2019: £52.51, 2021: £52.72)
- Revenue Per Available Room (RevPAR) up 23.9% to £52.59 (2019: £42.46, 2021: £33.04)
- RevPAR performance 10.9pts ahead of the competitive segment vs 2019
- EBITDA (adjusted) of £212.9m up £83.8m (2019: £129.1m, 2021: £81.1m)
- Cash of £154.2m at 31 December 2022
- 6 new hotels opened in 2022, including one Irish franchise
- Total network now 595 hotels and 45,781 rooms as at 31st December 2022

The company also announced that trading in the first quarter of 2023 has remained strong with accommodation revenue approximately 30% ahead of 2022 levels and approximately 40% ahead of 2019 levels.

This performance reflected the strength and resilience of the UK budget hotel market which performed well in 2022, driven by strong levels of domestic leisure demand and a rapid recovery in ‘blue collar’ business demand, with a more gradual recovery in ‘white collar’ corporate demand.

The company’s Chief Executive, Jo Boydell, announced:

“Travelodge delivered an excellent trading performance in 2022, with record profits and revenue growth. The market recovered, with strong demand for events and short staycation breaks throughout the year as well as for essential business travel and we continued to outperform the Midscale and Economy segment.

We pursue a clearly defined UK growth strategy and are targeting new hotels in 300 locations across the country. We continue to evolve our brand offering and we are making good progress in upgrading our estate to the new premium budget-luxe hotel design that we launched last year.

Whilst the current macro-economic environment creates some uncertainty, the budget hotel segment has proven resilient as consumers continue to search for great value options within the marketplace – such as those offered by Travelodge. Looking ahead, we remain confident in the long-term prospects for Travelodge and excited about our future growth opportunities”.

Travelodge Hotels Limited (Co. No. 0769170) has reported the following figures:

	<b>31st December 2021</b>	<b>31st December 2020</b>
<b>Revenue</b>	<b>£560.5 million</b>	<b>£280.4 million</b>
<b>Pre-Tax Profits (Loss)*</b>	<b>(£33.8 million)</b>	<b>(£161.2 million)</b>
<b>Total Assets</b>	<b>£2,657.7 million</b>	<b>£2,622.0 million</b>

\*The company was significantly impacted by the Covid-19 pandemic, with the majority of hotels closed for large periods since March 2020. As a result, the company proposed a Company Voluntary Arrangement (CVA) which was approved on 19th June 2020. The CVA formed part of Travelodge’s recovery plan, which included steps taken to (i) re-open its hotels once the UK Government restrictions are lifted, (ii) reduce operating and capital costs, (iii) raise additional funds and (iv) temporarily reduce rents paid to landlords.

The recovery plan offered the best approach to address the short-term challenges facing the business as a result of the COVID-19 outbreak and to secure the future of its more than 10,000 employees.

Unlike most CVAs, there were no proposed hotel closures or permanent rent reductions. Prior to the outbreak of COVID-19, Travelodge entered 2020 with a record level of cash reserves and delivered five straight years of strong growth, outperforming the midscale and economy sector and its peers.

Travelodge Southport was classified as Category B of the CVA, indicating it to be a well-trading property.

The CVA has now been fully implemented and is now formally at an end.

In 1985, Travelodge became Britain’s first value hotel brand when it launched in the UK, opening its first hotel at Barton under Needwood in the heart of England. Travelodge is now the UK’s largest independent hotel brand, with more than 590 hotels and 40,000 guest bedrooms across the UK, Ireland and Spain.

Travelodge hotels can be found in the centre of major cities, including London, Edinburgh, Cardiff, Manchester, Birmingham, Belfast, Dublin, Barcelona, and Madrid; in most of Britain’s larger towns, as well as in the classic seaside locations and vital roadside stops (Source: [www.travelodge.co.uk](http://www.travelodge.co.uk)).

**Papa John’s (GB) Limited** (Co. No. 02569801) has reported the following figures:

	26th December 2021	26th December 2020
<b>Turnover</b>	<b>£102,339,000</b>	<b>£94,914,000</b>
<b>Pre-Tax Profits</b>	<b>£8,103,000</b>	<b>£8,031,000</b>
<b>Net Assets</b>	<b>£31,028,000</b>	<b>£36,220,000</b>

The principal activity of the company is the franchising of pizza home deliver and take-away stores in the UK and the wholesale supply of product ingredients and packaging to the store network.

Papa John's (GB) Ltd is a subsidiary of Papa Johns International Inc. Started in the USA by John Schnatter in 1984, Papa John's operates in over 5,000 locations in 45 countries. Papa John's International Inc. provides managerial and financial support to Papa John's (GB) Limited, which is the UK arm of the business. In their accounts, it is reported that they operate a network of 507 Papa John's outlets in the UK, all operated by franchisees. For further information please visit [www.papajohns.co.uk](http://www.papajohns.co.uk).

**Secondo Leisure Limited** is a franchisee of Anytime Fitness, the largest and fastest growing gym franchise globally with over 188 clubs in the UK and over 5,000 worldwide across nearly 40 countries. For further information visit [www.anytimefitness.co.uk](http://www.anytimefitness.co.uk).

## Hotel Market Summary & Investment Evidence

The hotel market has rebounded impressively since the challenges of the Pandemic, delivering a robust trading performance. The UK budget hotel market has performed strongly, with revenue as a percentage of 2019 levels ahead of the total hotel market, driven by the strong levels of domestic leisure demand and a good recovery in ‘blue collar’ business demand.

In their Hotels Outlook 2023, CBRE report that “the UK hotel sector staged a remarkable recovery during 2022” and “two groups that we expect to do better are the luxury/leisure segment, poised to continue to do well as its demographic will be less vulnerable to the issues flowing from any recession. Alongside the economy/budget segment, which was the first segment to capture rebounding demand when travellers ventured out tentatively post-COVID – we see this segment as well placed to keep holding that demand. These segments also benefit from either an ability to reprice strongly to offset inflationary costs (in the case of luxury) or minimise the effect of cost inflation due to lower nominal levels of inputs (budget). Investors will see the benefits of these attributes”.

Avison Young’s ‘UK Hotel Market Overview’ report states that “Visit Britain’s provisional results for 2022 show that there were 30.5m annual inbound visitors to the UK and spent £25.7bn. In 2023, Visit Britain are forecasting 35.1m visits (18% higher than 2022) and £29.5bn spend up 4% from 2019 levels. All UK cities and the Regional UK average are performing exceptionally well, as revenue per available room (RevPAR) is either in line or ahead of 2019 performance. The boosted staycation trend has continued into 2023, pushing the Average Daily Rate (ADR) well above 2019 in all markets.”

The investment is priced to reflect the current market, with an attractive yield on offer compared to recent market evidence.

For example, we understand that the Travelodge West Bromwich sold in May 2023 for a price equating to 6.97% net initial yield. A 78-bedroom hotel totalling approximately 29,560 sq ft, the property is held freehold with 24 years unexpired lease term at a passing rent of £386,272 per annum and 5 yearly RPI-linked rent reviews (1% collar & 4% cap).

In addition, we are advised that the freehold interest of the Travelodge Sleaford, which has approximately 21 years unexpired lease term, sold in February 2023 at a price of £2.75 million which equates to 6.45% net initial yield.

## VAT

The property has been registered for VAT. It is anticipated that the sale will be treated as a Transfer of a Going Concern (TOGC).

## Proposal

We are instructed to seek a figure of **£4,162,000** (Four Million, One Hundred and Sixty Two Thousand ), subject to contract, reflecting a net initial yield of **8.50%**, assuming standard purchaser's costs of 6.55%.

Based upon current RPI figures, the reversionary yield in 2024 will increase to no less than **11.0%**.

Please note that a purchaser will be re-charged the costs of the searches (£1,576.43) and measured survey (£1,145 + VAT) which are provided in the data room.

Please note that a purchase will be charged a Transaction Fee of £10,000 + VAT.

## Investment Considerations

1. An opportunity to acquire an attractive hotel and retail/leisure investment;
2. The majority of the income (86%) is secured against Travelodge Hotels Ltd with in excess of 15.75 years unexpired lease term with a landlord option to extend by a further 3 years;
3. Travelodge has reported record financial results for 2022 with EBITDA increasing to £212.9m (2019: £129.1m);
4. The rent increases from Travelodge are based upon increases in the Retail Price Index, uncapped;
5. Two ground floor commercial units (Papa John's & Anytime Fitness) with additional car parking income;
6. The property is well located in Southport town centre, in close proximity to the prime retail, leisure and tourist attractions;
7. A purchase at the asking price reflects an attractive net initial yield and reversionary yield


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