

Travelodge

ALTON

156 Winchester Road / Four Marks / Alton / Hampshire / GU34 5HY

Long Let Hotel Investment
with Index Linked Rent Reviews
in an Affluent Location

LEWIS ELLIS



Investment Summary

- » **Prominent hotel** fronting the busy A31 (**62,500 daily car movements**) which connects the A3 with the M3.
- » **Four Marks** is a picturesque village 6 miles south west of Alton, 14 miles east of Winchester and 24 miles north east of Southampton.
- » **50-bedroom hotel**, providing a total **GIA of 15,738 sq ft** arranged over ground floor only.
- » **Extensive internal refurbishment in 2024** to the new Travelodge specification.
- » Let to **Travelodge Hotels Ltd** on FRI terms at a passing rent of £220,276 per annum. The vendor will be topping up the rent to the March 2025 review, equating to **£297,500 per annum**.
- » **Long unexpired lease term** of approximately **18.5 years** with 5 yearly upwards only **uncapped RPI rent reviews**.
- » **Strong trading performance** with excellent hotel occupancy.
- » Travelodge saw **record performance** during 2023 which continued through 2024.
- » Low site cover of **23% (1.55 acres)**.
- » **Strong vacant possession value** and **alternative use value**.
- » **Significant asset management angles** with potential to increase hotel density with additional hotel rooms and potential to build an A3 restaurant pod/convert part of building to restaurant use.
- » **Freehold**.

Offers are sought in excess of **£3,725,000 (Three Million Seven Hundred and Twenty Five Thousand Pounds)** subject to contract and exclusive of VAT. A purchase at this level would reflect:

- » Net Initial Yield – **7.50%***
- » 2030 Running Yield – **8.59%****

* Assuming the rent is £297,500 per annum following the top up to March 2025 review and purchasers costs of 6.52%.

** Assuming an RPI forecast of 2.75% per annum.



Location

Four Marks is a picturesque village in the county of Hampshire, 6 miles south west of Alton, 14 miles east of Winchester and 24 miles north east of Southampton. The village has a population of approximately 5,617 people. Nearby Alton is a thriving market town with a population of approximately 19,425 people and the surrounding areas are steeped in history and heritage, offering an array of local attractions including multiple museums, theatres and cathedrals.

The property benefits from excellent road communications being situated on the A31, the main road connecting the major towns of Guildford and Winchester. The A31 connects with the A3 at Guildford and joins the M3 at Winchester.

Alton train station provides a regular service to London Waterloo with a quickest journey time of 1 hour and seven minutes.

A bus stop is situated directly outside the subject property offering routes to Winchester and Alton.



Four Marks borders the South Downs National Park, the largest rural resource for recreation and tourism in South East England, which has approximately 39 million visitors per year.



Four Marks is on the Watercress Train Line which runs steam train services from Alresford to Alton.



The area boasts an extensive collection of museums, galleries and the former home of famed English novelist Jane Austin.



The A31 is a busy road with an average daily traffic count of over 62,500 vehicles.



Description

The property comprises a purpose built 50-bedroom Travelodge hotel and totals 15,738 sq ft (GIA). The property is arranged as two single storey, detached, purpose-built hotel buildings of traditional brick construction under pitched, tiled roofs and benefits from 53 car parking spaces.

The original building, dating from the 1980's, comprises 30 en-suite guest rooms, the main reception and lobby area, a linen room and a plant room.

The extended building, dating from 2006, comprises a further 20 en-suite guest rooms, two of which are accessible rooms, an entrance foyer, a linen room and a plant room.

The property underwent an extensive internal refurbishment in 2024 to the new Travelodge specification.



The total site extends to approx. 1.55 acres with a low site cover of 23%

Situation

The property is well located in a highly prominent position on the busy Winchester Road (A31). The immediate area around the subject property is mainly comprised of residential dwellings, whilst the nearby Four Marks centre hosts many independent businesses, as well as national operators such as Tesco Express, The Co-operative, Marks & Spencer and BP.

The property is situated in close proximity to a number of wedding venues such as the Grange, Froyle Park and Cain Manor and subsequently the property benefits from regular weekend business. Belford House and Westlands care homes are also located nearby.

Four Marks has grown considerably over the past 10 years with the intensification of ribbon development and new estates leading to a population growth of over 38% from 2011 to 2021. The government requires over 1,100 new homes to be built in East Hampshire every year in order to meet housing targets, subsequently driving further population growth.



Tenancy

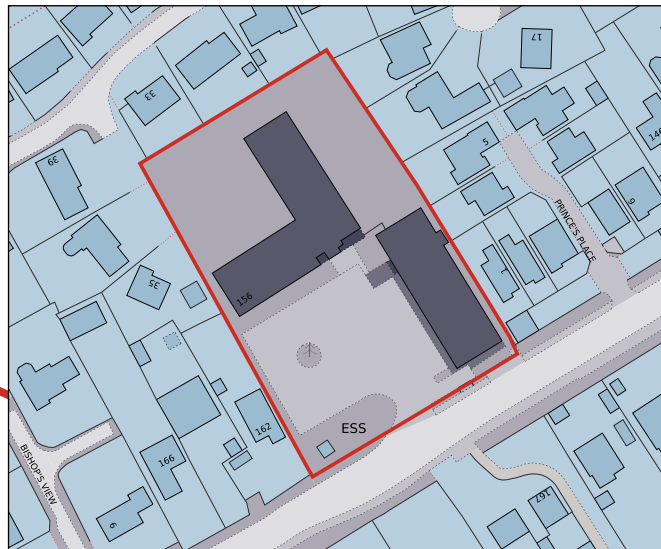
The hotel is let to Travelodge Hotels Ltd on the following terms:

Tenant	Travelodge Hotels Ltd
Lease Start	31st March 2005
Lease Expiry	3rd October 2043*
Repairs	Full Repairing and Insuring
Passing Rent	£220,276 per annum (£4,405 per key)
Topped up rent (next rent review 30th March 2025)	£297,500 per annum (£5,950 per key)
Rent Reviews	5 yearly, uncapped RPI

**The original lease was a 25 year term from 31st March 2005. Under an option agreement dated 3rd October 2013 and a deed of variation dated 22nd October 2020, the Landlord can request the Tenant to take a reversionary lease resulting in a Lease expiry date of 3rd October 2043. This is on the basis that the Landlord gives Travelodge notice 18 months prior to the original lease expiry date (30th September 2028) and ending at 5pm on the day before the date 12 months prior to the expiry date (29th March 2029).*

Tenure

Freehold.



Covenant



Travelodge is the second largest hotel brand in the UK with over 600 hotels and 47,000 rooms, serving 21 million guests per annum. 2023 saw record performance with revenue and profits significantly ahead of 2022 levels.

For the year ended 31st December 2023, underlying revenue was up 13.4% to £1,016.5m (2022 £896.1m) and EBITDA (adjusted) was £239.9m (2022 £164.4m).

Travelodge's financial results for the Q3 YTD 2024 delivered a 0.5% increase in revenue to £786.1 million (2023: £782.0 million), which was supported by resilient customer demand.

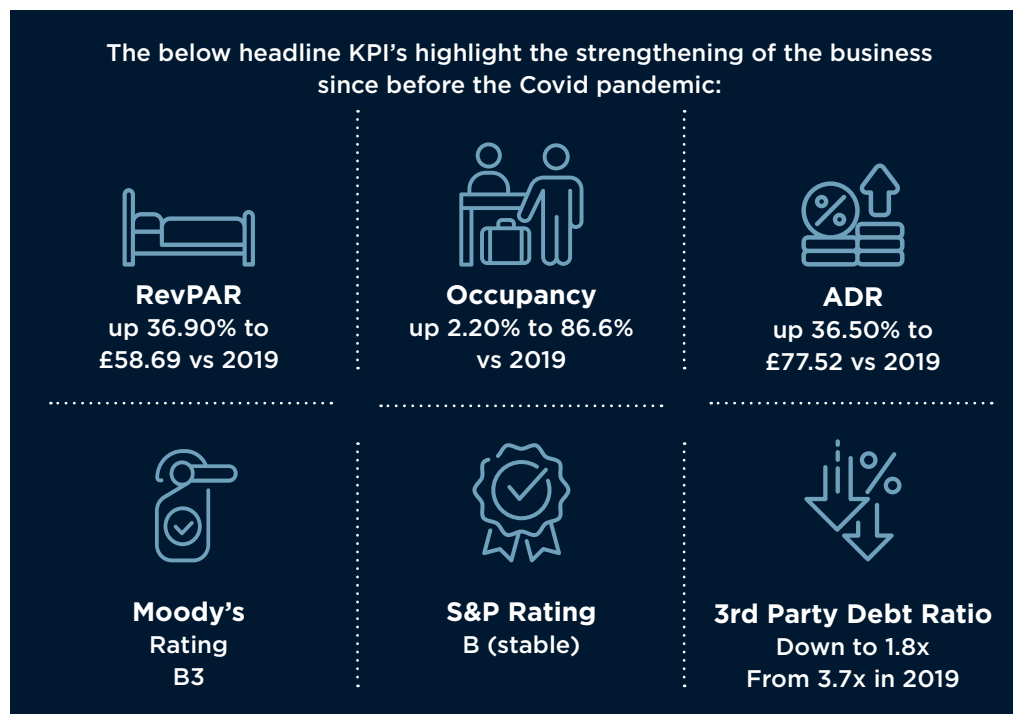
Travelodge's key credit ratios have been improving significantly, with net third party debt reducing to 1.73x in Sept 2024 and because of a strengthening liquidity position, Moody's and S&P have recently upgraded their credit ratings to B3 and B respectively, reflecting the group's strong financial performance and positive trading outlook. The company is maintaining a focus on strong cost control and management of widespread inflationary pressures, whilst finding ways to continually increase headline revenue, such as their recent £12m advertising campaign investment.

Travelodge's network expands across the UK, Spain and Ireland and they have been proactively reinvesting in their estate to enhance assets and customer experiences. A current refit programme is well progressed with circa 50% of its rooms planned to be refitted by the end of 2024. Travelodge is owned by Golden Tree Asset Management who purchased £210m of Travelodge assets in 2023 from LXi REIT demonstrating their belief in Travelodge as a business as it continues to bounce back from the Covid-19 pandemic.

Travelodge's previous three years of financial accounts are summarised as follows:

	FY 2023	FY 2022	FY2019*
Revenue	£1,016.5m	£896.1m	£713.2m
Profit/(Loss) Before Tax	£147.2m	£71.5m	£45.3m
Net Assets / (Liabilities)	£275.0m	£63.9m	£433.4m

**Pre Covid-19 and before changes to IFRS 16*



UK Hotel Market

The UK hotel sector has witnessed a strong bounce back post the Covid-19 pandemic with significant pent-up leisure demand and structural changes to work and leisure patterns. Budget hotel RevPAR has outperformed inflation over recent years, which is forecast to continue for years to come protecting indexed linked rents particularly those that are considered rack rented today.

Hotel pipeline has been significantly reduced as build costs and higher interest rates have slowed development. New openings are being confined to a select number of UK cities where high rental levels can be achieved to support build cost inflation and consequently, new openings in regional markets remained subdued in 2024, making standing stock ever more valuable to operators.

Inbound UK tourism saw continued growth throughout 2024, which is being bolstered by strong demand for domestic leisure in the UK regions as it is considered more affordable than traveling abroad - both of these factors will keep pressure on future room rates.

Investment Market

UK hotel investment transactions are estimated to have reached £5.75 billion in 2024, more than double the volume recorded in 2023. This marks the highest level of activity in the sector since 2018 as investors are becoming more attracted to long income streams with index linked review mechanisms. H1 2024 reflected the strongest levels of activity in the sector since H1 2015 and outperformed office, retail, industrial, residential and PBSA transaction volumes. Hotels with strong fundamentals in prime positions and with good underlying vacant possession/ alternative use values (such as Travelodge Four Marks) will continue to be attractive to investors.

RECENT COMPARABLE TRANSACTIONS INCLUDE:

Date	Property	Rooms	Unexpired Term	Rent Reviews	Rent Per Key	Price	NIY	Price Per Key
Under Offer (ahead of quote)	Travelodge, Excel, London	131	22.2	5 yearly CPIH (1% & 4%)	£6,957	Q. £14,230,000	Q. 6.00%	Q. £108,626
Dec-24	Travelodge, Rose Street, Edinburgh	43	20	5 yearly RPI (uncapped)	£9,267	£6,930,000	6.20%	£161,163
Jul-24	Travelodge, Queen Street, Edinburgh	85	23	5 yearly RPI (uncapped)	£8,346	£11,300,000	5.88%	£132,941
Mar-24	Travelodge, Portsmouth	152	21.7	5 yearly CPI (1% & 4%)	£6,683	£14,000,000	6.80%	£92,763
Feb-24	Travelodge, Watford	93	18	5 yearly RPI (uncapped)	£6,677	£8,950,000	6.50%	£96,237
Jan-24	Travelodge, Meadowhall, Sheffield	103	22	5 yearly RPI	£4,450	£7,000,000	6.14%	£67,961
Sep-23	Travelodge, Blackpool	79	15.8	5 yearly RPI (uncapped)	£5,264	£6,950,000	5.61%	£87,975
Sep-23	Travelodge, Taunton	64	35 (19)	5 yearly (102.5% of the uncapped increase in RPI)	£4,140	£3,900,000	6.38%	£60,938



Asset Management Opportunity

- » Potential to extend to the first floor on both buildings to provide additional hotel accommodation.
- » Potential to increase the income stream by building a drive thru coffee pod on the car park, following initial interest from various national operators.
- » Potential to convert some of the hotel rooms fronting the A31 into restaurant use and build additional rooms at 1st floor level.



Vacant Possession and Alternative Use Value



HOTEL

The property benefits from a strong vacant possession value as continued use as a hotel given its excellent location and due to construction costs for new build hotels being well in excess of the quoting terms of £239 per sq ft capital value.



RESIDENTIAL

The site is of an appropriate size to suit redevelopment into a residential scheme, with residential values in the immediate area in excess of £480psf.



CARE

The site would also suit redevelopment into care use, particularly given the number of residents aged 65+ in East Hampshire increased by 30.5% between 2011 and 2021 and continue to grow.



EPC

- » Building 1 – B (41)
- » Building 2 – B (42)

VAT

The property has been elected for VAT and will be treated as a transfer of a going concern (TOGC).

Proposal

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