North Queensland Management Rights Industry Update: Occupancy

If I was paid a dollar every time prospective buyers ask me for occupancy rates I would be very happy. Of course I always happy to see prospective buyers ask questions and get the information they need in order to make the right decision. In my experience ‘occupancy’ ranks just a little lower that the profit and loss statement in terms of priority for buyers. Strangely it seems more important to some than seeing the caretaking and letting agreements both of which essentially are the core agreements for the business being purchased.

Occupancy levels are in my mind, interesting but hardly of vital significance.

When I embarked on my career in tourism, I encountered a crusty old gentleman who had been in the accommodation business for years. He was addressing me along with other ‘cadets’ in the industry on what he had learnt and he made it clear the one thing we should never forget was that –

“It is better to be half full at twice the price than one hundred per cent full at half the price.”

He made the point so well, I have never forgotten it and so to this day it is the advice to pass on to prospective buyers.

What this gentleman was saying is that yield is what matters, not occupancy.

Over many years of broking I have seen confirmation of the wisdom of this adage and so it is important to understand what occupancy tells us. In reality occupancy levels or percentages mean just about nothing on their own. Accordingly one should be very careful about giving occupancy figures out unless there is a very good understanding of the underlying factors that influence occupancy.

I have seen long established accountants seek to deter their clients from purchasing a business because, at 80% average annual occupancy, the business ‘has not upside and is performing as well as it ever will’. Similarly I have seen long established accountants seek to deter their clients because, at 45% average annual occupancy, the business ‘is under-performing terribly and would not be a good purchase’. Of course both responses from the accountant cannot be right but both can be wrong.

If someone tells me their occupancy is running at around 80%, they may be suggesting they are running a great business however I immediately sniff a great opportunity. Demand is strong therefore a quick tweak raising tariffs by $30 could work wonders. Occupancy would drop (great!) and so would expenses – cleaning, power, etc, etc. So the tariff increases would virtually drop straight to the bottom line – improving profits and business value.

If on the other hand, someone tells me their occupancy is running at less than 50%, well clearly more questions need to be asked. It could well be general mismanagement or it could be because the motorway deviation now takes the potential client base in another direction. So don’t write the business off unless you know the underlying reasons.

Similarly I have had a situation where a buyer, considering two similar properties, noted one had 20% occupancy and the other 50% in the quietest month of the year. At face value, these figures suggested the one with the higher occupancy was better managed and out-performing the other business. That was not the case. In this region 20% occupancy in the quietest month was the industry norm. In fact the one doing the higher occupancy in the quietest month achieved that occupancy through a campaign of reduced tariffs, off-season specials and one night stays. Handling that increased business led to service issues as there were not as many housekeeping staff available. This reflected on Trip Advisor and of course not only was yield for the manager compromised but the owners did not do as well either. What was the strategy behind the high low season occupancy? An effort to ‘pump up’ the figures in preparation for selling the business.

I come back to the advice given all those years ago;

‘It is better to be half full at twice the price than to be one hundred per cent full at half the price.”

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