



Hotel Sectional Title

The Parktonian All-Suite Hotel

BROCHURE
January 2021

INVEST

WITH US

01

INVESTMENT ESSENCE

The Best Investment Opportunity

Our Parktonian scheme offers investors the best property investment: a hotel room investment which offers good income, capital growth and the best value available in Sectional Title Hotel units.

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01. INVESTMENT ESSENCE

The Concept

A “Sectional Title Hotel” is a hotel where individual rooms or suites within a hotel are owned by separate investors who each own title to a particular room or suite. So, in a sense, these are “alternative” investments within the overall property investment category, with a slant towards hospitality industry investment.

Usually, there is an arrangement whereby all the owners within an individual hotel complex “pool” their rooms or suites, so that all owners in that complex share the income and costs generated by the complex as a whole.

When compared to the ownership of a single rental apartment or house, Sectional Title hotels have the advantage that there is a management company that handles administration, letting, maintenance, cleaning etc.

So, Sectional Title hotel ownership is comparatively trouble free, as the management company handles all the chores that the owner of a stand-alone rental property normally must contend with.

Different Names Used Internationally

One of the first things a potential Sectional Title hotel unit buyer has to come to grips with is the different names used for this type of concept in different parts of the world:

- **In USA and the Americas Generally:** Projects like this are known as “condominium hotels”, or “condo hotels” for short.
- **In the United Kingdom:** These projects are generally known as “apartment hotels” or “aparthotels”, but sometimes the American word “condo hotels” is used.
- **In Continental Europe and Some Parts of Latin America:** Generally the terms “aparthotels” or “apartment hotels” are used.
- **Australia, New Zealand and Canada:** In these countries the name “strata hotels” is used.
- **South Africa:** Here in South Africa, the Sectional Title Act is the vehicle used to make it possible for individual hotel rooms or suites to be owned by many different owners. As a result, this concept has become known in South Africa as “Sectional Title Hotels”.

Beware Only Some Sectional Title Hotel Schemes Give Good Income & Growth

Hotel Sectional Title schemes vary enormously in the detail of how unit holders participate in the net income stream from the hotel.

For example:

- Some schemes keep conferencing and food and beverage revenue entirely for the benefit of the Management Company and / or the developer selling the units.
- Some schemes pass an unreasonably small share of room revenue to unit owners.
- In some cases the unit holders bear an unreasonably large share of refurbishment expenses.
- Sometimes the Management Company takes an unreasonably large share of profits.

- Sometimes the Management Company draws substantial fees even when the hotel is running at a loss.

02. INVESTMENT ESSENCE

What a Purchaser Receives

Every purchaser of one of our sectional title rooms receives the following:

- Freehold Sectional Title ownership of one of 300 almost identical hotel suites of approximately 55 sq metres, including a 7 sq metre balcony. These suites are in a tower block of 22 typical floors.
- Ownership (Excluding Content) of 1/300th of all the public rooms, restaurant, bar, conferencing areas and back up areas such as kitchen, storerooms and staff areas. This ownership comes as a result of all these areas being classified as “common areas” in terms of the Sectional Titles Act. So the revenues generated in these areas, and the costs associated with those areas and generating those revenues, will be apportioned equally between the 300 suite owners.
- 1/300th share of the net benefits of the lease from the City Council, valid until about 2034, of the Parkade. This resulted from the Braamvest Trust ceding the rights and benefits of its lease agreement with the City Council (the “City Council Agreement”) for the benefit of the Income Pool.
- ALL income is pooled. That is revenue not only from the 300 suites, but also from the food and beverage trade in the hotel, the conferencing trade and the net parking and other revenues generated. All expenses are then similarly pooled. The 300 suite owners then each receive 1/300th share of 80% of the TOTAL net income from all hotel operations.
- The hotel Management Company receives its only profit as a 20% share of the total net income from hotel operations. So the Management Company must make profits for the owners in order to make profit for itself.
- Unlike many other Sectional Title hotel or condo hotel schemes, there will be no innate conflict of interest between the hotel operating company and the hotel suite owners. There can be no grey areas as to where net revenues must be apportioned – they all go into the communal pot, and are shared as described above.
- All costs and all repair and refurbishment costs are costs to the TOTAL revenue pool, and the Trust associated with the hotel Management Company bears its pro rata share, as do all the suite owners.
- If there is a shortfall each owner is levied 1/300th of the shortfall. The hotel Management Company does not contribute to the shortfall but he then makes nil on his 20% profit entitlement.

Comparison with Other Investments

A. Ten Year Comparison With Other Investments

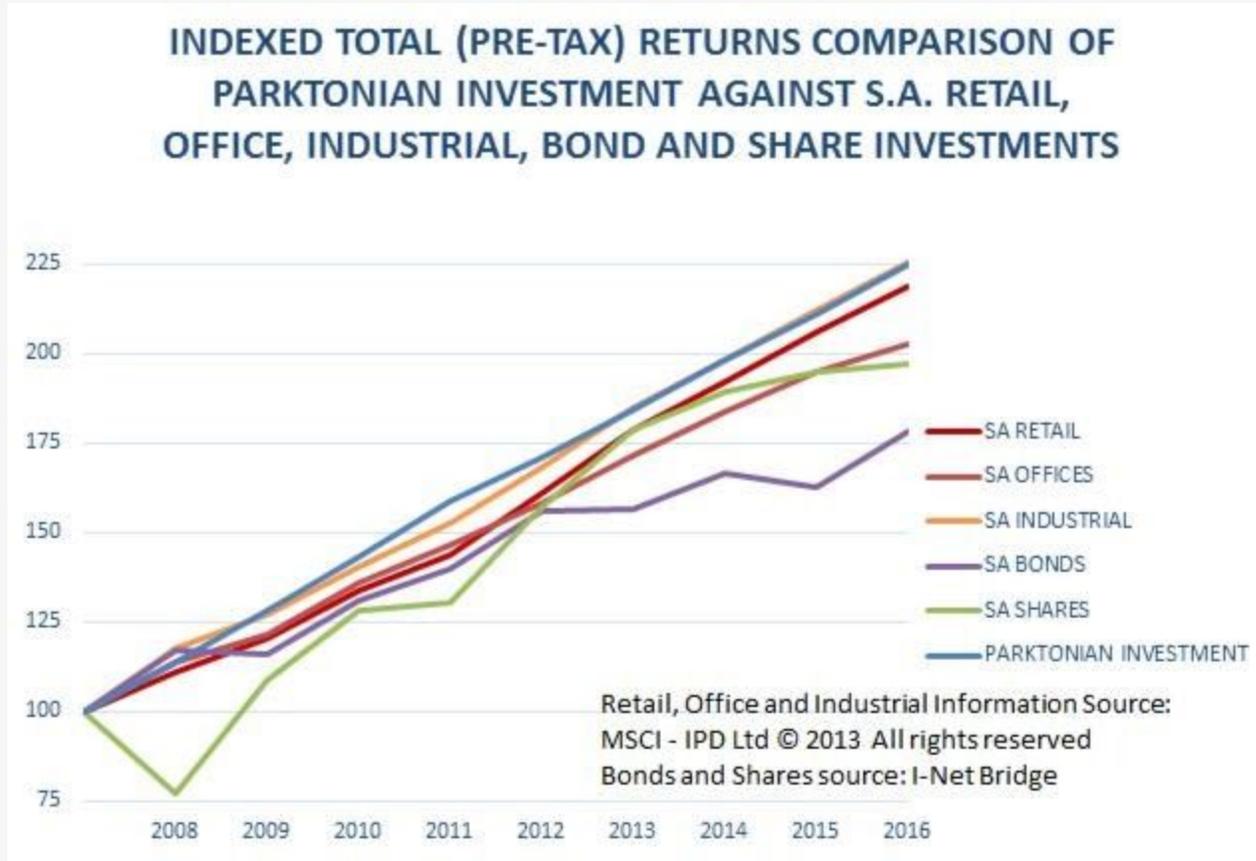
We have compared our Parktonian Sectional Title Hotel investment with alternative property and hotel investments over the 10 year period 2007 to 2016 during which our Sectional Title scheme has been operational.

The methodology was:

1. We took the average price paid for a Parktonian Sectional Title unit in 2006 / 2007, which was R442 000 per unit.

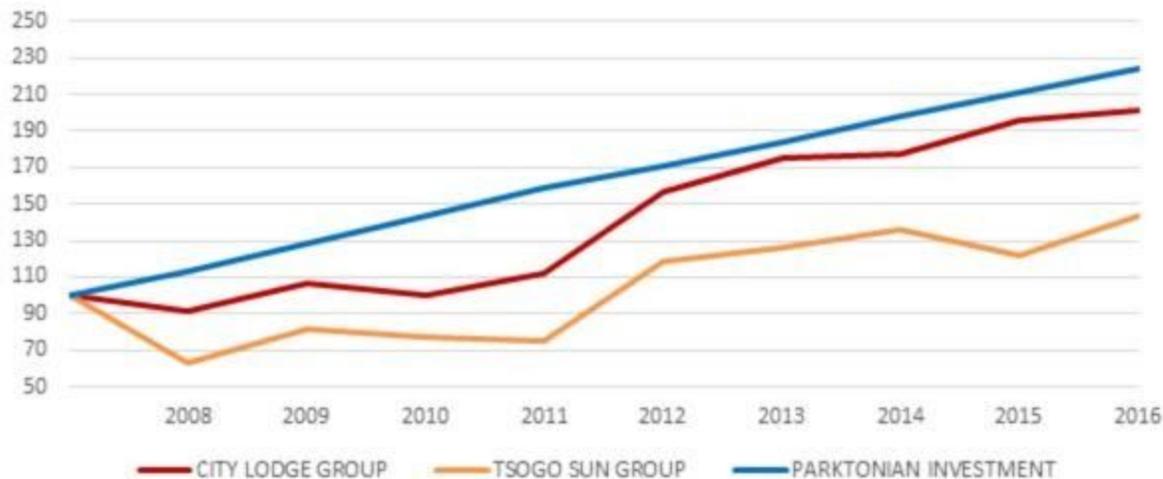
2. We took the estimated value of a Parktonian Sectional Title unit 10 years later as R600 000. This was based on the highest prices achieved in actual sales, which were R600 000. This is a 36% increase in capital value over 10 years, or 3.6% p.a.
3. To the annual capital value increase of 3.6% p.a. (see 2 above), we added the cumulative annual income distributed to Parktonian Sectional Title owners over the 10 years which totalled R468 220 per unit.

4. We then charted the Parktonian units versus R442 000 invested 10 years ago in various alternative types of property and other investment in South Africa. This chart is as follows:



5. We then also charted the Parktonian units versus R442 000 invested 10 years ago in certain other hotel investments in South Africa. This chart is as follows:

INDEXED (PRE-TAX) RETURNS COMPARISON OF PARKTONIAN INVESTMENT AGAINST OTHER S.A. HOTEL INVESTMENTS



The other SA hotel investments were charted on the following basis:

- The dividend amounts were derived from the companies' financial statements.
- The dividend return was obtained by dividing the dividend amounts by the share price at year end.
- The share prices were as published for each year end.

- Please note that the dividends paid were after company tax paid by City Lodge and Tsogo Sun, but before dividend tax, if any, in the hands of the investor.

In Conclusion...

The above analysis shows that an investment in a Parktonian Sectional Title Hotel unit has done well when compared to most other property and hotel investments.

In addition to the above returns it should be noted that during the 10 year period being reviewed, the Parktonian hotel built, out of its operating income, its new Skylevel facilities and also added additional restaurant and conferencing areas at ground level. These facilities add to the potential income earning and capital growth prospects for the next 10 years.

We believe that this explains why many of our existing investors feel that our units offer the best property investment available. They feel that these units offer good monthly income plus capital growth. Moreover, there is a hotel management company in place that takes care of all the administration, marketing and sales, repairs and maintenance, etc., leaving the investor with a hassle-free hotel suite investment.

B. Years 2017 – 2020

By 2017 it was clear that the South African economy was deteriorating substantially, and much has been published in the media as to the reasons for this.

The tourism and hospitality sector was not spared the overall economic malaise. In addition, the tourism sector also suffered from new visa requirements that further dented tourism.

Until a month or two ago, the Parktonian stretched itself to continue payments of distributions to Sectional Title unit owners.

Then, in early 2020, the Coronavirus hit and decimated the airline, travel and hospitality industries worldwide.

The South African hotel industry has been almost 100% closed during the Government's enforced lock-down period, which started in late March 2020. The Parktonian has been closed down by Government decree during this lock-down period. Government statements show every sign that most hotels are likely to continue to be closed for several months.

To reduce its dependency on the decimated hospitality industry, the Parktonian has taken steps to start letting out a good proportion of its 300 hotel suites as Luxury One-Bedroom Executive Apartments. So, when the hotel reopens it will have the same public facilities as it had before, but with a smaller number of suites utilized as hotel accommodation.

Our Vision for the Future

Following the Coronavirus related lockdown of South Africa and most of its hotels, including this one, this vision statement is currently under review.

03. INVESTMENT ADVANTAGES

Advantages Compared to Other Sectional Title Hotels

- Please see the warning on our [INVESTMENT ESSENCE](#) page: Not all Sectional Title Hotel room schemes offer a fair deal to investors. We do! Each of our unit buyers receives a 1/300th share of ALL the net income, after expenses and management fees, from a large viable all-suite hotel with over 30 years of goodwill and track record. The hotel is very well established in the corporate and institutional markets, and has a substantial existing base of repeat business.
- The original purchase prices for the suites at launch in 2006/2007 was about R442 000 and was very reasonable. This worked out at about R8 500 per sq metre, including built-in furniture, fittings and equipment; and free use of movables. By comparison, Cape Town hotel suites were then selling at about R14 000 to R20 000 per sq metre, including furniture, fittings and equipment and Durban hotel suites at about R12 800 per sq metre. Hotel suites in Sandton were selling at R25 000 to R30 000 per sq metre.
- Comparing today's prices, our units were last year selling at about R600 000 per unit, and we expect sales this year to be at R650 000 or more – still very reasonably priced. Our [INVESTMENT DETAILS](#) pages show that we have a good ten year track record compared to other investments. Those page also show that our vision for the future is very positive. So we expect the resale prices of units to move steadily up to and beyond R700 000. Our ambition is that these units will be worth some R1 million in several years time.
- Cape Town Sectional Title Hotel units have also moved up in price and units are now selling for in the region of R2 million to R2.5 million per unit.

- The Parktonian Sectional Title Hotel units are generally bought for prices that represent a large discount on their replacement cost.
- Our buyers can expect good income plus capital growth, and the possibility of leaving a good growth asset to their beneficiaries.
- Our buyers have an investment that “manages itself, markets itself and virtually pays for itself”, due to active management by the Management Company.
- Our buyers have flexibility – the investment can be held for long term income and growth or can be sold at any time, like any other Sectional Title property.

Advantages Compared to Other Sectional Title Property Investments

Most people like the idea of owning a second property, other than their own home, as a means of earning extra income and enjoying capital growth. The type of property most people choose when looking for a second property is a second home such as a holiday home or holiday apartment. They then possibly leave it vacant, when not occupying it themselves, which is costly. Or they invest in a buy-to-let property, and use it when it is vacant.

Owning a second home of this nature is far from a picnic! One has to think about insuring the property, maintaining it, cleaning it, finding reliable agents and tenants, doing inventories etc. This administration all takes up a huge amount of the owner’s time and energy.

As compared to such a second home purchase, buying a Sectional Title Hotel room offers vast advantages:

- There is a hotel Management Company to take care of insurance, maintenance, cleaning, marketing and sales, etc. By comparison to the owning of a holiday apartment, the ownership of a Sectional Title Hotel unit is hugely hassle free.
- Usually the income and expenses are pooled, so you do not suffer unduly if your individual unit has a maintenance problem, or has a vacancy for a period.
- In a properly structured scheme, the hotel Management Company is incentivised to maximise the net income flowing to you as owner.
- In a large hotel project, with many units within it, there are economies of scale. Management, marketing, sales and other costs are spread over many units, and this brings better bottom line profits to owners.
- Similarly, when several hundred units combine their marketing and sales budget, the resulting marketing is very effective, as opposed to the owner of one holiday apartment trying to find tenants for his unit.

