



# Hotel chain hopes landowners will sleep easy

Sleeperz, the fledgling budget hotel group, has its work cut out in a battle to compete with the big boys, writes **James Hurley**

## CASE STUDY: MONEY

**O**N HIS way to this interview, David Myers bumped into Stoke City manager Tony Pulis. As a lifelong supporter of the club, Myers couldn't resist approaching him, and wasn't disappointed by the 20-minute chat that ensued.

While he insists the conversation was isolated to football matters, Myers would have been forgiven for seeking some tips; part of his admiration for the former Welsh football player is based upon Pulis's reputation for achieving solid results on limited budgets. Stoke are targeting a top 10 finish this year in the company of the game's aristocrats and nouveau riche. As chief executive of emerging budget hotel brand Sleeperz, Myers is hoping to achieve something similar in his own industry.

The first Sleeperz hotel opened in Cardiff in 2008, and achieved 60pc occupancy in its first year. A second, larger site will open in Newcastle in November. As a minnow, the company has made solid progress, but now Myers says he's engaged in a "race to scale" to build a recognisable brand that can compete with the industry's giants - and satisfy the ambitions of its investors.

You can't even think about calling yourself a chain until you have at least five sites, Myers says - and fledgling hotel brands founder long before they reach that milestone.

When Sleeperz secured £7m in funding to build its second hotel last July - £2.5m in equity, led by private client investment firm Connection Capital, and £4.5m in debt - Myers declared that he wanted to grow the business into a 10-strong chain by 2015. However, getting there using his existing business model is proving tricky.

It's not the proposition itself that's the problem, Myers insists. The concept is smart, compact hotels in city locations next to mainline railway stations, at a "Travelodge price". The only way to make that idea commercial, he says, is to have smaller rooms. A remarkable deal with Network Rail, which gives



### At a glance

**Company** Sleeperz  
**Based** London and Cardiff  
**Turnover** £1.25m  
**Employees** 30  
**Challenge** Adapting its business model away from bank finance and positioning its covenant strength as attractive to property developers

Awaiting Liverpool arrival: David Myers is close to agreeing a deal for a development next to Lime Street station, funded on the same basis as its first two sites in Cardiff and Newcastle

Sleeperz the right to develop and run its hotels on disused land next to mainline rail stations, also helps. "They're one of the largest landowners in the UK. The idea is to build stylish hotels on poor pieces of land that no one else would touch. They're often irregular shapes, joining on to railways bridges. Everyone's terrified of that."

Myers insists Sleeperz doesn't have to compromise on quality and service despite the budget pricing. "OK, we don't have gyms, spas or fine dining. But what we do, we do well." All the rooms have desks and free Wi-Fi as well as floor-to-ceiling windows to create the illusion of more space. Unlike his beloved

Stoke, who won't win any plaudits for style, the Cardiff hotel even boasts an award from the Royal Institute of British Architects for its design-led approach.

Winning business from rival budget chains as well as business travellers trading down from premium and mid-market hotels, the 74-room Cardiff site is expected to deliver revenues of £1.25m and Ebitda (earnings before interest, tax, depreciation and amortisation) of around £400,000 for the current financial year. The larger Newcastle site should generate £2m in its first year, Myers adds.

While the company is close to agreeing a deal for a similar

“OK, we don't have gyms, spas or fine dining. But what we do, we do well”

development adjacent to Liverpool Lime Street station, Myers's 10-chain target by 2015 is currently looking ambitious.

"The model is good. We pay National Rail a ground rent, we take the risk of development, they have a minimum guaranteed rent, and if the business does well, they get a proportion of turnover. The only issue is that it's predicated on us building and for that we need bank finance." Sleeperz relies on banks to finance a 125-year lease for the land, which banks will generally value as a freehold. "It's difficult to get the funding, and even if you can get it, on what terms?" Myers says.

"Any deal now involves more

equity going in. Before, it would be 75pc loan-to-value, now it's 65pc. It's harder to deliver the returns in that model.

"At the moment, you can't rely on building purely freehold driven businesses using bank debt." Myers has now revised his target down to a more achievable five hotels within three years. With the company's venture capital investors eager for returns - some equity has been restructured following a troubled gestation period for the business - the 42-year-old has also resorted to an alternative strategy to get there.

"While it's quite a nice lifestyle business doing one hotel every two or three years, [the investors]

want a more aggressive roll-out." Myers is looking at switching the risk to a partner developer, which would retain the freehold, with Sleeperz taking out a 35-year, full repair and insuring lease. "It's a standard way of moving forward quite quickly; the developer takes the risk, builds it, gives us the keys and we sign up on a lease."

The company is in discussions with developers in Edinburgh and London, but now Sleeperz is faced with another problem.

"The challenge a small business has is that we have a weaker covenant strength than the larger operators because we haven't got a proven trading track record. To ensure the same gross development value of the site when it's done, they want a higher rent from the smaller guys than the bigger business. That makes it difficult to make the economic model work."

Agents tell Myers that he should be able to position the company's covenant strength as healthy, despite its modest size. He concedes he may not have made enough of the track record of the company's backers - its cornerstone investor is Andre Hoffmann, advised by Green & Black's entrepreneur William Kendall, while development company Costain also owns equity.

"We may be a small business but we have a very good pedigree of management and of investor base," says Myers. "We need to make more of that when we're making presentations to investors." He adds that the company's balance sheet is healthy given its modest size. "It's not a strong balance sheet with loads of cash," he says, "but look at our management team."

Myers has already led boutique hotel company Alias to an exit, and previously helped establish nightclub chain Reflex as marketing director at Mitchells & Butlers. The company's financial director, Ian Rollason, came from Hilton and its chairman, Chris Hutt, recently sold Geronimo Inns to Young's Breweries.

"We need to use that to show we're a sensible investment with strong investors and strong management," he says. "Surely there's a way of positioning your business so the covenant strength issue doesn't become insurmountable?"