

Change ahead for holiday units

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Australia's \$3.2 billion-plus resort management industry is about to be revolutionised.

Within 12 months, holiday bookings, vacation financing and the way holiday unit owners source investment returns will be overhauled.

Five Gold Coast-based listed companies have ramped up their campaigns to snare a greater share of the operation and booking of holiday units, which for the past three decades had been dominated by "mum and dad" operators.

The industry has also attracted the attention of major international players such as Accor and Cendant.

Like the recent consolidation in the child-care sector, the wave of change under way in the management rights industry is being driven by companies keen to snare regular, annuity-type income.

Yesterday BreakFree and its major shareholder, funds manager MFS, announced a merger to create a vehicle with a market capitalisation exceeding \$385 million.

Under the MFS merger offer BreakFree shareholders will receive three new MFS shares for each BreakFree share held. The deal attaches a \$5.07 value to BreakFree shares, which rose 45¢ yesterday to close at \$4.77 each.

BreakFree's arch rival, S8, also unveiled plans to sell its management rights into a separate \$120 million property trust, triggering a 16¢ increase in its share price yesterday to close at \$1.94.

Elsewhere on the Gold Coast, financier City Pacific and Sunland are preparing their prospectus documents for a \$60 million public raising for a newly created management rights vehicle, which is expected to list in April.

City Pacific boss Phil Sullivan said: "Management rights and the tourism industry are similar to child care. Child care was a 'mum and dad' industry that's become a corporate play."

The spin-off of management rights from an operator's main balance sheet into property trust vehicles is a concept rapidly gaining in popularity.

It frees up capital for an expansion of holiday rental stock and more aggressive marketing campaigns, as well as the realisation of capital gains on rights held.

It is a model MFS and BreakFree had already kicked off, with a target of

listing a \$100 million property trust by June.

S8's plans are similar and will result in the company having about \$50 million in cash after repaying bank debt.

S8 managing director Chris Scott said S8 expected capital gains of about \$20 million to be realised from the management rights sell-off, which will accelerate growth plans.

Mr Scott said S8 planned to move beyond Queensland. "I've freed myself up and moved into the area of strategy and looking for opportunities at a broader level," he said.

In the case of MFS, pursuing development opportunities and financing investors into new holiday investment products are two other targets.

It is what BreakFree founder Tony Smith likes to brand the "total tourism solution".

Already, the competition among the companies is fierce, frequently personal, and fuelled by the need to build a pipeline of holiday rental stock.

Mr Scott said: "We're all trying to get the edge on each other. At the end of the day we're making things work more efficiently and reducing unit costs."

"Management rights are like child care, which was a mum and dad industry."

MFS executive chairman Phil Adams said size meant more power when it came to merging with BreakFree. "Independently we are strong, together we will be stronger," he said.

There are an estimated 2154 management rights in existence, mostly in Queensland, controlling more than \$34 billion worth of holiday units, according to analysis by specialist selling agents, Resort Brokers.

The industry has been expanding in Queensland for more than 30 years, but has existed in NSW for only a decade. Most recently, a handful of rights have been sold in Victoria and South Australia.

The sector has braked during the past six months after boom conditions for the two previous years, said managing director of Resort Brokers, Ian Crooks.

Earlier attempts at consolidation in the management rights industry among the corporate managers had collapsed, but all players acknowledge that they need to get bigger — and fast — to compete in the listed environment.