



HOTEL FEASIBILITY STUDY:

How indispensable a hotel
feasibility study is?



In over twelve years as a Hotel Advisory Company and helping hotels to open and renovate successfully, we have experienced time and again at Noesis how indispensable a hotel feasibility study is.

Hotel investments are very different from other forms of real estate. A residential project will generate cash right away from the sale of the apartments. But once the units are sold, the owner can never profit from any potential price increase in the future. Retail and Commercial spaces are rented out for a long time, making them inflexible to inflation and potential rate increases. Hotels are different from all the above in the sense of its product being sold daily. This allows hotels to react immediately to changes in demand-supply dynamics. Over a given period, a hotel can offer a higher rate of return than other real estate projects. Even though hotels are potentially highly profitable projects, it takes a great deal of expertise to manage them in times of economic boom and downturn. Experienced consultants and advisory companies can play a major role to help the potential owner to maximize their returns on a hotel investment. It is a common mistake for would-be hoteliers to assume that their vision will succeed without conducting any considerable research on how to build a hotel business that will be consistently profitable and competitive.

In this article, we look at the steps involved in carrying out an effective hotel feasibility study and provide practical examples for the same.

Feasibility studies are conducted by investors & developers to analyse and confirm the optimal product for maximizing market penetration, performance, and the internal rate of return for the product's intended purpose. Objective and reliable information should be used to decide whether to pursue a project. The entire hotel development process can take several years, so investors and developers must bear in mind to not build a hotel that is suitable for "yesterday's" market.

Investors undertake feasibility studies to determine the cost of projects, justify the investment of resources, and establish an approach to maximize the profits. A successful project should always satisfy the developer's explicit objectives. A feasible project is generally one with a projected economic value greater than its cost, and that will provide the required return on investment (ROI).

Feasibility studies for hotel projects include the following aspects:



Analysis of the area, demographics, and neighbourhood to evaluate the local economy.



Review of the plans for the facility, the scope of the project, and the projected costs.



Market analysis of the data gathered on the local and regional markets.



Estimation of the project performance by projecting the occupancy rate (OCC), average daily rate (ADR), and revenue per available room (RevPAR).



Estimation of the annual operating results by analysing the project's scope and characteristics in relation to the comparable properties; and



Calculation of the economic value through discounted cash flow or Other financial analysis tools.



These feasibility studies are typically conducted by reputed third-party consultants who specialize in hospitality projects.

Feasibility studies are conducted for various stakeholders, often with differing objectives, with varying degrees of detail, and at different stages of project development. For sustainable development, the feasibility study must consider the interests of all project stakeholders.

All investment projects start with opportunity definition - the exploration and identification of the project opportunity. A landowner and investor may conduct the highest and best use (HBU) study to determine the most appropriate use of a vacant land or improved property. The purpose of an HBU study is to establish which all property developments are physically possible, financially feasible, maximally productive, and legally permitted.

A feasibility study takes into consideration all the aspects of a development project that can impact its success. It includes different types of analysis that depend on the project's purpose and participants:



STRATEGY ANALYSIS

Analysis of the project and the development objectives, policies, plans, and decision criteria



TECHNICAL ANALYSIS

Determination of the legal and governmental constraints and problems that may affect the project, including title, zoning, and building code.



COMPATIBILITY ANALYSIS

Assessment of the suitability of the development project surrounding the land uses, municipal master plans, public policies, and environmental standards.



DEVELOPMENT ANALYSIS

Evaluation of alternative land-use plans, structure, design alternatives & utility availability, etc.



LOCATION AND MARKET DEMAND ANALYSIS

The study of the economic base and local market or related aggregated data to determine the general suitability of the location and market for the business.



COMPETITION ANALYSIS

Analysis of the marketing factors for a product, such as consumers, competitive properties, sales and marketing, pricing, and absorption rate and development concept that is supported by current and future market dynamics.



FINANCIAL ANALYSIS

Financial analysis of the project, including cash-flow forecasts, IRR analysis, analysis of Project Financing.



BRAND ANALYSIS

Brand analysis for the proposed development will determine the positioning and brand recommendation for the development.

The feasibility of a development project can be determined only in terms of specified constraints and given resources. The consultant concludes whether a development project is feasible based on the criteria provided by the developer. When evaluated in terms of sustainability, the feasibility study considers all significant environmental, social, and economic factors. However, the feasibility criteria vary for each stakeholder.

As you can see, a hotel feasibility study is extensive and with good reason. It gives you and all interested stakeholders, such as other investors, a much clearer picture regarding the costs involved, whether the return on investment is desirable, and helps decide how to proceed.

Given the current economic and health concerns from COVID-19, it remains imperative to consider the current development climate. A feasibility study will evaluate the ramifications of the COVID-19 induced economic downturn and provide projections for market recovery and how the proposed development will perform after opening.

Hotel Feasibility Study Cost

Assembling a well-written and thorough hotel feasibility study is a comprehensive and time-consuming process. For this reason, feasibility studies don't come low-cost, but as they always say: you get what you pay for. Ultimately, low-cost means expensive in the long term or can even prevent you from reaching your project off the ground since it will be tough to convince lenders and other stakeholders that your concept is worthwhile and carries value for them.

Why do we date or engage with someone before we marry them? We want to make sure we are compatible and meant to be with them before making a lifelong commitment. We might call this a feasibility study in terms of building any project. Afterall, building a hotel is also a commitment, although of a different kind.

How can we help you?

We offer an exhaustive feasibility study for any hospitality construction project. Our thorough investigations explore all possible risks and opportunities that can arise in this business venture.

At Noesis, we strive to understand your vision and plans for a proposed hotel establishment and accordingly strategize a course of action for a feasibility study. As elaborated above, we scrutinize every aspect of hotel construction, including geographical factors, market analysis, building costs, finances, and expected returns. Letting our expert and experienced professionals manoeuvre a way out of these ever-changing dynamics will minimize the risks and maximize the benefits.

A feasibility study is largely seen as an indispensable step for all serious hotel proposals and accompanies the business plan in forming a blueprint for success.



We invite you to schedule a virtual meeting or call with us for hotel investment advisory and solutions contact at info@noesis.co.in or +91 7977441286.



Our People

Our team works with global network to ensure we are up to date on all market trends and best practice.

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