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# U.S. HOTEL DEVELOPMENT COST SURVEY 2021

**John Berean**  
*Director*

*HVS San Francisco  
100 Bush Street, Suite 1625  
San Francisco, California 94014*

*HVS Honolulu  
549 Hakaka Place  
Honolulu, Hawaii 96816  
(281) 381-3456*

**Other Contributors:**  
*Kathryn Lutfy  
Lizzette Casarin  
Astrid Clough McDowell*



*Each year, HVS researches and compiles development costs from our database of actual hotel construction budgets. This source provides the basis for our illustrated total development costs per room/per product type.*

## INTRODUCTION

The national lodging market reached an all-time low in 2020, attributed to the impact of the COVID-19 pandemic. Hotels in the United States averaged the lowest occupancy ever recorded. Many hotels, especially those in urban locations, temporarily suspended operations in March or April of 2020 at the onset of the pandemic. Some hotels were even permanently converted to alternate uses. Government travel restrictions, group cancellations, and hesitations regarding air travel resulted in a significant decline in travel and tourism throughout the United States in 2020. Aside from projects already under construction, new hotel development virtually came to a standstill due to uncertainty regarding a recovery in economic conditions.

While COVID-19 continues to affect the hotel sector, lodging performance in 2021 generally illustrated notable improvement, supported by the easing of government restrictions, the rollout of the vaccines, the anticipated return of employees to offices, and the recent reopening of international travel. Concurrent with this rebound in RevPAR, some financing has become available for new hotel development. Projects that were temporarily put on hold at the onset of the pandemic are being revived, and developers are already seeking new opportunities.

HVS has tracked hotel development costs for over three decades, collecting data from actual hotel cost budgets during our assignments. This 2021 survey reports per-room hotel development costs based on data compiled by HVS from hotel projects proposed or under construction during the 2020 calendar year. The data reflect eight product categories: limited-service, midscale extended-stay, upscale extended-stay, dual-branded, select-service, full-service, and luxury hotels, as well as redevelopment projects. Given that this survey provides a retrospective view, ongoing supply chain issues and inflationary factors prevalent in 2021 are not yet reflected in the data.

The *HVS U.S. Hotel Development Cost Survey* sets forth averages of development costs in each defined lodging product category. The survey is not meant to be a comparative tool to calculate changes from year to year, but rather, it reflects the actual cost of building hotels across the United States in 2020. As will be discussed, the medians and averages set forth in this survey are greatly affected by the types and locations of hotels being developed at this point in the development cycle. Our goal in sharing this publication is to provide a basis for developers, investors, consultants, and other market participants in evaluating hotel development projects. Given that development costs for hotels are dependent on a multitude of factors unique to each development and location, this report should not be relied upon to determine the cost for actual hotel projects or for valuation purposes; rather, it is intended to provide support for preliminary cost estimates, as well as to show a comparison across the various hotel categories.

## HOTEL DEVELOPMENT COST CATEGORIES

Evaluating the comprehensiveness of a hotel development budget can often be challenging, as different line items are used and some components are unintentionally omitted. HVS has been at the forefront of assisting developers and industry participants make sense of hotel development costs through the consistent presentation of these costs. Based on our experience with reviewing actual developers' budgets, as well as preparing the annual *HVS U.S. Hotel Development Cost Survey*, we have developed the following summary format for hotel development budgets, which forms the basis for the presented cost categories. We find that these categories are meaningful for hotel professionals when undertaking an analysis relating to hotel feasibility, and they provide a basis from which to analyze proposed projects. The following illustration shows the six categories defined by HVS, as well as the typical items associated with each category.

### EXHIBIT 1: HVS HOTEL DEVELOPMENT COST CATEGORIES

HVS Hotel Development Cost Survey Categories	
<b>Land</b>	
<b>Hard Costs and Site Improvements</b>	<ul style="list-style-type: none"> <li>Building costs/general contractor's bid</li> <li>Building and monument signage</li> <li>Building permits</li> <li>Contractor overhead</li> <li>Engineering costs</li> <li>Hard costs contingency</li> <li>Landscaping costs</li> <li>Parking/parking garage</li> <li>Site improvements</li> <li>Subcontractors' bids (plumbing, electrical, finishes, etc.)</li> </ul>
<b>Soft Costs</b>	<ul style="list-style-type: none"> <li>Architectural fees</li> <li>Consultants</li> <li>Financing costs (construction period interest, interest reserves, loan closing costs, etc.)</li> <li>Franchise application fee</li> <li>Holding costs before and during construction (taxes, insurance, etc.)</li> <li>Interior Design fees</li> <li>Land closing costs</li> <li>Land entitlement costs</li> <li>Professional fees including accounting, consulting, legal, etc.</li> <li>Soft cost contingency</li> <li>Survey</li> </ul>
<b>Furniture, Fixtures, and Equipment</b>	<ul style="list-style-type: none"> <li>Guestroom/guest bathroom furniture and fixtures</li> <li>Kitchen and Laundry equipment</li> <li>Public space and meeting room furniture and fixtures</li> <li>Softgoods including carpeting, drapes, room accessories</li> <li>Technology and telecommunication equipment</li> </ul>
<b>Pre-opening and Working Capital</b>	<ul style="list-style-type: none"> <li>Operating reserves</li> <li>Pre-opening recruiting, staffing, and training</li> <li>Supply inventories (linen, operating supplies, initial purchases, etc.)</li> <li>Technical services fees</li> </ul>
<b>Developer Fee</b>	

Source: HVS

The categories are not meant to be all-encompassing but do reflect the typical items in a development budget. In construction accounting, development budgets are generally presented in far greater detail than for general investment analysis.

## **DATA COLLECTION AND SAMPLE SIZE**

Given disruptions due to the COVID-19 pandemic, HVS only collected actual hotel construction budget data across 38 states in 2020. While not every construction budget was captured (for reasons such as incomplete data, skewed data, or development attributes), our selection includes complete and reliable budgets that form the basis for this year's survey. We note that data for the budget/economy segment was not represented in the 2020 survey due to the limited sample size. The budgets included both ground-up development projects and the redevelopment of existing buildings throughout the United States. This year, the states most represented in the survey were Arizona, California, Florida, Georgia, Illinois, North Carolina, New York, Tennessee, and Texas, illustrating where the bulk of hotel development is occurring in the country. Furthermore, as can be expected, construction costs vary greatly in different parts of the country. In this sample, the highest construction costs on a per-room basis remained in markets with high costs of living, such as California. However, high-end luxury developments were also noted in Florida and New York. Developments with the lowest costs per room were for economy and limited-service hotels in Sun Belt States, such as Texas.

We also examined the lodging-product tier breakdown of our data to further determine the most popular types and brands of hotels that were developed in 2020. In the limited-service category, popular brands included the longstanding choices, such as Fairfield by Marriott, Hampton by Hilton, and Holiday Inn Express. However, newer brands, such as avid by IHG and Tru by Hilton, were also well represented within this category. Within the select-service segment, brands such as AC Hotel by Marriott, Cambria Suites, Courtyard by Marriott, Hilton Garden Inn, and Hyatt Place were highly represented. In the full-service category, soft brands were well represented, including Autograph Collection by Marriott and Curio Collection by Hilton. For the second year in a row, the most popular brand developed was Home2 Suites by Hilton, which is included in the midscale, extended-stay category.

## PER-ROOM HOTEL DEVELOPMENT COSTS

The averages and medians below reflect a broad range of development projects across the United States, including projects in areas with low barriers to entry and in high-priced urban and resort destinations.

**EXHIBIT 2: HOTEL DEVELOPMENT COST PER ROOM AMOUNTS**

	Land	Building & Site Improvements	Soft Costs	FF&E	Pre-Opening & Working Capital	Developer Fee	Total
<b>Limited-Service Hotels</b>							
Average	\$14,168	\$96,154	\$14,439	\$14,968	\$2,938	\$4,243	\$146,910
Median	\$9,787	\$91,024	\$10,750	\$13,574	\$2,153	\$4,465	\$131,752
% of Total*	10%	68%	10%	10%	2%	1%	100%
<b>Extended-Stay Hotels (Midscale)</b>							
Average	\$20,686	\$95,735	\$16,794	\$14,414	\$2,889	\$3,984	\$154,502
Median	\$16,822	\$80,719	\$12,662	\$14,414	\$2,737	\$3,721	\$131,076
% of Total*	14%	63%	11%	9%	2%	2%	100%
<b>Extended-Stay Hotels (Upscale)</b>							
Average	\$17,377	\$129,130	\$28,200	\$19,932	\$4,640	\$6,699	\$205,979
Median	\$14,593	\$125,090	\$21,366	\$20,320	\$3,040	\$7,212	\$191,620
% of Total*	8%	64%	14%	10%	2%	2%	100%
<b>Select-Service Hotels</b>							
Average	\$25,354	\$152,378	\$29,792	\$22,659	\$8,004	\$7,051	\$245,238
Median	\$19,642	\$129,429	\$27,605	\$23,148	\$7,212	\$6,818	\$213,854
% of Total*	9%	64%	12%	10%	3%	2%	100%
<b>Dual-Branded Hotels</b>							
Average	\$20,950	\$181,786	\$25,041	\$26,189	\$5,512	\$9,824	\$269,302
Median	\$11,486	\$138,384	\$23,066	\$23,221	\$4,500	\$8,502	\$209,158
% of Total*	8%	68%	9%	10%	2%	3%	100%
<b>Full-Service Hotels</b>							
Average	\$51,397	\$291,937	\$64,437	\$38,097	\$16,494	\$14,696	\$477,058
Median	\$28,090	\$220,976	\$51,134	\$32,584	\$13,596	\$14,792	\$361,172
% of Total*	7%	66%	13%	8%	3%	2%	100%
<b>Luxury Hotels</b>							
Average	\$81,329	\$497,468	\$129,875	\$52,459	\$26,333	\$17,546	\$805,010
Median	\$47,508	\$482,319	\$94,194	\$45,900	\$21,868	\$20,490	\$712,279
% of Total*	10%	63%	16%	7%	3%	2%	100%
<b>Redevelopment Projects</b>							
Average	\$45,302	\$195,436	\$49,860	\$31,468	\$10,787	\$15,878	\$348,731
Median	\$22,165	\$145,020	\$33,862	\$23,046	\$7,166	\$13,208	\$244,467
% of Total*	13%	58%	15%	9%	3%	3%	100%
<b>Total</b>							
Average	\$34,509	\$201,739	\$44,512	\$27,672	\$10,285	\$11,094	\$329,810
Median	\$15,101	\$116,792	\$21,254	\$19,551	\$3,103	\$813	\$176,613
% of Total*	9%	64%	14%	9%	3%	2%	100%

Source: HVS

\* The percentage of total is calculated based on the total sample of all budgets

As illustrated above, budget/economy hotels were excluded from this year's development cost survey. As we have noted in previous years, this category often has the least development activity in our survey, as the land and construction costs necessary to develop this product type are not typically justified by the revenue potential; thus, new construction of economy hotels is often not feasible.

Limited-service and midscale extended-stay hotels illustrated median costs per room in the \$130,000s and included the popular brands previously highlighted. The median cost for hotels in the upscale, extended-stay category was just over \$190,000 per room and was most represented by the Element by Westin, Homewood Suites by Hilton, Hyatt House, Residence Inn by Marriott, and Staybridge Suites brands.

Select-service hotels, including brands such as Hyatt Place, Cambria, Courtyard by Marriott, and EVEN, reflected a median cost of nearly \$215,000 per room. The cost to develop full-service hotels was nearly \$150,000 per room higher than select-service hotels, with a median cost of over \$360,000 per room.

Lastly, the median cost to develop luxury hotels was recorded at more than \$710,000 per room. Similar to the economy category, this category reflected the lowest number of developments given the difficulty of making luxury projects feasible with such high development costs across the country.

## IN CONCLUSION

The budgets analyzed in this survey are provided directly by the developers, owners, and lenders on both ground-up and conversion hotel projects during the course of an entire year. The results of the survey combine the data from actual construction budgets organized across a variety of product types. The results also comprise unique hotel projects that cannot be replicated by the inherent nature of hotel development. As such, we would caution developers against relying on the information to estimate costs for a specific project, as a multitude of factors affect a hotel's development budget. Thus, we recommend that users of the *HVS U.S. Hotel Development Cost Survey* consider the per-room amount in the individual cost categories only as a general guide for that category. Construction and FF&E design and procurement firms are the best sources for obtaining hard costs and FF&E costs for a specific hotel project. It is also advised that developers consult more than one source in their hotel development process to more accurately assess the true cost of development. Additionally, cost should always be adjusted for inflation over the development timeline given that the typical hotel development process can last three to five years. Lastly, we recommend that the projected performance of the proposed hotel be revisited periodically during the development process.

*All individual property information used by HVS for this cost survey was provided on a confidential basis and deemed reliable. Data from individual sources, brands, or regions are not disclosed.*



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## About HVS

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## About the Author



**John Berean** is the Director of HVS San Francisco and HVS Honolulu. John earned his bachelor's degree from Middlebury College in Vermont and his master's degree from

Peking University in China. Over the last six years, John has consulted on nearly 450 hotel assignments. John focuses on consulting, valuation, and advisory for existing and proposed hotels.

Contact John at (281) 381-3456, or [jberean@hvs.com](mailto:jberean@hvs.com).

### **Other contributors:**

Kathryn Lutfy  
Lizzette Casarin  
Astrid Clough McDowell