

WHAT'S THE DEAL?

How To Buy A Feasibility Study That Works For You

Hotel, motel and resort feasibility studies are used for many different purposes. Most studies assist in defining markets and justifying the demand for proposed projects. Some are employed to establish the need for expanding or renovating existing properties. Others support the economics for hotel re-financing or changes in the equity ownership structure.



A true feasibility study contains the following components:

- Analysis of the demand for trans-

sient accommodations

- Review of the lodging supply or competition
- Investigation of area economic growth trends related to transient visitation
- Estimate of subject's anticipated market share or competitiveness
- Projection of income and expenses
- Comparison of economic value with total project cost.

To be feasible, a proposed hotel's economic value must be greater than its total cost. Unfortunately, most so-called feasibility studies are no more than elaborate economic projections that never address the question of whether a hotel can eco-

nomically support its cost. This omission has led many developers down the road to bankruptcy because project feasibility was not properly evaluated.

Many firms provide feasibility services for the lodging industry, and the following guidelines should be followed when selecting someone to do your work:

1. **A feasibility study is no better than the individual who comes to your local market and performs the field work.** Although some firms have high quality, experienced partners who "review" the efforts of their field workers, they cannot obtain a true feel or flavor for the market unless they personally see the site, talk with

competitive managers and interview local officials. Entrusting a multi-million dollar lodging facility to a kid right out of hotel school can be a costly mistake. Demand to meet the persons who will perform the field work and review their qualifications. If they have never worked in a hotel, look for someone else.

2. **Make sure the financial projections are complete.** Some firms omit fixed expenses, such as property taxes, insurance, and reserve for replacement and management fees. Estimates for these real costs are critical when evaluating the economic potential of a lodging facility.
3. **Remember the appraisal.** To be feasible, a hotel's economic value must be greater than its total cost. Every lender wants assurance that the mortgage will be supported by sufficient value. Therefore, be sure your study provides a true feasibility analysis containing a certified estimate of economic or market value, along with the total development cost. Do not end up paying for two studies (market study and appraisal) when they can easily be combined into one package. Most lenders insist on using an MAI certified appraiser for valuations.

A well-prepared hotel feasibility study will take four to eight weeks to complete and probably cost between \$10,000 and \$30,000. Although firms may utilize highly sophisticated computers to perform the analytical work, the overall task requires professional judgment and experience.

Steve Rushmore

Stephen Rushmore, MAI, is president of Hospitality Valuation Services, Inc., 61 Hilton Ave., Garden City, NY 11530.