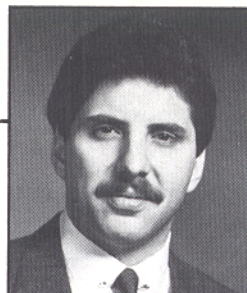


RUSHMORE AND ARASI



Developing a new hotel or motel typically requires a feasibility study verifying market demand and proving the project is economically viable. Selecting the most qualified firm to perform the study is an important decision which can affect the ultimate success of the venture.

Most feasibility reports made for lodging facilities are prepared either by lodging industry accounting firms or real estate appraisal organizations possessing specific hotel expertise. Though several firms are capable of producing well-researched and statistically supported conclusions, it is important to direct their efforts in a manner that results in a finished report which addresses all the key issues and thoroughly documents the recommendations.

Sophisticated lodging developers and lenders have learned to commission feasibility studies by first drawing up a request for proposal (RFP). This document is basically an outline describing all the topics which must be covered in the feasibility study as well as the methods to be employed in the data collection and analysis. The RFP also requests other necessary information, such as fees, timing, qualifications of personnel and an example of what the final report will look like. A complete RFP for a proposed hotel will typically run 10 to 20 pages in length and cover a wide variety of subjects.

The following outline describes the topics which must be covered in a financial feasibility study as well as the methods to be employed in the data collection and analysis.

1. Objectives of the Study—A clear

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HOW TO COMMISSION A FEASIBILITY STUDY

description of the purpose of the study and its use. The location of the property and any descriptive material pertaining to the scope of the project should be set forth.

2. Services Required—A list of the topics that should be addressed by the feasibility consultant.

3. Site Evaluation—Review of the site to determine its suitability for the intended use, including

- a. Size, shape, topography, drainage, soil characteristics;
- b. Access from the surrounding area and sources of demand;
- c. Egress and ingress to and from local highways;
- d. Visibility from local highways and generators of transient visitation;
- e. Availability of utilities; and
- f. Zoning and building permit requirements.

4. Neighborhood Analysis—Review of the immediate neighborhood to determine whether the local environment and surrounding land uses will have a positive or negative impact.

5. Competitive Analysis—Identify all existing, under-construction and proposed lodging facilities which would have a competitive impact on the subject property:

- a. Classify competition as either primary or secondary;
- b. Location, travel distance from subject and generators of visitation;
- c. Description of the facilities, amenities, physical condition, class of service, local reputation, affiliation, age, quality rating, owner, management company;
- d. Operating history—occupancy, av-

erage rate, market segmentation, turn-away demand, food and beverage volume;

e. Occupancy characteristics, unique or unusual marketing features and overall strength of market penetration;

f. Changes that could increase or decrease the competitiveness, such as new ownership, management or affiliation;

g. Status of proposed hotels with probability and timing of their completion;

h. Location maps for competitive properties;

i. Determination of areawide annual and seasonal occupancies, average room rates and market segmentations;

j. Quantify turn-away demand.

6. Area Analysis—Review of surrounding market area to evaluate both historic and future economic and demographic data and socioeconomic trends to determine probable changes in future transient demand. Data should be summarized in table form which shows comparisons of market area, SMA, state and nation. Data analyzed should be compared to historic five- and ten-year statistics.

a. Define the market area geographically and outline its perimeter;

b. Identify generators of transient visitation within market area and determine travel time to the subject site. Describe probable future changes to these demand generators that could have a positive or negative impact on transient demand;

c. Population trends, median age, extent of in or out migration;

d. Income and effective buying income trends;

e. Retail sales, including changes in retail sales and eating and drinking establishment sales. Evaluation of the local RAI and RGI;

f. Trends in total employment and the distribution of employment among the various classifications. List major employers and identify their products and number of employees;

continued

g. Office, retail and industrial development. Indicate square footage inventory, vacancy and absorption trends;

h. Airport data, including airport enplanements, both passenger and cargo. List of air carriers serving the area and future trends;

i. Evaluate all possible future developments that could affect lodging demand;

j. Historic analysis of number of con-

ventions and attendance;

k. Tourist visitation data;

l. Evaluation of transportation systems, historic patronage and future trends, including rerouting planned or under construction;

m. Highway traffic counts.

7. Project recommendations—

a. Type of lodging facility—hotel, motel;

b. Class—economy, first-class, lux-

ury;

c. Primary use—convention, resort, transient;

d. Number of rooms—types, sizes, furnishings;

e. Restaurant and lounge capacity—decor, theme;

f. Function rooms—number of seats, size, divisibility;

g. Meeting rooms—number of rooms, size;

h. Rental areas;

i. Other facilities—pool, parking, health club, other amenities;

j. Affiliation, including franchise and/or management company, their representation in market area and region, their market strength and their market image.

8. Location Maps—Adequate graphics identifying the following:

a. Subject site;

b. Existing and planned lodging development;

c. Major generators of transient visitation;

d. Transportation routes and facilities;

e. Tourist attractions;

f. Airports.

9. Room Night Analysis—Build-up approach based on lodging activity.

a. Identification of primary market segments;

b. Quantification of total accommodated demand by market segment;

c. Estimate unaccommodated (turn-away) demand;

d. Estimate of latent demand;

e. Seasonal, monthly or weekly demand pattern;

f. Anticipated growth in demand by market segment;

g. Projection of available rooms (existing, under construction and proposed) for five years;

h. Projection of room nights available for five years;

i. Estimate of area occupancy for five years;

j. Using a competitive index, estimate the relative competitiveness of the subject property with respect to the other area lodging facilities;

k. Estimate of occupancy for the subject property over a five- to ten-year period.

10. Forecast of Income and Expenses (Five-Year)—

a. Rationale and support for inflation estimate;

continued

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b. Forecast of average room rates based on market segmentation and area competitive rate structures;

c. Supported food and beverage volume based on the build-up cover approach;

d. Estimate of telephone and other income;

e. Projected operating expenses in accordance with the Uniform System of

Accounts for Hotels, including management fees, franchise costs, reserve for replacement, property taxes and insurance;

f. Forecast should be made in inflated dollars;

g. Property tax estimate for new development should be based on the actual assessed values of comparable properties.

11. Estimate of Construction Cost—

a. Construction costs should be estimated with the use of a construction cost manual or estimates made by a contractor or developer;

b. Land value based on either comparable land sales or the ground lease approach;

c. The sum of the construction cost and the land value is the total project cost.

12. Economic Valuation—

a. An economic value is estimated by either capitalizing or discounting the forecast of income and expenses;

b. The capitalization or discount rate is derived from normal financing costs, both debt and equity;

c. A ten-year IRR is calculated.

13. Feasibility Conclusion—Based on the estimated total project cost and the economic value, a conclusion as to the project's financial feasibility is made.

14. Fees—Estimate of professional fees and all other costs, retainers, timing of payments.

15. Timing—Estimate of timing to complete fieldwork, preliminary findings, draft report, final report.

The guidelines provided here should be included in all Requests for Proposals issued to the feasibility consultant. By establishing specific criteria, you are in a better position to evaluate fees, timing and expertise. H

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