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## Importance of Research & Feasibility Studies

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# Panel Introduction

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- Christine ENGELBRECHT Head of Tourism SBU at the Industrial Development Corporation
- Wiza NYONDO Head of Tourism at First National Bank
- Tim STOYLE Director of Hotels at SAVILLS (UK)
- Siddiq ADAM CEO KwaZulu-Natal Growth Fund

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# Objective of Session

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**Overall objective of session** – the Panel will discuss the importance of relevant market research and industry informed projections in assessing new hotel development projects and how this needs to be incorporated into a Comprehensive Feasibility Study in the evaluation of the viability of the project.

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# Pitfalls

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## Development Planning

- Developer's Intent
- Zoning Analysis
- Key Professionals Engaged
  - Architect
  - Quantity Surveyor
  - Town Planner
  - Interior Designer
- Preliminary Planning Engaged
  - Type of Hotel
  - Configuration of Hotel
- Architectural Plans
  - Floor Plans
  - Elevations
  - Renderings
- Interior Design Projection
- QS Elementary Estimates
- Development Brochure Generated

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## Funding and Operations

- Funding and Financial Institutions
  - Require Independent Feasibility Study
  - Need to incorporate
    - Market Substantiation
    - Positioning/Gap Analysis
    - LTV Ratios
    - DSC Overview
    - IRR
    - WACC Based Valuation
  - Need to Have Identified Hotel Operator
- Hotel Operators
  - Independent Feasibility Study
  - Market Substantiation
  - Positioning/Gap Analysis
  - Configuration Justification
  - Projected Trading
    - Occupancy
    - ADR Positioning
    - F&B and Other Revenue
    - Projected Income Statement
    - Projected Cash Flow

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# Purpose and Need

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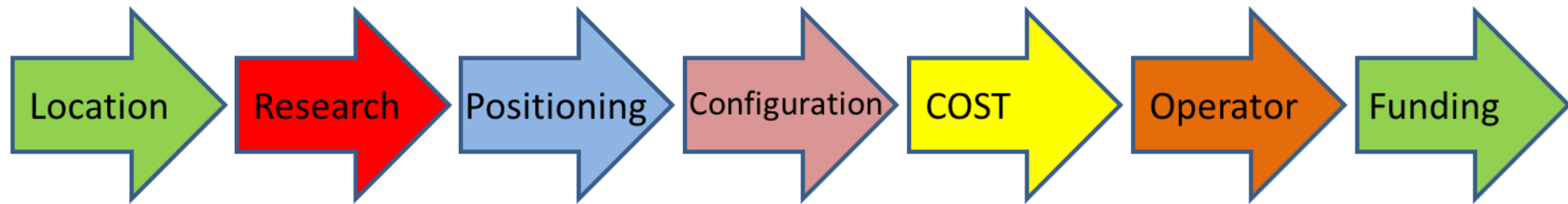


- In what kind of typical situation one would call for research and or a feasibility study?

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# Recommended Process Flow

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# Purpose and Need

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- In what kind of typical situation one would call for research and or a feasibility study?
- What is typically covered in a feasibility study?
- Why Hotel Operators insist on a feasibility study?
  - What Areas Need to be Covered?
  - How important is the Independence of the Opinion?
- Why Financial Institutions insist on a feasibility study?
  - What areas need to be covered?
  - How important is the Independence of the Opinion?



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# Purpose and Need

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- In what kind of typical situation one would call for research and or a feasibility study?
- What is typically covered in a feasibility study?

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# Feasibility Study Overview

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- Hotel Development Overview
    - Location and Destination Overview
    - Hotel Proposed Configuration
    - Benchmarked Development Cost Estimate
  - Strategic Analysis
    - Location Economic and Tourism Overview
    - Hotel Industry Performance Analysis
      - ADR
      - Occupancy
    - Hotel Industry Inventory Analysis
      - By Grade of Hotel
      - By Location
      - Development Year-on-Year Analysis
    - Supply; Demand Analysis
    - Gap Analysis and Market Substantiation
  - Marketing Strategy
    - Market Positioning
    - Operator Brand Analysis
    - Marketing Plan
      - Distribution
      - Pricing
      - Product
      - PR and Advertising
  - Operating Plan
    - Hotel Management Company
  - Financial Feasibility
    - Projections
      - Occupancy
      - ADR
      - Segmentation
    - Income Statement
    - Cash Flow
    - IRR & Valuation
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# Purpose and Need

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- In what kind of typical situation one would call for research and or a feasibility study?
- What is typically covered in a feasibility study?

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# Purpose and Need

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Financial Institutions need to rely on their internal expertise in evaluating potential hotel projects, but need to necessarily rely on the independent opinion of reputable specialist hospitality consultants. What are the key components/elements/areas that a Feasibility Study needs to address to provide the Financial Institution the requisite level of understanding and comfort in the viability of the project?

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# Purpose and Need

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What is the role of the Independent Hospitality Specialist? Is it purely to evaluate the viability of the perceived project, or is it more important to advise on workable alternatives?

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# Market Interrogation

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The Hotel Industry operates in multiple market segments and differentiated demographic factors, invariably within the same node. How important is the integrated understanding of these factors in evaluating the viability of a Hotel?

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# Market Interrogation

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The demand driven environment of the period 2005 to mid-2008 initiated substantial new hotel developments, especially in Major Cities and key centres. Decisions were often based on immediate demand scenarios and not necessarily on the long term viability of a hotel, specific to its market and demographic segments. How effective had the advise been or were substantial projects done without independent advise?

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# Market Interrogation

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The Global Financial Crisis starting in the last quarter of 2008 has presented and extended hurdle to the Hotel Industry. While this could not be foreseen at evaluation in the peak demand 2007/2008 period and the impending FIFA World Cup, building the Hotel for the long run is an imperative of a Feasibility Study. The critical challenge in the depressed trading environment is the ability to service debt. How have Financial Institutions approached this and what is the typical sustainable Gearing Level that can now be looked at, even as the market is recovering?

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Importance of Research & Feasibility Studies

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*thank you*