

The Hotel Market Study vs. the Hotel Feasibility Study: What's the Right Solution for You?

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The hotel feasibility study is not the only option for hotel developers at the start of a project. In this article, we outline the range of solutions we provide for hotel developers, as well as some of the factors we consider as consultants on these projects.

With contributions from Lauren Hock, Zabada Abouelhana, Lauren Reynolds, Katy Black, and Shannon Sampson

One of the initial steps when considering a new hotel development is the all-important hotel feasibility study. Or is it the market study? Or should you, the developer, be considering an interim step?

Lauren Hock, our Gulf Coast consulting leader (based in New Orleans), explains, *"Most developers call—almost automatically—and simply ask us the price and timeline for a feasibility study. We at HVS know to start a conversation with them to determine what their requirements really are at whatever phase in their development they may be. We help our client understand the difference between a market study and a feasibility study (or a first phase of charts/tables only), as well as the costs associated with each. Ultimately, the right solution may save them some money; they simply may not need the full-scale, lengthy feasibility study right out of the gate. The right solution may be a set of numbers first, with the longer report to come in a second (or third) phase. This can help the client receive a deliverable on a quicker timeline as well."*

Potential HVS solutions vary by project and could include any of the following:

- A forecast of occupancy and average rate only (limited narrative content)
- A forecast of income and expense (limited narrative content)
- A summary of findings letter
- A market supply and demand analysis
- A market study through occupancy and average rate
- A summary market study through income and expense
- A full-scale/lengthy market study through income and expense

- A feasibility study (data/tables only with limited narrative content)
- A summary feasibility study
- A full-scale/lengthy feasibility study

While some of the deliverables stand as interim communication documents, many can be presented to investors and lenders to encourage investment. HVS is the go-to firm for such documents. We step in early in the development process and meet with the developer to understand what is planned and the timeline. We seek to learn about not only the basics of the construction and branding (or affiliation), but also what will differentiate the hotel from its competitors, in the developer's view. Based on this initial meeting, we help the developer explore which HVS product may best fit the needs of the project. While the foundation of our analysis is the plans and vision of the developer, we also develop our own set of projections and opinions as the consulting firm regarding how the venture will perform in its market.

Once the client and HVS land on what study or deliverable is right at the time of contracting, we must consider the timeline for the work and how our findings can change over time. Lauren emphasizes that changes in market performance trends, among other factors, can affect a forecast and prompt revisions when the analysis is updated six months, a year, or two years after the initial forecast.

Zabada Abouelhana, our Southwest consulting leader (based in Phoenix), notes how critical it is to analyze new supply, saying, *"Supply growth not only affects the overall market but may also affect the feasibility of the developer's project itself. These changes can pop up at any time, influencing updates to market or feasibility study forecasts that may be sought during the life cycle of a development project."*

Lauren Reynolds, our Director in Salt Lake City, handles many unique destination-resort consulting engagements in the west. She explains the importance of understanding the longer-term growth trajectory for a market or region: *"It is important to consider all dynamics of the market. Where is the growth, and what are the long-term expectations versus the near-term ones? We work in many western U.S. markets that are booming, which requires much more in-depth research and several viewpoints to obtain a well-rounded perspective on the market trajectory."*

Katy Black, MAI, our Rocky Mountain consulting leader (based in Denver), highlighted additional important aspects to consider: *"Understanding the long-term sustainability of forecasted occupancy and rate metrics, particularly in volatile markets where the market has historically experienced wide swings in occupancy and rate (and properly understanding any impact from one-time special events, such as the World Cup, Super Bowl, and/or Olympics), is key. Also, considering ramp-up trends for both revenues and expenses and how inflationary trends and expected increases in minimum wage can impact each line item is critical. On the feasibility front, it is crucial to consider any incentives related to the project, including key money, and the ways they influence the development cost of cash flows after opening. Lastly, it is important to bear in mind that financing situations and assumed holding periods can vary based on the project and developer."*

Lastly, Shannon Sampson, Managing Director of our South Texas region, emphasized the importance of understanding the current cost of FF&E and how luxury properties in particular require significant investment in this category. Also, when building a facilities program, the developer must look beyond the physical spaces and into what the concepts and service levels will be to establish these differentiators early on, rather than shortly before or after opening. Finally, location, location, location! HVS can advise on the appropriateness of sites for lodging development and what property class may

work best on the site selected.

In our hotel market and feasibility study methodologies at HVS, we develop findings, analyses, and financial projections that are credible and defensible. We can also use our extensive experience to provide recommendations for hotel developments when requested. Our deliverables are easy to understand and describe the important economic and hotel market trends that drive the results. Our extraordinary proprietary data is also an important part of supporting the assumptions and results presented.

If you are seeking a hotel market study or a hotel feasibility study, it's important to contract with a firm that not only carries a great regional and national reputation, but can also connect with your vision and marry it with extraordinary local insights and innovative techniques to tell the right story about the project. HVS is the foremost firm for doing just that.