

HVS Monday Musings: Hotel Feasibility Study will Become Critical in the COVID era

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Before investing millions of Rupees of expensive capital, it is prudent to spend an insignificant fraction of the sum on Feasibility and ROI Studies for a hotel and/or a mixed-use project to help determine the viability of the project. The rapidly evolving consumer behavior and demand fundamentals are expected to make a professionally prepared feasibility study even more critical than ever before.

COVID-19 has dramatically changed every aspect of life as we knew it, including the way we conduct our business. Though demand will be subdued for the near to medium term, we expect the industry to regain its 2019 glory in the next 2-3 years, making this an opportune time to invest in hotels. However, with the rapidly evolving consumer behaviour and demand fundamentals, it is imperative for investors to be more cautious and meticulous while evaluating their investment decisions, which makes a professionally prepared feasibility study more critical than ever before.

So, what is a feasibility study? As the name suggests, a feasibility study is a top-down approach that helps potential owners and investors to determine the economic viability of a hotel project based on the location, the underlying market conditions, demand-supply dynamics, and the planned investment. It also recommends the optimal development and brand strategy for the proposed hotel, making it an essential first step of any hotel business & development plan.



Hotels are very different from the other real estate asset classes especially with regards to their ability to generate revenue. Residential projects generate revenue immediately on sale, while office & retail spaces generate annuity-based rentals. Hotels, meanwhile, offer a perishable product generating revenue on a daily basis. It is therefore imperative to develop the right product with the right positioning for the location by conducting a detailed feasibility study and following it to the tee.

There have been several cases in the past, where hotel projects have been developed without taking into account the demand-supply dynamics of the micro-market, project costs were not estimated correctly and the timelines were not conformed strictly, resulting in overspending and overbuilding, thus, making them unprofitable. Hence, before investing millions of Rupees of expensive capital, it is prudent to spend an insignificant fraction of the sum, often less than 0.01%, on Feasibility and ROI Studies for a hotel or a mixed-use project to help determine the economic viability of the project and iron out the flaws, if any. Moreover, incorporating the learnings from COVID in the financial and design plans for hotels, and building efficiently designed hotels at the right cost and the right leverage is going to become critical going forward.