

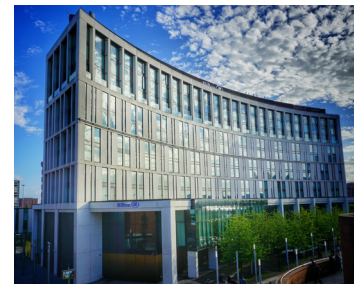


MARCH 2023

# PAM – THE MOST USEFUL BENCHMARK FOR HOTEL INVESTMENT

**Christopher Boyd**  
*Senior Associate*

**Russell Kett, FRICS**  
*Chairman*



HVS.com

HVS London | 7-10 Chandos St, London W1G 9DQ, UK



This license lets others remix, tweak, and build upon your work non-commercially, as long as they credit you and license their new creations under the identical terms. Others can download and redistribute your work just like the by-nc-nd license, but they can also translate, make remixes, and produce new stories based on your work. All new work based on yours will carry the same license, so any derivatives will also be non-commercial in nature.

## Introduction

Following the introduction of Revenue Management (RM) in the airline industry in order to maximise the yield per available seat, made possible by the industry’s deregulation in the 1970s, RM eventually spread to the hospitality industry. Shortly afterwards, RevPAR (Rooms Revenue per Available Room) became the metric of choice for hotel asset managers, operators, investors, funders and analysts to gauge the success or lack thereof of a hotel’s room inventory management. RevPAR remains one of the most recognised and used performance measures in the hospitality industry, providing general market comparison trends and some useful revenue indications.

In the early 2000s, however, HVS London’s Russell Kett, among others, recognised the major pitfalls of looking at just RevPAR and suggested the need to use the complementary performance measure GOPPAR (Gross Operating Profit per Available Room).

This article introduces further key performance indicators (KPIs) that are considered vital in understanding a hotel asset’s performance, not just on a revenue and profitability basis in relation to the hotel’s room inventory, but also to consider how efficiently and effectively space is utilised within the entire hotel operation or in selected parts. This will enable a hotel to be assessed on a similar basis as other classes of real estate and not solely by those with a more detailed understanding of the hotel sector.

## Revenue Management KPIs

KPIs refer to a set of ratios that help compare the performance and progress of a business in relation to its strategic plans or intentions. Performance indicators play a critical role in evaluating past performance and planning future decisions. Measuring business performance is the first step in the improvement process, but without knowledge and understanding of the entire operation there can be no purposeful action.

### RevPAR

RevPAR, along with Average Daily Rate (ADR) and Rooms Occupancy (%), is one of the three main KPIs used to measure a hotel’s performance and success in managing its room inventory. It is calculated by dividing a hotel’s net room revenue (after discount and sales taxes and net of breakfast or other meals) by the total number of available rooms or by multiplying a hotel’s ADR by its rooms occupancy.

### Pitfalls of RevPAR

There are, however, several pitfalls to relying solely on RevPAR as an indicator of a hotel’s complete financial performance. The main issue is that this metric does not consider that, for hotels with substantial non-rooms operating departments (particularly food and beverage and conference operations), rooms revenue may only account for perhaps half of the

TABLE 1: CALCULATION OF ROOMS OCCUPANCY, ADR & REVPAR

<b>Occupancy</b>	<b>Occupied Room Nights</b> 31,540	÷	$\left( \begin{array}{l} \text{Number of} \\ \text{Rooms} \end{array} \right)$ 115	x	$\left( \begin{array}{l} \text{Number of} \\ \text{Days per Year} \end{array} \right)$ 365	=	<b>Rooms Occupancy (%)</b> 75
<b>Average Daily Rate (£)</b>	<b>Rooms Revenue (£)</b> 2,975,000	÷	<b>Occupied Room Nights</b> 31,540	=	<b>ADR (£)</b> 94		
<b>RevPAR (£)</b>	<b>Rooms Revenue (£)</b> 2,975,000	÷	<b>Number of Rooms</b> 115	÷	<b>Number of Days per Year</b> 365	=	<b>RevPAR (£)</b> 71
<b>RevPAR (£)</b>	<b>Average Rate (£)</b> 94	x	<b>Rooms Occupancy (%)</b> 75	=	<b>RevPAR (£)</b> 71		

Source: HVS

hotel's total revenue. These include hotels with substantial food and beverage (and meeting and conference) operations and other non-rooms operating departments. In such cases, RevPAR would only reflect a portion of a hotel's revenue performance, disregarding all other sources of revenues. This will result in an inaccurate analysis when comparing hotel performances not only on a revenue basis, but also in terms of profitability, as different departments also yield a different contribution to profitability. A higher RevPAR does not always indicate an overall healthier financial performance.

A further pitfall of measuring solely RevPAR is that this metric tends to penalise a larger hotel. In equal market conditions, a 100-room hotel should achieve higher occupancy levels than a 200-room hotel, especially when there are seasonal peaks and troughs (or even fluctuation between weekday and weekend occupancy levels). As a result, RevPAR of the larger hotel is likely to be lower than that of the smaller hotel. Therefore, hoteliers and potential investors need to consider size and profitability when comparing the performance of a specific hotel in relation to other hotel properties. In many cases, owing to economies of scale and incremental revenues, a larger hotel may well have a healthier financial performance than a smaller hotel with a higher RevPAR.

Additionally, and perhaps most importantly, hotel values are typically based on net free cash flows rather than total revenues. While RevPAR is somewhat related to a hotel's value, it is not necessarily adequately correlated to the income capitalisation value of a hotel property. However, it can be said that changes in hotel values are often highly correlated to changes in RevPAR (reflecting an elastic relationship).<sup>1</sup>

### TRevPAR and GOPPAR

Once RevPAR had been taken up as the primary KPI in the industry, the understanding that other revenue sources needed to be taken into consideration for a fair comparison amongst hotels led to the recognition of TRevPAR (Total Revenue per Available Room). This KPI incorporates net revenues from all operating activities, thereby giving a better indication of how the entire hotel is performing. While RevPAR and TRevPAR may be very close for limited-service properties, the difference between the two can be significant for full-service hotels, resorts, convention hotels and so forth. However, although TRevPAR includes revenues from all revenue streams, it still does not account for the differing contribution margins.

<sup>1</sup> Please refer to our 2003 publication, 'GOPPAR, A Derivative of RevPAR!' (<https://www.hvs.com/article/348-goppar-a-derivative-of-revpar>) for more detail.

TABLE 2: GOPPAR ILLUSTRATION

	Hotel X % Total		Hotel Y % Total	
<b>Number of Rooms</b>	<b>200</b>		<b>200</b>	
Number of Days in Historic Period	365		365	
Number of Rooms Available/Year	73,000		73,000	
Occupancy	70%		76%	
Average Rate	100		97	
<b>RevPAR</b>	<b>70</b>		<b>74</b>	
<b>Revenues</b>				
Rooms	5,110,000	60 %	5,381,560	73 %
Food and Beverage	2,500,000	30	1,200,000	16
Other Departments	850,000	10	750,000	10
<b>Total Revenue</b>	<b>8,460,000</b>	<b>100</b>	<b>7,331,560</b>	<b>100</b>
<b>Departmental Expenses</b>				
Rooms	1,277,500	25	1,345,390	25
Food and Beverage	1,625,000	65	840,000	70
Other Departments	400,000	47	352,500	47
<b>Total Departmental Expenses</b>	<b>3,302,500</b>	<b>39</b>	<b>2,537,890</b>	<b>35</b>
<b>Total Undistributed Expenses</b>	<b>1,600,000</b>	<b>19</b>	<b>1,600,000</b>	<b>22</b>
<b>Gross Operating Profit</b>	<b>3,557,500</b>	<b>42 %</b>	<b>3,193,670</b>	<b>44 %</b>
<b>GOPPAR</b>	<b>49</b>		<b>44</b>	

Source: HVS

GOPPAR is defined as total Gross Operating Profit Per Available Room, where Gross Operating Profit (GOP) is equal to total revenue less the total departmental and undistributed departmental operating (overhead) expenses, thus accounting for movement in both revenues and operating costs.

While GOPPAR does not indicate the revenue mix of a hotel property and therefore does not show an evaluation of the individual departments, it does provide a clear indication of a hotel's profit. Furthermore, GOPPAR can, in most cases, better reflect the profitability, management's efficiency, and underlying value of hotel properties, as a whole. HVS London's previous analysis illustrated that GOPPAR has a direct correlation of between 85% and 90% with a hotel's value, while RevPAR has a correlation of approximately 70% to 75%. As such, GOPPAR provides a more reliable measure for hotel valuations when compared to RevPAR and should therefore be used as a more reliable basis for hotel investment analyses. A high RevPAR does not necessarily imply a high bottom line and thus a high value; while a high GOPPAR reflects a high bottom line as well as a more reliable indication of value for the property for 'quick and dirty' hotel investment analyses, as indicated in Table 2.

In the above example, Hotel Y would appear to be the stronger performer when looking exclusively at RevPAR. However, owing to the significant contribution of F&B to GOP, Hotel X in fact has the stronger GOPPAR. All else being equal, this hotel would also likely have the higher value.

As mentioned earlier, for some hotels rooms revenue is less important and can account for only half of the total revenue or less. Additionally, there are many hotels which have significant space designated for conferences and banquets, lobbies and non-revenue-generating public spaces. KPIs such as GOPPAR and TRevPAR may look at a hotel's performance in regard to its room inventory management; however, it is equally as important to measure and understand the profitability of the entire building. TRevPAR and GOPPAR better incorporate other income streams, but can only be used to show how the hotel is doing as a whole; they do little to inform management of what departments may be underperforming owing to the poor application of revenue management techniques.

## RevPAM and GOPPAM

RevPAM and GOPPAM, as the names imply, are defined as a hotel's total revenue or profit per available (square) metre. The following table

illustrates the computation of RevPAM and GOPPAM for selected comparable hotels.

A major benefit of using these two indicators as KPIs is that they take the entire space of the hotel into the equation, thus measuring the profitability of the building as a whole. Hoteliers can get more granular with their revenue management strategies, which becomes especially useful for hotels that generate incremental revenue through conferences and banqueting as these metrics are able to measure the utilisation efficiency of the entire property.

Hotels that have spaces that go beyond just accommodation need to focus on creating, promoting and optimising the offering that utilises those spaces. For example, as demonstrated in Table 3, Hotel A and Hotel B have an equal number of rooms (300) and perform at the same RevPAR of £70. Hotel A, however, has a larger conference & banqueting space and a total available space of 25,000 m<sup>2</sup>. Hotel B, on the other hand, has a total available space of 20,000 m<sup>2</sup>. With only 100 rooms and significantly fewer other spaces, Hotel C has a total available space of 7,000 m<sup>2</sup>. Owing to the additional function space, Hotel A is able to generate more revenue resulting in a higher TRevPAR at £124, 7% more than Hotel B (£116) and 21% more than Hotel C (£102). In terms of GOPPAR, which accounts for all operating expenses, most of which include both fixed and variable portions, Hotel A is also overperforming by approximately 4% higher than Hotel B (£48 compared to £46) and 17% higher than Hotel C (£41).

However, if we take a look at the RevPAM and GOPPAM KPIs, which allow a hotel to measure the full impact of its revenue management strategies across all areas of the hotel, we can see that Hotel A is generating 14% less revenue and 16% less profit on a per available square metre basis than Hotel B. More interestingly, compared to Hotel C, Hotel A generates a higher RevPAM (+2%) but a lower GOPPAM (-1%).

This illustrates that RevPAM and GOPPAM do not always correlate with RevPAR or GOPPAR, and should be taken into account when evaluating a hotel's financial health. Hoteliers and investors need to pay attention to these new KPIs during new builds and major renovations to optimise facilities and space, to drive ROI and ultimately optimise value per square metre. Many hotels face capacity utilisation issues as they attempt to maximise revenues because unused or misused spaces represent missed revenue-generating opportunities.

TABLE 3: REVPAM AND PROPAM ILLUSTRATION

	Hotel A	%	Hotel B	% Total	Hotel C	%
<b>Total Available Space</b>	<b>25,000</b>		<b>20,000</b>		<b>7,000</b>	
<b>Number of Rooms</b>	<b>300</b>		<b>300</b>		<b>100</b>	
Number of Days in Historic Period	365		365		365	
Number of Rooms Available/Year	109,500		109,500		36,500	
Occupancy	70%		70%		65%	
Average Rate	100		100		100	
<b>RevPAR</b>	<b>70</b>		<b>70</b>		<b>65</b>	
<b>Revenues</b>						
Rooms	7,665,000	57 %	7,665,000	61 %	2,372,500	64 %
Food and Beverage	4,300,000	32	3,500,000	28	850,000	23
Other Departments	1,600,000	12	1,500,000	12	500,000	13
<b>Total Revenue</b>	<b>13,565,000</b>	<b>100</b>	<b>12,665,000</b>	<b>100</b>	<b>3,722,500</b>	<b>100</b>
<b>Departmental Expenses</b>						
Rooms	1,916,250	25	1,916,250	25	593,125	25
Food and Beverage	3,010,000	70	2,450,000	70	595,000	70
Other Departments	750,000	47	703,125	47	235,000	47
<b>Total Departmental Expenses</b>	<b>5,676,250</b>	<b>42</b>	<b>5,069,375</b>	<b>40</b>	<b>1,423,125</b>	<b>38</b>
<b>Total Undistributed Expenses</b>	<b>2,600,000</b>	<b>19</b>	<b>2,550,000</b>	<b>20</b>	<b>800,000</b>	<b>21</b>
<b>Gross Operating Profit</b>	<b>5,288,750</b>	<b>39 %</b>	<b>5,045,625</b>	<b>40 %</b>	<b>1,499,375</b>	<b>40 %</b>
<b>TRevPAR</b>	<b>124</b>		<b>116</b>		<b>102</b>	
<b>GOPPAR</b>	<b>48</b>		<b>46</b>		<b>41</b>	
<b>RevPAM</b>	<b>543</b>		<b>633</b>		<b>532</b>	
<b>GOPPAM</b>	<b>212</b>		<b>252</b>		<b>214</b>	

Source: HVS

In the example of Hotel A, above, when the additional meeting space is not used for conferences or banqueting events, it could be used for instructor-led classes; wasted restaurant space can be transformed into an additional revenue-generating amenity for hotel guests; excess lobby space can be used to create a pop-up bar/kitchen which can attract in-house guests as well as local residents. Past case studies have shown how hoteliers can successfully be creative; for example, the conversion of three underutilised treatment rooms into a 'gentlemen's boxing club', which both paid a rent to the hotel and required all members to purchase a spa membership to join. Other examples include outdoor spaces that have been optimised to drive additional revenue through the creation of rooftop terraces and garden bars; underutilised meeting rooms have been converted into rent-paying recording studios; and empty lobbies have become home to co-working spaces and pop-up stores.

## Conclusion

Hotel operators need to learn to manage the entire building they operate, and speak the language of real estate investors, who typically

measure performance as an amount per square metre. Since GOPPAM enables owners to compare their hotel's performance with that of other real estate asset classes including offices, residential, retail, and so forth, it is more aligned with their overall interests. This is an essential step towards identifying dead or underperforming space and areas of the building with true potential for value creation. Effective and modern revenue managers must expand their focus from just the hotel's rooms and put greater emphasis on the entire property. This would include creating other uses for spaces that are not driving any significant revenue. This will allow hoteliers to tackle two issues in one: optimising revenue and profit per square metre.

RevPAR and GOPPAR are effective and reliable indicators of a hotel's performance; however, they may not provide the whole picture of a hotel's business performance and don't allow for comparability against other real estate asset classes. It's time for hoteliers to not just brag about high ADRs, but to also focus on the revenue generation and profitability of the entire hotel, through the likes of RevPAM and GOPPAM.

– HVS –





## About HVS

HVS, the world's leading consulting and services organisation focused on the hotel, mixed-use, shared ownership, gaming, and leisure industries, was established in 1980. The company performs 4,500+ assignments each year for hotel and real estate owners, operators and developers worldwide. HVS principals are regarded as the leading experts in their respective regions of the globe. Through a network of 60 offices and more than 350 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. [HVS.com](https://www.hvs.com)

**Superior Results through Unrivalled Hospitality Intelligence.  
Everywhere.**

With offices in London since 1990, **HVS London** serves clients with interests in the UK, Europe, the Middle East and Africa (EMEA). We have appraised some 4,000 hotels or projects in more than 50 countries in all major markets within the EMEA region for leading hotel companies, hotel owners and developers, investment groups and banks. Known as one of the foremost providers of hotel valuations and feasibility studies, and for our ability, experience and relationships throughout Europe, HVS London is on the valuation panels of numerous top international banks which finance hotels and portfolios.

## About the Authors



**Christopher Boyd** joined HVS's London office in March 2021 having interned there in 2020. Fluent in English and German, he holds a BSc (Hons) from EHL Hospitality Business School with a specialisation in strategic hotel investment and

hotel development. Prior to joining HVS, he gained operational experience in Cordoba and Barcelona in Spain, in Zürich and in London. Christopher has worked on several feasibility studies and hotel valuations in Europe, including France, Germany, the UK, and Switzerland.



**Russell Kett, FRICS** is chairman of the London office of HVS, which he joined in 1995. He has 45 years' specialist hotel consultancy, investment and real estate experience, focused on providing valuation, feasibility, shared ownership, property, brokerage,

investment, asset management, strategy and related consultancy services, advising hotel companies, banks, developers and investors on all aspects of their hospitality industry related interests, throughout the EMEA region. Russell is a frequent writer, moderator and speaker on the international hotel industry, especially topics relating to hotel valuation, investment, marketing and finance.

For further information, please contact:

**Christopher Boyd**, Senior Associate  
+44 (0) 7874 877 686  
[cboyd@hvs.com](mailto:cboyd@hvs.com)

**Russell Kett**, Chairman  
+44 20 7878 7701  
+972 58 648 6545  
[rkett@hvs.com](mailto:rkett@hvs.com)