

# JLC HOSPITALITY CONSULTING

## MARKET ANALYSIS & ECONOMIC FEASIBILITY

### **MARKET ANALYSIS**

Market analysis the first part and economic feasibility is the second part of a complete report that is necessary prior to seeking equity partners or requesting a loan to buy or build a hotel.

Typically, the hotel developer has already selected a market, a neighborhood and a site where he wants to build a hotel. If not, we will back up and assist the developer in evaluating alternative markets and sites. Whatever the starting point, we describe the nature of the assignment at the beginning of the report, so the client's objectives will be achieved.

We have analyzed markets from major metro areas to small cities and towns in almost every state and a few foreign countries. Whether it is a 60-room limited service hotel or a 500-room full service hotel, we approach every market with the same set of questions, checklists and tools.

We review the general market characteristics and trends and determine how these factors will impact the project. We review any previous studies that have been done. We investigate the existing competitive supply and determine each competitor's strengths and weaknesses. We identify the demand for the proposed project. What type of customers will the proposed hotel attract? How many are they? What do they prefer? We let consumer demand drive the design and configuration of the proposed hotel, while we remain objective and independent.

### **ECONOMIC FEASIBILITY**

After analysis of the general market, competitive supply and demand generators, we will provide a past to present Supply & Demand Trends Analysis for nation, region, state, market and competitive set. The proposed hotel will be positioned among the competition in terms of type, size, customer mix, occupancy, room rates and revenues. From here, we make recommendations to the developer regarding product design, facility configuration, ownership issues, management issues and possible franchise affiliations. All this is necessary to understand the market situation and determine how the proposed hotel will perform.

The purpose of the Market Analysis & Economic Feasibility Report is to reduce the developer's risk.

Once you uncover consumer demand that is not being served and let it drive the design of your proposed hotel, you have a far better chance at success than if you simply ignore customer preferences. We advise the client on size, type and product features, ownership issues, management options and franchises.

In the final analysis, we determine customer mix, average room rates, revenues and the expense ratios for the type of hotel proposed. Bottomline, what are the NOI and the cash available for debt service? Now, the developer can determine how much he can afford to spend on the total project, the equity he must raise and the loan he needs.

### **DUE DILIGENCE STARTS WITH A GOOD MARKET ANALYSIS & FEASIBILITY REPORT**

Hotel developers have different needs as they go through the lifecycle of building, buying, holding and selling their hotels. Often, we are asked to provide due diligence for our clients. Due diligence starts with a good Market Analysis & Economic Feasibility Report. If a feasibility report does not exist, the client must obtain one, or we must produce one before we can continue with the due diligence. A Market Analysis & Economic Feasibility Report is necessary, if not required, for completion of the following:

- Purchasing an existing hotel
- Building a new hotel
- Obtaining financing
- Refinancing your existing loan
- Obtaining an accurate appraisal
- Repositioning an existing hotel
- Re-franchising an existing hotel
- Preparing to sell an existing hotel
- Guiding the sales & marketing of a hotel

Regardless of your investment objective, do our research first. The more you know at the beginning of the project, the more likely you will lower your risks and achieve higher profits at the end of the project. Money you spend upfront getting a Market Analysis & Economic Feasibility Report is the wisest investment decision you can make --- so you know exactly what is at stake.

What makes a good Market Analysis & Economic Feasibility Report? Here's a sample table of contents for a typical report:

**A MARKET ANALYSIS & ECONOMIC FEASIBILITY REPORT  
CONTAINS THE FOLLOWING SECTIONS**

<b>1. Nature of Assignment</b>	Description of the client goals and special circumstances that may exist.
<b>2. General Market Trends</b>	The socioeconomic issues that need to be understood include population and workforce changes and their impact on the proposed development. Populations by age, gender and location and their impact on potential incomes. Median household income, education, effective buying power, economic growth and major employers and their effects on the market area. New business and industry, the area's largest employers and their effects on the target market. We will also review any previous research studies relevant to the proposed project and discuss its impact.
<b>3. Site &amp; Surrounding Area Analysis</b>	We review the site, existing buildings, land uses, adjacent land uses, zoning, permits, licensing issues, access, visibility, traffic counts and proximity to demand generators of each site we study. This section is designed to discover potential problems or best uses for the proposed development. The finite development related detail (zoning) is not the main focus. Our concern at this point is to determine if a hotel would work on the subject site.
<b>4. Lodging Supply Analysis</b>	Each competitive hotel, both primary and secondary, that exists in the market or is planned is inspected and reviewed to provide our client with a full understanding of the impact the competition has on the area. We review each competitor's occupancy, average rate, customer mix, penetration of demand in each segment and the market positioning. In this section, our goal is uncover and present every nuance of the market and how to make a new hotel succeed.
<b>5. Lodging Demand Analysis</b>	The demand for lodging must be understood to properly understand the threats and opportunities that exist within a market. In some cases, we have interviewed over 200 companies to quantify corporate room demand for a single hotel. When we review the lodging demand, we review it by segment, not in generalities.
<b>6. Lodging Industry Outlook &amp; Trends</b>	The lodging supply and demand relationships are reviewed in depth. We typically review the last six years of the competitive hotel's occupancy, ADR, REVPAR, supply changes and demand changes. Each historical trend is evaluated and weighed with the current market knowledge to provide the client with a forecast that is both reasonable yet conservative.
<b>7. Recommended Product Concept, Facility Configuration, Ownership, Franchise &amp; Management</b>	These section reviews customer needs, the positioning of the hotel and the niche it is best suited for. If requested, franchises suitable for the proposed hotel are reviewed with a recommendation towards a number of brands that meet the needs of the market and the developer. Based upon our supply and market demand knowledge, we make property configuration & product recommendations for inclusion into the design/development stage. Our fieldwork and interviews discover numerous issues that the proposed hotel should address to obtain the maximum penetration in the market.
<b>8. Forecast of Future Performance</b>	All of the elements of the report are focused here. We review the supply of hotel rooms, the demand for hotel rooms and determine the impact of any new additions. The proposed hotel is added to the supply, customer mix is determined and the occupancy and average room rates are set. Using the Uniform System of Accounts, we then calculate a 5-Year Projection of Occupancy, Rates, Revenues, Expenses, Net Operating Profit and the Cash Available for Debt that can be expected.