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BANKERS' ATTITUDES ABOUT AND SATISFACTION WITH LODGING FEASIBILITY STUDIES

James W. Damitio
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and
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ABSTRACT

This study examines the opinions of large banks about the importance of typical items found in a lodging feasibility study and the extent of their satisfaction with the analysis presented in these studies. In order to determine bankers' attitudes about and satisfaction with lodging feasibility studies, a survey was distributed to large banks with asset holdings of over \$2 billion. Results show that, while bankers did consider most sections of current feasibility studies important, they seemed to be dissatisfied with the usefulness or reliability of various sections of the report. As such, some important issues relevant to the structure of current lodging feasibility studies are better understood.

Introduction

Bankers are in business to lend money in order to provide an adequate rate of return to their investors. Loans are granted to individuals and businesses when bankers are reasonably assured that the loan will be repaid. The excessive and unqualified lending that resulted in the sub-prime lending crisis has made bankers more cautious, as bank examiners are increasing loan loss reserves for banks' loan portfolios. In addition, events such as the FDIC takeover of the Pasadena-based IndyMac Bank and the closure of the First Priority Bank of Bradenton have also raised the bar for bank loans. While the current capital-constrained environment has put a hold on hotel development projects, as the new development cycles start, once again consultants will be busy preparing a report critical for securing financing: the lodging feasibility study.

Typical Structure of a Lodging Feasibility Study

A well-developed lodging feasibility study is part of the due diligence process for hotel development. The items that are typically covered in a lodging feasibility study include the following:

- General market characteristics
- Site and neighborhood analysis

- Supply-demand analysis
- Recommendations about the facilities of the project
- Occupancy and room rate projections
- Financial projections

With regard to *general market characteristics*, key components include tourism trends in the area, the actual major demand generators for the project, the economic climate, and the seasonality of market demand. In addition, income level, highway traffic counts, demographic trends in the area, environmental concerns, and even airport statistics are included. Also typically included are sales at eating and drinking places (for full-service hotels), employment trends, labor force statistics, office vacancy statistics, local general retail sales and, where available, specific retail market performance data.

Site and neighborhood analysis addresses site visibility, convenience of the site to demand generators, and physical and site suitability. When market studies are part of an appraisal, also included are utilities and other infrastructure services, changes in and review of land use in the area, building descriptions, and construction and new development. Other areas of importance in an appraisal include street characteristics, permits and restrictions, noise and other livability cues, and a review of boundaries.

Supply-demand analysis identifies and analyzes competitive supply, projects growth in supply and demand, and analyzes the historical occupancy in the area. Smith Travel Research data and interviews with competitive properties are used in understanding lodging demand dynamics. While data availability is a challenge, both turn-away demand and identification of the market segmentation are considered. At a minimum, studies should incorporate business patterns, timing, and periods when there is overflow or unsatisfied demand.

When looking at the *recommended facilities* analysis of the project, the study should deal with meeting and guest rooms and proposed food and beverage facilities as well as market-based amenities such as a pool and the growing importance of an appropriately sized fitness facility. Also typically covered are design and concept recommendations.

Occupancy and average daily rate analyses are critical to the corpus of the study. These should include both projected and stabilized average daily rates and projected and stabilized average annual occupancy figures. (Occupancy refers to paid occupancy, which is total occupancy less complimentary rooms.) The study should also include projected seasonal occupancy and ADR numbers, as well as projected ADR and occupancy by market segment.

Financial projections are critical to the study and should include total revenue, department and operating expenses, income before fixed charges, fixed charges, reserves for replacement of furniture, fixture and equipment (FF&E), and income before interest, taxes, depreciation, and amortization (EBITDA). The financial information is presented,

in many cases, both adjusted for inflation (current dollars) and unadjusted for inflation (constant dollars).

Review of Literature

A lodging feasibility study is purchased by a potential lodging owner who is attempting to secure bank financing when evaluating a prospective development. Studies vary from a limited demand analysis that focuses on the supply and demand for lodging rooms in a market to full-blown feasibility and pro forma analysis studies (Andrew, Damitio, & Schmidgall, 2007).

It is imperative to the lender that the study compiled for the hotel project be sound. Its projections must be based on accurate information and must follow a uniform methodological process. It is not realistic to expect that feasibility studies will always be accurate in their projections. Rushmore (1996) has stated, "Hotel markets are highly dynamic, and unforeseen changes, such as the addition of new rooms, a downturn in the local economy, or changes in the transportation patterns can have a devastating effect on a hotel's future operating performance." However, in the past, researchers and industry practitioners have critiqued lodging feasibility studies and implicated consultants who prepare them for the failure of hotel projects. For example, Sorenson (1990) stated that the failure of a lodging project can be attributed primarily to unsound or weak management, poor market timing, or the lack of an effective feasibility study. Consultants who take pride in the quality and thoroughness of their work will understandably be sensitive to third-party assertions on the role of feasibility studies for the failure of hotel projects. However, given the wide range of consultants preparing market studies, it does raise the question of consistency of quality and minimum standards for the preparation of these studies. Turkel (1997) indicated a number of methodological issues associated with feasibility studies, including occupancy and average daily rate projections, estimates of marketing expenses, estimates of capital expenditure reserves, an analysis of food and beverage operations, and other constructive ideas for methodological improvements.

This question was first raised by Paul Beals in his seminal research on lodging feasibility studies, where his conclusion was that although formal feasibility reports continue to be commissioned for hotel projects, the basic methodology of the analysis has not changed (Beals, 1990). In the 1980s, these studies failed dismally as instruments of due diligence and can improve only if competent and qualified personnel perform the analysis (Beals, 1994). For example, due to overbuilding in urban and some suburban locations, there is a greater need for these studies to be more sophisticated in order to fit the specific target market (Klein, 1989).

The hotel industry has gone through several periods of overbuilding including the mid-1970s and late 1980s. The terrorist attacks in 2001 catastrophically affected demand and hotel performance. To a greater or lesser degree, during each of these periods, lenders

were plagued with defaulted hotel loans and in many cases were unintended owners of hotel real estate, which is illiquid and management-intensive in nature. Given the low margin (estimated at 2 percent return on assets) and high-volume nature of commercial bank loans, each \$1 million of lost principal requires that banks originate \$50 million in new loans to compensate the loss (Roginsky, 2003). At the same time, lenders have a fiscal responsibility to their investors and depositors to reduce risk. As lenders are the parties that ultimately accept feasibility studies, they can play a critical role in methodological improvements associated with the structure of those studies.

This question was initially investigated at a community banker forum at the Risk Management Association conference in Baltimore during October 2003. The community bankers were presented with a structured questionnaire in a session titled *The Role of Lodging Feasibility Studies in Reducing Lender Risk: A Survey of Lender Attitudes Toward Lodging Feasibility Studies*. At the end of the 90-minute session, the community bankers were asked to complete the questionnaire ranking on importance and satisfaction scales certain aspects pertaining to lodging feasibility studies. The results of this survey, initially published in the *RMA Journal*, showed that the areas of the typical feasibility study that are most important to small community bankers—namely, occupancy, ADR analysis, and financial projections—are the items with which they are least satisfied (Singh, Schmidgall, & Beals, 2004).

Purpose of Study and Methodology

In the spirit of an iterative and incremental research process, this study is a continuation of the previous research to engage the lending community in exploring methodological gaps in feasibility studies. While it is naïve to expect that feasibility studies will be improved on the strength of one study, this study will highlight their shortcomings from a lender perspective. The results could then form a basis of discussion between the lending community and preparers of these studies, which could ultimately lead to standardizing the methodology of these studies and establishing minimum benchmarks for information presented.¹

This study attempted to determine the attitudes of bankers in large banks regarding the importance of the typical items found in a lodging feasibility study. In addition, the study attempted to determine the extent to which bankers are satisfied with the analyses presented in the typical feasibility study. In order to determine bankers' attitudes toward and satisfaction with lodging feasibility studies, we distributed a survey to large banks, defined as banks with asset holdings of over \$2 billion. Although only 34 bankers

¹ For example, in 1995, the International Society of Hospitality Consultants conducted research to establish capital expenditures for U.S. hotels. Based on the initial and subsequent research, it was determined that the standard allocation in feasibility studies for reserves for replacement of 3 percent was much below the true CapEx spending by hotels. By establishing an empirical benchmark, the research contributed to the reliability of study projections.

responded to the survey, their responses should prove to be useful to the hotel industry. Almost one-third of the respondents indicated that their bank was best described as a regional bank, while about 20 percent indicated their bank to be a community bank. The remainder of the respondents indicated that their banks were best described by other names, such as an investment bank or a thrift institution.

Institutions in the study ranged in size from \$2 billion to \$600 billion in book value of their assets, with an average of just over \$51 billion. The average amount of total real estate loans in respondents' loan portfolios was almost \$6 billion, with the range from a low of \$20 million to a high of \$30 billion. The average of total *hotel* loans was about \$882 million, with a range from \$10 million to \$12 billion. Just over 40 percent of the respondents reported that their institution's staff had at least one individual that specialized in hotel loans.

Structure of Survey Instrument

Section I of the survey included general demographic questions such as, "Is your financial institution best described as a regional bank, community bank, or mortgage bank?" Respondents were also asked to report the approximate book value of their institution's total assets, as well as the approximate book value of their real estate loans in general. In addition, respondents were asked to indicate the book value of the hotel loans in their institution's real estate portfolio and if their institution included any staff who specialized in the hotel industry.

Section II of the survey asked respondents to indicate the purposes for which they granted loans to the hotel industry (new construction, expansion, etc.). They were also asked to report the type of hotel (full-service, luxury, etc.) to which they granted loans, the price categories of the borrowers (upscale, midscale, etc.), and the owner type (private, REIT, C-Corp, etc.) to which they granted loans. They also were asked to rate the importance of a list of 15 factors influencing hotel loan decisions, such as the financial strength of the applicant, location of the site/hotel, etc. For this portion of the study, a six-point Likert scale was used ranging from 1 (crucial) to 5 (unimportant); 6 meant no opinion. Lastly, they were asked to indicate on the same Likert scale the importance of a number of consultant recommendation criteria such as "accuracy of previous feasibility study projections" and "professional reputation of the firm."

In section III of the survey, respondents were asked to rate (on the same scale) the importance they placed on the typical items that would be found in the hotel feasibility studies presented to them. This included a list of the factors mentioned above under each of the following general categories: general market characteristics; project, site, and neighborhood analysis; supply-demand analysis; recommended facilities; occupancy and ADR projections; and financial projections. Bankers were also asked to provide input on their satisfaction with the presentation of these items by rating them on a Likert scale ranging from 1 (completely satisfied) to 5 (completely dissatisfied); 6 again meant no opinion.

Analysis of Results

Factors Influencing Hotel Loan Decisions

While lending to hotel owners represents a business opportunity, it is also a credit risk. Lending institutions have well-defined, criteria-based credit standards to guide their lending decisions and reduce non-performing loans. Table 1 reveals the respondents' rankings of the 15 lending criteria that were on the survey instrument. The responses ranged from 1.44 to 3.00 for these 15 loan criteria. This suggests that all 15 of the items are rated at least "important" and that the top seven were rated somewhere between "crucial" and "very important." The number one ranking of location substantiates the importance of the age-old maxim "location, location, location" for business start-ups. Bankers often talk about the five C's of credit management, of which the capacity of the borrowers is paramount. The bankers' concern about the borrowers' capacity is addressed by their high rating of the criterion "financial strength of applicant." It is interesting to note that the "financial projections based on internal analysis" ranks much higher than the (next-to-last-place) "financial projection based on feasibility study." Still, although "financial projections based on feasibility study" is ranked 14th out of 15, lenders still consider this report to be important.

Table 1
Banker hotel lending criteria

Lending Criterion	Rank	Mean
Location of site/hotel	1	1.44
Experience in hotel development and management	2	1.56
Financial strength of applicant	3	1.58
Economic climate: metropolitan area	4	1.66
Fit of proposed project in the market	5	1.67
Financial projections based on internal analysis	6	1.77
Management affiliation	7	1.84
Brand affiliation	8	2.06
Performance of sponsor's other businesses	8	2.06
Barriers to entry into the market area	10	2.22
Financial institution's strength	11	2.37
Profitability of loan to your financial institution	12	2.39
Economic climate: national	13	2.58
Financial projections based on feasibility study	14	2.87
Lending trend for specific property type	15	3.00

Scale: 1 = Crucial 2 = Very Important 3 = Important 4 = Somewhat Important 5 = Unimportant

Criteria Bankers Use to Recommend Feasibility Study Consultants

Bankers were asked to indicate the importance of ten criteria they would use in recommending a consulting firm to do the feasibility study. Table 2 reveals that bankers rank "experience of market analyst researching and writing report" and "local knowledge of market segments in subject market area" as the first and second recommendation criteria, respectively. These two criteria were the only two that respondents rated closer to "crucial" than to "very important." "Financial institution's professional relationship with firm" and "pricing and fees charged for study" were deemed to be less than "important." Thus, the bankers indicated that price and professional relationships were not paramount to them in order to gather useful information for loan decisions. This is understandable because the borrower, not the bank, pays for the study.

Table 2
Banker consultant recommendation criteria

Recommendation Criterion	Rank	Mean
Experience of market analyst researching and writing report	1	1.35
Local knowledge of market segments in subject market area	2	1.38
Integrity of senior management responsible for engagement	3	1.97
Professional reputation of firm	4	2.03
Consistent and recognized methodology used for study	5	2.06
Timely delivery of study	6	2.37
Experience of senior management responsible for engagement	7	2.39
Recommendations of other financial institutions	8	2.72
Pricing and fees charged for study	9	3.30
Financial institution's professional relationship with firm	10	3.39

Scale: 1 = Crucial 2 = Very Important 3 = Important 4 = Somewhat Important 5 = Unimportant

As it is the subject of the current research, it is important to note that lenders ranked "consistent and recognized methodology" as very important when recommending a consultant. Whereas appraisals conducted by individuals with an MAI (Member of the Appraisal Institute) designation have a well-recognized methodology, no such standard qualifications exist for feasibility consultants and the methodologies used in these studies. This is all the more important because appraised values are based on assumptions and cash flow projections presented in the lodging feasibility studies. While lenders may not be able to influence consulting firms with regard to the consultant conducting the study, they can influence the methodology for conducting the study.

Bankers' Attitudes toward General Market Characteristics

Of major importance in a lodging feasibility study are the vitality and long-term growth potential of the community for the proposed lodging facility. Table 3 reveals the banker rankings of importance and satisfaction with 14 general market characterizations. Bankers rated "major demand generators," "tourism trends," and "seasonality of market area demand" as the top three items, rating all three somewhere between "crucial" and "very important." Although bankers rated all 14 items either "crucial," "very important," or "important," Table 3 also reveals that bankers are only partially satisfied with the data provided on these general market characteristics. The average score for satisfaction varied from 2.83 for "airport statistics" (close to "somewhat dissatisfied") to 3.50 for "eating and drinking places sales" (between "somewhat dissatisfied" and "mostly dissatisfied"). As consultants prepare multiple studies in similar locations, lenders generally perceive this section as mere "cut and paste" from other studies. It would behoove consultants to supplement the factual data presented in this section of the study with implications for the specific hotel project being developed.

Table 3
Bankers' attitudes toward general market characteristics

Market Characteristics	Importance	Satisfaction
Major demand generators	1.39	3.11
Tourism trends	1.63	2.95
Seasonality of market area demand	1.77	2.89
Economic climate	2.07	3.00
Employment trends	2.34	2.89
Demographic trends	2.48	3.00
Office vacancy statistics	2.52	3.11
Highway traffic counts	2.63	3.00
Airport statistics	2.71	2.83
Labor force characteristics	2.72	3.11
Environment concerns	2.72	3.24
Income level	2.93	3.00
Retail sales	3.11	3.24
Eating and drinking places sales	3.21	3.50

Importance: 1 = Crucial 2 = Very Important 3 = Important 4 = Somewhat Important
5 = Unimportant

Satisfaction: 1 = Completely Satisfied 2 = Mostly Satisfied 3 = Somewhat Dissatisfied
4 = Mostly Dissatisfied 5 = Completely Dissatisfied

Bankers' Attitudes toward Site and Neighborhood Analysis

Tables 1–3 cover general issues of concern to bankers. The study next goes on to cover more specific issues that are included in the lodging feasibility study. Analyzing the site of a proposed or existing hotel is the first step of field work conducted by consultants. The purpose of this section of the report is to match the subject parcel with the hotel product being developed or continued on an existing parcel. The analysis of the neighborhood puts the site in context of the current and potential land uses in proximity to the hotel development. As shown in Table 4, bankers reported that the top four site and neighborhood characteristics were “proximity of site to demand generators,” “site accessibility,” “site visibility,” and “construction and new developments,” rating all four of these as “crucial” to “very important” when making lending decisions. Once again, Table 4 indicates that bankers were not very satisfied with the coverage of these items in the lodging feasibility study, as the satisfaction scores varied from 2.74 for “description of buildings” to 3.42 for “review of boundaries.” Thus, the best satisfaction score was closer to “somewhat dissatisfied” than to “mostly satisfied.”

Table 4
Bankers' attitudes toward site and neighborhood analysis

Site and Neighborhood Characteristics	Importance	Satisfaction
Proximity of site to demand generators	1.42	2.95
Site accessibility	1.61	2.84
Site visibility	1.68	2.95
Construction and new developments	1.75	3.32
Physical suitability	1.90	2.78
Future expected changes in land use	1.94	3.26
Zoning laws, permits and restrictions	2.10	2.94
Review of land use	2.16	3.16
Description of buildings	2.19	2.74
Street characteristics	2.25	3.21
Utilities and other infrastructure services	2.33	2.94
Noise and other livability cues	2.42	3.37
Review of boundaries	2.60	3.42

Importance: 1 = Crucial 2 = Very Important 3 = Important 4 = Somewhat Important
5 = Unimportant

Satisfaction: 1 = Completely Satisfied 2 = Mostly Satisfied 3 = Somewhat Dissatisfied
4 = Mostly Dissatisfied 5 = Completely Dissatisfied

Bankers' Attitudes toward Supply-Demand Analysis

Supply and demand analysis is the cornerstone of any feasibility study, and respondents rated all nine factors shown in Table 5 between "crucial" and "very important." However, the mean rating for satisfaction for each of the nine factors was between 3.0 and 3.6, suggesting that bankers again are not very satisfied with the data on supply-demand analysis provided in these studies.

Table 5
Bankers' attitudes toward supply-demand analysis

Supply-Demand Analysis	Importance	Satisfaction
Analysis of competitive supply	1.43	3.20
Analysis of historic occupancy by market segment	1.56	3.40
Identification of competitive supply	1.59	3.27
Projected growth of total market demand	1.63	3.53
Projected growth of competitive supply	1.70	3.47
Analysis of seasonality of market segment demand	1.70	3.27
Identification of market mix	1.78	3.00
Projected growth of total market demand by segment	1.81	3.53
Turn-away demand	1.92	3.60

Importance: 1 = Crucial 2 = Very Important 3 = Important 4 = Somewhat Important 5 = Unimportant

Satisfaction: 1 = Completely Satisfied 2 = Mostly Satisfied 3 = Somewhat Dissatisfied 4 = Mostly Dissatisfied
5 = Completely Dissatisfied

The proposed hotel's specific occupancy and average room rate projections follow the assumptions made in this section of the feasibility report. Therefore, from a lender's perspective, it is critical that the consultant clearly enumerate the following estimates:

1. The criteria used to select the competitive hotels for the study.
2. The assumptions used to estimate the future supply of hotel rooms in the market and the basis for the growth rates to project future demand for rooms.
3. A detailed analysis of the existing market segments and the seasonality of demand.
4. If competitive hotels were a major source of market information, what is the reliability of this information? Were other sources used to verify the accuracy and reliability of this information?

Using the services of such companies as Smith Travel Research, the consultant has a wealth of reliable competitive performance information for most primary and secondary markets. In addition, the consultant also has available valuable (albeit costly)

supplementary information through companies such as TravelCLICK that provide reports on global distribution system statistics for specific markets. As this segment of the reports serve as the backbone for other projections, it is critical that the consultant pay close attention to this analysis.

Banker's Attitudes toward Recommended Facilities

The study next turns attention to the bankers' attitudes toward the particular facilities recommended by the lodging feasibility study. This included factors such as meeting room, guest room, concept, design, and F&B facilities recommendations, which are reported in Table 6. As expected, the rating of the importance of these factors was not as high as the supply-demand analysis factors previously discussed. None of the factors in Table 6 was rated "crucial." Rather, all five items fall between "very important" and "important." Bankers again indicated some dissatisfaction with the data provided on these items in the feasibility report, as the satisfaction scores range from 3.00 to 3.38. One possible explanation for this perception is that the section reflects brand requirements and developer desires. The consultant only disagrees with the brand or developer when there is a supportable market reason to do so. When the study reaches the lender, these issues have been resolved. As a result, this section as it is currently written typically mirrors the existing facilities in the market area with a cursory analysis. The question we may ask is whether consultants should insert in this section an opinion based on their knowledge of the market and general understanding of developing consumer trends. This proactive expression of the match of the proposed product to the market needs may thereby confirm or disconfirm unmet demand. Our proposition was supported by a corporate brand manager whom we asked to comment on our research results. In his feedback, he stated, "I agree, given the fact we keep adding limited service hotels in markets that could use a decent hotel restaurant and meeting/function space." The implication is that the consultant's local knowledge of the market may help adapt a typical brand template for the market. Exhibit 1 presents more of the industry feedback we received.

Table 6
Bankers' attitudes toward recommended facilities

Recommended Facilities Analysis	Importance	Satisfaction
Meeting rooms and other facilities recommendation	2.62	3.31
Guest room recommendation	2.69	3.23
Concept recommendation	2.73	3.15
F&B facilities recommendation	2.76	3.38
Design recommendation	2.85	3.00

Importance: 1 = Crucial 2 = Very Important 3 = Important 4 = Somewhat Important 5 = Unimportant

Satisfaction: 1 = Completely Satisfied 2 = Mostly Satisfied 3 = Somewhat Dissatisfied 4 = Mostly Dissatisfied
5 = Completely Dissatisfied

Exhibit 1 Industry Comment on Feasibility Study Research

To test the validity of our proposition and comment on the results of our research, we invited a select group of industry participants who either commission or use the results of hotel feasibility studies. Listed below are comments from two senior executives in the industry. Whereas the focus of this article was to identify gaps in the lodging feasibility study, comments from users of these studies point to specific recommendations for improving the rigor of the studies and the practical limitations. We intend to further explore this topic in our forthcoming research.

Senior Executive with a Major Hotel Brand

- *In reference to supply-demand analysis:* "We seek more rigor around specific demand generators, including interviews with travel departments, and we seek more rigor around the analysis of the competitive set, including brand affiliation and management expertise."
- *In reference to general market characteristics:* Should include "demand interviews versus the typical growth assumptions in a fair share analysis."
- *In reference to occupancy and ADR analyses:* "We seek an analysis of frequency program impact on revenue generation and GDS/Internet delivery into a given market. The modern day feasibility consultant better have a grip on the market's popularity with Expedia et al."
- *In reference to quality control in the study:* "I would look for a feasibility consultant that regularly audits his/her reports for accuracy. How many of these enterprises go back after the hotel is opened to assess accuracy?"

Senior Executive with an Asset Management Firm

- *In reference to client expectations:* "Banks rarely provide adequate or specific instructions or directions to the feasibility firms, thus they contribute to the gap. They indicate that risk mitigation and sensitivity analysis are the most important factors, yet they do not instruct firms to provide this feedback."
- *In reference to cost-value relationship:* "Despite what the survey says, banks almost always take the cheapest fee. I see it firsthand. This forces the firm who cuts their fees to get the job to use cheaper, less experienced staff on the project to make a profit. Thus, the critical fieldwork interviews (demand analysis/segmentation) are conducted by less experienced members, and their ability to make assumptions regarding sensitivity analysis is weaker than the more experienced person."
- *In reference to prioritizing effort:* "Too much time (and thus cost) is spent writing about the general market conditions (least important) and not enough about the risk factors (most important)."
- *In reference to customizing products:* "Lodging feasibility studies (LFS) are pretty standardized when hotel projects are not. LFS don't usually focus on the unique attributes of a project (the upside) as well as potential risk factors (the downside). The industry is far more complex, competitive, and sophisticated. Yet the LFS has hardly changed at all."

Bankers' Attitudes toward Occupancy and Average Daily Rate Analyses

Projected occupancy and ADR analyses are generally considered to be extremely important to lenders. The responses to this portion of the study confirm the importance of bankers' attitudes toward this analysis, as indicated in Table 7. Six of the eight items were rated between "crucial" and "very important." The last two were rated very close to "very important." The top two ranked items are "sensitivity analysis" (best case/worse case projections) for both ADR and occupancy. Unfortunately, bankers also rated these top two items as highest of all eight in terms of their dissatisfaction with the information in the report. We may infer that their perceived dissatisfaction is because reports as currently prepared do not provide multiple performance scenarios. From a banker's perspective, the object of a lodging feasibility study is not to prove that the hotel is feasible at the peak of the season, or that it is profitable in the long run, but rather to establish that it can cover its fixed costs (debt coverage included) during the low season. For the banker, it is more about risk mitigation rather than profit maximization.

Table 7
Bankers' attitudes toward occupancy and room rate analysis

Occupancy and Room Rate Analysis	Importance	Satisfaction
Sensitivity analysis (best case/worse case room rate projections)	1.56	3.71
Sensitivity analysis (best case/worse case occupancy projections)	1.59	3.80
Projected and stabilized annual hotel occupancy	1.63	3.33
Projected and stabilized average room rate	1.63	3.53
Projected and stabilized annual seasonal occupancy	1.85	3.53
Projected and stabilized seasonal average room rate	1.93	3.47
Projected and stabilized occupancy by market segments	2.04	3.50
Projected and stabilized room rate by market segments	2.04	3.43

Importance: 1 = Crucial 2 = Very Important 3 = Important 4 = Somewhat Important 5 = Unimportant

Satisfaction: 1 = Completely Satisfied 2 = Mostly Satisfied 3 = Somewhat Dissatisfied 4 = Mostly Dissatisfied
5 = Completely Dissatisfied

Bankers' Attitudes toward Financial Projections

Armed with both occupancy and ADR projections, an analyst is then able to create a financial pro forma for the property. This is critical, in that all other revenue and variable cost items in the operating statement will be driven by the lodging revenue numbers.

Bankers rated "revenue" number one in the list of financial projections presented in the survey, even ahead of "net income," as revealed in Table 8. All but one item, "inflation factor," were rated between "crucial" and close to "very important." However, bankers appear to be mostly dissatisfied with the financial projections provided in the reports. While revenue projections are based on the consultant's market analysis and occupancy

and rate projections, expense projections portray their understanding of the fixed and variable components of individual expense items. Furthermore, the consultant needs a sound understanding of the index of variability for both revenue and expense projections. For example, food revenue is usually linked with occupancy, and food and beverage expenses are estimated based on a percentage of food and beverage revenue. Finally, the unit of comparison for the projected items may differ as some are a percentage of sales, while others may be better projected as a cost per occupied room. The consultant must clearly explain and support the bases for each of these projections in order to gain the credibility and trust of lenders reading the report.

Table 8
Bankers' attitudes toward financial projections

Financial Projections	Importance	Satisfaction
Total revenue	1.65	3.53
Sensitivity analysis	1.78	4.00
Net income	1.81	3.57
Revenue and expense projection bases	2.00	3.33
Fixed charges	2.04	3.43
Debt service coverage ratio	2.04	3.43
Income before fixed charges	2.11	3.50
Estimate of reserve for replacement	2.11	3.72
Departmental and undistributed operating expenses	2.19	3.65
Projection period	2.19	3.07
Inflation factor	2.51	3.53

Importance: 1 = Crucial 2 = Very Important 3 = Important 4 = Somewhat Important 5 = Unimportant

Satisfaction: 1 = Completely Satisfied 2 = Mostly Satisfied 3 = Somewhat Dissatisfied 4 = Mostly Dissatisfied
5 = Completely Dissatisfied

Lastly, a comparison was made of the differences between the mean scores for "importance" and the mean scores for "satisfaction" across the whole array of issues included in Tables 3 through 8. This comparison, presented in Table 9, shows that the two areas that bankers feel are the most important— average importance scores of 1.68 and 1.78 for "supply-demand analysis" and "occupancy and room rate analysis," respectively— are the two areas with which they are quite dissatisfied. The differences between the importance and satisfaction scores are 1.68 and 1.75 for these two areas.

Table 9
Comparison of mean average scores of importance and satisfaction

Sections	Issues	Importance	Satisfaction	Difference
Supply-demand analysis	9	1.68	3.36	1.68
Occupancy and room rate analysis	8	1.78	3.53	1.75
Site and neighborhood analysis	13	2.02	3.07	1.05
Financial projections	11	2.03	3.52	1.49
General market characteristics	14	2.44	3.00	.56
Recommended facilities	5	2.73	3.21	.48

Conclusion: Implications and Working toward a Sustainable Solution

It is evident from the results of the survey that bankers consider most sections of the feasibility study important. However, they appear to be dissatisfied with the usefulness or reliability of various sections of the report. This may lead to an erroneous conclusion that, due to the methodological gaps in the analysis, the consultant is to blame for approval of hotel projects. Before jumping to hasty conclusions, it is important to evaluate the total picture. Every party involved in the development process has a built-in bias to "make the deal." Especially in an overheated environment (when most overbuilding occurs), the lender is competing with other lenders, developers are looking for a study that will satisfy the lender, and management and franchise companies are on board once financing is secure. So before recommending changes to the structure of lodging feasibility studies, some tough and practical questions need to be answered about the current development process and the role of feasibility studies.

1. What is the true cost of a bad loan decision? The underwriting process now takes place at two levels: first, when the original loan is made on the real asset (hotel) and second, when the loans are pooled with other loans into a financial security and investment grades are assigned by rating agencies. As such, the quality of the due diligence that goes into the preparation of the original study has a compounding effect. A poorly prepared study that supports the original loan may potentially result in default, which has a compounding effect by creating commercial mortgage-backed security (CMBS) defaults, leading to reduced placements, higher interest rates and, ultimately, reduction of loans. This is a scenario we are currently witnessing globally as a result of the various sub-prime loans in the residential sector. In the current environment, where mortgages are sold by local and regional banks to CMBS conduits, is there a motive to focus on the rigor of a lodging feasibility study?
2. Is it realistic to expect that in a "deal-driven" industry, there is a compelling reason for initiating the change? In other words, what is the motive to change the status quo?

3. Who should pay for the study? Should lenders pay for studies, as they have the most capital at risk? Will they pay for the additional cost to make these studies methodologically more accurate?
4. As parties in the development process all have divergent investment goals and horizons, should there be a tripartite agreement where compensation for lenders/owners, management, and franchise companies is linked to a common performance goal? In the current development structure, the consultant is paid at the completion of the study, the lender receives points when a loan is closed, brands receive large initial fees when agreements are signed, and management companies primarily make their living off the top line of the hotel's income statement.
5. Should there be a certification process for feasibility consultants similar to the MAI designation for appraisers? Could an organization such as the International Society of Hospitality Consultants (ISHC), a professional society of over 180 members in 18 countries, work to develop minimum standards to prepare these studies? Could ISHC initiate a dialogue among consultants who actively prepare market studies, developers, and bankers to discuss practices with the view to establish minimum benchmarks in the preparation of these studies? The end result may be to create the equivalent of a quality seal for approving consultants to prepare these studies.

If we want to have a long-term and sustainable impact on changing the present method of preparing studies, we should address the problem from two perspectives. First, some of the questions we have raised are associated with philosophy; the structure and process of hotel development have to be reviewed in light of the costs of continuing with the same approach. The methodological changes to feasibility studies would then be the logical outgrowth of the new process. The complexity of a hotel product, which consists of a business housed in real estate, makes the answers to these questions challenging and will require the combined effort of the entire development community.

When discussing the role of the real estate analyst and client objectives in one of his classes, the legendary late James A. Graaskamp, professor of real estate at the University of Wisconsin, made a pithy and wise observation about the role of the feasibility analyst, which underscores the current challenges in this process. "The analyst has only performed part of his function when he answered the question, 'Is it feasible?' He is in the position of the attorney who was told by J. P. Morgan, in a shout, 'Don't tell me what I cannot do; you are paid to tell me HOW to do what I want to do!'" (Graaskamp, 1970).

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