



Development Process The Road Map for Good Development

In normal circumstances the process of developing a hotel follows a logical sequence, as shown in the following diagram:

Development Process



Secure the Site

The first step of the development process is to secure the site on which the development will be built. Each site will have different characteristics that lend itself to different types of development, so without knowing the specifics of the site you cannot start to work on the develop process.

Also, if all the work developing a concept is completed without having the site secured, the promoter could quite easily be wasting their time and money. Owning the site is not essential, if a secure “purchase option” can be negotiated.

Commission a Feasibility Study

The second step is to undertake a feasibility study to ensure that first and foremost, a hotel will make sense on the site. Secondly the study should help to determine the optimum type and size of hotel to be developed on the site.

A specific location will dictate the optimum type of hotel, and sometimes developing only 100 bedrooms on a site will not make the most of the sites' potential, whilst other times 100 bedrooms will be too many bedrooms for a location to sustain.

Obtain a Concept Design from an Architect

The purpose of the concept design is merely to allow a cost consultant to price the development in general terms. The design is likely to change at a later stage of this development process, so too much design work at this stage is likely to be uneconomical.

Development Costings

At this stage, rough parameters only for the construction should be obtained. These will obviously change as the final design is undertaken and the construction contracts are tendered, but at this stage of the process outline costs are required.

Investment Appraisal

The costs of the development should be compared with the value of the proposed completed hotel. If there is an insufficient profit margin in the development the scheme should be reviewed to see if sufficient profit can be generated in the development to match the risk profile. If the profit margin is not “adequate” it might make sense to alter the project, put the development on hold or potentially cancel the project altogether.

Secure Outline Planning Consent

Advice should be sought as to whether the proposed development plan would be acceptable in outline terms to the responsible government authority. In principle would a hotel of the proposed quality and quantum fit in with the zoning of the land, and would a detailed planning application potentially be favourably received by the planning authority?

Engage Hotel Management Company

This is the stage to decide who will be the best operator for the property. This is typically done by engaging a specialist agent to hold a beauty parade amongst the most suitable operators. The chosen operator should be determined and then the best terms for the management contract should be negotiated.

Detailed Design

Once the management company has been determined the final design can be undertaken. Without an operator on board there is always the chance that the design will need to be altered once they are on board. Design criteria specific to that operator will need to be factored into the final design.

Secure Planning Consent

Once a detailed design is in place detailed planning consent can be sought. This can be a lengthy process, and it is always useful to engage a planning expert to ensure the process is made as easy and as smooth as possible.

Finalise Funding

Once the developer has the site secured, a feasibility study in place, a management company lined up, projected costs and a detailed design, funding can be sought. At this stage it is possible to provide enough information to lending institutions to ensure that suitable financing terms can be agreed, subject to a detailed construction cost tender document.

Tendering the Construction Contract

The next step on the development process is to pick the best construction company for the project, preferably through an open tender process. The analysis of tender offers will take into account the experience of the construction company, timescales, guarantees, penalty clauses, quality and number of sub-contractors, as well as the final tender price.

Construction

The construction can then begin. Construction needs to comply with local legislation, regulations from the finance institution and the specifications of the management company, if all parties are to be happy with the process.

Neglecting to meet these obligations can have very severe penalties. Not meeting local building regulations can lead to the property needing to be demolished. Not abiding by the terms of the loan can lead to funding being withdrawn and early repayment being required, potentially causing the developer to lose their entire investment.

Failing to meet the specifications of the management company can lead to the management contract being terminated, potentially leading to the loan being withdrawn. With so much at stake, the whole process should be managed by an experienced project manager to ensure the construction phase goes smoothly.

Fit Out and Commissioning

The final finishes of the hotel are of vital importance for its trading potential, so care should be taken when procuring the goods. Typically, the operator and the interior design team will want to have a sizeable input into this stage of the process.

Pre-opening

As completion gets nearer the operator will move into the pre-opening phase of the development. They will start recruiting staff, training staff, agreeing suppliers, as well as starting to market the property. Business travel agents and local companies will be contacted to talk about the hotel and even invite them to come and have a look at what will soon be available. Sometimes the pre-opening phase will include a partial (or "soft") opening, where only part of the hotels facilities are opened, allowing the staff to learn the layout and style of the hotel without the pressure of a full letting inventory.

Opening

The last stage is for the hotel to be fully opened and operational, earning large amounts of income for the owner. Over their first year of operation it is typical that small construction glitches come to light, and it is common for a final payment to be withheld until these "snagging items" are rectified.

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