



LEISURE PROPERTY SERVICES
JANUARY 2018

What is a Feasibility Study

WHAT IS A FEASIBILITY STUDY?

As the name suggests, a feasibility study is an analysis of the viability of an idea or concept. The feasibility study focuses on answering the essential question of “should we proceed with the proposed project?”

Promoters with a business idea should always conduct a feasibility study to determine the viability of their idea before proceeding with the development. Learning that a business idea will not work earlier, saves time, money and heartache later.

A feasible hotel development is one where the business will generate adequate cash-flow and profits, withstand the risks it will encounter, remain viable in the long-term and meet the goals of the founders. It will also be worth more upon completion than it costs to develop.

A feasibility study is not a business plan. The separate roles of the feasibility study and the business plan are frequently misunderstood. The feasibility study provides an investigating function. It addresses the question of “Is this a viable business venture?” The business plan provides a planning function. The business plan outlines the actions needed to take the proposal from “idea” to “reality.”

FEASIBILITY STUDY

Many times, promoters and developers will consider saving time and money by not undertaking an independent feasibility study; this is almost always a mistake, and sometimes a very expensive one.

Project promoters may find themselves under pressure to skip the “feasibility analysis” step and go directly to

building a business. Reasons given for not doing a feasibility analysis include:

- We know it's feasible; an existing business is already doing it!
- Why do another feasibility study when one was done just a few years ago?
- Feasibility studies are just a way for consultants to make money
- The market analysis has already been done by the business that is going to sell us the equipment
- Why not just hire a general manager who can do the study?
- Feasibility studies are a waste of time. We need to buy the building, tie up the site and bid on the equipment

These reasons should not dissuade the promoter of a project from conducting a meaningful and accurate feasibility study. Once decisions have been made about proceeding with a proposed business, they are often very difficult to change. The promoter will need to live with these decisions for a long time.

The feasibility study is a critical step in the business assessment process. Completion of the feasibility study and valuation appraisal is an essential early step in the development process, and is required for the following main purposes:

- to provide information to the promoter of a project that it is viable

- to determine the most appropriate facility provision in light of current and projected future market conditions
- to provide a basis for a financing structure, including the proportions of debt and equity which can be supported by the project's cash flows
- to act as an introductory document for potential financial partners
- to submit to potential hotel management companies and to act as a basis for contract negotiation.

In addition, other benefits of undertaking an independent study include:

- giving focus to the project and outlines alternatives
- narrowing business alternatives
- identifying new opportunities through the investigative process
- identifying possible reasons not to proceed
- enhancing the probability of success by identifying and addressing mitigating factors early on that could affect the project
- providing reliable information for decision making
- providing documentation demonstrating the business venture was thoroughly investigated
- helping secure funding from lending institutions and other monetary sources



- helping to attract equity investment

WHAT IS INVOLVED IN A HOTEL OR RESORT FEASIBILITY STUDY?

The process of what is involved in a feasibility study for a hotel or resort is quite detailed. The study will usually be performed in three main phases:

- Phase 1 - Site Appraisal
- Phase 2 - Market and General Appraisal
- Phase 3 - Financial Appraisal

PHASE 1 - SITE APPRAISAL

At the beginning of the study the consultant will visit the hotel/site/property to assess the accessibility and position relative to other hotels and resorts in the area, the airport, commercial and leisure facilities that could generate demand, and other places of relevance in the area.

They will consider the suitability of the property for its intended use, and identify its strengths and any weaknesses in that regard. This will then be used as part of their analysis to determine the likely impact on future trading, given a number of development options.

PHASE 2 - MARKET AND GENERAL APPRAISAL

During and after the site visit the consultant will:

- obtain current and historic market and operational data on the hotel industry that is

relevant to the study including levels of demand, seasonality and market segmentation, arrival statistics and other market data

- determine the existing and projected characteristics of demand markets, including estimates of growth, which are considered to be of relevance to the project
- determine the present supply of hotel accommodation serving those markets and review any plans for new provision which would provide competition in the future
- obtain other available information relating to the economy, communications and general development in the area, and assess the economics of and general climate for the operation of hotels there.

During the course of the study the consultant will conduct interviews with a selection of operators of existing hotels in the area, representatives of the conference and travel trade, airport and airline officials, representatives of local industry and commerce and other parties who can provide information on the markets for a new hotel in the area, planning and development information and pertinent economic and other background information.

They will also speak with relevant governmental officials or their advisors, including planning officers, as well as the various parties of the design team for the specific project.

Subsequent to the site visit, research into potential



demand generating sources for new hotels in the area, and the project's likely market acceptance and penetration will be carried out. This market research will be used to help formulate the recommendations regarding the opportunity for developing/redeveloping the hotel or resort, its market positioning and the facilities it should offer.

PHASE 3 - FINANCIAL APPRAISAL

Based on the research and the conclusions drawn regarding location, competitive situation, market positioning and facility provision, the consultant will project room occupancy and average room rate for the hotel's accommodation facilities and levels of utilisation of and revenue from conference, F&B, leisure and other facilities over the first five years of operation.

A statement of estimated profit and loss for the period up to and including the stabilised operating year of the project based upon an estimated opening date will be prepared, generated through all the research that was undertaken. These estimates will usually be prepared in accordance with accepted uniform accounting practice, and the assumptions upon which the estimates are based should be detailed within the report.

WHAT IS THE PROCESS OF INSTRUCTING A FEASIBILITY STUDY?

PRE-FEASIBILITY STUDY

A pre-feasibility study is usually conducted by the promoter/developer first to help identify a few of the

relevant scenarios, for example size parameters and quality of the proposed development. A consultant can help the developer with the pre-feasibility study, but ideally the promoter/developer will be involved. This will then be used to frame the parameters of the feasibility study.

FEASIBILITY STUDY

The promoter/developer should then look for the best consultant with relevant market knowledge and experience to carry out the feasibility study.

REVIEW THE RESULTS AND CONCLUSIONS OF THE STUDY

The conclusions of the feasibility study should outline in depth the various scenarios examined and the implications, strengths and weaknesses of each. The project leaders need to scrutinise the feasibility study and challenge its underlying assumptions to ensure they are the most sensible assumptions to make.

It is not the purpose of the feasibility study or the role of the consultant to decide whether or not to proceed with the business idea. It is the role of the project leaders to make this decision, using information from the feasibility study and input from consultants. The decision to go ahead or not to go ahead is one of the most critical in business development. It is the point of no return. Once the promoter has definitely decided to pursue a business scenario, there is usually no turning back without potentially high abortive costs.

