EstateMaster

CASE STUDY

SERVICED APARTMENTS

INTRODUCTION

This case study demonstrates how to use the Estate Master Hotel Feasibility (HF) software to model the feasibility of a Serviced Apartment development.

Serviced Apartments operate similar to hotels, with variables such as daily room rates, food and beverage revenue streams, management fees, and occupancy rates, making the HF software ideal to forecast its performance.

This Case Study features a block of First Class Serviced Apartments.

- 100 one bedroom apartments
  - $180 Average Daily Room
- 80 one bedroom and studio apartments
  - $200 Average Daily Room
- 20 two bedroom apartments
  - $250 Average Daily Room
- 4 penthouse suites
  - $350 Average Daily Room

Room Description	Count	Yr1 ADR
1 bed	100	180
1 bed +studio	80	200
2 bed	20	250
Penthouse	4	350
.	-	-
.	-	-
.	-	-
Compound ADR	204	198

It is assumed that each room will average 1.8 guests a night. The Cash Flow will run for ten years; and the property's Terminal Yield will be based on an 8% Cap Rate.

Guests/Room	1.80	
Days/Year	365	
Stabilisation Year	3	
Discount Rate (Target IRR)	10.00%	
Cap Rate (Terminal Yield)	8.00%	
Notional Hotel Holding Period for DCF (Yrs)	10	
Notional Terminal Value @ Jan 2023 based on EBITDA in 2023		**96,268,230**

Development and Acquisition of the property comes to a total of just over $82 million. The project is funded over 15 years, with a 9% interest rate with a 50/50 split between equity and debt.

Development/Acquisitons Costs	
Land Cost	9,180,000
Dev. Cost (exc interest)	48,960,000
Dev. Interest	10,000,000
Dev. Profit	12,000,000
Pre Opening	2,000,000
Total	82,140,000

Funding Structure		
Equity	50.00%	41,070,000
Debt	50.00%	41,070,000
Interest Rate (p.a.)	9.00%	
Loan Term (Yrs)	15	
Debt Servicing Interest Only		3,696,300
Debt Servicing Principal & Interest		5,095,098

HOTEL F&B REVENUE

Guests are offered Breakfast with reservations. These breakfasts will average at $35 a cover; and it is assumed that 70% of breakfast offers will be taken up.

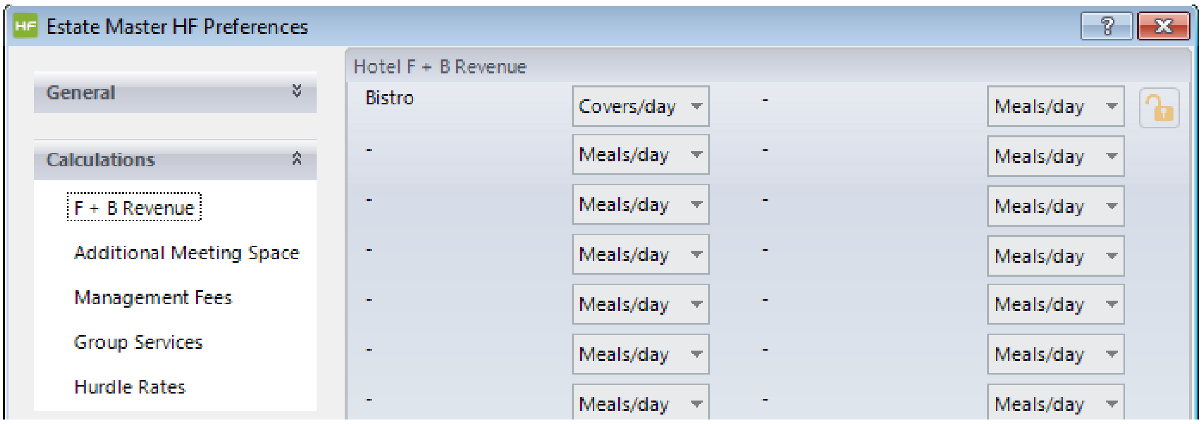
Breakfast

Capture	70.00%
USD/cover	35.00

The project also contains an attached Bistro which is not entirely dependent on guest bookings, and will accommodate ‘walk-in’ customers. It is assumed that the average spend in this Bistro will be $330. The amount of covers per day will begin in the mid 40’s for the first year and slowly increase until the project is stabilized after 3 years.

Bistro	Covers/day				
USD/cover	330.00	Covers/day	45	48	50
		Rate/cover	330	337	343
		Total Revenue USD	5,420,250	5,897,232	6,265,809

Food & Beverage entries can be toggled between two preferences; ‘Covers/Day’ and ‘Meals/Day’



- *Meals/Day*
  - *Designed for meals dependent on occupancy rate*
- *Covers/Day*
  - *Open to walk in clientele as well, not linked to occupancy*

ESCALATION ASSUMPTIONS

All Costs and Revenues used will escalate at 2% for 3 years, and then increase to 3%.

	Year 1	Year 2	Year 3	Year 4
Room Rates	No Escalation	2.00%	2.00%	3.00%
F&B Revenue	No Escalation	2.00%	2.00%	3.00%
Meeting Room Revenue	No Escalation	No Escalation	No Escalation	3.00%
Expenses	No Escalation	2.00%	2.00%	3.00%

There will be no Meeting Space used in this example.

OTHER COSTS

Other Operating Costs; such as mini bars, in-room movies or laundry; can be assumed based on a percentage of room revenue.

	2013	2014	2015
Room Revenue (from P&L)	8,257,760	9,776,598	10,739,217
% of Room Revenue	1.00%	2.00%	2.00%
Other Operating Depts Revenue	82,578	195,532	214,784

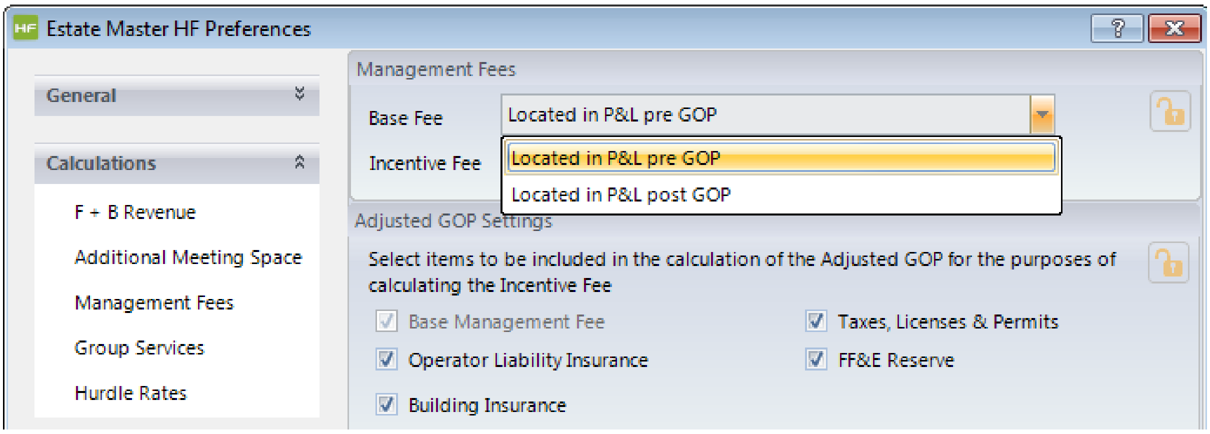
In this case, these begin at 1% and slowly increase until stabilisation after year 3.

In **Management Fees**; a *Base Management Fee* can be calculated based on a percentage of Total Revenue for up to 3 years before stabalisation.

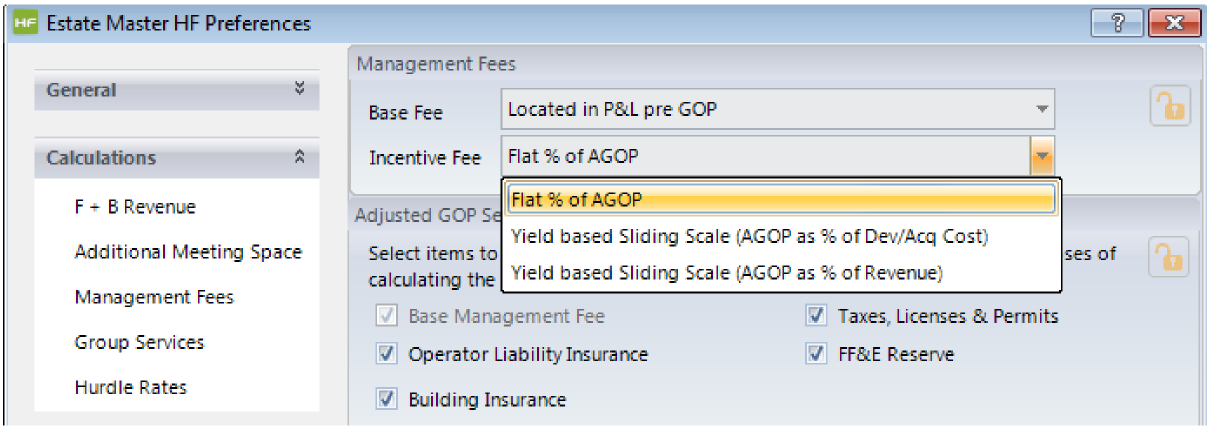
In addition, an *Incentive Fee* can be calculated based on the Adjusted Gross Operating Profit (AGOP) for up to 5 years.

		2013		2014		2015	
Base Management Fee	% of Total Revenue	311,989	2.00%	360,929	2.00%	392,225	2.00%
Incentive Fee	As % of AGOP	91,648	5.00%	124,754	4.00%	129,483	3.00%

This Base Management Fee can be calculated pre or post AGOP; by toggling the preference in the Management Fees Tab.



In addition; the Incentive Fee can also be toggled in the field below that one for two 'Sliding Scale' options.



HOTEL P&L

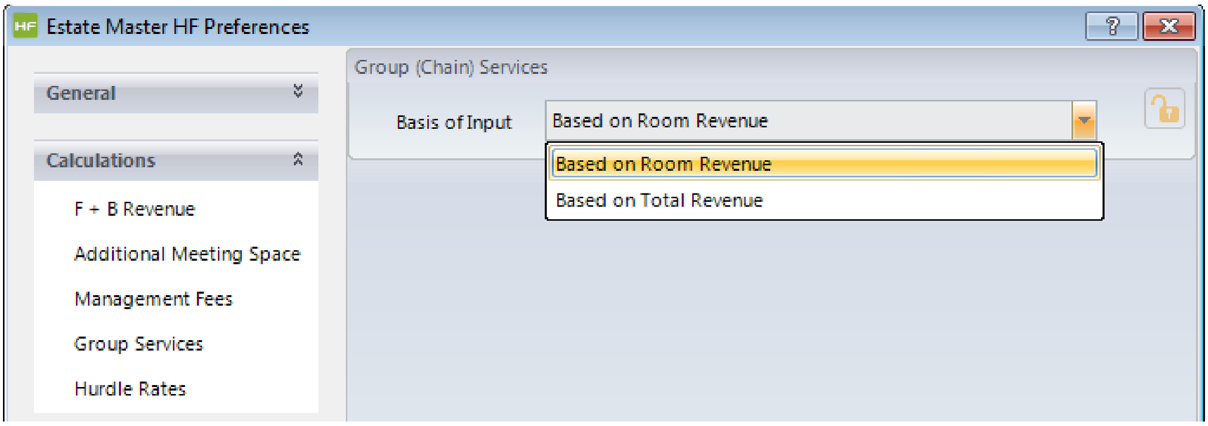
Directly below a summary of your project; you can manually assume the **Occupancy Rate** for the first 5 years of the project. This will, in turn, have a direct impact on all occupancy link calculations.

Profit & Loss Statement	2013		2014		2015
Occupancy Rate	56.00%		65.00%		70.00%
Average Daily Rate (ADR)	198		202		206
Revenue per Available Room (RevPAR)	111		131		144
Room Nights Sold	41,698		48,399		52,122
Guests	75,056		87,118		93,820
Revenues					
Room	8,257,760	52.94%	9,776,598	54.17%	10,739,217
Food & Beverage	7,259,114	46.53%	8,074,316	44.74%	8,657,252
Other Operating Depts.	82,578	0.53%	195,532	1.08%	214,784
Meeting Space	0	0.00%	0	0.00%	0
Total Revenues	**15,599,452**	100.00%	**18,046,446**	100.00%	**19,611,253**

Both **Departmental and Undistributed Operating Expenses** can be calculated based on a percentage of related Revenue. These vary from being editable up to three years, or based of revenue in Year 3.

Departmental Operating Expenses						
Room	% of Room Revenue	2,477,328	30.00%	2,835,213	29.00%	2,899,589
Food & Beverage	% of F&B Revenue	6,170,247	85.00%	6,863,168	85.00%	6,925,801
Other Operating Depts.	% of Other Dept Revenue	61,933	75.00%	136,872	70.00%	133,166
Meeting Space		0	0.00%	0	0.00%	0
	Total Dep.Operating Expenses	**8,709,508**	55.83%	**9,835,254**	54.50%	**9,958,556**
	DEP. OPERATING INCOME	**6,889,944**	44.17%	**8,211,192**	45.50%	**9,652,697**
Undistributed Operating Expenses						
Admin & General	% of Total Revenue in Yr 3	1,281,781	8.22%	1,307,417	7.24%	1,333,565
Sales & Marketing	% of Total Revenue	935,967	6.00%	721,858	4.00%	784,450
Property Repairs & Maintenance	% of Total Revenue in Yr 3	640,891	4.11%	653,708	3.62%	666,783
Utility	% of Total Revenue in Yr 3	433,544	2.78%	442,215	2.45%	451,059
Base Management Fee		311,989	2.00%	360,929	2.00%	392,225
Group (Chain) Services	% Room Revenue	107,351	1.30%	127,096	1.30%	139,610
	Total UOE	**3,711,523**	23.79%	**3,613,222**	20.02%	**3,767,692**
GROSS OPERATING PROFIT (GOP)		**3,178,421**	20.38%	**4,597,969**	25.48%	**5,885,005**

The final item, *Group (Chain) Services* can be toggled between '% of Room Revenue' or '% of Total Revenue' in the Preferences under Group Services.



Below the reported Gross Operating Profit; Other Deductions are entered. These are all based on Total Assumed Revenue in Year 3.

GROSS OPERATING PROFIT (GOP)		**3,178,421**	20.38%	**4,597,969**	25.48%	**5,885,005**	30.01%
Other Deductions							
Incentive Fee		91,648	0.59%	124,754	0.69%	129,483	0.66%
Operators Liability Insurance	% of Total Revenue in Yr 3	188,497	1.21%	192,267	1.07%	196,113	1.00%
Building Insurance	% of Total Revenue in Yr 3	188,497	1.21%	192,267	1.07%	196,113	1.00%
Taxes, Licences & Permits	% of Total Revenue in Yr 3	188,497	1.21%	192,267	1.07%	196,113	1.00%
	Total Other Deductions	**657,140**	4.21%	**701,555**	3.89%	**717,821**	3.66%

Under the Net Operating Profit; you can enter a percentage of that profit to put aside for Lease payments. That then provides your *Earnings before Interest, Taxes, Depreciation and Amortization* (EBITDA).

Your final Deduction will be a *Fitting, Fixtures and Equipment Reserve* (FF&E); which is assumed as a percentage of Total revenue for up to 5 years.

NET OPERATING PROFIT (NOP)		**2,521,281**	16.16%	**3,896,414**	21.59%	**5,167,184**	26%
Lease	% of NOP	100,851	4.00%	116,892	3.00%	103,344	2.0%
EBITDA		**2,420,430**	15.52%	**3,779,521**	20.94%	**5,063,841**	26%
FF&E Reserve	% of Total Revenue	779,973	5.00%	902,322	5.00%	980,563	5.0%
Free Cash		**1,640,458**	10.52%	**2,877,199**	15.94%	**4,083,278**	21%

And this provides you with a final 'Free Cash' figure.

RETURNS TABLES

Below your P&L; there are three 'Returns' tables.

The first two are *Returns On Capital Employed* (ROCE); the difference in the two being:

- The first is based on a 100% Equity Funded project

Return On Capital Employed (ROCE) @ 100% Equity			
Year	**2013**	**2014**	**2015**
EBITDA	2,420,430	3,779,521	5,063,841
Debt Servicing	0	0	0
EBTDA	2,420,430	3,779,521	5,063,841
TDC Funded by Equity	82,140,000	82,140,000	82,140,000
FF&E Reserve (Cumulative)	779,973	1,682,295	2,662,858
TDC + Cumulative FF&E Reserve	82,919,973	83,822,295	84,802,858
ROCE @ 100% Equity	**2.92%**	**4.51%**	**5.97%**

- The second is based on the Equity percentage inputted in the Development/Acquisition table at the top of the Input Sheet

Return On Capital Employed (ROCE) @ 50% Equity			
Year	**2013**	**2014**	**2015**
EBITDA	2,420,430	3,779,521	5,063,841
Debt Servicing (Interest Only)	3,696,300	3,696,300	3,696,300
EBTDA	-1,275,870	83,221	1,367,541
TDC Funded by Equity	41,070,000	41,070,000	41,070,000
FF&E Reserve (Cumulative)	779,973	1,682,295	2,662,858
TDC + Cumulative FF&E Reserve	41,849,973	42,752,295	43,732,858
ROCE @ 50% Equity	**-3.05%**	**0.19%**	**3.13%**

The final Return On Equity Employed table (ROEE) is similar to the table above but without the Fitting, Fixtures and Equipment Reserve (FF&E) included.

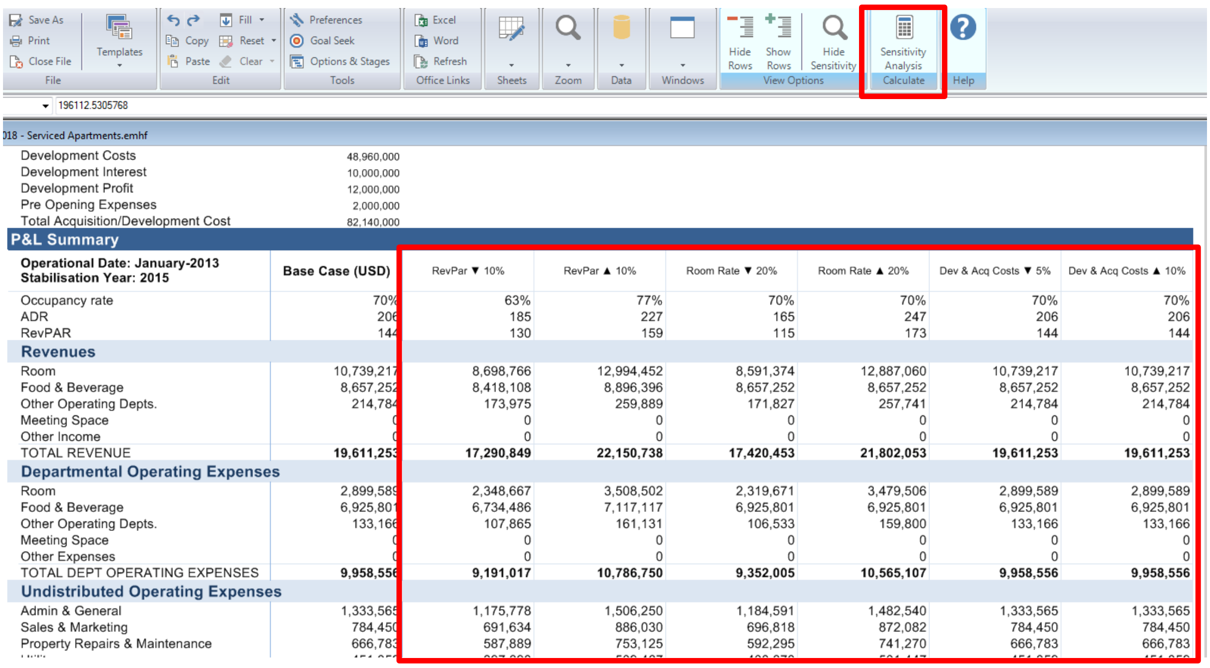
Return On Equity Employed (ROEE) @ 50% Equity			
Year	**2013**	**2014**	**2015**
EBITDA	2,420,430	3,779,521	5,063,841
Debt Servicing (Interest Only)	3,696,300	3,696,300	3,696,300
EBTDA	-1,275,870	83,221	1,367,541
TDC Funded by Equity	41,070,000	41,070,000	41,070,000
ROEE	**-3.11%**	**0.20%**	**3.33%**

SUMMARY REPORT

The Summary Report will provide the basic information and a P&L Summary based your inputs on Year 3 of the model.

Development and Acquisition Cost	
Land Cost	9,180,000
Development Costs	48,960,000
Development Interest	10,000,000
Development Profit	12,000,000
Pre Opening Expenses	2,000,000
Total Acquisition/Development Cost	82,140,000
P&L Summary	
Operational Date: January-2013 **Stabilisation Year: 2015**	**Base Case (USD)**
Occupancy rate	70%
ADR	206
RevPAR	144
Revenues	
Room	10,739,217
Food & Beverage	8,657,252
Other Operating Depts.	214,784
Meeting Space	0
Other Income	0
TOTAL REVENUE	**19,611,253**
Departmental Operating Expenses	
Room	2,899,589
Food & Beverage	6,925,801
Other Operating Depts.	133,166
Meeting Space	0
Other Expenses	0
TOTAL DEPT OPERATING EXPENSES	**9,958,556**
Undistributed Operating Expenses	
Admin & General	1,333,565
Sales & Marketing	784,450
Property Repairs & Maintenance	666,783
Utility	451,059
Base Management Fee	392,225
Group (Chain) Services	139,610
TOTAL UOE	**3,767,692**
GROSS OPERATING PROFIT (GOP)	**5,885,005**
GOP as % of TR	*30.01%*
Other Deductions	
Incentive Fee	129,483
Operators Liability Insurance	196,113
Building Insurance	196,113
Taxes, Licences & Permits	196,113
TOTAL OTHER DEDUCTIONS	**717,821**
NET OPERATING PROFIT (NOP)	**5,167,184**
NOP as % of TR	*26.35%*
Lease	103,344
EBITDA	5,063,841
FF&E Reserve	980,563
Free Cash for Debt Holders	4,083,278
Equity:Debt Ratio	50% Equity
Debt Repayment	3,696,300
EBTDA	386,978
Total Acquisition/Development Cost	82,140,000
Notional Terminal Value as at Jan 2023	96,268,230
Performance Indicators	
Discount Rate	10.00%
NPV (NCF Before Interest)	-5,163,555
YIELD (average inflow of 10 full years)	7.35%
IRR (NCF Before Interest)	9.04%
IRR on Equity	7.91%
ROCE @ 100% Equity (in Y3)	5.97%

In addition, by pressing the 'Sensitivity Analysis' button; you can analyse 6 scenarios based on 3 different variables.

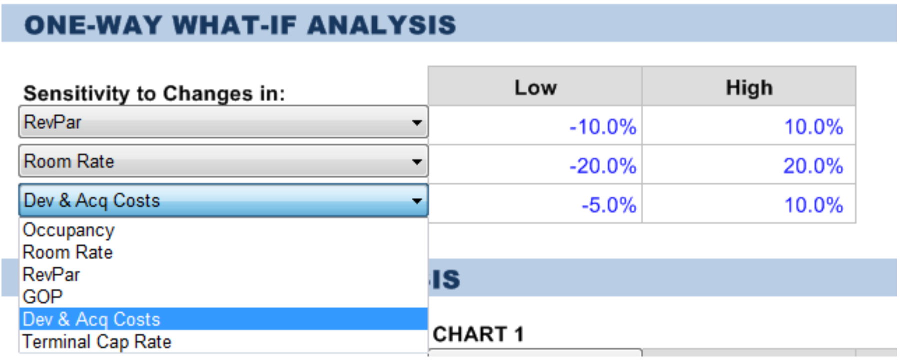


Development Costs	48,960,000
Development Interest	10,000,000
Development Profit	12,000,000
Pre Opening Expenses	2,000,000
Total Acquisition/Development Cost	82,140,000

P&L Summary

Operational Date: January-2013 Stabilisation Year: 2015	Base Case (USD)	RevPar ▼ 10%	RevPar ▲ 10%	Room Rate ▼ 20%	Room Rate ▲ 20%	Dev & Acq Costs ▼ 5%	Dev & Acq Costs ▲ 10%
Occupancy rate	70%	63%	77%	70%	70%	70%	70%
ADR	206	185	227	165	247	206	206
RevPAR	144	130	159	115	173	144	144
Revenues							
Room	10,739,217	8,698,766	12,994,452	8,591,374	12,887,060	10,739,217	10,739,217
Food & Beverage	8,657,252	8,418,108	8,896,396	8,657,252	8,657,252	8,657,252	8,657,252
Other Operating Depts.	214,784	173,975	259,889	171,827	257,741	214,784	214,784
Meeting Space	0	0	0	0	0	0	0
Other Income	0	0	0	0	0	0	0
TOTAL REVENUE	**19,611,253**	**17,290,849**	**22,150,738**	**17,420,453**	**21,802,053**	**19,611,253**	**19,611,253**
Departmental Operating Expenses							
Room	2,899,589	2,348,667	3,508,502	2,319,671	3,479,506	2,899,589	2,899,589
Food & Beverage	6,925,801	6,734,486	7,117,117	6,925,801	6,925,801	6,925,801	6,925,801
Other Operating Depts.	133,166	107,865	161,131	106,533	159,800	133,166	133,166
Meeting Space	0	0	0	0	0	0	0
Other Expenses	0	0	0	0	0	0	0
TOTAL DEPT OPERATING EXPENSES	**9,958,556**	**9,191,017**	**10,786,750**	**9,352,005**	**10,565,107**	**9,958,556**	**9,958,556**
Undistributed Operating Expenses							
Admin & General	1,333,565	1,175,778	1,506,250	1,184,591	1,482,540	1,333,565	1,333,565
Sales & Marketing	784,450	691,634	886,030	696,818	872,082	784,450	784,450
Property Repairs & Maintenance	666,783	587,889	753,125	592,295	741,270	666,783	666,783

These 3 Variables can be chosen further down the Summary Sheet in 'One Way What If Analysis'.



ONE-WAY WHAT-IF ANALYSIS

Sensitivity to Changes in:	Low	High
RevPar	-10.0%	10.0%
Room Rate	-20.0%	20.0%
Dev & Acq Costs	-5.0%	10.0%

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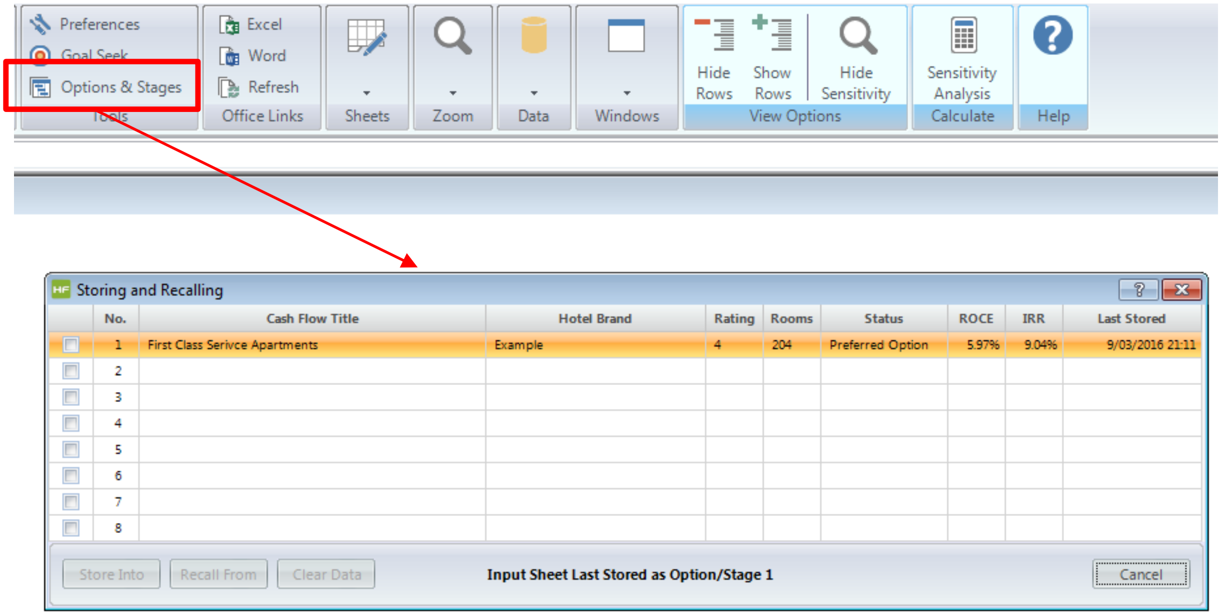
CONSOLIDATE SHEET

Once you have completed you first Hotel Feasibility; you can store it away for comparison by using the 'Options/Stages' function.



No.	Cash Flow Title	Hotel Brand	Rating	Rooms	Status	ROCE	IRR	Last Stored
1	First Class Serivce Apartments	Example	4	204	Preferred Option	5.97%	9.04%	9/03/2016 21:11
2								
3								
4								
5								
6								
7								
8								

Here you can store up to 8 Options. Once you have made the necessary changes to your 2nd option, simply store into one of the empty options and compare P&L Summary's side by side.

EstateMaster Hotel Feasibility – CONSOLIDATION OF STAGES	Enable 1	Enable 2	Enable 3	Enable 4
	First Class Serivce Apartments	First Class Serivce Apartments 2		
Serviced Apartment Demo — Brand	Example	Example		
Star Rating	4	4		
Type	Business	Business		
No. of Rooms	204	204		
Operational Date	Jan-2013	Jan-2013		
Status	Preferred Option	Preferred Option		
Development and Acquisition Cost				
Land Cost	9,180,000	9,639,000		
Development Costs	48,960,000	51,408,000		
Development Interest	10,000,000	10,500,000		
Development Profit	12,000,000	12,600,000		
Pre Opening Expenses	2,000,000	2,100,000		
Total Acquisition/Development Cost	82,140,000	86,247,000		
P&L Summary (in 2015) (USD)				
Occupancy rate	70%	79%		
ADR	206	227		
RevPAR	144	170		
Revenues				
Room	10,739,217	13,319,985		
Food & Beverage	8,657,252	8,956,182		
Other Operating Depts.	214,784	266,400		
Meeting Space	0	0		
Other Income	0	0		
TOTAL REVENUE	**19,611,253**	**22,542,567**		
Departmental Operating Expenses				
Room	2,899,589	3,596,396		
Food & Beverage	6,925,801	7,164,946		
Other Operating Depts.	133,166	165,168		
Meeting Space	0	0		
Other Expenses	0	0		
TOTAL DEPT OPERATING EXPENSES	**9,958,556**	**10,926,510**		
Undistributed Operating Expenses				
Admin & General	1,333,565	1,532,895		
Sales & Marketing	784,450	901,703		
Property Repairs & Maintenance	666,783	766,447		
Utility	451,059	518,479