



RCA HOTEL DEVELOPMENT TOOLKIT: A BASIC GUIDE

The RCA Hotel Development Toolkit is a globally recognized guide drafted by **Red Clay Advisory** for hotel and resort development. The toolkit offers pointers for hospitality stakeholders, particularly those embarking on their hotel development journey.

As an open-source resource, the toolkit is free and available to potential and existing hotel owners, investors and stakeholders.

What should you know before developing your hotel project?

If you are a first-time investor or an experienced hotel chain investor thinking of developing in a hotel or resort, the first thing to note is your reason for hotel investment. A number of factors may likely exist; You may be choosing to pursue your passion to own a hotel, to diversify your asset portfolio or you may have observed a need for a hotel within the location you have identified.

It is important for you to identify your personal and business reasons for choosing to develop a hotel or resort, as this will likely guide your business plan, hotel architecture, operational decisions, holding period, hotel branding and other business strategies.

This piece provides a step-by-step guide on how to build a sustainable hotel and resort strategy and development from inception. Stories in this guide are real-life experiences in our dealings with clients from across Africa. We hope you find this useful.

So, you might be wondering, what should you do if you want to build a hotel?

Step 1: Engage the services of a specialist hospitality development team

Step 2: Carry out a hotel feasibility study

Step 3: Work with a hotel architect

Step 4: Create a niche for your hotel's service

Step 5: Build a solid business plan and strategy



Step 1: Engage the services of a specialist hospitality development team

For some reason, we realize that clients tend to approach their family member or a friend to design a hotel or resort, simply because he or she is an architect or into building construction. And then there are complications during and after development because (i) the development is either not suitable for its intended purpose, or (ii) the necessary local planning laws, legal documentation and licensing for developing and registering a hotel or resort have not been adhered to.

A specialist tourism and hospitality development team understands from the get-go that hotel and resort development require unique skill sets; the design, architecture, functionalities and facilities for hotels differ from those offered by residential and commercial buildings. Special consideration needs to be given to meeting rooms, back-of-house, service entrances, parking lots, etc. to complete the visitor experience. And so they factor all of these into their concepts and designs.

The initial project team acts as an advisory board of sorts to guide how the project is to be executed. We usually say, 'it is better to make mistakes on paper than to start correcting when the hotel or resort is built, which is a lot more expensive.' It is better to get the right team on the ground to shape the foundation of the project.

Your hotel development team should be led by a specialist hospitality consultant whose principles are centred around ESG, sustainability, and creating a wholesome visitor experience. The consultant should also be versed in the legal and hospitality business environment of the state and country where your hotel will operate; this will enable you to facilitate all necessary business documentation and legal processes.

Tip: Your hospitality development team should include a hospitality consultant, hotel architect, structural engineer, MEP engineer, landscape architect, HSE specialist, interior designer, menu curator and others.



Step 2: Carry out a hotel feasibility study

A hotel feasibility study evaluates your proposed hotel or resort proposal to see if it is suitable for its purpose as a sustainable and profitable business model. It analyzes the project location, the intended target customers, the hotel market in that location, competitor analysis, project costs, financing and operational strategies.

Why is a hotel feasibility study very important for an investor? *We'll tell you why.*

Some time ago, a client of ours was looking to develop a luxury hotel establishment in a secondary town in Nigeria, and had recently engaged a London-based architectural practice to work on the architectural and structural design and components; the hotel was proposed to be a 200-room steel and glass Western-styled structure with imported decor and luxury fittings. However, the client's legal advisors needed the input of a tourism and hospitality consultant and engaged our services.

After we had worked through the hotel licensing and business registration process, we conducted a feasibility study for the proposed development. We carried out a location analysis, market analysis, and the financial feasibility of the proposed project context. Based on our findings, we were able to advise the client that the initial design and concept presented by the architects would not be feasible, and the project would struggle to deliver the required returns to meet its financing and investment goals.

We recommended a 100-room hotel (80 bedrooms and 20 suites/short-let apartments), designed with strong elements of West-African architecture within a timeless design. We also worked with a specialist Nigerian-based hotel architect - one who understood the local environment, eco-friendly architecture and sustainable materials to be used - to design an expandable building, based on demand for the hotel, in a way that would not gravely affect the operations of the hotel, should the demand increase consistently.

By doing so, we were able to minimize development costs by over 60 per cent and add value to the project. More importantly, we were able to deliver a feasible hotel project that appealed to the hotel's target market for the client.

Tip: Clients do not build a hotel first, and then think about how to fill it with guests. A well-grounded hotel development starts with carrying out a feasibility study, and then designing to align with the expert's feasibility results.



Step 3: Work with a hotel architect

One key point to remember is that hotel and resort developments are very different from other properties. Hotels are a mix of retail, residential, entertainment and leisure, meeting and conferencing event spaces, and restaurant spaces.

Balancing the requirements of this mix of spaces can be a significant design task, coupled with the very extensive and complex mechanical and electrical servicing requirements of a facility that has to operate 24 hours a day, every day of the year. Many hotel operators also have discrete design requirements which define each of their brands.

Further, the designs and development of hotels, resorts and other types of hospitality facilities can be likened to writing a story or curating an experience. Every hotel design tells a story, and only a specialist hotel architect can reflect on your vision as the client and work with the expert feasibility study results to bring your spaces to life and create that beautiful experience.

There is no gainsaying that an investor proposing a hotel development should seek out architects with hotel design experience; these architects add significant value to the development and can help the developer control his budget and his construction program. They help clients save time and money and prevent very costly errors during and after construction.

Tip: Not all architects are hotel architects. Hotel architects are specialists in the design of spaces and visitor experience in hotels and hospitality facilities. A hotel architect understands the different components of a hotel development package - hotel FFE, OS&E, plant equipment, fire and life safety, etc. - and how it all comes together in the planning process. **Work with a specialist hotel design architect!**

Step 4: Create a niche for your hotel's service

The hospitality market today is saturated with investors, many of whom are first-time developers and are eager to learn about this unique industry. One mistake clients tend to make is in their pursuit of profits, they do not create a niche for their facilities and the services they want to provide for their target customers.

In our experience as hospitality consultants, we have been engaged by clients who have, prior to engaging us already jumped into development and found themselves in unpleasant situations as to what exactly they wanted to offer. Of course, mistakes will be made and lessons will be learnt. This is a guide to making better decisions in hospitality investments.

Hospitality developments can be categorized according to their services and available facilities. We have full-service hotels, select-service hotels, aparthotels and budget hotels/lodges.

- A **full-service** hotel offers a complete hospitality package and is usually the choice of luxury, upscale and midscale hotel developers. Services and amenities may include F&B, on-site retail, spas, fitness centres, meeting rooms, restaurants, event halls, etc. They require a large volume of specialist staff and cater to select guests. Fees are usually all-inclusive, and accommodations are pre-booked.
- A **select-service** hotel is fairly limited in the facilities available for customers and is usually preferred by first-time hotel developers who are targeting the average mid-range customer. For example, you could find certain services and amenities like swimming pools, fitness centres and restaurants in a select-service hotel, but you may not find a meeting room, spa or conference hall. Staff in select-service hotels are a mix of professional and blue-collared and tend to play a number of roles and responsibilities across the board, depending on demand.
- An **aparthotel** is usually a self-serviced apartment that doubles as an 'unofficial' apartment for customers requiring extended stays but who do not want to go through the process of renting an apartment. Aparthotels offer large suite-style rooms and are designed to look and feel like home, with features such as kitchens and access to laundry. They also offer discounted rates on longer stays and use a hotel-style booking system. There are no fixed contracts, and customers can "check out" whenever they wish, subject to the applicable minimum length of stay by the owner.



- A **budget hotel** basically serves the purpose of lodging and offers fewer amenities and services. Most budget hotels usually have just accommodations, restaurants and bars.

Tip: A feasibility study can also inform you of what type of hospitality facility can work best for your proposed development, and what would be more profitable and sustainable in that location for the short, medium and long term. Creating a niche for your hotel can help you plan for your target customer, what kind of staff you need and how many of them you will require to operate at maximum efficiency.

Step 5: Build a solid business plan and strategy

Starting a hotel development requires significant financial investment, and the size of the investment depends on the size and category of the hotel (read Step 4). For example, a 200-room hotel is significantly more expensive and complex to build, manage and maintain than a 50-bedroom hotel. Also, a 50-room hotel can be repurposed into self-serviced or standard apartments for extended stays or rent and is easier to sell than a 200-room hotel should you decide to dispose of the asset.

A solid business plan and strategy puts you on the right track to building an economically feasible and profitable business. Your business plan should have the following information:

- **Payback on investment:** If the Initial Rate of Return (IRR) is 22 per cent and above, then you can invest and expect a positive RoE. Even though the RoE may initially be negative, you would expect it to become positive as the net income increases. Another factor to consider is the payback period of debt to ascertain cash flow projections. For example, you may want the debt to be paid back over 3 - 5 years.

Other expenses that may be incurred include pre-opening expenses, marketing, hiring and training staff. Investment in the architecture, furnishings, finishing, and operating equipment is also required. Therefore, it may take several years before the business starts generating stable income.

- **Operational costs:** Staff costs and maintenance costs are other factors to be considered. In Africa where the power supply is irregular, energy costs can rack up the running costs which means it becomes more expensive to run, and so sometimes, a US\$50 room doesn't give you enough value for money. The implication is you need to factor this into the type of hotel being built. An upscale or luxury hotel will cost more to build, maintain and run, and even if there is only one guest in the hotel, they will expect all the facilities to be available.
- **Revenue sources:** Hotels typically generate revenue through room rentals, food and beverage outlets (which explains why there are so many different outlets to order food and drinks), and MICE activities. F&B can be a real money earner, and it is important to plan carefully so you can optimise the areas for driving sales. Sadly, many investors do not pay enough attention to this. Hotels are beyond rooms and in some cases, an



optimal food & beverage department can generate about 200 per cent or more of the room rental revenue!

Again, working with the right hospitality consultant can guide you on this journey to ensure the hotel asset is the right one for your investment type and a viable one for you.

- **Risk assessment and mitigation:** As mentioned earlier, the secondary market for hotel assets in Africa is currently not as developed as in Europe and the Americas. Therefore, it is much harder to find a buyer for your property, should you wish to dispose of it. If your investment is debt-financed, it will require intricate planning, sufficient risk management and fiscal responsibility to be able to meet up with the repayment schedule.

Also, fluctuations in exchange rates can affect the everyday running of the business, especially for hotels in Africa that also cater to foreign guests. If payments from guests are collected in the local currency, and there are foreign suppliers to do business with, there is a risk of losing some of the monetary value when it is converted to another currency. If the business has foreign subsidiaries, this may also pose a problem when compiling a consolidated financial statement.

- **Hotel performance, monitoring and evaluation:** To track the performance of your proposed hotel, there are key data that are relevant, which will be factored into your business plan. Some of these data include Average Daily Rate (ADR) and Revenue Per Available Room (RevPAR).

ADR is the measure of the average nightly rate paid for rooms at a hotel ($ADR = \text{Room Revenue} / \text{Rooms Sold}$), while RevPAR, or revenue per available room, is calculated by multiplying the ADR by the occupancy rate ($RevPAR = ADR \times \text{Occupancy Rate}$)

Hotel owners and operators use daily, weekly, monthly and annual RevPAR trends to gain insights into factors impacting the hotel's performance. Even better, comparing a hotel's RevPAR over the last year to the RevPAR of competitor hotels can provide a powerful metric for analyzing the performance and competitiveness of any hotel over a given period.



How can Red Clay help?

As tourism and hospitality consultants, we have vast experience in handling hotel and resort investments in West and East Africa for our clients from inception; we help you navigate the legal and business environment and advise you through the process of getting your hotel's licensing and registration.

We will also work with you through the following phases of the project:

1. We will conduct the feasibility studies to ensure that your proposed hotel project is feasible and viable, and guide you to make the best decisions.
2. We work with your hotel architect (or provide a specialist hotel architect on recommendation) to conceptualize and design a sustainable and eco-friendly hotel for you, based on your budget.
3. We also help you create a business plan and strategy to shore up your investments and minimize your financial risks.
4. We will develop your hotel's ESG strategy to minimize environmental, social and governance risks and ensure that your business is ESG-friendly.
5. We will also help you build a DEI strategy to ensure that your facilities are accessible and inclusive to all for use, work, stay and play, including persons with disabilities.

In essence, we are there for you all the way through till you launch your hotel or resort and open up to customers.

About Us

Red Clay is a specialist advisory practice focused on harnessing the socio-economic potential of sustainable tourism development for cities, states, regions and countries in Africa. We specialize in strategy advisory for destination development and management, ESG advisory, feasibility studies, market research and intelligence, policy advisory, and capacity development for tourism and hospitality-focused businesses, agencies, organizations, and governments in Africa.

Our team members have worked in the tourism industry in the UK, West and East Africa, and are experienced and passionate about sustainable tourism as an instrument for societal change, with its promotion of heritage, the celebration of culture, and contribution to identity.

See our company profile [here](#)