

## **STHM3313 FINANCIAL ISSUES IN TOURISM & HOSPITALITY PROJECT**

### **INTRODUCTION**

You are currently developing a hotel project, Beautiful & Crazy (B&C) Hotel. You plan to open the hotel on January 1<sup>st</sup>, 2018 and your plan is to operate the hotel for 10 years and sell it. Now, you would like to know how the hotel will perform in the next 10 years (from 2018 – 2027) and see if the hotel would be able to attract buyers after 10 years. To predict your hotel performance, you are asked to set up income statement of the hotel for 10 years.

### **REQUIREMENTS FOR PROJECT**

1. You must use Microsoft Excel. Handwritten submission will not be accepted.
2. All dollar figures should be rounded to the nearest dollar.
3. Your submission in BLACKBOARD will be ONE file; an Excel spreadsheet.

### **REQUIRED ANALYSIS**

1. Prepare the income statement for 10 years (from 2018 to 2027) (Tab 1 in Excel). The format of the income statement will be discussed in the classroom.
2. Construct the loan amortization table for 20 years (Tab 2 in Excel) to project interests expense for the 10 years.
3. Conduct ratio analysis focusing on profit margin (%) of this hotel over the next 10 years and analyze how the profitability of the hotel is projected.
  - Use two decimals for the profit margin (%).

## HOTEL B&C PROJECT

### GENERAL DESCRIPTION

1. Hotel B&C will have “100 + Last Two Digits of Your Student ID Number” rooms. For example, if your student ID is 912345679, the hotel room number will be 179 (= 100 + 79).
2. The project is expected to cost “\$10,000,000 + (The Second Digit from the Last of Your Student ID Number × \$1,000,000) in total. For example, if your student ID is 912345679, the expected cost will be \$17,000,000 (= \$10,000,000 + (\$1,000,000 × 7)).

### OPERATING FORECAST

1. Hotel B&C will be open 365 days per year.
2. Hotel B&C will have three revenue generating departments: rooms, food and beverage, and other operated department. For year 1, Hotel B&C will have the overall occupancy rate of 70% in year 1, 75% in year2, and 80% thereafter. The overall ADR is expected to be “\$100 + (Last Digit of Your Student ID Number × 10) in year 1 and increase at a compound annual rate of 5%. For example, if your student ID is 912345679, the overall ADR in year 1 will be \$190 (= \$100 + \$90). The ADRs in years 2 will be \$200 (= \$190 × 1.05); the ADR in year 3 will be \$209 (= \$200 × 1.05 = \$209.47, therefore, round this to the nearest dollar); the ADR in year 4 will be \$220 (= \$209.47 × 1.05 = \$219.94, therefore, round this to the nearest dollar), and so on.
3. Food and beverage revenue is expected to be 25% of rooms revenue in each year of the forecast.
4. Other operated department revenue is expected to be 5% of rooms revenue in each year of the forecast.
5. Income tax rate is 35%.
6. Other **expense** information for year 1 and proportion or increase in forecast is projected to be as below:

<u>Account</u>	<u>Amount in Year 1</u>	<u>Proportion or Increase in Forecast</u>
Rooms	25% of Rooms Revenue	25% of Rooms Revenue Each Year (P)*
Food and Beverage	60% of F&B Revenue	60% of F&B Revenue Each Year (P)
Other Operated Department	20% of Other Op. Dept. Rev.	20% of Other Op. Dept. Rev. Each Year (P)
Administrative & General	10% of Total Revenue	4% compounded annually (I)**
Franchise Fees†	6% of Rooms Revenue	6% of Rooms Revenue Each Year (P)
Property Operation & Maintenance	4% of Total Revenue	4% compounded*** annually (I)
Utilities	3% of Total Revenue	4% compounded annually (I)
Sales & Marketing	9% of Total Revenue	4% compounded annually (I)
Rent	1% of Total Revenue	3% compounded annually (I)
Property and Other Taxes	3% of Total Revenue	3% compounded annually (I)
Insurance	1% of Total Revenue	1% of Total Revenue Each Year (P)
Depreciation & Amortization	1% of Total Revenue	Remains the same
Management Fees	2% of Total Revenue & 5% of Total GOP	2% of Total Revenue & 5% of Total GOP Each Year (P)

\*Note: (P) represents ‘proportion’.

\*\*Note: (I) represents ‘increase’.

\*\*\*Note: ‘compounded annually’ means that if the increase is 4%, for example, then each year’s expense is 4% larger than the previous year’s expense.

†Note: Report ‘Franchise Fees’ separately from ‘Sales & Marketing’

### FINANCING

1. Loan-to-Value Ratio is 60%.
2. The loan is for 20 years with the interest rate of 12%, compounded monthly. (Tip: PVIFA (1%, 240) = 90.8194)

### **[General Tips]**

- ✓ Figure out room number of your hotel, total project cost, and overall ADR for year 1, correctly using your own student ID number as instructed.
- ✓ For your financing, you have to use the total project cost (i.e., value) and loan-to-value ratio to figure out how much you have to borrow at the beginning of the project (i.e., the beginning balance of your amortization table).
- ✓ Interest expense: In your amortization table, you will have monthly interest payment for 20 years. Then, you have to calculate each year's total interest payment (by summing up interest payments for 12 months of each year) and report it on the income statement.
- ✓ Depreciation expense will remain the same in dollar amount from the first year to the 10th year.