

SPECIALIZATION MODULE FOR BHI, MARCH 2015
INTERNATIONAL HOTEL DEVELOPMENT



Module Description

Hotel industry generates around USD 700 billion of revenues globally every year, an amount over 10% of the GDP of China or half the GDP of India. Beyond its impressive size, the industry is constantly growing. Since 2010, the average occupancy rates in hotels have significantly increased which is reflective of sustainably increasing demand. Currently, over 500 million hotel rooms are being developed globally half of which are located in the Asia-Pacific region.

In the global investment landscape, several large hotel transactions have been planned or executed recently. For example, in 2014 the InterContinental Hotel in Hong Kong was listed for USD 1 billion while a Chinese Insurance firm purchased Waldorf-Astoria in New York for nearly USD 2 billion. Hotel business enthusiasts are naturally inclined towards understanding how the hotels are valued.

Meanwhile, another debate is developing around the concept of the “asset light” strategy. Although dominated by tangible property, the constituents of a hotel asset transcend beyond real estate. Intangibles such as services and brand are integral to hotel value. Operationally intensive hotel chains now draw a clear distinction between ‘owning hotel real estate assets’ and ‘offering superiors operations’. Some companies in the industry take pure-play positions either as owners (e.g. REITs) or operators of hotels. In all business models, however, real estate considerations are integral. As a result, fundamentally sound understanding of the hotel assets from a financial perspective is almost a pre-requisite to leadership in the industry.

This module offers in-depth discussions on the hotel industry in light of the above perspectives. Topics in real estate development, finance, investment and appraisal are intertwined carefully with the hotel industry. Students learn about hotel business models, ownership structures, uses and sources of funds, roles of various market players, real estate market dynamics, hotel development process and hotel valuation among other topics. The context adopted is global.

Teaching Methodology

Since the module covers a wide-range of topics relevant to hotel development, class meetings will be intensive, although fun. Some parts of the class meetings will follow the traditional lecture style. However, the professor enjoys interacting with students during class hours. Professionally relevant, but intellectually challenging discussions may be floated and students are encouraged to participate. A tentative outline of the module is provided below. However, the professor reserves the right to make changes as he will find optimal for student learning. A large portion of the class will be discussion-based. However, some quantitative topics will also be introduced. Some class meetings may involve hands-on, numerically based exercises. Besides, tutorial sessions will be conducted every day so that some topics may be revisited and students may ask questions to enhance their learning.

Materials

Necessary course materials (e.g. slides, readings etc.) will be provided. Each student must bring a calculator equipped with power function (X^y). Access to Microsoft Excel is encouraged.

Learning Outcomes

At the end of this module, students will be able to:

- Describe the process of hotel development
- Describe the real estate markets and its players
- Critique various hotel business models and financing strategies
- Identify sources of funding
- Critique and execute the metrics for cash flow analysis
- Critique various valuation methods
- Perform basic valuation calculations

Class schedule

TIME	MONDAY 13 TH APRIL 2015	TUESDAY 14 TH APRIL 2015	WEDNESDAY 15 TH APRIL 2015	THURSDAY 16 TH APRIL 2015	FRIDAY 17 TH APRIL 2015
08:00 AM - 10:00 AM <i>(2 hours)</i>	Real Estate & Hospitality <ul style="list-style-type: none"> • Kick-off • What is real estate? • Real estate in hospitality 	Hotel Investment <ul style="list-style-type: none"> • Market Cycles • Risks • Sources of capital 	Quant. Warm-up <ul style="list-style-type: none"> • Cost of Capital • Regular cash flows 	Hotel Valuation <ul style="list-style-type: none"> • What is Market Value? • Capitalization rate 	Hotel Development <ul style="list-style-type: none"> • Stages • Elements of feasibility analysis
10:00 AM - 10:15 AM	Break				
10:15 AM - 12:15 PM <i>(2 hours)</i>	Real Estate Market <ul style="list-style-type: none"> • Real estate activities model • Real estate system • Determination of rents 	Hotel Business Models <ul style="list-style-type: none"> • Market Players • Lease • Franchise • Management Contracts • Asset Light Strategy • Sale lease-back transactions 	Analysis Tools <ul style="list-style-type: none"> • Irregular cash flows • Limitations of NPV & IRR • MIRR 	Three Approaches to Valuation <ul style="list-style-type: none"> • Cost Approach • Sales Comparison Approach 	Tutorial Group A 10:15 – 11:15 Tutorial Group B 11:30 – 12:30
12:15 PM - 01:30 PM	Lunch Break				
01:30 PM - 03:00 PM <i>(1.5 hours)</i>	A Global Review of Hotel Performance <ul style="list-style-type: none"> • Latest in hotel investments 2015 	Ownership Structures <ul style="list-style-type: none"> • General Partnership • Limited Partnership • Limited Liability Company • Corporation • REIT 	Commercial Mortgages <ul style="list-style-type: none"> • Underwriting Process • Debt markets 	The DCF Approach to Valuation	Exam: 90 minutes 2:00 to 3:30
03:00 PM - 03:15 PM	Break				
03:15 PM - 04:00 PM	Tutorial Group A	Tutorial Group A	Tutorial Group A	Tutorial Group A	
04:00 PM - 04:15 PM	Break				
04:15 PM - 05:00 PM	Tutorial Group B	Tutorial Group B	Tutorial Group B	Tutorial Group B	
From 05:00	Evening assignments	Evening assignments	Evening assignments	Evening assignments	