

Hornsby RSL Club



Hotel Feasibility Study – Preliminary Feasibility Study

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Introduction

The following report is to provide a statistical, research and evidence based framework to support the viability of the proposed hotel development by the Hornsby RSL Club as an addition to the existing Hornsby RSL club complex.

According to the position paper, *Creating A Long Term Future For the Sydney Hotel Industry* by Tourism Accommodation Australia (TAA - NSW, 2012), the Sydney hotel market is the largest in the country and has performed well in recent years, occupancy rates in the Sydney hotel market have been particularly high (above 80%), which represent the highest occupancy rates achieved in the market for more than two decades.

Despite a strong performance, there has been very limited hotel room supply growth in Sydney as the development of new, stand-alone, greenfield hotel properties in Sydney is difficult and there are numerous barriers to development of hotels in Sydney which effect the viability of such projects. The more significant barriers include:

- **Increasingly High Land Costs**, given the characteristics required for a successful hotel site and the ever present competition with other land use types which exacerbates the situation. From the end product point of view, the development and capital cost presents a compelling factor driving renewed interest in the 3-star space is the substantially lower development and ongoing maintenance costs. The land cost component is typically much cheaper than 4 and 5-star locations, due to the ability to operate 3-star properties in secondary, suburban/metropolitan locations.

However in this instance, the land has the attributes of a 4 or 5-star site as it is situated in a prominent and well serviced location within the Hornsby Town Centre catchment. Furthermore, the land is owned and supplied by the club and the associated capital investment cost will only be partially factored into the overall development cost.

- **Access to Financing**, it is often more difficult to secure financing for hotel developments compared with other property development projects (such as residential or office). Unlike residential, financing is not possible through pre-sales or lease pre-commitments as is the case for commercial/retail projects. For the proposed Hotel at the Hornsby RSL Club complex, the club will be financing the project, through a staged development process on other adjoining sites, owned by the club, avoiding this added layer of complexity and typical barrier to the successful delivery of the project. Refer to the planning proposal document for the proposed developments on the clubs sites.
- **High and Increasing Construction Costs**, which is the result of strong demand for construction materials and skilled construction labourers across Sydney in general. Furthermore, Hotels (as Class 3 buildings) generally cost more to build (on a sq.m basis) as they require additional amenity and safety features than other competing land uses such as residential (being Class 2, buildings). The cost of construction is substantially lower, with smaller room sizes (typically 20-24 sq.m, compared to 30 sq.m plus in 4 & 5-star), less back of house area, less food and beverage and conferencing space and substantially less room fitout costs.

The existing club facilities have significant synergies with that of a hotel and it is crucial to identify and acknowledge these synergies as they will contribute to the support of the future hotel. The existing facilities and infrastructures (e.g. parking, administration, operational and servicing, food and beverage premises) have the capacity to accommodate and support the future hotel and the cost associated will be proportionally allocated to the club, the current venues and the proposed new hotel.

The pre-existing back of house area, food and beverage (F&B) offerings and conferencing space within the club complex provides the proposed

future hotel with the ability to be of a higher standards with greater star rating without the need for a significant upfront expenditures.

The document is structured in two parts. Part one focuses on the feasibility analysis for the proposed hotel addition and provides statistical data in support of the viability of the projects and part two is to outline the hotel business plan which supplements the feasibility with a road map in combining strategy, operations and financial forecasts for the Client/Owners to support the viability of the project.

Feasibility Framework

The study is intended to ascertain the viability of the proposed hotel addition to the Hornsby RSL Club complex. The methodology for this feasibility study is based on the comparison of statistical data available for this Sub-Region, North Sydney, and on similar offering in the respective catchment.

A case study giving supporting data from similar successful precedents (i.e. precedents of hotel additions to existing club complex) will also demonstrate how the proposed model can stack up, operate and perform successfully.

1.1 SUPPLY/DEMAND DYNAMICS

The North Sydney Sub-Region comprises the local government areas of Lane Cove, Manly, North Sydney, Ryde, Hornsby and Willoughby.

Statistics pertaining to the supply, demand and performance of North Sydney's accommodation market have been sourced from Report by Jones Lang LaSalle (JLL), Visitor Accommodation Supply Study for NSW Trade and Investment November 2014. (See appendix A for full detail report) underpinned by the *Survey of Tourist Accommodation*, *The National and International visitor surveys* and *STR Global*.

In brief, analysis of the *purpose of visit* highlights that growth is being underpinned by the domestic business and leisure segments with growth in visitor nights in Hotels, Motels, Guesthouses and Serviced Apartments (HMGSA) averaging 8.1% and 4.9% per annum respectively over the eight year period.

The leisure segment dominates overall accounting for 43.0% of visitor nights in 2013 which is above the eight-year average of 41.5%.¹


Hotels are the most common accommodation type in North Sydney (2,265 rooms or 53.3% of total room supply) with a fairly diverse spread across all grades. However for Hornsby, serviced accommodation provides for a significant portion of the local market room inventory.

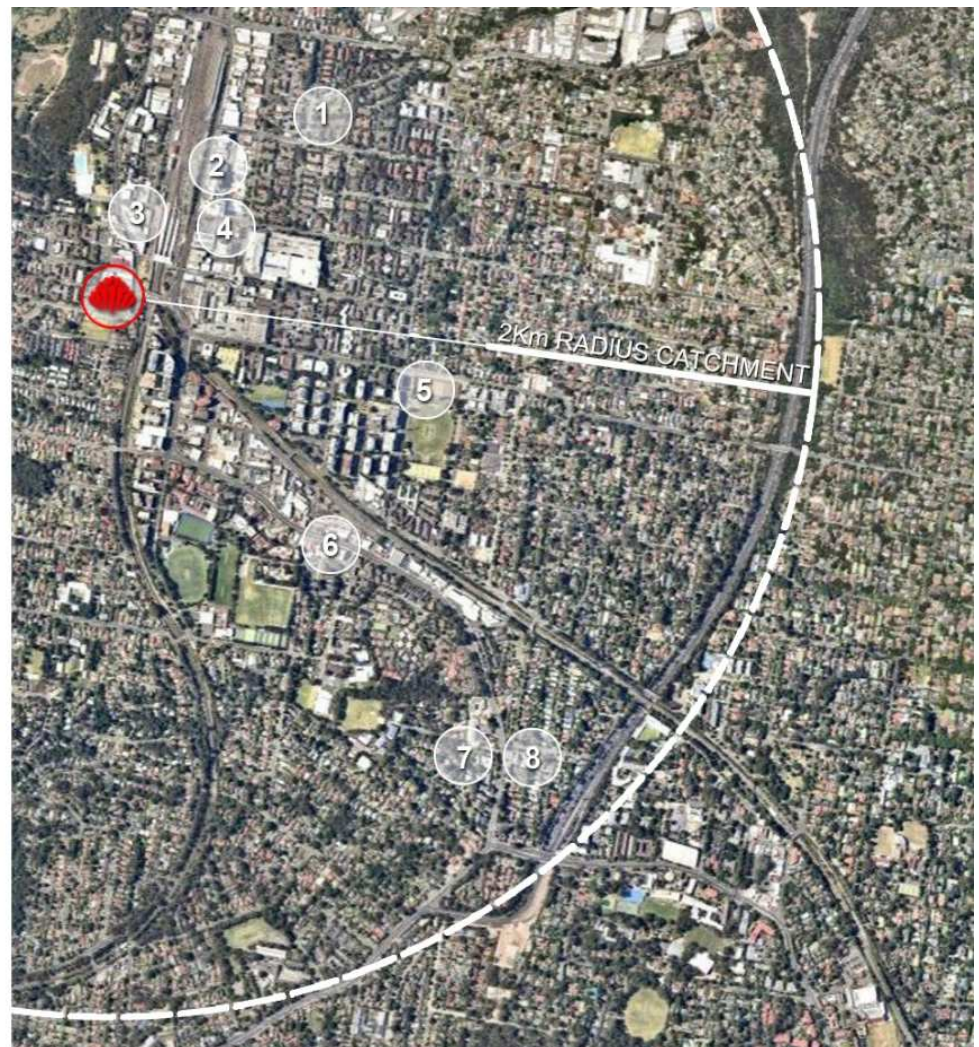
¹ Page 71, JLL, Visitor Accommodation Supply Study for NSW Trade and Investment November, 2014

1.2 COMPARING COMPETITIVENESS


The immediate catchment area is illustrated in the diagram below. For the purpose of a comparative competitiveness, the review should quantify existing hotels, accommodation facilities, quality segments, rooms and total supply within the catchment and compare available criteria's such as star rating, capacity, rates, services, venues etc. across number of quantifiable attributes for accuracy.

This study relies on the available data for the Sub-Region as detailed local statistical data is not available for the identified accommodation options within the immediate catchment. However, a cursory review of the accommodation has provided the comparative information as noted in the Accommodation Comparison Table 01 on the following page.

-  Hornsby RSL Club
- 1 Waldorf Hornsby Apartments
- 2 Avanti By Meriton
- 3 Hornsby Railway Hotel
- 4 The Hornsby Inn
- 5 Waldorf Waitara Apartments
- 6 The Blue Gum Hotel
- 7 Waldorf Wairoonga Apartments
- 8 Golden Chain Ascot Motor Inn



ACCOMMODATION COMPARISON TABLE 01

		★ RATING	CAPACITY	RATES (\$) PER NIGHT	SERVICES / VENUES	
		HORNSBY RSL CLUB HOTEL	★★★★ INTENDED	114 INTENDED	200	F&B, CONFERENCING, FUNCTION SPACES, PARKING,
1		WALDORF HORNSBY APARTMENTS	★★ FROM VISITOR REVIEW	VARIED	185-215 ESTIMATED	ON-SITE CARETAKER, INTERNET, OFF SITE PARKING
2		AVANTI BY MERRITON	NO INFORMATION AVAILABLE & AVAILABILITY FOR SERVICED APARTMENTS IS TO BE CONFIRMED			
3		HORNSBY RAILWAY HOTEL	PUB STYLE BUDGET	UNKNOWN	170 PER WEEK	FUNCTION SPACE
4		THE HORNSBY INN	★★★ FROM VISITOR REVIEW	10 ROOMS	109-145	PARKING
5		WALDORF WAITARA APARTMENTS	★★★★	18 APARTMENTS	185-220 MIN. STAY REQ.	OUTDOOR POOL
6		THE BLUE GUM HOTEL	NOT RATED	11 ROOMS	120-220	FUNCTION (UP TO 120), F&B
7		WALDORF WAHROONGA APARTMENTS	★★★	13 APARTMENTS	165	PARKING
8		GOLDEN CHAIN ASCOT MOTOR INN	★★★ FROM VISITOR REVIEW	37 MOTEL ROOMS	110-220	CONFERENCE IN THE 100 SEAT RESTAURANT, OUTDOOR POOL, INTERNET, PARKING (INCLUDING BOATS AND TRAILERS)
		ibis Hotel Thornleigh	★★★★	105	125-165	RESTAURANT, BAR, PARKING, LAUNDRY AND DRY CLEANING, 24HR FRONT DESK, WI-FI BAGGAGE SERVICE, BUSINESS CENTRE, FACILITIES FOR DISABLED GUESTS.

The general and cursory review of the available accommodation reveals that:

- There are very limited availability in the Upscale Segment (4-star and above) in the local market;
- Accommodation market and the available capacity is dominated by serviced accommodation options where guest services and facilities are limited or not offered;

- Accommodation options take little advantage of synergies with complimentary uses such conferencing and function venues;
- There are limited availability of hotel rooms within the Hornsby's core centre.

These early indicators suggest that the market has the capacity, within the up-scale segment, for a hotel type offering within the close proximity of the civic and transport core of Hornsby.

1.3 OCCUPANCY & AVERAGE RATES

The information provided here have been extrapolated from the available data for the North Sydney Sub-Region and based on the data from the Australian Bureau of Statistics (ABS) of 2013.

According to ABS, there were 46 establishments with 3,616 rooms at the end of June 2013 which represents 26.9% of Sydney Metropolitan's total accommodation supply. Over the ten years to 2012, North Sydney's accommodation market has recorded slight Revenue per Available Room (RevPAR) increasing on average by 2.5% per annum which represents a considerably lower rate than that which has been achieved across the broader metropolitan area. Growth has been underpinned by gains in both occupancy and Average Daily Rate (ADR)².

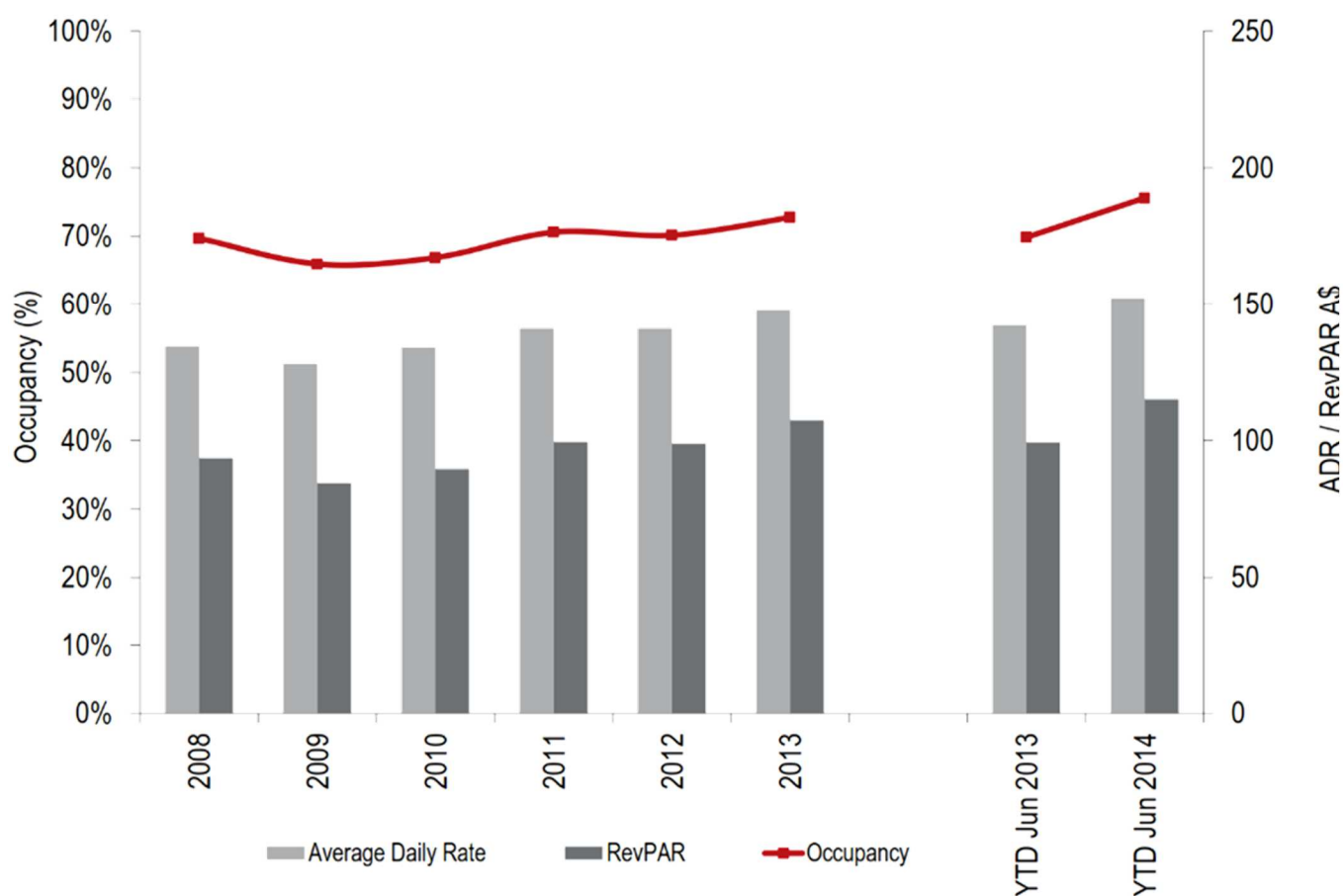
Over the five years to 2013, North Sydney has recorded RevPAR growth increasing on average by 2.8% per annum and with only two years of decline in 2009 and 2012. RevPAR was at the highest level ever recorded in 2013 at \$131. Growth has moderated over the first six months of 2014, up 2.8% year-on-year.

Occupancy levels have recorded growth over the five year period, increasing at an average rate of 1.5% per annum. Occupancy levels were at their highest level ever achieved in 2013 at 76.8% and have recorded a slight uptick during the first six months of 2014 to average 75.2% (+0.9%). ADR growth over the five year period has been modest, increasing on average by 1.3% per annum. Room rates were also at the highest level ever recorded in 2013 at \$171. Growth has

² Australian Bureau of Statistics 2013

continued during the first six months of 2013, increasing 1.8% year-on-year to \$172³. Available data on performance to June 2014 has been illustrated in Table-02 on the following page.

TABLE 02
NORTH SYDNEY | RECENT PERFORMANCE 2008 TO YTD JUNE 2014 ⁴



³ NSW Accommodation Supply Study – Part One November 2014

⁴ Sourced from JLL, Visitor Accommodation Supply Study for NSW Trade and Investment

1.4 HOTEL REVENUE PROJECTIONS

The additional revenue the club will generate by building a hotel will be both direct and indirect.

The direct revenue will be generated from the total amount of revenue generated from renting out hotel rooms in a single year. This is explained further below under:

- Total Hotel Nights.

The indirect revenue will be generated from additional profits in existing club venues. These can be broken up as follows:

- Increased Conferencing Profits
- Increased Food and Beverage Profits

Direct Revenue

Total Hotel Nights

The total hotel nights is based on the proposed hotel rooms multiplied by the number of nights the hotel will be operational per year.

Hotel Room 114 x Hotel Nights 365 = Total Hotel Room Nights 41,610

Occupancy Rate

We are basing the occupancy rate on the existing occupancy rate of the North Sydney region which is 75% as outlined in above. To allow for some sensitivity in the market we are also going to apply a rate of 70% and 80% to allow for various scenarios

Average Daily Rate.

Based on the current market an average daily rate of \$180 per room will be used.

Hotel Revenue

The hotel revenue is based on the total number of hotel nights multiplies by the occupancy rate, multiplied by the average daily rate.

The following is an example of the hotel revenue based on an occupancy rate of 75%.

Hotel Room Nights 41,610 x Occupancy rate 0.75 x Average Daily Rate \$180 =
Hotel Revenue \$5,617,350.00 per annum.

For the three scenarios mentioned above, the hotel will generate revenue as per the table below.

	80.00% occupancy	75.00% occupancy	70.00% occupancy
Hotel revenue (average of \$180 per room)	\$5,991,840	\$5,617,350	\$5,242,860

Indirect Revenue

Increased Conferencing Profits

Hornsby RSL currently has a showroom and three recently renovated function rooms. The rooms have various capacities as per the table below.

Room/ Configuration	Theatre	Classroom	Banquet	Cocktail	Days Booked	Occupancy
Showroom	1000	250	640	800	223/365	61.10%
Acacia Room	70	30	70	80	214/365	58.63%
Waratah Room	50	20	30	60	190/365	52.05%
Boronia Room	70	30	70	80	229/365	62.74%

The showroom and functions currently run at an occupancy rate of 58.63%. Based on past enquiries, this could be increased if the club had a hotel as some larger conferences have decided to use other venues in the past due to the lack of accommodation. The conferencing facility currently runs at a profit of \$343,038.00. It is estimated that functions and conferencing would increase by 20% based on a similar 20% increase in functions bookings experienced by Rooty Hill RSL when they built their hotel. The increase is also based on the number of inquiries the club have had to hold functions/ conferences at the club and have also requested accommodation. The following is a sample of conference type functions the club had (or have had enquiries about) that have requested accommodation.

- Retirement Village Expo run over 2 days the week before Easter, exhibitors from all over the country, some of them had to stay as far away as Castle Hill.

- RSL Association Conference, want us to complete a tender for their conference over 3 days with 500+ delegates from all over the country, but we offer no accommodation, so that will be a big problem.
- Department of Education
- Department of Defence – Investment
- Clubs International Women’s Day, state wide event
- Bruttour International, 3 day conference in May
- Heia NSW division Professional Teachers Council conference
- Electrical Trade Union
- Wrigleys
- Family & Community Services
- SAN Hospital
- Sydney Church of Christ (1,000 delegates from all over the world)

An increase of 20% would result in a direct additional profit of **\$68,607.60** based on the inclusion of a hotel.

Increased Food and Beverage Profits

The club currently has a number of food and beverage outlets including:

- Level 1 lounge
- The Courtyard
- Palms Café
- Frank Gill Lounge
- Sports Bar

As well as the above mentioned venues, the club also has development application for a new restaurant on level 2 which will be completed by the time the hotel would be constructed.

We are basing the increase in food and beverage sales on 50% of hotel guests having breakfast at the club and 30% of guests having an evening meal. The following table shows the number of meals associated with the hotel for the various occupancy rates. We have assumed there are 2 people per room.

	80% Occupancy	75% Occupancy	70% Occupancy
Hotel Room Nights	33,288	31,207	29,127
Guests	66,576	62,414	58,254
Breakfast Meals	33,288	31,207	29,127
Breakfast selling price	\$16	\$16	\$16
Gross Profit Margin*	\$9.60	\$9.60	\$9.60
Total breakfast profit	\$319,564.80	\$299,587.20	\$279,616.20
Evening Meals	19,973	18,724	17,476
Evening meal selling price	\$32	\$32	\$32
Gross Profit Margin*	\$19.20	\$19.20	\$19.20
Total evening meal profit	\$383,481.60	\$359,500.80	\$335,539.20
Total additional Food & Beverage profit	\$703,046.40	\$659,088.00	\$615,155.40

*The gross profit margin is based on Hornsby RSL's current profit per meal

Total indirect profit

	80% Occupancy	75% Occupancy	70% Occupancy
Conferencing	\$68,607.60	\$68,607.60	\$68,607.60
Food and Beverage	\$703,046.40	\$659,088.00	\$615,155.40
Total	\$771,654.00	\$727,695.60	\$683,763.00

1.5 HOTEL EXPENSE PROJECTIONS

The hotel expenses can be broken down into the following categories.

- General admin including staff costs
- Electricity, water, maintenance and miscellaneous utilities
- Franchise/management fees.
- Sales and Marketing
- Construction Cost and Depreciation

General Admin including staff costs

This will include staff costs excluding hotel manager which is covered as part of the franchise fees outlined below.

	80% Occupancy	75% Occupancy	70% Occupancy
Wages (Reception)	\$544,000.00	\$544,000.00	\$544,000.00
Wages (Cleaning/ Room Service)	\$497,687.00	\$497,687.00	\$497,687.00
Superannuation	\$108,755.00	\$108,755.00	\$108,755.00
Insurance	\$60,000.00	\$60,000.00	\$60,000.00
Workers Comp	\$90,000.00	\$90,000.00	\$90,000.00
Total	\$1,300,442.00	\$1,300,442.00	\$1,300,442.00

Utilities

The following table has been compiled based on the current utility rates for the club.

	80% Occupancy	75% Occupancy	70% Occupancy
Electricity	\$230,000.00	\$230,000.00	\$230,000.00
Linen/Replacements (\$7 per room x occupancy rate)	\$230,016.00	\$218,453.00	\$203,889.00
Repairs & Maintenance General	\$130,000.00	\$130,000.00	\$130,000.00

Repairs & Maintenance Air Conditioning	\$45,000.00	\$45,000.00	\$45,000.00
Repairs & Maintenance Electrical	\$35,000.00	\$35,000.00	\$35,000.00
Depreciation	\$1,000,000.00	\$1,000,000.00	\$1,000,000.00
Total	\$1,670,016.00	\$1,658,453.00	\$1,643,889.00

Franchise/Management Fees

The Franchise/Management Fees differ based on the model chosen by the club.

For the purposes of the feasibility study a franchise model will be used.

Based on a Franchise Agreement with a Hotel Operator the following fees would be payable.

Fees Type	80% Occupancy	75% Occupancy	70% Occupancy
Base Management Fee (3.5% of room revenue)	\$209,714.00	\$196,607.00	\$183,500.00
Secondment of Manager. (0.25% of room revenue plus employment costs of \$120,000.00)	\$134,980.00	\$134,043.00	\$133,107.00
Reservation Fees. Average of 6% of room revenue	\$359,510.00	\$337,041.00	\$314,572.00
Technical Services Fee (\$1000 per room)	\$114,000.00	\$114,000.00	\$114,000.00
Total Fees	\$818,204.00	\$781,691.00	\$745,179.00

Sales and marketing

Marketing budget of 2% of room revenue will be applied. This will give a total marketing cost of \$127,626.19 per year

	80% Occupancy	75% Occupancy	70% Occupancy
Marketing budget of 2% of room revenue will be applied	\$149,796.00	\$140,434.00	\$131,072.00

Total Annual Hotel Expense Projections

	80% Occupancy	75% Occupancy	70% Occupancy
General Admin including staff costs	\$1,300,442.00	\$1,300,442.00	\$1,300,442.00
Utilities	\$1,670,016.00	\$1,658,453.00	\$1,643,889.00
Franchise/Management Fees	\$818,204.00	\$781,691.00	\$745,179.00
Sales and marketing	\$149,796.00	\$140,434.00	\$131,072.00
Total	\$3,938,438.00	\$3,881,000.00	\$3,820,562.00

1.6 NET OPERATING INCOME MODEL

The net operating income model is based on the annual hotel revenue offset against the annual hotel expense.

Direct Hotel Profit

	80.00% occupancy	75.00% occupancy	70.00% occupancy
Hotel Revenue	\$5,991,840.00	\$5,617,350.00	\$5,242,860.00
Hotel Expenses	\$3,938,438.00	\$3,881,000.00	\$3,820,562.00
Total Profit	\$2,053,402.00	\$1,736,350.00	\$1,422,298.00

Direct and Indirect Hotel Profit

	80.00% occupancy	75.00% occupancy	70.00% occupancy
Hotel Profit	\$2,053,402.00	\$1,736,350.00	\$1,422,298.00
Indirect Profit	\$771,654.00	\$727,695.60	\$683,763.00
Net Profit	\$2,825,056.00	\$2,464,045.60	\$2,106,061.00

Construction Cost and Depreciation

The projected build cost for the hotel rooms, foyer and back of house dedicated to hotel is \$20,000,000.00 based on a cost plan prepared by Aquenta Consulting. An additional \$5,000,000.00 will be spent on furniture, fixtures and equipment. It is anticipated that the club will self-finance approximately \$12,500,000.00 of the build cost with the remaining \$12,500,000.00 being financed through a loan. Basing an average interest rate of 7%, interest repayments would be \$875,000 with an additional \$416,666.00 of principal repayments. This gives a total repayment of \$1,291,666.00 per year.

Profit after loan repayments

	80.00% occupancy	75.00% occupancy	70.00% occupancy
Hotel net profit	\$2,825,056.00	\$2,464,045.60	\$2,106,061.00
Repayments	\$1,291,666.00	\$1,291,666.00	\$1,291,666.00
Profit after repayments	\$1,533,390.00	\$1,172,379.60	\$814,395.00

1.7 CONCLUSION

Based on the above information, it is feasible to run a successful at Hornsby RSL.