

Opinions

Making your next CapEx project a smart spend

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A successful capital improvement project at your hotel relies on the right timing and scope of project and properly balancing all of the logistics that go with that.



By Guy Lindsey

Compelling reasons for a hotel capital improvement project can include periodic upgrades according to a master asset management plan, a brand-mandated property improvement plan, or those prompted by an owner's desire to make property enhancements or upgrades.

Today's competitive environment means that guests and brands demand hotel properties maintain an outstanding physical presentation that is both appealing and efficient. From the standpoint of owners, investors, operators and asset managers, capital expenditures represent significant resources that must fulfill strategic and operational objectives while delivering a return on investment. Careful planning of CapEx projects can make a substantial difference in the hotel's bottom line almost immediately and in the long-term as well.

The timing challenge

In many cases, there are strategic reasons for accelerating or delaying CapEx projects. Potential considerations include the impact of interruptions on operations, occupancy and resulting revenue loss; whether the intended work will create additional property value; what competitors are doing to enhance their properties; and whether and when the asset is likely to be sold. For example, if a sale is intended, it may be financially advantageous to complete less costly and disruptive improvements, leaving major renovations to the discretion of the hotel's next owner.

Detailed project planning is a must. Planning timeframes for renovations are lengthening, especially in certain markets where construction pipelines across all commercial property types remain under pressure, thereby reducing the availability of quality contractors. Thus, the value of having established relationships with general contractors and subcontractors cannot be overstated. Labor shortages, as well as increased lead times on materials, impact the amount of time needed for preparation. Allowing for a minimum of 12 to 14 months for the full cycle of project planning, contracting, procurement and actual construction start is recommended.

Another factor compounding the timing issue in many cases is that booking windows for hotel business are shortening. Generally speaking, meetings, conventions, tourist groups and other types of group business are being sold in shorter windows, making it more challenging to plan for pairing that revenue stream with the expenses required for potential upgrades throughout the hotel.

Scope of project

The proper scope for a capital improvement will depend on a number of factors. Various hotel and resort brands will have their particular standards and requirements, and it is important to understand the feasibility of the design and related costs.

The scope of a project may also be adjusted based on how competitors in the market are developing their assets. It is worthwhile to tour the competitive set to ensure that planned improvements at your property are exceeding the bar, but not by too much. Being prudent and obtaining the most value possible for every dollar spent is always the goal. For example, manufacturers are always willing to collaborate to identify efficient methods to construct casegoods and produce soft goods without changing the aesthetics of the design.

Many facility upgrade or renovation projects will inherently involve the purchase and installation of new technology. It can be easy to overspend in an attempt to stay current with or ahead of the market, so it is important to have a good sense of what technologies hold the most promise for the future. The budget for property technology upgrades should include their implementation costs as well.

The need for a similar cost-benefit analysis applies to other costly capital improvements such as the energy plant, and in particular HVAC. Also worthy of consideration are amenities where trends can come and go quickly. Whether it's fitness centers, business lounges, lobbies, or food and beverage outlets, the goal is to be modern and appealing without overspending on items whose popularity will possibly wane. However, in some cases, adopting current industry trends can be advantageous, making for greater economies. Examples include integrating the restaurant, bar and lobby space; or the reduction of formal room service in favor of a grab-and-go café approach.

Balancing act

For every project, logistics must be evaluated and taken into consideration. A look ahead to what's scheduled may lead to consolidating what had been envisioned as separate projects, even if it means some budget adjustments. It is also imperative to understand the appropriate ways to accommodate deliveries; distribution of materials throughout the property; storage needs both off and on site; and the coordination of the additional labor. Hotel operations should not come to a stop for property improvements, and sound planning will minimize interruptions to the business. It is always best to take a guestroom or public area out of service once, and only once, during a renovation.

Capital expenditures represent significant strategic investments for any lodging property and can quickly become more complicated than they appear on the surface. The goals of any well-thought-out CapEx project include minimal disruption of operations during renovation and maximum return on investment.

The guidance and support of a project consultant who has substantial experience with similar projects, properties and locations can help achieve renovation, repositioning and conversion project goals from initial planning to construction close-out. A project consultant can assist in crafting project budgets and timelines and aid in negotiating PIPs based on a broad knowledge of industry trends and established relationships with individual brands. Additionally, a project consultant's guidance on selecting and managing purchasing agents, architects, interior designers, engineers and contractors can make a meaningful difference in the success of a project when it comes to planning, collaboration and execution. A seasoned consultant's relevant project experience, coupled with a keen understanding of new technologies, construction materials and design trends can surely aid owners in making their CapEx projects smart spends.

Guy Lindsey is the Senior Managing Director of Development Management Consulting at The Plasencia Group, a lodging investment advisory firm. Extensive experience with lodging development and renovation projects positions him as one of the foremost consultants to hotel and resort owners on strategic development and redevelopment projects.

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