

SITE SELECTION FOR HOTEL AND RESORT DEVELOPERS

By David Catterall

As operators we are regularly contacted by developers with ideas to put hotels or resorts on sites they have their foot on. Many times this option is being pursued after a process of elimination, involving all or some of the following steps:

- The developer has somehow stumbled across the site as a consequence of another deal
- The developer has exhausted options for an easy buck, like getting a local development approval and flicking the project on at a margin, or finding an institution to offer a guaranteed take out
- The developer has discovered that earlier ideas for something much easier like a car park or storage sheds have been ruled out, and even an office block or shopping centre are too problematic
- The developer has toyed with other schemes to on sell his risk including shared ownership schemes, time share and fractional
- The developer has slowly discovered that financing, designing and opening a hotel is pretty complex
- The developer thinks he has “stolen” the site from a previous developer who has already been through the process above

The key lesson learned from the above process is that getting the business end of town interested in hotel projects is very difficult, and resorts much more difficult again.

Identifying the right location, and then applying the right product development to meet a market need, if it exists at all, is vital. The Australian coastline is littered with “monuments to misunderstanding” – resort developments knocked up and flicked on to lay investors with little regard for the end user. Rushed development times, force-fit designs and an absence of market research are their hallmark attributes. A lack of comprehension of the realistic impact of seasonality is another trap.

And then there is Infrastructure. All good property needs good infrastructure around it. Isolated sites with limited infrastructure require the developer to contribute enormously to compensate. With beach and island resorts, these circumstances result in failure more so than it does success. Infrastructure development is historically the role of government and most experienced developers would agree that the cost and expertise for infrastructure development best lay with government. Further, independently management infrastructure such as sewerage treatment works, power generation or private marine transport services to an island require an ongoing extra layer of costly management expertise eroding operational profitability.

Destinations with a full range of publicly available infrastructure like airports, roads, bridges, electricity, a postal service, police and fire brigade (along with an existing general momentum of business and tourism activity) make it to the short list more often. They get financed more readily and endure as successful, sustainable projects much more often than the others.

Once a site is identified the product development process necessitates that the best product for the achievable market occurs. The scarcest commodity in tourism is realism. A common trap is to assume that five star is the only way to go, and that – although the destination is only mid market – there are masses of people ready to jump in and pay double the locally established tariff levels to stay at this new development because it has say, a 40 square meter odd room that couldn't be used for anything else dressed up as a spa or meeting room.

Destinations have long held widespread reputations with the markets they cater to and any new one development is unlikely to change the market profile of the destination. Better to study the profile of who currently visits and visits nearby competing destinations and identify how best to win them over. This is a surer and safer approach and normally only requires a modest amount of market research. A small survey of travel agents, wholesalers and the local tourism industry can provide valuable product development input.

Getting it right means a more successful development with higher returns for all stakeholders.

David Catterall is the founder of Best Management Group and has direct experience in the management of 97 different hotels and resorts over three decades.