With fierce competition for development sites and funding in the Australian hotels sector, it is vital to optimise both design and delivery. Matt Mackey shares some lessons learned.

The future for the Australian hotel sector is looking positive, with growing numbers of both domestic and overseas visitors. The latest forecasts from Tourism Research Australia shows international visitor numbers increasing by 4.5 percent annually through to 2023, with Asia’s emerging middle classes contributing strongly to that growth.

A crucial success factor in the development of hotels is securing funding, often from an external source. However, developers looking for potential hotel sites face fierce competition from commercial and residential developments that can demonstrate a much swifter return on their capital investments. Hotel operators and developers must therefore demonstrate to potential funders that their hotel development is going to stack up financially, which can be notoriously difficult to do.

To secure funding and achieve the optimum return on investment, developers must ensure that the design and delivery model is as efficient as possible. Early engagement with key stakeholders and benchmarking against comparable developments can help keep hotel projects on track.

Potential pitfalls

There are a number of areas where hotel developers typically experience challenges. These range from issues at the conceptual design stage right through to problems with handover and operational readiness.

Hotel design can be heavily driven by designers and hotel owners, often without the early engagement of operational teams. An inclusive dialogue with the operator is essential in order to accurately predict the flow of guests through the building and make decisions on items such as joinery or furniture.

Without those early conversations, delays to project delivery often occur. This impacts on the available budget and has the potential to de-rail the whole development when it fails to meet the operator’s brief and requirements.

One of the fundamental factors which must be taken on board during design is the balance between the areas of individual guestrooms, front of house (FOH) and back of house (BOH) facilities. Failing to find the right balance for the type and classification of hotel can make a scheme financially unviable.

Some developers make the mistake of focussing on budget rather than value. Many hotel operators have strict
brand requirements; delivering to these requirements while sticking to budget is a careful balancing act and requires an in-depth understanding of the operator’s brand values.

Value management in its truest sense is vital. The development team, operational team and professional consultants must engage continuously via value management sessions to ensure that all elements of the brief are being met.

Relationships with the local authority should also be established as soon as possible, since early engagement can assist with the negotiation of terms. Local building requirements, regulations and approvals should also be integrated into the project delivery plan.

Local authorities, particularly in Queensland, are beginning to have a growing appreciation of the pressures on hotel developers and operators. Their early involvement can assist with issues such as the inclusion of supporting retail or the number of available car parking spaces.

When local councils are overlooked as a key stakeholder, this can result in unexpected and expensive rework, delays to construction, or even delays to occupation. Gaining written confirmation of even intermittent agreements ensures developments are covered for any eventuality.

Finally, developers often underestimate the time and resources needed for post-completion and operational activities. Work streams such as inspection, defect rectification, staff training and commissioning should be visible in the delivery costs and project plans. Failing to plan for these areas can adversely impact final costs and deadlines.

**Benchmarking for success**

At the earliest stage of a project, it is important to assess the massing of the development to ensure that a realistic and efficient balance between the various areas is achieved. It is important to understand the relationship between front-of-house and back-of-house areas and individual room sizes, relevant to the appropriate hotel classification.

Increasing room sizes will not necessarily increase the price that can be charged for a room. But it will certainly increase construction costs.

Analysis of our cost database, which contains data on hotel developments gathered over the last ten years reveals the differences in massing for the various classifications of hotel. The comparison below demonstrates how significant those differences are.

It is also important to monitor project costs on an ongoing basis. By comparing these to data from similar projects, we can identify inefficiencies and control the costs. Benchmarking also provides indicative costs for fixtures, furniture and equipment (FF&E) although, as explained above, branding can have a huge impact on these costs.

While major owner-developers may have access to information which allows some level of benchmarking, smaller players or speculative developers will not. Understanding what costs should be and how a potential development compares to similar projects can be the difference between success and failure.

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