



---

# Hotel Development Cost Survey 2008

Elaine Sahlins, Senior Vice President  
HVS San Francisco

## **HVS SAN FRANCISCO**

116 New Montgomery Street  
Suite 620  
San Francisco, CA 94105  
(415) 896.0868  
(415) 896.0516 (fax)

**September 5, 2008**

---

New York San Francisco Boulder Denver Miami Dallas Atlanta Chicago Washington, D.C. Weston, CT Phoenix Mt. Lakes, NJ  
Vancouver Toronto London Madrid Athens New Delhi Singapore Hong Kong Sydney São Paulo Buenos Aires



## HVS Hotel Development Cost Survey 2008

Elaine Sahlins  
Senior Vice President, HVS International San Francisco

HVS has tracked hotel construction costs throughout the United States since 1976. The survey considers data for six lodging types: Economy/Budget Hotels, Midscale Hotels w/o F&B (without Food and Beverage), Extended-Stay Hotels, Midscale Hotels w/ F&B (with Food and Beverage), Full-Service Hotels, and Luxury Hotels and Independent Resorts. The 2008 hotel development survey reports updated per-room development costs for 2007.

Each year HVS Consulting and Valuation researches development costs from our database of actual hotel construction budgets, industry reports, and uniform franchise offering circulars. These sources provide the basis for our range of component cost per room. New project construction cost data collected each year may increase the range and/or impact the mean and median of the construction cost components. These development cost ranges are then adjusted each year based on data reflecting the trend in each component cost category.

### Supply Changes

The year 2007 is now regarded as comprising two distinct investment periods. During the first half of 2007, the robust hotel investment market of the prior two years continued to support a high volume of transactions. In the spring, underwriting standards tightened and, by the middle of the summer, the further impact of the credit market's reaction to the subprime residential market constrained the availability of debt for new and existing hotels. Concurrently, with an abundance of new hotel projects already under construction, the pipeline of new hotels continued to surge in 2007. Smith Travel Research reported that the number of new hotel rooms opened last year was roundly 96,000, representing a 2.2% increase in supply from that of 2006.

**Table 1 – Hotel Room Construction Statistics - 2007**

	Dec-06 Existing Supply	2007 New Hotel Rooms	% Change 2006 to 2007
Luxury	80,062	1,401	1.7 %
Upper Upscale	539,457	6,831	1.3
Upscale	406,932	22,526	5.5
Midscale with F&B	534,063	5,565	1.0
Midscale w/out F&B	694,954	40,448	5.8
Economy	731,812	9,105	1.2
Independents	1,466,755	10,393	0.7
	4,454,035	96,269	2.2 %

Source: Smith Travel Research

As seen in the chart, the larger supply increases were for upscale and midscale hotels without food and beverage. The majority of the new upscale rooms are represented by five brands: Courtyard, Hilton Garden Inn, Homewood Suites, Residence Inn, and Springhill Suites. These



brands continue to be built in urban and suburban locations across the country. Midscale brands without food and beverage or significant construction costs are dominated by Holiday Inn Express and Hampton Inn and Suites, followed by Hampton Inn and Comfort Suites. The lower development costs of these upscale and midscale brands are more likely to support their feasibility relative to the upper-upscale and luxury products.

### **Development Cost Changes**

Through the first half of 2007, developers continued to actively pursue new hotel development. The rising RevPAR in many markets and the continued evolution of mixed-use development configurations supported the feasibility of many proposed projects. Beginning in August, the impact of the credit crunch and the slowdown in the residential market began to temper the financing of new hotel development, particularly those with for-sale elements. Most properties that are currently under construction were financed prior to August 2007.

For projects underway or in pre-development in 2007, construction cost increases continued to impact development budgets. During the course of the year, the cost of many building materials stabilized, but the labor shortage remained critical. This trend is not expected to be relieved by the surplus of residential construction workers who became available as the housing market softened, as construction skills do not always transfer between residential and commercial construction. Developers are reporting that with the slowdown in construction, the competition among subcontractors to secure work is increasing. For some projects, more contractors are bidding and the spread among the bids can be 20% to 30%.

With the softening of the residential market in urban cores, land that can be used for high-density projects has become more available and, in some cases, slightly more affordable. The high land appreciation seen in recent years has clearly slowed. Higher construction costs and lower loan-to-value structures on financing have delayed numerous projects.

Of the three larger building material components—lumber, cement, and steel—lumber and cement showed modest price declines in 2007, while the price of fabricated steel increased over 5% during the course of the year. Much of the decline in lumber and cement is attributed to the contraction in housing construction, while steel remains a critical component for commercial building, which is still ongoing in many urban and suburban areas. Although trends in individual construction materials have varied, construction cost inflation is estimated by both the Turner Construction Index and RS Means at roundly 7% in 2007 over the prior year.

Green construction has become a mantra for many new projects. Building a green hotel from the ground up requires consideration of the construction, as well as the ongoing operating practices. The design may include lumber that is approved by the Forest Stewardship Council and building supplies, finishes, and FF&E composed of low volatile organic compound (VOC) or low-emitting materials that are locally produced so as to reduce transportation. Additionally, as much construction waste as possible is recycled. Even the site has to be selected to have minimal impact on the environment. Whether or not a green building costs more to build than a convention construction is a hotly debated topic. Anecdotally, market participants report that building green costs 12% to 15% more than traditional methods. Some of the costs for sustainable design may be eligible for incentives and rebates that support the feasibility.

The year 2007 will be remembered as a period of dramatic change in the hotel investment and development landscape. Developers continued to report construction cost escalations in 2007, although at lower levels than in recent years. All categories reported by the HVS Hotel



Development Cost Survey have been affected. Nonetheless, new-construction starts are expected to decline significantly due to the less favorable lending environment that appeared in the latter half of the year. As hotel market performance moderates and lending is curtailed, construction costs are anticipated to grow at a slower rate than the hearty increases of recent years.

**Table 2 – 2008 Hotel Development Cost Survey per-Room Averages (Based on 2007 Amounts)**

	Land	Building and Site Improvements	Soft Costs	FF&E	Pre-Opening and Working Capital	Total
<b>Budget/Economy Hotels</b>						
Average	\$15,000	\$48,800	\$4,500	\$8,900	\$3,200	\$71,000
Median	\$14,400	\$44,400	\$2,300	\$8,900	\$3,000	\$57,400
Allocation	16%	67%	5%	16%	7%	
<b>Midscale Hotels w/o F&amp;B</b>						
Average	\$30,200	\$76,300	\$12,400	\$10,500	\$4,300	\$111,700
Median	15,800	\$67,400	\$9,000	\$10,200	\$2,900	\$93,600
Allocation	16%	67%	10%	11%	5%	
<b>Extended-Stay Hotels</b>						
Average	\$16,200	\$89,400	\$13,000	\$14,100	\$3,500	\$150,000
Median	\$14,400	\$78,400	\$11,300	\$14,600	\$2,600	\$120,200
Allocation	13%	63%	10%	1%	2%	
<b>Midscale Hotels w/ F&amp;B</b>						
Average	\$18,500	\$83,900	\$14,800	\$13,700	\$4,000	\$130,700
Median	\$13,600	\$69,200	\$11,600	\$12,900	\$3,200	\$112,000
Allocation	14%	64%	11%	13%	3%	
<b>Full-Service Hotels</b>						
Average	\$21,700	\$133,900	\$25,800	\$24,400	\$7,300	\$239,500
Median	\$17,100	\$121,600	\$16,200	\$20,000	\$6,100	\$179,900
Allocation	11%	64%	12%	13%	4%	
<b>Luxury Hotels and Resorts</b>						
Average	\$109,400	\$385,100	\$120,800	\$59,800	\$22,600	\$705,500
Median	\$111,800	\$334,000	\$103,900	\$63,900	\$20,300	\$634,400
Allocation	18%	53%	16%	12%	5%	

Source: HVS


**Table 3 – Hotel Development Cost Survey per-Room Range of Costs for 2004 – 2007**

	Land	Building and Site Improvements	Soft Costs	FF&E	Pre-Opening and Working Capital	Total
<b>2007</b>						
Budget/Economy Hotels	\$4,800 - \$32,000	\$30,100 - \$95,100	\$600 - \$14,200	\$4,900 - \$18,800	\$1,400 - \$7,500	\$43,700 - \$156,700
Midscale Hotels w/o F&B	4,600 - 93,100	52,000 - 187,500	2,300 - 64,700	6,000 - 27,800	1,000 - 26,800	68,000 - 433,900
Extended Stay Hotels	2,900 - 51,500	58,300 - 186,900	2,500 - 93,500	3,800 - 26,100	700 - 26,800	78,600 - 301,100
Midscale Hotels w/ F&B	4,200 - 72,800	52,200 - 162,000	3,700 - 65,600	7,500 - 39,400	300 - 19,900	81,600 - 337,300
Full-Service Hotels	4,300 - 126,400	53,100 - 412,100	2,600 - 131,400	9,100 - 57,500	2,000 - 90,000	109,700 - 665,400
Luxury Hotels and Resorts	15,300 - 271,100	206,000 - 1,537,700	28,400 - 254,900	37,000 - 128,300	11,300 - 86,600	462,700 - 1,725,800
<b>2006</b>						
Budget/Economy Hotels	\$4,900 - \$32,000	\$28,700 - \$89,700	\$600 - \$13,900	\$4,800 - \$17,900	\$1,400 - \$7,300	\$42,800 - \$149,200
Midscale Hotels w/o F&B	4,500 - 93,100	49,500 - 176,900	2,300 - 63,400	5,800 - 26,500	1,000 - 26,000	66,700 - 413,200
Extended Stay Hotels	2,900 - 51,500	55,500 - 176,300	2,400 - 91,700	3,700 - 24,900	700 - 26,000	74,900 - 286,800
Midscale Hotels w/ F&B	4,200 - 72,800	49,700 - 154,300	3,600 - 64,300	7,300 - 37,500	300 - 19,300	77,700 - 321,200
Full-Service Hotels	4,400 - 123,900	50,600 - 392,500	2,500 - 128,800	8,800 - 55,300	1,900 - 87,400	104,500 - 633,700
Luxury Hotels and Resorts	15,100 - 268,400	196,200 - 1,478,600	27,600 - 249,900	35,900 - 123,400	11,000 - 84,100	440,700 - 1,659,400
<b>2005</b>						
Budget/Economy Hotels	\$4,300 - \$27,400	\$25,300 - \$77,600	\$600 - \$12,600	\$4,200 - \$15,900	\$1,300 - \$6,600	\$36,000 - \$121,100
Midscale Hotels w/o F&B	700 - 35,700	43,600 - 148,800	2,100 - 37,700	5,200 - 21,000	800 - 23,000	56,200 - 335,400
Extended Stay Hotels	2,500 - 46,700	49,900 - 155,500	2,100 - 43,800	3,300 - 21,400	600 - 11,000	61,900 - 222,700
Midscale Hotels w/ F&B	3,800 - 58,600	44,200 - 131,300	3,200 - 43,000	6,200 - 32,100	100 - 17,500	64,200 - 260,700
Full-Service Hotels	3,800 - 102,400	46,800 - 268,600	2,200 - 74,400	7,800 - 42,400	1,700 - 29,900	86,400 - 373,700
Luxury Hotels and Resorts	13,500 - 243,400	181,400 - 1,291,600	25,000 - 226,700	32,000 - 109,800	9,900 - 46,000	371,000 - 1,490,900



It is important in this analysis to note that there is no uniform system of allocation for hotel development budgets. Hotel development costs are accounted for in numerous line items and categories. Individual accounting for specific projects can be affected by tax implications, underwriting requirements, and investment structures. For example, in a development project, furniture, fixtures, and equipment installation and construction finish work can overlap. Accounting for these items is not always the same from one project to another.

In addition, we recommend that users of the HVS Consulting and Valuation Development Cost Survey consider the per-room amount in the individual cost categories only as a general guide for that category. The totals for low and high ranges in each cost category do not add up to the high and low range of the sum of the categories. None of the data used in the survey showed a project that was either all at the low range of costs or all at the high range of costs. A property that has a high land cost may have lower construction costs and higher soft costs. The total costs shown in the preceding table are from per-room budgets for hotel developments and are not a sum of the individual components.

All material used by HVS Consulting and Valuation for the development cost survey is provided on a confidential basis and is believed to be reliable. Data from individual sources are not disclosed.

#### About the Author:

Elaine Sahlins holds an undergraduate degree from Barnard College, Columbia University in New York City and an MPS degree in Hotel Administration from Cornell University. After graduating from Cornell she worked for VMS Realty in Chicago analyzing hotel investments, and then went on to become a review appraiser in San Francisco at Security Pacific, which was subsequently acquired by Bank of America. She joined HVS International in 1987 as a Director in the San Francisco office. Elaine assumed responsibility for the Hotel Development Cost Survey in 1998.

Elaine can be contacted by E-mail at [esahlins@hvs.com](mailto:esahlins@hvs.com), or by telephone at +1 (415) 268-0347