

Establishing Room Rates

Assignments

1. Investment Hotels Ltd are considering building a 150 room hotel at a city centre location. The estimated building costs are Lm 5,000,000, the fitting out costs Lm 2,000,000 and the working capital required Lm 500,000. The project will be financed by borrowing Lm 6,000,000 at 15% per annum and providing the remainder from internal sources. Investment Hotels expect an overall return of 15%. Tax is currently charged at 30% on profit. The annual operating expenses are estimated to be Lm 2,500,000, the food and beverage contribution to be at Lm400,000 and the room servicing costs to be Lm300,000. The hotel will be open all year round and the average occupancy rate is expected to be 75%. Calculate the average room rate using the bottom-up approach.
2. Hotels Ltd have constructed a 300 bedroom hotel at a cost of Lm 8,000,000. The hotel requires a working capital of Lm750,000. The hotel is being wholly financed by John Smith, who is expecting a return of investment of 25% in the first year of operation. Tax is currently charged at 35% on profit. The annual operating expenses are estimated to be Lm 3,000,000. During the first year of operation we can expect to make a loss of Lm 50,000 in the food and beverage department. The hotel will be closed during the months of January and February (calculate 60 days) and expects an average occupancy rate of 80%. Calculate the average room rate using (a) the rule-of-thumb approach, and (b) the bottom-up approach.