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BUILDING & RENOVATING HOTELS : ITALY

Cost survey based on 135
completed and operating projects

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Falkensteiner Hotel Kronplatz.
Photo Courtesy of Falkensteiner Hotels & Residences
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Building & Renovating Hotels: ITALY Survey - 2020



The most accurate
assessment of hotel building
& renovating costs for Italy,
based on the CapEx
accounted by completed and
operational hotels and
resorts





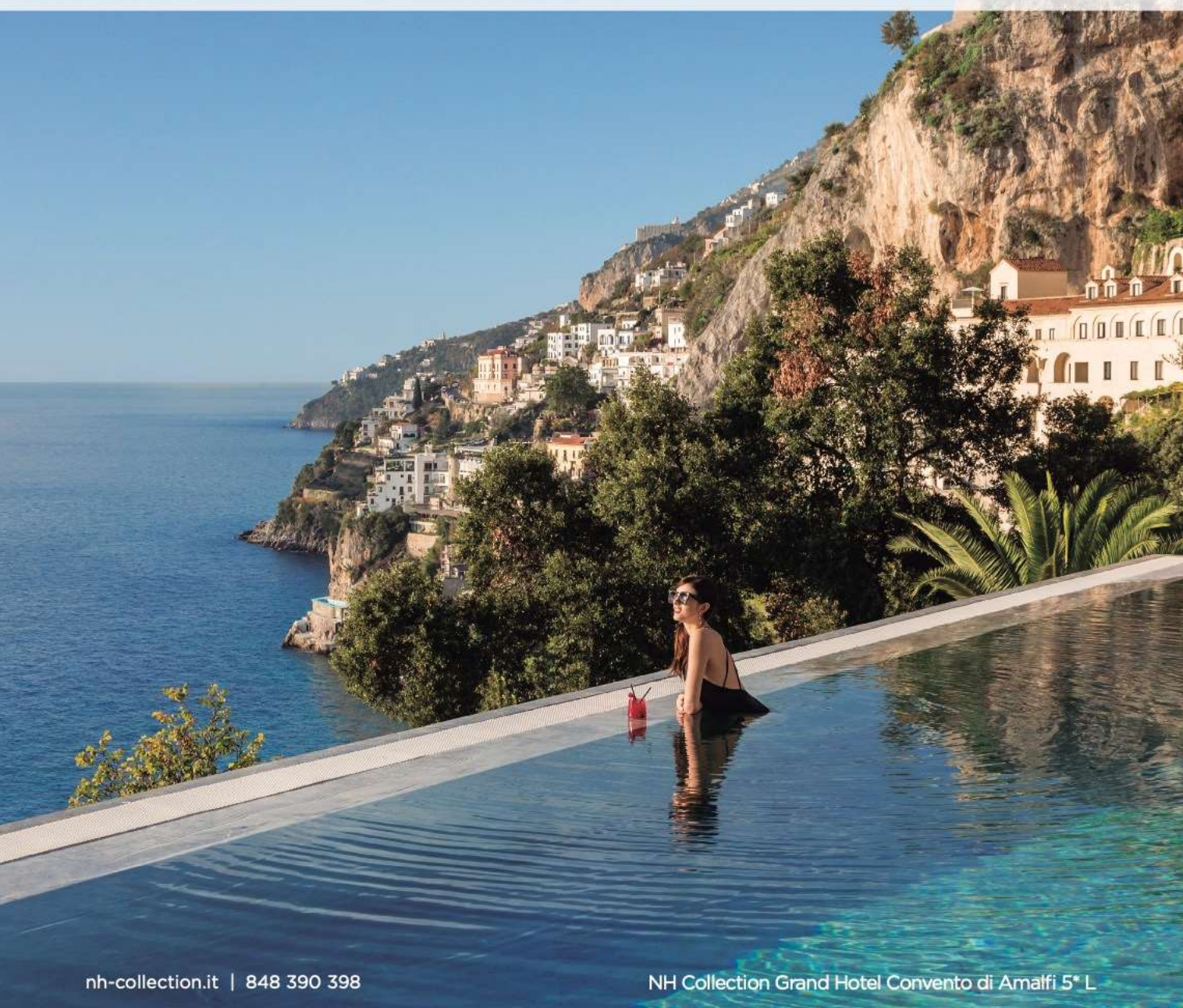
TABLE OF CONTENTS

CapEx
Survey 2020

| | |
|-----------------------|----|
| Introduction | 8 |
| About CRCH2020 | 10 |
| Costs executive sheet | 12 |
| | |
| TYPES OF WORK | 15 |
| Simple Revamping | 18 |
| Light Renovation | 20 |
| Heavy Renovation | 22 |
| Conversion | 24 |
| Greenfield | 26 |
| | |
| IMPACT OF: | 29 |
| Brand Affiliation | 30 |
| Hotel size | 32 |
| Geography | 34 |
| Destination rank | 35 |
| City (focus) | 36 |
| Type of building | 37 |
| Type of lodging | 38 |
| Facilities & Services | 39 |
| | |
| EXTRAS | 41 |
| Pipeline projects | 42 |
| MICE | 44 |
| Rooms focus | 45 |
| Rebranding | 46 |

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**The largest survey
on building and renovating costs
covering the entire Peninsula**

Falkensteiner Hotel Kronplatz, set to welcome
guests starting from November 2020. Photo
Courtesy of Falkensteiner Hotels & Residences

>14.200

ROOMS

135

HOTELS & RESORTS

55%

BRANDED HOTELS

2020
edition

1.4 b €

overall CapEx value

THE REASON WHY OF THIS REPORT

As Italy continues to improve its hotel portfolio by renovating properties, by converting or building new assets, **pressure climbs for updated and reliable data.**

With the **appetite of investment funds growing** for this asset class, investors and professionals are more keen to plan carefully each capital expenditure **to monitor its impact on return.**

The knowledge covering how much it costs to build, renovate, convert, revamp hotels **is still very limited, though.**



A glimpse of the renovated Hotel Indigo Venice – Sant'Elena. Courtesy of HNH Hospitality

We acknowledge that **each project is different**, thus average values cannot be used as exact parameters.

They can be very useful, though, for a financial **planning exercise in the early stage of project**, especially in a country where information is, in general, **limited and fragmented**.

We are working to provide the industry with more information, to advance with it, thus we hope this data will be supportive for your next project.

Giorgio Ribaudò
Managing Director
THRENDS Italy



METHODOLOGY

The **Building & Renovating Hotels 2020** report by *THRENDS* aims at the provision of an accurate analysis of the total expenditure for the planning and execution of different types of interventions on **hotels and resorts in Italy**.

These works are here categorized into five groups: **simple revampings, light renovations, heavy renovations, conversions from other use and greenfield projects**, which are further divided based on the hotel classification (segment).

The present guide intends to provide the reader with worthful insights regarding the ratios of costs/sqm, cost/key and FF&Es/key, and describe the impact that some independent variables play on these ratios.

All data are based on 135 records of completed works and (15) pipeline project budgets, which we collected from hotel chains, design studios, architects and engineering companies.

The database in our possession can accurately determine the expected costs (per sqm, per room, for FF&Es) based on several variables.

The enquirer can request a benchmark set (of 10 observations or such) by contacting directly *THRENDS* at analyst@thrends-italy.com.

The budget estimate can be requested selecting the variables that best suit the investor/developer's project. The features of the planned property can be selected among: "type of intervention", "star rating", "brand affiliation", "destination", "geography" (city, province, region, north or south Italy), "hotel size", "building type", "services & facilities offered"

Further information can be requested by contacting the authors or by contacting

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A view of the NH Collection Milano Porta Nuova.
Courtesy of NH Hotels



DEFINITIONS

Simple revamping (18 works)

Interventions that are limited to interior design, furnishing accessories, “**touch & feel**” of common areas that are used the most. Deals with the **day to day wear and tear** of FF&Es

Total costs are all reported net of VAT, net of administrative expenditures and taxes/burdens, net of the land value and net of any other costs linked to acquiring the business vehicle.

Planning and engineering, PM and design costs are all included.

The dataset finally used for estimating CapEx only includes exclusively those interventions that were carried out within the 2010-2020 decade.

For the “pipeline section” we included those budgeted costs relating to the years 2021 to 2023.

Total costs were inflated according to ISTAT guidelines based on the year in which the project was completed, capitalizing all values to the year 2020.

Light renovation (18 works)

Interventions which deal with the **renovation or replacement of less durable furnishing and finishes without changing the physical layout**.

Heavy renovation (57 works)

Interventions where **major elements** such as entire are added, reconfigured or relocated for efficient operations and other reasons to meet the new structural designs

Conversion (19 works)

Interventions where the **intended use of the building changes completely** or partially to an establishment that falls within the category of hospitality

Greenfield (23 works)

The hotel is **built on a land that has never been used before**; nothing has been demolished (in the case it was, those costs were not taken into consideration), and the hotel is literally brand new.

COST EXECUTIVE SHEET (€)

| <i>COST KEY</i> | | SIMPLE REVAMPING | LIGHT RENOVATION | HEAVY RENOVATION | CONVERSION | GREENFIELD | Average |
|----------------------------|-------------------------|---------------------|---------------------|---------------------|------------|------------|---------|
| | MIDSCALE | 12,200 | - | 74,300 | 43,100 | 97,000 | 51,500 |
| | UPSCALE | 14,400 | 20,900 | 59,100 | 57,700 | 164,700 | 61,300 |
| | UP. UPSCALE & LUXURY | - | - | 149.370 € | 127,300 | 178,400 | 162,000 |
| | TOP LUXURY | 7,800 | 17,000 | 237,900 | 285,700 | 315,400 | 191,400 |
| | AVERAGE | 13,200 | 20,500 | 80,400 | 86,000 | 175,000 | 82,200 |

| <i>COST SQM</i> | | SIMPLE REVAMPING | LIGHT RENOVATION | HEAVY RENOVATION | CONVERSION | GREENFIELD | Average |
|----------------------------|-------------------------|---------------------|---------------------|---------------------|------------|------------|---------|
| | MIDSCALE | 240 | - | 1,280 | 1,030 | 1,940 | 1,020 |
| | UPSCALE | 220 | 400 | 1,100 | 1,160 | 2,310 | 1,050 |
| | UP. UPSCALE & LUXURY | - | - | 1,990 | 1,940 | 2,090 | 2,040 |
| | TOP LUXURY | 60 | 160 | 3,210 | 2,000 | 3,150 | 2,140 |
| | AVERAGE | 210 | 380 | 1,340 | 1,340 | 2,260 | 1,255 |

| <i>FF&E KEY</i> | | SIMPLE REVAMPING | LIGHT RENOVATION | HEAVY RENOVATION | CONVERSION | GREENFIELD | Average |
|--------------------------------|-------------------------|---------------------|---------------------|---------------------|------------|------------|---------|
| | MIDSCALE | 7,800 | - | 15,900 | 8,900 | 10,800 | 10,650 |
| | UPSCALE | 5,400 | 8,700 | 16,400 | 22,000 | 25,500 | 15,200 |
| | UP. UPSCALE & LUXURY | - | - | 31,000 | 51,000 | 26,600 | 30,800 |
| | TOP LUXURY | 1,700 | - | 41,400 | 52,900 | 23,000 | 29,700 |
| | AVERAGE | 5,750 | 8,700 | 19,100 | 22,800 | 24,600 | 17,500 |

| NORTHERN ITALY | | | | | | SOUTHERN ITALY | | | | | |
|--------------------|----------|----------|---------|-------------------------|---------------|----------------|----------|---------|-------------------------|---------------|---------|
| | | MIDSCALE | UPSCALE | UP. UPSCALE & LUX | TOP LUXURY | Average | MIDSCALE | UPSCALE | UP. UPSCALE & LUX | TOP LUXURY | Average |
| | | | | | | | | | | | |
| MINOR WORKS | COST/KEY | 12,200 | 18,500 | - | 7,800 | 16,200 | - | 17,900 | - | 17,000 | 17,800 |
| | FF&E/KEY | 7,800 | 8,500 | - | 1,700 | 7,700 | - | 6,100 | - | - | 6,100 |
| | COST/SQM | 240 | 310 | - | 60 | 272 | - | 350 | - | 160 | 326 |
| MAJOR WORKS | COST/KEY | 66,900 | 52,800 | 139,800 | 237,990 | 82,300 | 39,700 | 67,400 | 157,400 | 285,700 | 80,000 |
| | FF&E/KEY | 13,800 | 18,000 | 26,600 | 41,400 | 19,400 | 9,300 | 15,500 | 47,700 | 52,900 | 20,700 |
| | COST/SQM | 1,240 | 1,000 | 2,030 | 3,210 | 1,363 | 970 | 1,260 | 1,880 | 2,000 | 1,296 |
| GREEN- FIELD | COST/KEY | - | 183,000 | 192,000 | 315,400 | 199,900 | 97,000 | 134,100 | 151,200 | - | 133,600 |
| | FF&E/KEY | - | 23,000 | 27,700 | 23,000 | 25,000 | 10,800 | 27,900 | 25,000 | - | 24,100 |
| | COST/SQM | - | 2,550 | 2,230 | 3,150 | 2,485 | 1,940 | 1,910 | 1,820 | - | 1,885 |
| INDEPENDENT HOTELS | | | | | | BRANDED HOTELS | | | | | |
| | | MIDSCALE | UPSCALE | UP. UPSCALE & LUX | TOP LUXURY | Average | MIDSCALE | UPSCALE | UP. UPSCALE & LUX | TOP LUXURY | Average |
| | | | | | | | | | | | |
| MINOR WORKS | COST/KEY | 4,500 | 17,400 | - | 12,400 | 13,600 | 16,000 | 18,400 | - | - | 18,100 |
| | FF&E/KEY | 4,500 | 3,000 | - | 1,700 | 3,100 | 9,400 | 7,600 | - | - | 7,900 |
| | COST/SQM | 130 | 230 | - | 110 | 173 | 295 | 345 | - | - | 339 |
| MAJOR WORKS | COST/KEY | 79,000 | 65,000 | 141,000 | 291,000 | 103,000 | 45,000 | 57,000 | 148,000 | 209,000 | 73,000 |
| | FF&E/KEY | 35,300 | 17,400 | 48,400 | 47,100 | 31,000 | 8,000 | 17,000 | 31,600 | - | 17,100 |
| | COST/SQM | 1,350 | 1,230 | 2,470 | 2,470 | 1,555 | 1,030 | 1,070 | 1,740 | 3,350 | 1,255 |
| GREEN- FIELD | COST/KEY | 97,000 | 211,000 | 149,000 | - | 163,000 | - | 149,000 | 193,000 | 315,000 | 180,000 |
| | FF&E/KEY | 10,800 | 20,900 | 16,200 | - | 16,000 | - | 26,400 | 33,500 | 22,900 | 28,400 |
| | COST/SQM | 1,940 | 2,560 | 1,920 | - | 2,179 | - | 2,230 | 2,180 | 3,150 | 2,297 |

WE THINK, DESIGN

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TYPE OF WORKS: COMPARISON

A general overview of the analogies and dissimilarities among
the different types of intervention

An analysis which combines
the type of work carried on a hotel or resort
with its segment of belonging



**To build or to renovate?
Unexpectedly,
greenfield projects involve
expenses that are very
similar to major renovations**



AN OVERVIEW

The types of works considered in this report are:

- **Simple Revamping**
- **Light renovation**
- **Heavy renovation**
- **Conversion**
- **Greenfield**

Among all interventions there is an overall **linear upward tendency**, for which such types of works can be divided into three main groups:

- **Minor Renovations**
- **Major Renovations**
- **Greenfield projects**

The chapter hereby will analyze the differences in costs among all five types of interventions, treating each category as separate and comparing it taking into consideration its segment of belonging.

Later sections will examine in detail the impact of the hotel's features on the overall cost of renovating and building.

Due to the peculiar database configuration, and in order to provide a clear, comprehensive overview, the impact that these variables determine will be measured considering minor renovations, major renovations and greenfield projects.

The table below displays the overall average expenditure derived from the mean values of the whole panel: €82,200 per room, of which €17,500 were FF&Es, equivalent to an overall mean of €1,255 per square meter.

| | SIMPLE REVAMPING | LIGHT RENOVATION | HEAVY RENOVATION | CONVERSION | GREENFIELD | Average |
|----------|---------------------|---------------------|---------------------|------------|------------|---------|
| COST/KEY | 13,200 | 20,500 | 80,400 | 86,000 | 175,000 | 82,200 |
| FF&E/KEY | 5,760 | 8,700 | 19,100 | 22,800 | 24,600 | 17,500 |
| COST/SQM | 210 | 380 | 1,340 | 1,340 | 2,260 | 1,255 |

Analogies & dissimilarities

The most convenient hotel intervention is the simple revamping of a property. This work is estimated to be cheap and time-convenient, carrying the best outcome-to-costs ratio because it is mostly limited to the replacing of FF&Es in common areas and those strategic “touch points” with guests.

Costs are nominally the lowest and halt at an average of €210 per square meter.

Light renovations set apart from heavy renovations because of a significant difference in cost, but also because the latter affects the structural parts of the building, while the first merely deals with appearance.

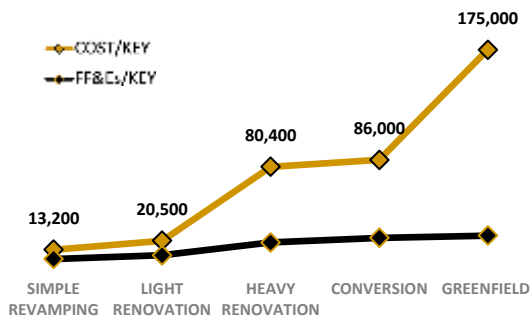
Costs in heavy renovations are almost four times those in light renovations, which average €380/sqm.

Heavy renovations represent the class for which the dataset available is the largest, thus resulting in the most accurate values and statistics derived.

The expenditure affinity between major renovations is latent, with an average of €80,000 being spent for each room, or €1,340 per square meter, including €19,000 for FF&Es.

Greenfield projects are obviously the most expensive, with exceptions that will be further discussed.

Cost/KEY and FF&Es/KEY in all works. Euro average values

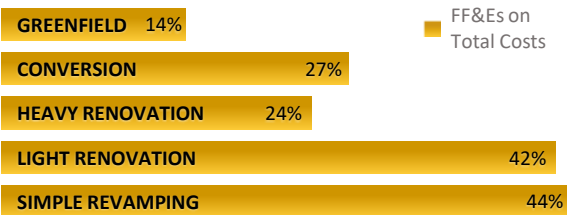


The linear increase in cost/key follows the very same trend that was estimated for the averages of cost/sqm, with scalar bounces among the three main groups.

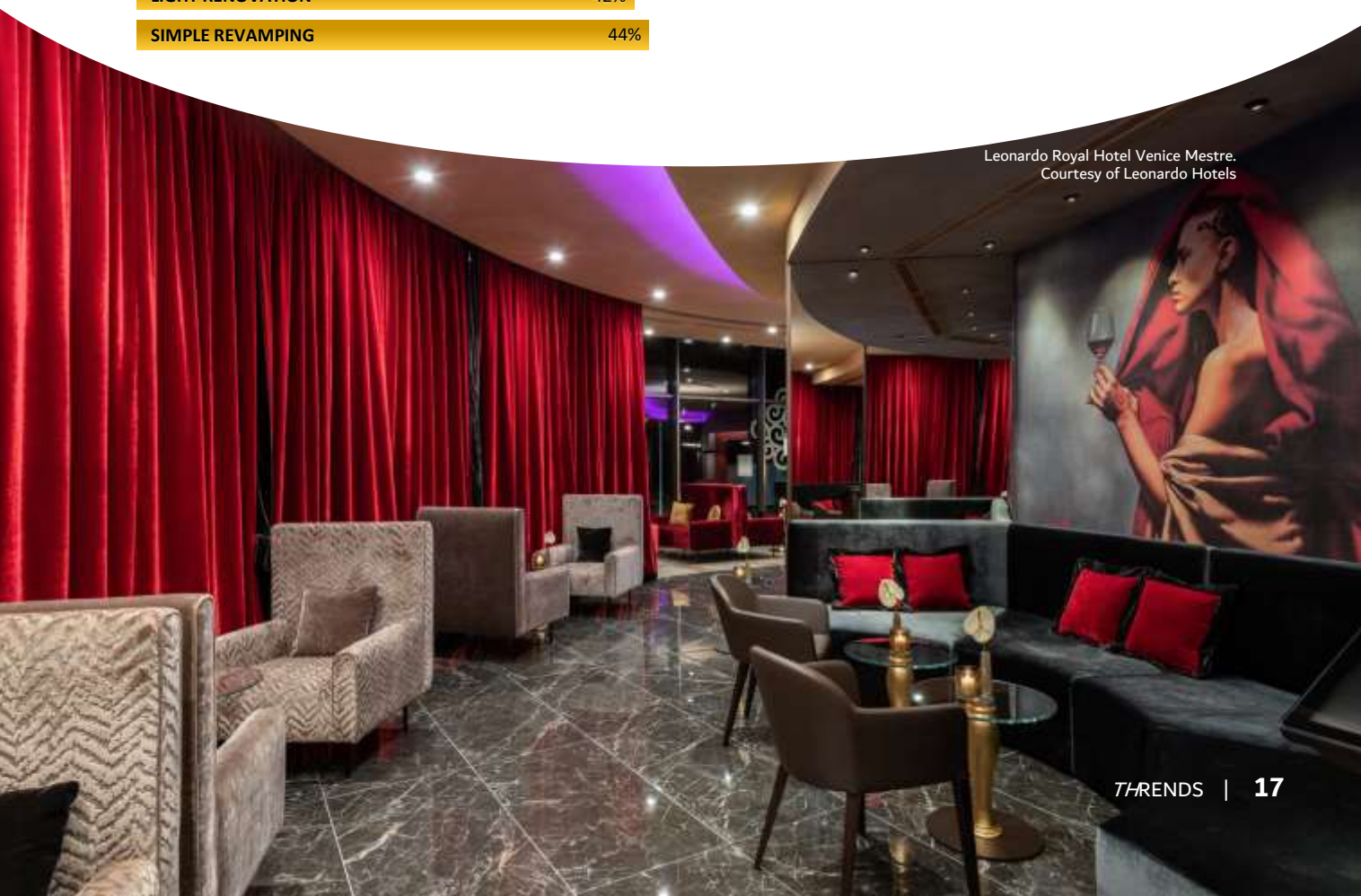
The weight of FF&Es on total costs follows a steady upward, while its ratio varies substantially across the types of intervention.

While €24,600 per key account for only 14% of total expenditure in greenfield projects, the percentage increases to 24 and 27% for major interventions, reaching a high of 42 and 44% for the minor ones.

FF&Es weight on each Intervention



Leonardo Royal Hotel Venice Mestre.
Courtesy of Leonardo Hotels



SIMPLE REVAMPING

*Interventions that are limited to interior design, furnishing accessories, “touch & feel” of common areas that are used the most.
Deals with the **day to day wear and tear** of FF&Es*

Expenditure in Simple Revamping. Euro average values

| | Midscale | Upscale | Up. Upscale & Lux. | Top Luxury | Average |
|---------------------|----------|---------|-----------------------|------------|---------------|
| COST/KEY | 12,195 | 14,433 | N.A. | 7,792 | 13,200 |
| FF&E/KEY | 7,770 | 5,432 | N.A. | 1,723 | 5,800 |
| COST/SQM | 239 | 220 | N.A. | 59* | 211 |

Cost/KEY and FF&Es weight in Simple Revamping. Euro average values



Frequent, cheap, revitalizing

The simple revamping of a hotel is the type of work that, by its intrinsic nature, is carried out the most during a hotel life cycle (3-4 years).

This is indeed the type of intervention with the best look-to-costs ratio.

With a very modest expenditure, a hotel manager can give the property a fresh look, limiting the intervention to the lobby, lounge, reception, and other common areas that represent the “touch points” with guests.

Simple revamping, (but also light renovation) is the type of work for which the weight of FF&Es on the total costs sustained is recorded the highest.

Furniture, Fixture & Equipment account for an average of 44% of the total expenditure, marking a high of 64% in the Midscale tier.

The dataset available is focused on the Midscale and Upscale segments.

The graph (left) shows an upward trend for which the total expenditure increases as the hotel star rating rises, possibly following the same fashion of Midscale and Upscale.

Unexpectedly, the amount of FF&Es that are spent for simple revamping decrease both in nominal and proportional value as the hotel stars increase.

This trend is partially confirmed by the value for FF&Es spent in the Top Luxury tier, where they account for only 22% of the total, with a nominal value of €1,700 per room.

The average cost to complete a simple revamping is €13,200 per room, of which €5,800 are spent in FF&Es.

The cost per square meter is on average €210, but the figure needs a more detailed explanation: in almost all simple revampings the surface affected by these works represents indeed only a fraction of the total hotel covered surface.

Empirical data allow us to state that the average cost per square meter has a very high standard deviation, depending on the hotel characteristics and the areas affected by revamping works.

In the luxury sector, the revamping of an 80 sqm reception costed €16,000, while a 75 sqm breakfast room can reach €15,000 (both averaging €196 per sqm).

On the contrary, the revamping of a suite (in the same property), including bedroom and private hammam costed €1,600 per square meter, reaching a total of €180,000 spent.

**Revitalizing your hotel,
giving it a fresh look,
may cost as low as
€211
per square meter**

A look
at the common
areas of Leonardo
Hotel Verona,
revamped in 2020.
Courtesy of
Leonardo Hotels

LIGHT RENOVATION

*Interventions which deal with the **renovation or replacement of less durable furnishing and finishes without changing the physical layout.***

In minor renovation, you have repairing, repainting and replacing of carpet, furniture, wall covering, drapery and other minor fixing requiring attention

Expenditure in Light Renovations. Euro average values

| | Midscale | Upscale | Up. Upscale & Lux. | Top Luxury | Average |
|---------------------|----------|---------|--------------------|------------|---------------|
| COST/KEY | N.A. | 21,000 | N.A. | 17,000 | 20,500 |
| FF&E/KEY | N.A. | 8,700 | N.A. | N.A. | 8,700 |
| COST/SQM | N.A. | 400 | N.A. | 160 | 380 |

Light renovations are similar to simple revampings; thus they present very similar values for what concerns both the nominal costs that were borne and the FF&Es ratio on the total.

For the midscale segment (that can rely upon 10 observations) 42% of the total expenditure is addressed to cover the FF&Es costs, which average €8,700 per room.

The total expenditure for an Upscale property reaches an average of €20,861 per room, with an average expenditure of €400 per square meter.

The significance of the Top Luxury segment in the database in our possession is not significant enough to provide accurate data regarding the tier.

Values for the Upscale (€21,000) and the Top Luxury (€17,000) segments appear contrasting, but they are not: Top Luxury properties are often smaller and offer a total common areas surface which may be limited compared to a city congress hotel in the Upscale tier.

Lounge of Leonardo Boutique Hotel Roma Termini. Courtesy of Leonardo Hotels



Light Renovations in the Upscale segment represent the class of works for which the highest FF&Es-to-total cost ratio is recorded, at 42%, as shown in the table below.

The Upscale average cost per square meter is estimated to rank as the costliest within the “minor interventions” segment.

As per the previous assumption regarding simple

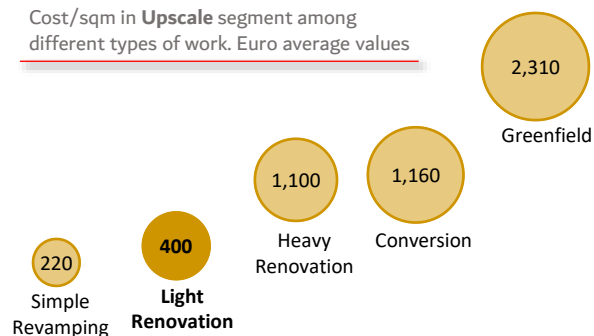
revamping, volatility of costs for this intervention is significant.

The specific data in our possession let us state that while the renovation of a room is much costlier, the same intervention on the Upscale external areas costs as low as €200/sqm (on a 800 sqm surface), while the figure reaches €250/sqm for the light renovation of common, covered areas such as the restaurant, hall or lounge bar of a hotel.

Weight of FF&Es in the **Upscale** segment. Values in Euros

| | Cost/Key | FF&Es/Key | Weight |
|------------------|----------|-----------|--------|
| SIMPLE REVAMPING | 14,400 | 5,400 | 38% |
| LIGHT RENOVATION | 20,900 | 8,700 | 42% |
| HEAVY RENOVATION | 59,100 | 16,400 | 28% |
| CONVERSION | 57,700 | 22,000 | 38% |
| GREENFIELD | 164,700 | 25,500 | 15% |

Cost/sqm in **Upscale** segment among different types of work. Euro average values



A bedroom at the Hotel Savoia (Rimini). Courtesy of Piazza H&R



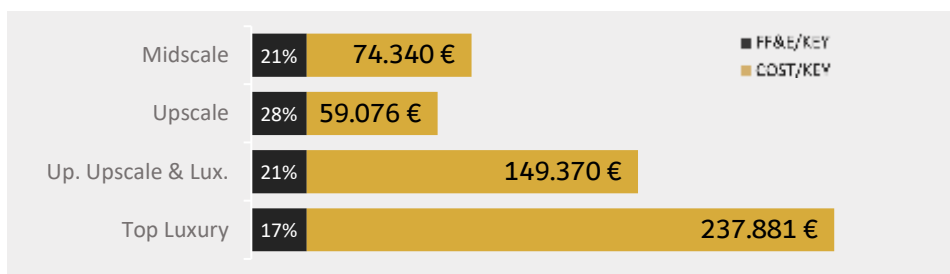
HEAVY RENOVATION

Interventions where **major elements** such as entire corridors, lobby, elevators, stairs, lavatories, complete floor, electrical systems as well as emergency exits revamping, even locations or rooms are added, reconfigured or relocated for efficient operations and other reasons to meet the new structural designs

Expenditure in Heavy Renovations. Euro average values

| | Midscale | Upscale | Up. Upscale & Lux. | Top Luxury | Average |
|---------------------|----------|---------|--------------------|------------|---------------|
| COST/KEY | 74,300 | 59,100 | 149,400 | 237,900 | 80,400 |
| FF&E/KEY | 15,900 | 16,400 | 31,000 | 41,400 | 19,000 |
| COST/SQM | 1,300 | 1,100 | 2,000 | 3,200 | 1,340 |

Cost/KEY and FF&Es weight in Heavy Renovations. Euro average values



A game-changing operation

The heavy renovation of a hotel is possibly the most delicate operation that can be carried out. An incorrect costs-benefits analysis may negatively impact the operation's success and carry irreversible consequences on the ROI.

This proves to be true especially when it comes to strategic decisions related to the top-notch tiers of Upper Upscale & Luxury and Top Luxury, where the

investor must carefully decide whether it is better to completely renovate the building or to build one from the ground up.

In these two segments the costs between renovation and greenfield (but also of conversion) do not differ by much, with the latter exceeding heavy renovations by 32% in Top Luxury and by less than €30,000 in the Upper Upscale and Luxury.

The **cost/key** ratio follows an upward trend throughout the given set of tiers, with the only exception of the Upscale segment, which amounts to 20% less than a room renovated in the Midscale tier.

The data regarding the **Upscale** segment must be read from a peculiar perspective. The low amount might be caused by the database composition: 78% of these variables represent indeed chain hotels, where costs are supposedly standardized, and good practices are shared within the organization.

The largest leap is spotted between the 4- and 5-star hotels. This latter's expenditure per room is indeed 2.5 times that of an Upscale property.

The weight of **FF&Es** in the total expenditure is generally stable at an average of 23,7%, with the highest ratio being recorded in the Upscale tier (27,8%) and the lowest in the Top Luxury (17,4%).

While for Conversion and Greenfield projects the ratio costs/sqm has a difference of less than €2,000 from Upscale to Top Luxury (pages following), in Heavy Conversions the “segment bounce” is close to the thousand, with Upscale cost/sqm equaling €1,100, Upper Upscale & Luxury to €2,000 and Top Luxury to €3,200.

**The heavy renovation
of a Top Luxury Hotel
costs 60% more than an
Upper Upscale one**

B&B Hotel Genova. Courtesy of B&B Hotels



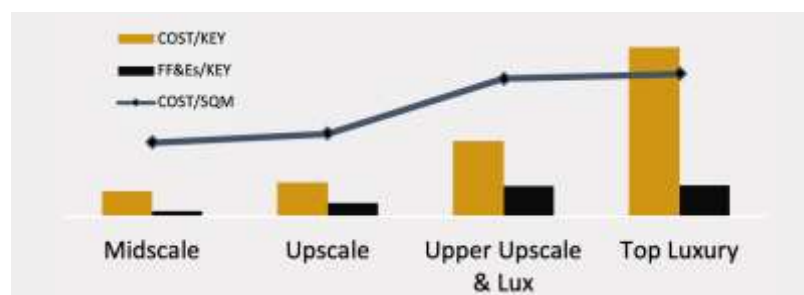
CONVERSION

*Interventions where the **intended use of the building changes completely** (from i.e.: office, hospital, museum, bank...) or partially (former hostel, former residence) to an establishment that falls within the category of hospitality*

Expenditure in Conversions. Euro average values

| | Midscale | Upscale | Up. Upscale & Lux. | Top Luxury | Average |
|---------------------|----------|---------|--------------------|------------|---------|
| COST/KEY | 43,000 | 57,700 | 127,300 | 285,700 | 86,000 |
| FF&E/KEY | 8,900 | 22,000 | 51,000 | 52,900 | 22,800 |
| COST/SQM | 1,030 | 1,160 | 1.940 | 2.000 | 1.341 |

Cost/KEY and FF&Es weight in Heavy Renovations. Euro average values



New look, new functionality

The conversion of a building to hotel entails a set of benefits for the hotel developer, under both a monetary and a time standpoint.

This trend is the direct consequence of an important migration of businesses that move to a more central, urban location. Brands are taking advantage of this.

The conversion of an office has its challenges, such as the addition of more elevators, air conditioning, plumb loads and other major structural enhancements.

In addition to time and capital savings, a conversion avoids the demolition and reconstruction of the structure, which implies a very low environmental impact.

Given the bureaucratic complexity that characterizes the Italian real estate market, the conversion of an existing building save the project manager (part of) months of tedious site approvals and permitting and represents the greenest choice today.

Conversions are cheaper than heavy renovations. The only tier for which a higher general expenditure was recorded is Top Luxury, where Conversions exceed Heavy Renovations by 20%, with FF&Es alone accounting for €11,500 of the difference.

In the Midscale the costs borne to convert a room were 60% of those covered to heavily renovate it, with FF&Es behaving in the same exact way (56%).

As the observations distribution leans towards the Upscale segment (65% of total database), it is interesting to note the close similarity **between conversions and heavy renovations within this tier, with a prominent difference in the FF&Es amount, that is 34% higher for a conversion.**

The consideration above hold true also for the Upper Upscale & Luxury segment, where even a bigger portion of the total cost is devolved to FF&Es (40%), with total expenditure being €22,000 shorter.

In the top Luxury tier both total expenditure and FF&Es are estimated to be higher than in a heavy renovations, but the abyssal divergence in costs/sqm (+60%) implies that the total surface covered is different.

While heavy renovations can take place either in majestic properties or small, boutique hotels, conversions do not typically occur in the latter, mainly because schools/offices/banks are seldom this small.

Lounge bar of the recently converted Hotel Indigo Verona. Courtesy of HNH Hospitality



GREENFIELD

The hotel is **built on a land that has never been used before**; nothing has been demolished (in the case it was, those costs were not taken into consideration), and the hotel is literally brand new.

Expenditure in Greenfield Projects. Euro average values

| | Midscale | Upscale | Up. Upscale & Lux. | Top Luxury | Average |
|---------------------|----------|---------|--------------------|------------|---------|
| COST/KEY | 97,000 | 164,700 | 178,400 | 315,400 | 175,000 |
| FF&E/KEY | 10,800 | 25,500 | 26,600 | 23,000 | 24,600 |
| COST/SQM | 1,940 | 2,300 | 2,100 | 3,150 | 2,250 |

FF&Es on total costs among segments.
Euro average values (000)



Each project is unique

Greenfield data shows that there is a big difference, among and within tiers, on how hospitality projects can be conceived.

Yet in the last 5 years, building a Midscale hotel from scratch costed less than €100 K per key. A figure reaching €180 K in Upper Upscale and € 315 K in Top Luxury.

Building a hotel (resorts and hotels account for a very different cost/sqm) costed €175 K on average, that is a cost of €2,250 per sqm.

To furnish, equip and make a hotel operational (excluding OS&E), developers spent on average €24,600 per key of FF&Es.

Figures are very volatile because each project is really unique and there is few which can be considered a standardized practice or process, as for what happens in renovation or revamping.

Nevertheless, even if Italy accounts for a very limited number of greenfield projects each year, our database collected 20 greenfield concluded projects, 16 of which built in the last 5 years.

**Many greenfield developments
are being built in the lakes
(Como and Garda)
and in the mountains
(Alps especially).**

**Average figures are less reliable,
even within tiers, since each project
is definitively unique.**

NH Collection Roma Palazzo Cinquecento.
Courtesy of NH Hotels





L'ARCHITETTURA ASPIRA ALL'ETERNITA'

Christopher Wren



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IMPACT OF VARIABLES: details that matter

Does being affiliated to a brand have direct consequences on CapEx? Up to what degree?

Do economies of scale apply to the renovation, conversion or construction of a hotel?

Which are the variables that have a major impact on costs?



**Today, the *type* of building
may have a critical impact
on the renovation budget,
...much greater than
the hotel market *segment***



BRAND AFFILIATION

An aut aut expenditure

Most of renovations and greenfields are happening under a brand flag.

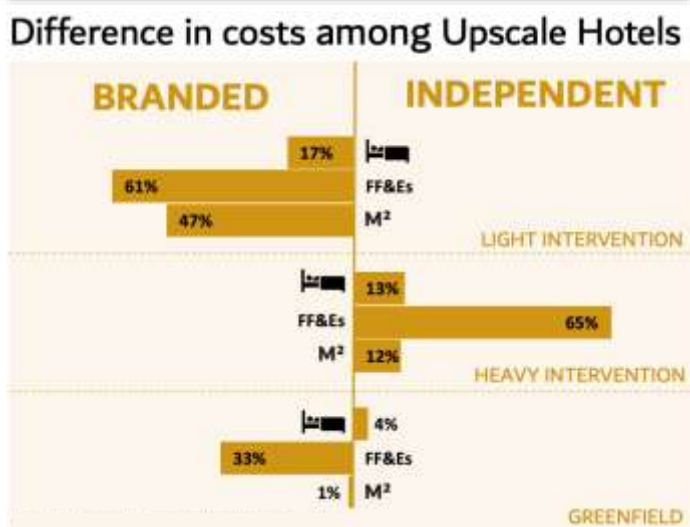
According to *THRENDS'* database on hotel chains in Italy, hotel chains penetration in the country is indeed in a steady increase, reaching 17% in 2020, for over 185.000 branded rooms.

Most of the data we gathered originated from some of the most prestigious engineering, general contracting and design companies of Italy specialized in hospitality, who are most often involved when a branded project is put in place.

Being affiliated to a chain is without question less convenient when dealing with light interventions: it is quite costly for a hotel manager to keep the hotel outlook as high as the chain standards require. But clearly, this is expected to repay in the mid-term.



CapEx difference between branded and independent upscale hotels based on the type of intervention carried out (light/heavy intervention, greenfield).



The data should be interpreted as: «independent hotel costs differ from branded ones by x%»



DoubleTree by Hilton, Trieste. Courtesy of HNH Hospitality

The situation is estimated to be more advantageous for branded hotels overall.

The high disparity spotted within light interventions is immediately offset if we consider the nominal difference between the two categories, which consists in less than €3,000 per room, but in a 17% disparity.

Heavy renovations are instead much cheaper for branded properties. Independent ones are thus estimated to cost 13% more per room (more than €10,000 difference) and 12% more per square meter, with FFF&Es alone representing the most causal effect, differing from chain hotels by almost two-thirds (€11,600 per key).

The only intervention for which the costs variation is almost null consists in greenfield projects. The average difference between the two clusters is in fact of 4% in cost/key and only 1% per sqm.

Expenditure for independent hotels per type of intervention, per segment. Euro average values.

| INDEPENDENT HOTELS | | | | | | BRANDED HOTELS | | | | | |
|--------------------|----------|----------|---------|-------------------|------------|----------------|----------|---------|-------------------|------------|---------|
| | | MIDSCALE | UPSCALE | UP. UPSCALE & LUX | TOP LUXURY | Average | MIDSCALE | UPSCALE | UP. UPSCALE & LUX | TOP LUXURY | Average |
| | | | | | | | | | | | |
| MINOR WORKS | COST/KEY | 4,500 | 21,900 | - | 12,400 | 14,600 | 16,000 | 17,700 | - | - | 17,500 |
| | FF&E/KEY | 4,500 | 3,100 | - | 1,700 | 3,100 | 9,400 | 7,600 | - | - | 7,850 |
| | COST/SQM | 125 | 265 | - | 110 | 175 | 295 | 335 | - | - | 330 |
| MAJOR WORKS | COST/KEY | 78,900 | 62,600 | 141,200 | 285,700 | 88,800 | 45,200 | 57,800 | 147,900 | 237,900 | 78,700 |
| | FF&E/KEY | 35,300 | 17,400 | 48,400 | 52,900 | 29,500 | 8,000 | 17,000 | 31,700 | 41,400 | 17,900 |
| | COST/SQM | 1.350 | 1,225 | 2,470 | 2,000 | 1.450 | 1,030 | 1,065 | 1,735 | 3,215 | 1,295 |
| GREEN-FIELD | COST/KEY | - | 210,800 | 148,800 | - | 179,800 | 97,000 | 149,300 | 193,200 | 315,400 | 173,400 |
| | FF&E/KEY | - | 20,900 | 16,200 | - | 17,800 | 10,800 | 26,400 | 33,500 | 22,900 | 26,600 |
| | COST/SQM | - | 2,560 | 1,915 | - | 2,240 | 1,940 | 2,230 | 2,180 | 3,155 | 2,265 |

ECONOMIES OF SCALE

The scope of the section hereby focuses on analyzing the relationship between expenditure (cost/key, cost/sqm, FF&Es/key) and size related variables, in particular the total number of bedrooms in a hotel and the total covered surface in square meters.

In order to derive statistics that are as significant as possible and eliminate intrinsic biases, the analysis will include exclusively those variables related to Upscale Heavy Renovations, the largest cluster at disposal.

The tables below display the costs associated with different ranges of rooms and hotel total sqm.

Expenditure depending on N. of bedrooms, in Euros.

| KEYS | <50 | 50-100 | 100-150 | >150 |
|---------------------|--------|--------|---------|--------|
| COST/KEY | 61,700 | 57,900 | 64,000 | 52,100 |
| COST/SQM | 1,280 | 1,030 | 1,200 | 880 |
| FF&E/KEY | 14,000 | 12,700 | 18,700 | 17,500 |

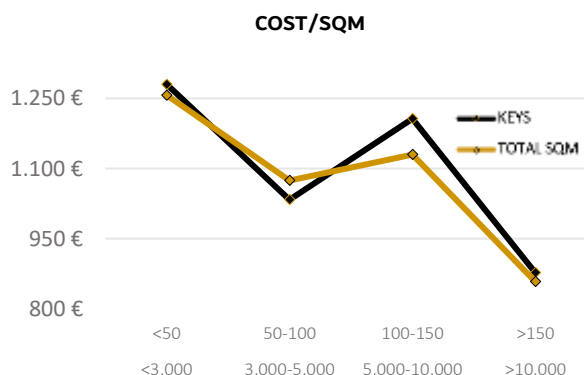
Expenditure depending on total covered sqm, in Euros.

| TOTAL SQM | < 3,000 | 3,000-5,000 | 5,000-10,000 | >10,000 |
|---------------------|---------|-------------|--------------|---------|
| COST/KEY | 57,000 | 61,500 | 62,000 | 54,200 |
| COST/SQM | 1,260 | 1,100 | 1,130 | 860 |
| FF&E/KEY | 10,800 | 17.140 € | 18,800 | 17,400 |

The graph on the right illustrates the average cost per square meter among total rooms and covered sqm.

As by the evidence, smaller hotels are estimated to imply higher costs per sqm (over €1,260 for hotels with less than 50 rooms and smaller than 3,000 sqm).

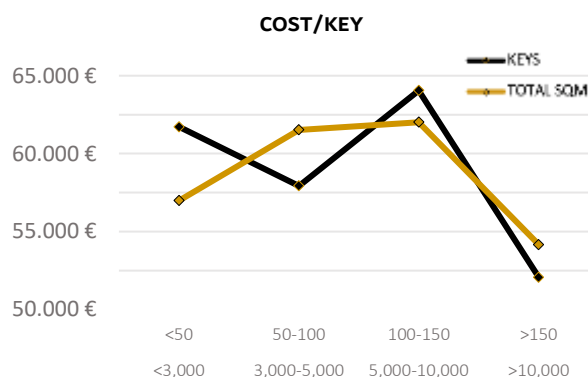
By contrast, large hotels determine savings because of an economy of scale: those properties with more than 150 rooms and larger than 10,000 sqm cost less than €880 per sqm.



The second graph examines the costs per key borne in properties of different size.

In this second analysis economies of scale are worth only if we consider the number of keys. It ranges from €61,700 for hotels under 50 rooms to a low of €52,100/key in properties boasting over 150 rooms.

In both size analyses of total keys and total building covered surface, but especially in the latter, the average cost/key line becomes A-shaped, meaning that properties between 3,000 and 10,000 sqm are the most expensive, averaging €62,000 per bedroom.





INNSiDE Milano Torre Galfa.
Courtesy of Meliá Hotels

GEOGRAPHY: PART OF ITALY

A significant impact on the total expenditure of the intervention is played by the geographical location in which the work was carried out. Costs do in fact vary across part of Italy (North or South), region and city.

The analysis herewith includes exclusively upscale interventions that are minor or major works and greenfield projects.

The database in our possession allows for an accurate estimate of costs based on North vs. South.

There is no significant difference between north and south Italy within minor interventions for what concerns cost/key nor per sqm (€45 difference).

FF&Es differ considerably (more than 15%) in all the three groups of intervention considered, with FF&Es in North being worth 39% more than in South for minor interventions and 16% in major ones but averaging 18% less in greenfield projects.

Heavy interventions costed at least 20% less in Northern Italy both with respect to cost/key and cost/sqm, but not in FF&Es.

Greenfield projects implied costs that are dramatically higher in the North, reaching almost +40% per bedroom and +33% per square meter. The reason behind this divergence is that all Southern upscale greenfields include Sun & Beach resorts, while in Northern Italy the cluster composition is more homogeneous

Heavy Renovations and Conversions in Northern Italy costed 20% less than in the South

Expenditure per type of intervention of properties located in North or South Italy. Euro average values.

| | | NORTH | SOUTH | DIFFERENCE (N/S) |
|---------------------|----------|---------|---------|------------------|
| MINOR WORKS | COST/KEY | 18,500 | 17,900 | 3% |
| | FF&E/KEY | 8,500 | 6,100 | 39% |
| | COST/SQM | 305 | 350 | -12% |
| MAJOR WORKS | COST/KEY | 52,800 | 67,400 | -22% |
| | FF&E/KEY | 18,000 | 15,000 | 16% |
| | COST/SQM | 995 | 1,255 | -21% |
| GREENFIELD PROJECTS | COST/KEY | 183,000 | 134,100 | 37% |
| | FF&E/KEY | 23,000 | 27,900 | -18% |
| | COST/SQM | 2,555 | 1,915 | 33% |

DESTINATION RANK

The destination rank in which any type of work is carried out can affect significantly the magnitude of the costs associated.

In the analysis hereby only upscale hotels were included in the cluster of observations inspected.

For the ranking of the destinations in the database, the following rules were adopted:

- **Top:** Courmayeur, Florence, Milan, Naples, Rome, Venice, Verona
- **Secondary:** other cities with more than 50.000 inhabitants
- **Peripheral:** marginal destinations with limited tourist inflows and that are not included in the previous segments.

The completion of a minor renovation involves descendent cost that, as expected, decrease in all the

expenditure variables when we move from top to secondary to peripheral destinations.

Also Heavy renovations imply costs that span from a maximum of €62,400/key for upscales in Top destinations, to €53,700/key for upscales in peripheral destinations.

Unexpectedly, the costs associated with greenfield projects in a top destination are far lower than those of a secondary destination, with peripheral ones recording the highest costs per room (€183,300).

Greenfield projects in secondary locations imply costs that are almost thrice those of top destinations, with FF&Es tremendously high, being worth 35% of the total and averaging €56,200 per key.

Data variance indicates that, in the Upscale segment, the rank of a destination, if we exclude Venice, does not impact CapEx by much

Expenditure in top, secondary and peripheral locations, per type of intervention. Euro average values.

| | | TOP | SECONDARY | PERIPHERAL |
|-------------|------------|--------|-----------|------------|
| MINOR WORKS | Cost/key | 21,700 | 18,800 | 12,700 |
| | FF&Es/key | 13,300 | 5,500 | 3,500 |
| | Cost/sqm | 430 | 290 | 270 |
| | Room ratio | 56 sqm | 65 sqm | 45 sqm |

| | | TOP | SECONDARY | PERIPHERAL |
|-------------|------------|--------|-----------|------------|
| MAJOR WORKS | Cost/key | 62,400 | 56,900 | 53,700 |
| | FF&Es/key | 17,500 | 16,900 | 15,000 |
| | Cost/sqm | 1,140 | 1,100 | 970 |
| | Room ratio | 58 sqm | 53 sqm | 58 sqm |

| | | TOP | SECONDARY | PERIPHERAL |
|-------------|------------|--------|-----------|------------|
| GREEN-FIELD | Cost/key | 57,400 | 160,400 | 183,300 |
| | FF&Es/key | 11,500 | 56,200 | 21,300 |
| | Cost/sqm | 1,380 | 1,740 | 2,570 |
| | Room ratio | 42 sqm | 92 sqm | 72 sqm |

CITY FOCUS

ROME



| HOTEL | YEAR | BRAND | SCALE | KEYS | TOTAL SQM | Room ratio | Type of Building | Type of WORK | COST/KEY | COST/SQM | FF&E/KEY |
|-------|------|---------|-----------|------|-----------|------------|-------------------|------------------|-----------|----------|----------|
| A | 2019 | Branded | Upscale | 161 | 15.000 | 93 | Existing Historic | Simple Revamping | 18.634 € | 200 € | 15.333 € |
| B | 2019 | Branded | Upscale | 201 | 8.100 | 40 | Existing Historic | Light Renovation | 19.900 € | 494 € | 11.672 € |
| C | 2019 | Branded | Midscale | 68 | 3.400 | 50 | Conversion | Conversion | 30.882 € | 624 € | 8.676 € |
| D | 2019 | Branded | Midscale | 67 | 2.300 | 34 | Conversion | Conversion | 32.090 € | 943 € | 8.806 € |
| E | 2020 | Indep. | Upscale | 47 | 2.200 | 47 | Conversion | Conversion | 102.128 € | 2.182 € | 34.043 € |
| M | 2017 | Branded | Upscale | 63 | 4.000 | 64 | Conversion | Conversion | 97.933 € | 1.532 € | 8.161 € |
| F | 2018 | Branded | Budget | 117 | 6.000 | 51 | Conversion | Conversion | 55.897 € | 1.086 € | - |
| G | 2020 | Branded | Midscale | 125 | 5.200 | 42 | Conversion | Conversion | 56.000 € | 1.346 € | 10.400 € |
| H | 2018 | Branded | Upper Up. | 79 | 5.200 | 66 | Conversion | Conversion | 127.340 € | 1.935 € | 51.038 € |
| I | 2020 | Branded | Upscale | 81 | 3.000 | 37 | Existing Modern | Heavy Renovation | 22.222 € | 604 € | 6.173 € |
| J | 2018 | Branded | Upscale | 59 | 4.000 | 68 | Existing Historic | Heavy Renovation | 64.922 € | 958 € | 20.502 € |
| K | 2020 | Branded | Upscale | 42 | 1.800 | 43 | Existing Modern | Heavy Renovation | 119.048 € | 2.778 € | - |
| L | 2016 | Branded | Upscale | 74 | 4.800 | 65 | Existing Historic | Heavy Renovation | 69.335 € | 1.066 € | - |
| N | 2020 | Branded | Upscale | 257 | 11.200 | 44 | Existing Historic | Heavy Renovation | 46.693 € | 1.071 € | 19.431 € |
| O | 2020 | Branded | Upscale | 235 | 16.700 | 71 | Existing Modern | Heavy Renovation | 72.340 € | 1.018 € | 19.149 € |

MILAN



| HOTEL | YEAR | BRAND | SCALE | KEYS | TOTAL SQM | Room ratio | Type of Building | Type of WORK | COST/KEY | COST/SQM | FF&E/KEY |
|-------|------|-----------|------------|------|-----------|------------|-------------------|------------------|-----------|----------|----------|
| A | 2017 | Independ. | Midscale | 34 | 1.200 | 35 | Existing Modern | Simple Revamping | 4.496 € | 127 € | 4.496 € |
| B | 2019 | Branded | Upscale | 282 | 13.500 | 48 | Existing Historic | Light Renovation | 28.369 € | 593 € | 15.456 € |
| C | 2019 | Branded | Upscale | 100 | 6.400 | 64 | Conversion | Conversion | 50.200 € | 781 € | 25.434 € |
| D | 2020 | Branded | Upscale | 103 | 4.500 | 44 | Existing Historic | Heavy Renovation | 38.835 € | 889 € | 15.632 € |
| E | 2018 | Branded | Upper Up. | 56 | 4.100 | 73 | Existing Historic | Heavy Renovation | 132.089 € | 1.804 € | 18.089 € |
| F | 2015 | Branded | Upscale | 255 | 12.000 | 47 | Existing Historic | Heavy Renovation | 60.666 € | 1.289 € | 16.444 € |
| G | 2019 | Branded | Upscale | 310 | 22.500 | 73 | Existing Modern | Heavy Renovation | 64.516 € | 889 € | 16.129 € |
| H | 2015 | Branded | Top Luxury | 132 | 7.200 | 55 | Existing Modern | Heavy Renovation | 152.354 € | 2.793 € | - |

TYPE OF BUILDING

The building in which all the interventions analyzed are carried out can be either an historic existing hotel, a modern existing hotel, a property that served a different use (conversion) or a new building (greenfield project).

Since these last two have already been analyzed early in the report, this focus will inspect the differences in costs that minor works and heavy renovations involve.

Minor works, as expected, involve higher costs in historic hotels. The cost/sqm is almost 50% more than that of the same work in a modern property, with FF&Es being worth twice as much.

It seems counterintuitive that heavy renovations cost significantly less (17-18%) for both cost/key and per

sqm in historical buildings. The room ratio is equal among the two categories (1 sqm difference).

The table below describes the costs borne for heavy renovations in the four different segments.

Noticeably, the largest divergence is spotted between the top luxury tier, in which historic hotels costed 84% more than modern ones.

Upscale hotels represent the largest pool of observations and record a difference of -14% in cost/sqm of Historic hotels.

Heavy renovation costs in Historic and Modern buildings, per segment. Euro average values.

HEAVY RENOVATIONS - HISTORIC

| | MIDSCALE | UPSCALE | UP. UPSCALE & LUXURY | TOP LUXURY |
|------------|----------|---------|----------------------|------------|
| COST/KEY | 81,200 | 54,000 | 150,500 | 280,600 |
| FF&E/KEY | 22,400 | 17,600 | 37,000 | 41,400 |
| COST/SQM | 1,320 | 1,020 | 2,140 | 3,430 |
| ROOM RATIO | 57 | 55 | 73 | 84 |

HEAVY RENOVATIONS - MODERN

| | MIDSCALE | UPSCALE | UP. UPSCALE & LUXURY | TOP LUXURY |
|------------|----------|---------|----------------------|------------|
| COST/KEY | 64,000 | 63,600 | 144,700 | 152,400 |
| FF&E/KEY | 2,800 | 14,600 | 13,200 | - |
| COST/SQM | 1,230 | 1,190 | 1,380 | 2,790 |
| ROOM RATIO | 50 | 56 | 105 | 55 |

TYPE OF LODGING

Hotels can be divided into two main categories:

- **City hotels:** located within the urban, central area of a city;
- **Resorts:** situated close to the coastline, in a mountain destination, in the proximity of a lake or thermal destination

There are major differences that characterize each of the two.

The table on the right describes the estimates calculated for interventions **in the upscale segment** alone, while the section below compares city hotel and resorts based on the tier they belong to, thus including **exclusively heavy renovations**.

City hotels present costs that gradually increase, coherently to the segment they belong to, with the greatest leap being recorded between upscale and upper upscale and to top luxury.

Resorts present values that are far less homogeneous. The large standard deviation greatly depends on the location where the intervention is carried out: costs are quite different for resorts placed in a mountain, lake or S&B destination.

Minor and heavy interventions either in city hotels and resorts do not differ by much. FF&Es represent indeed the major cause of costs divergence, being worth 70% less in the total expenditure for a minor work and 18 for a major renovation.

The largest costs divergence is found among greenfield projects. Although the room ratio is quite relevant, the cost per key in a resort is 216% higher than in a city hotel, aligned to cost/sqm that is 80% greater. The difference is explained by the serviced that a resort can offer.

| | | UPSCALE RESORT | UPSCALE CITY HOTEL |
|-------------|-----------|----------------|--------------------|
| MINOR WORKS | COST/KEY | 20,000 | 16,900 |
| | FF&E/KEY | 3,100 | 10,400 |
| | COST/SQM | 350 | 310 |
| MAJOR WORKS | COST/KEY | 58,600 | 59,200 |
| | FF&E/KEY | 14,900 | 18,200 |
| | COST/SQM | 1,230 | 1,070 |
| GREEN-FIELD | COST/KEY | 181,500 | 57,400 |
| | FF&E/KEY | 28,300 | 11,500 |
| | COST/SQM | 2,500 | 1,400 |
| | KEY RATIO | 75 sqm | 42 sqm |

HEAVY RENOVATIONS CITY HOTEL

| | MIDSCALE | UPSCALE | UP. UPSCALE & LUXURY | TOP LUXURY |
|------------|----------|---------|----------------------|------------|
| COST/KEY | 53,100 | 59,400 | 153,100 | 224,100 |
| FF&E/KEY | 6,100 | 17,500 | 31,200 | 41,400 |
| COST/SQM | 1,030 | 1,060 | 2,070 | 2,870 |
| ROOM RATIO | 50 | 58 | 77 | 78 |

HEAVY RENOVATIONS RESORT

| | MIDSCALE | UPSCALE | UP. UPSCALE & LUXURY | TOP LUXURY |
|------------|----------|---------|----------------------|------------|
| COST/KEY | 106,100 | 58,600 | 143,700 | 265,400 |
| FF&E/KEY | 35,300 | 14,900 | 30,800 | - |
| COST/SQM | 1,660 | 1,230 | 1,870 | 3,900 |
| ROOM RATIO | 60 | 51 | 83 | 68 |

FACILITIES & SERVICES

SPA

| | YES | NO | YES/NO |
|------------|--------|--------|--------|
| Cost/key | 71,700 | 54,400 | 32% |
| FF&Es/key | 15,500 | 16,750 | -7% |
| Cost/sqm | 1,175 | 1,075 | 9% |
| Room ratio | 59 sqm | 54 sqm | |

GYM

| | YES | NO | YES/NO |
|------------|--------|--------|--------|
| Cost/key | 64,100 | 55,200 | 16% |
| FF&Es/key | 18,300 | 14,300 | 28% |
| Cost/sqm | 1,135 | 1,080 | 6% |
| Room ratio | 59 sqm | 53 sqm | |

RESTAURANT

| | YES | NO | YES/NO |
|------------|--------|--------|--------|
| Cost/key | 60,500 | 50,200 | 20% |
| FF&Es/key | 16,900 | 6,200 | 174% |
| Cost/sqm | 1,110 | 1,045 | 7% |
| Room ratio | 57 sqm | 47 sqm | |

SWIMMING POOL

| | YES | NO | YES/NO |
|------------|--------|--------|--------|
| Cost/key | 63,400 | 57,000 | 11% |
| FF&Es/key | 15,400 | 16,800 | -8% |
| Cost/sqm | 1,125 | 1,090 | 3% |
| Room ratio | 60 sqm | 54 sqm | |

The facilities and services that a hotel can offer its guests play a major role in determining the business' vital KPIs, such as TRevPAR, LOS, GOPPAR etc.

Needless to say, the Facilities & Services of a property influence directly the costs of revamping, renovation or new construction.

The analysis here includes exclusively values recorded for Upscale, Heavy renovations, in order to decrease biases related to type of work or segment of the hotel.

As one could expect, in all the four tables, possessing one of these facilities imply higher overall cost, reflected on a cost/key ratio that is 10 to 30% higher and a cost/sqm ratio that ranges from +3 to +9%.

The highest difference in costs is found in possessing or not a SPA: the target customer that opts for this kind of "classy" service is indeed expected to require a more fashionable, high-class service.

FF&Es vary significantly.

It is interesting to note how hoteliers that have a SPA or swimming pool spend on average 7-8% less than those who do not.

BUDGETING, PLANNING, DESIGN.

IL NOSTRO METODO PER UN HOTEL DI SUCCESSO.



/ CHECK UP TECNICO DELL'IMMOBILE / STUDIO DEI DATI DI
POSIZIONAMENTO E PRODOTTO / ANALISI DEI DATI ECONOMICI DI
FATTIBILITÀ / ZONING / LAYOUT FUNZIONALE / STANDARD DI PROGETTO
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EXTRA BONUS: **key focus and insights**

A glance to the future: a dataset of 15 observations of interventions
which will be carried out in the period 2021-2023

Do business hotels cost more or less than non-business ones?
An accurate analysis provided by considering sqm net of MICE areas

What is the actual cost of the renovation of a room alone?
A dataset of observations referred exclusively to the single room's costs



**Heavy renovations
in Business hotels are 20%
cheaper than in non-business
ones**



PIPELINE PROJECTS

| HOTEL | YEAR | BRAND | SCALE | KEYS | TOTAL SQM | CITY | Type of Destination | Type of Lodging |
|-------|------|--------|---------|------|-----------|-----------|---------------------|-----------------|
| A | 2021 | Chain | Upscale | 65 | 6000 | Rome | Arts & Business | City Hotel |
| B | 2021 | Chain | Upscale | 199 | 9100 | Rome | Arts & Business | City Hotel |
| C | 2021 | Chain | Upscale | 173 | 7000 | Trieste | Arts & Business | City Hotel |
| D | 2021 | Chain | Upscale | 78 | 3.800 | Milan | Arts & Business | City Hotel |
| E | 2022 | Indep. | Upscale | 88 | 9700 | Alassio | Sun & Beach | Resort |
| F | 2021 | Chain | Upscale | 284 | 32.850 | Milan | Business Prevailing | City Hotel |
| G | 2021 | Indep. | Upscale | 60 | 8000 | Sappada | Arts & Business | City Hotel |
| H | 2021 | Chain | Luxury | 159 | 12000 | Rome | Arts & Business | City Hotel |
| I | 2021 | Chain | Upscale | 170 | 9900 | Florence | Arts & Business | City Hotel |
| J | 2021 | Chain | Upscale | 93 | 11000 | Cortina | Mountain | Resort |
| K | 2023 | Chain | Upscale | 68 | 8000 | Milan | Arts & Business | City Hotel |
| L | 2021 | Indep. | Upscale | 176 | 9300 | Venice | Arts & Business | City Hotel |
| M | 2023 | Chain | Luxury | 70 | 7500 | Portofino | Sun & Beach | Resort |
| N | 2022 | Chain | Luxury | 142 | 10500 | Murano | Arts & Business | City Hotel |
| O | 2021 | Indep. | Luxury | 110 | 17000 | Venice | Arts & Business | City Hotel |

During our research, many respondents provided us useful details regarding projects that will be carried out in the near future (until the year 2023).

These data could not be used for the costs study but is nevertheless of great significance.

A set of 15 results is shown in the table above, which provides the approximate costs of light and heavy interventions, albeit hiding the name of the hotel due to our non-disclosure policy.

The chosen set of data includes mostly heavy renovation works which were supposed to be carried out within the next year (all data was gathered before the Covid-19 pandemic).

Arts & Business and Sun & Beach are the destinations with more interventions, with the “Big 4” still prevailing. In Rome, Milan, Venice and Florence greenfield projects are seldom carried out due to the lack of prime spacious sites and the continuing appreciation of historic architecture sites.

| Type of Building | Type of WORK | TOTAL COSTS | FF&Es | COST/KEY | FF&E/KEY | COST/SQM |
|-------------------|------------------|--------------|--------------|-----------|-----------|----------|
| Existing Modern | Simple Revamping | 2.500.000 € | 200.000 € | 38.462 € | 3.077 € | 417 € |
| Existing Historic | Conversion | 15.000.000 € | 7.683.191 € | 75.377 € | 38.609 € | 1.648 € |
| Existing Historic | Heavy Renovation | 6.500.000 € | 3.043.243 € | 37.572 € | 17.591 € | 929 € |
| Conversion | Heavy Renovation | 9.000.000 € | - | 115.385 € | - | 2.368 € |
| Existing Historic | Heavy Renovation | 9.500.000 € | 1.500.000 € | 107.955 € | 17.045 € | 978 € |
| Existing Modern | Heavy Renovation | 14.000.000 € | 3.000.000 € | 49.296 € | 10.563 € | 426 € |
| Existing Modern | Heavy Renovation | 16.000.000 € | 1.300.000 € | 266.667 € | 21.667 € | 2.000 € |
| Existing Historic | Heavy Renovation | 20.000.000 € | - | 125.786 € | - | 1.667 € |
| Conversion | Heavy Renovation | 22.000.000 € | - | 129.412 € | - | 2.222 € |
| Existing Historic | Heavy Renovation | 25.000.000 € | 15.000.000 € | 268.817 € | 161.290 € | 2.273 € |
| Existing Historic | Heavy Renovation | 26.000.000 € | 16.000.000 € | 382.353 € | 235.294 € | 3.250 € |
| Existing Historic | Heavy Renovation | 30.000.000 € | 5.000.000 € | 170.455 € | 28.409 € | 3.226 € |
| Existing Historic | Heavy Renovation | 35.000.000 € | 10.000.000 € | 500.000 € | 142.857 € | 4.667 € |
| Existing Historic | Heavy Renovation | 47.900.000 € | 9.477.000 € | 337.370 € | 66.739 € | 4.563 € |
| Existing Historic | Heavy Renovation | 69.000.000 € | 8.767.000 € | 626.869 € | 79.700 € | 4.056 € |

LET'S TALK MICE (sqm >300)

In order to increase the degree of accuracy of the expenditure-related variables, we have included in our database one determinant that may shape costs.

Since Business Centers occasionally represent a great portion of the hotel total covered surface, we decided to take into consideration the variable "Congress Center area (in sqm)", from which we derived "net costs/sqm".

The table on the lower left displays the cost per square meter on light, heavy interventions and greenfield projects within the upscale segment. When the covered MICE areas are subtracted from the hotel total covered surface, the ratio of costs/sqm increases by 5 to 10%, depending on the proportional width of the congress center. The inclusion of this variable allows to eliminate a significant bias which alters costs.

The table on the upper left analyzes the differences in costs observed between business hotels (which have a business center that is wider than 300 sqm) and others (less than 300sqm or no business center).

We estimated a disparity of more than €10,000 per room between "others" and business hotels, with the latter recording an FF&Es expenditure that is 5% higher than for non-business hotels.

Cost per sqm is ten points lower, reaching a divergence of -28% for business properties when compared to non-business ones.

The difference drastically decreases if we consider the hotel total covered surface net of MICE areas, reaching -20% in the cost/sqm of business hotels.

Expenditure for the heavy renovation of an Upscale hotel.
Business (>300sqm of MICE) vs non-business hotels . Euro average values.

| | BUSINESS | OTHER | <u>Business other</u> |
|-------------------------------|--------------|--------------|---------------------------|
| COST/KEY | 51,800 | 63,000 | -18% |
| FF&E/KEY | 17,200 | 16,350 | +5% |
| COST/SQM | 890 | 1,250 | -28% |
| COST/SQM NET of MICE areas | 1,020 | 1,284 | -20% |

Cost per sqm in the Upscale segment, per type of work. Euro average values.

| | GROSS COST/SQM | MICE NET COST/SQM | <u>net cost gross cost</u> |
|------------------------|-------------------|----------------------|--------------------------------|
| LIGHT INTERVENTIONS | 296 € | 316 € | +7% |
| MAJOR INTERVENTIONS | 1,335 € | 1,420 € | +6% |
| GREENFIELD | 2,140 € | 2,344 € | +10% |

ROOMS FOCUS

The survey allowed us to collect worthwhile data that regard exclusively interventions carried out on a partial number of rooms of the hotel. Respondents provided us useful information with the accurate values of the intervention (exact cost and sqm). All cost related variables are therefore as accurate as they can get when referring to the actual costs of a room: if the report so far has been referring to cost/key as the overall costs borne divided by the number of bedrooms of the hotel, now the table below describes the exact averages, although estimated on a modest set of data.

The simple revamping of a single room in a midscale property costed €667 per sqm and €400 in an upscale; approximate values that are far higher if we consider the room ratio variable (page 18), for which an expenditure of €211 per sqm was estimated.

Heavy renovations usually involve all or most of the building, and for this reason the cost/sqm within the midscale segment does not differ by much: €1,343 considering exclusively the room vs €1,284 of the overall hotel renovation.

| HOTEL | YEAR | BRAND | SCALE | KEYS | TOTAL SQM | Room ratio | Type if Destination | Type of Lodging | Type of Building | Type of WORK | TOTAL COSTS | FF&Es | COST/KEY | COST/SQM | FF&Es/KEY |
|-------|------|--------|----------|------|-----------|------------|---------------------|-----------------|-------------------|------------------|-------------|-----------|----------|----------|-----------|
| A | 2018 | Indep. | Upscale | 4 | 100 | 25 | Lake | Resort | Existing Modern | Simple Revamping | 40.000 € | 40.000 € | 10.000 € | 400 € | 10.000 € |
| B | 2019 | Indep. | Midscale | 12 | 360 | 30 | Lake | Resort | Existing Historic | Simple Revamping | 240.000 € | 180.000 € | 20.000 € | 667 € | 15.000 € |
| C | 2015 | Indep. | Midscale | 10 | 180 | 18 | Lake | Resort | Existing Modern | Heavy Renovation | 252.000 € | - | 25.200 € | 1.400 € | - |
| D | 2020 | Indep. | Midscale | 12 | 490 | 41 | Sun & Beach | City Hotel | Existing Modern | Heavy Renovation | 500.000 € | - | 41.667 € | 1.020 € | - |
| E | 2018 | Chain | Upscale | 30 | 1.426 | 48 | Arts & Business | City Hotel | Existing Modern | Heavy Renovation | 2.078.282 € | 482.297 € | 69.638 € | 1.465 € | 16.077 € |
| F | 2017 | Indep. | Midscale | 32 | 1300 | 41 | Arts & Business | City Hotel | Existing Modern | Heavy Renovation | 2.089.130 € | 407.635 € | 65.285 € | 1.607 € | 12.739 € |
| G | 2018 | Chain | Upscale | 12 | 264 | 22 | Sun & Beach | Resort | New Construction | Greenfield | 762.200 € | - | 63.517 € | 2.887 € | - |

The total renovation of a room alone, located in an “Arts & Business” destination costs an estimated average of €67,500

RE-BRANDING TO ...a family hotel

Based on the experience gathered side-by-side with a hotel chain developing hotels and resorts dedicated to families with children, we can summarize the CapEx involved in a conversion from a standard S&B or Mountain hotel/resort to a family-friendly property.

Together with the costs linked to a general revamping of the building (stickers, common areas new paintings, main entrance refresh) and structural changes (merger of small rooms to create new family rooms) there are several interventions associated with the chain's *format*, such as the creation of new areas and services.

These are the nursery, the playground, the soft-room, the theater, the changes required by the restaurant (pizzeria and baby-area), the outdoor games, the pool slipways, the vending machines, the kiosk and others.

Sample based on a 110 room Midscale S&B hotel

| | Total CapEx (€) | Per KEY(€) |
|----------------------------------|-----------------|------------|
| Room mergers (3% of all rooms) | 20,000 | 182 |
| Rooms FF&E & revamping | 27,500 | 250 |
| Restaurant Format & FF&E | 18,000 | 164 |
| Common areas revamping | 12,000 | 109 |
| Outdoor playground & equipment | 15,000 | 136 |
| All inclusive Food & Drink specs | 11,000 | 100 |
| IT & licensed SW | 5,500 | 50 |
| Pizzeria FF&E | 2,800 | 25 |
| Kiosk | 1,500 | 14 |
| Moms' area FF&E | 1,500 | 14 |
| Nursery FF&E | 1,200 | 11 |
| TOTAL | 116,000 | 1,055 |

A view of the Fabilia Madesimo façade taken from the ski slopes. Courtesy of Fabilia Hotels & Resorts



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