

How to Start a Hotel Business



Owning a hotel can be a lucrative investment that helps seasoned entrepreneurs and first-time investors build long-term wealth in the real estate industry.

Now is a great time to invest in a hotel business because a growing number of people are prioritizing travel and making the most of their vacation time. This has helped increase hotel demand, resulting in higher occupancy rates and profitability.

Research shows that [global hotel occupancy rates](#) have been steadily rising over the last two years, with rates over 75%— which is very good news for hotel investors aiming to build a thriving business.

But is owning a hotel right for you? If it is, where do you start?

We break down the key considerations and steps you need to know before starting a hotel business.

What Are the Costs of Owning a Hotel?

When calculating the costs of a hotel business, it is essential to consider both the costs you will need to pay to get started and the expenses of operating a hotel.

Startup Costs

Before you get started, you will need to understand the total cost of your project. This should factor in the money required to purchase your hotel, plus renovation costs and unexpected expenses.

Consider the amount you need to borrow and any interest you'll accrue, plus the principal payments. Most lenders typically expect you to be able to make equity contributions of between 25-40% before giving you a loan.

A lender will analyze your ability to repay the loan. This is where the Debt Service Coverage Ratio (DSCR) comes into play. The higher your DSCR, the more likely you are to have sufficient funds to repay your debts on time. You calculate this metric by dividing your net operating income against annual debt service.

Operational Costs

Start by establishing an operational budget for your hotel and utilize a monthly P&L to measure the effectiveness of your budget. Factor in all of the expenses associated with running the hotel. These include labor costs, technology and equipment, taxes, supplies, and other expenses. It also includes franchise fees, advertising costs, bills, and commercial mortgage costs. Review your contract and insurance policies regularly, and review your property tax valuation to potentially lower the costs of your property taxes.

Your operational expenses should take into account the type of hotel you run.

A select-service hotel will need less staff, so the labor costs will generally be lower than a full-service hotel that has a restaurant and other labor-intensive amenities.

It is also important to take the number of rooms into account. The more rooms you have, the more supplies you will need to clean the rooms.

Estimated Profits

An important metric is the projected net operating income, which is calculated by multiplying the projected gross revenue by the expected operating margin.

This measures how much profit you will likely produce after covering all of your expenses.

Another key metric to pay attention to is the projected gross annual revenue, which is calculated by multiplying the number of rooms by the average daily rate (ADR). This is then

multiplied by the projected occupancy and the number of days per year. It measures the amount of money you will have coming into your company.

When calculating your estimated profits, you should also understand how much money you will have available after making loan repayments and paying operating costs.

Convert an Existing Hotel

Converting a hotel gives you access to the existing features, rooms, and oftentimes staff. You will also have access to financial information and performance metrics that helps you to determine whether a hotel is worth purchasing based on its prior performance. However, beyond the cost to acquire a hotel, there are also often renovation costs to be factored in.

Acquiring a hotel often comes with lower upfront costs and a lower barrier of entry than building a hotel. This is because you don't need to spend time building it or waiting until construction is complete before you can start earning revenue from guests.

Build a Hotel

Building a hotel gives you the freedom to design the hotel according to your exact specifications.

Wyndham can help by providing prototypes designed with hotel owners in mind. This means that they are designed to be effective to build and operate. We have considered all aspects of the process. This includes everything from the time it takes to clean the rooms, to the ability of a front desk clerk to do laundry and fold during slow hours. A prototype should take all of this into consideration, so it is important to ensure that the brand you partner you choose does that.

We also have a very knowledgeable design and construction team that supports owners throughout the entire process and makes regular site visits to ensure everything runs smoothly.

Learn more about how we can simplify the process of building a hotel and connect you with the teams you need [in this video](#).

When you build a hotel, consider the amount needed to purchase the land, complete the construction, and buy the furnishings. Construction costs may be higher than acquiring an existing hotel already complete with the electrical systems, plumbing, and features you need. However, Wyndham can ensure that everything goes as smoothly as possible.

When you build a hotel from scratch, we recommend you do a feasibility study because there is no existing performance data showing whether your chosen location is profitable.

How to Choose a Franchise Partner

A good franchisor will provide you with helpful resources and support to ensure you can make the most of your business. For example, this may include sales support, brand marketing, business training, support with operations, and revenue generation guidance.

A hospitality company can also help by connecting you with specialist teams. These experts have the industry knowledge to help with specific aspects of the project, such as design and construction, revenue management, supplier negotiation, etc.

At Wyndham, we take an OwnerFirstSM approach, putting owners at the center of everything we do. We are only as successful as our hoteliers, so we arm them with support and tools designed to maximize performance and profitability.

Choosing a Brand

Partnering with a brand is a long-term and crucial investment because it is the first thing customers see and experience. Find a brand that resonates with your guests, aligns with the type of hotel you own (if you're converting a property), and fits your budget.

Here are some other considerations you should think about when choosing a brand:

Location

Consider the hotel's location and the performance of existing hotels in that market. Does the brand you want or the hotel you wish to operate already serve that geographic area?

Evaluate whether there is a niche in that market for underrepresented brands or any gaps in the market that you can fill.

When you partner with Wyndham, we can help you help provide market insights to help make choosing the right brand easier.

Accessibility

If you have never operated a hotel before, a brand can help to guide you through the entire process. Ideally, you should be able to pick up the phone and immediately connect with your chosen brand's executive and direct support staff. At Wyndham, franchisees benefit from dedicated operations support with field teams that have 99% owner satisfaction.

Our [franchisees often comment](#) on the robust corporate support we provide.

What Makes a Successful Hotel?

Hotel owners come from a variety of different backgrounds. However, the majority have a track record of managing other successful enterprises and some real estate experience. Those with previous business or real estate experience will likely find it easier to transition into the hotel industry.

Qualities Needed to Own a Successful Hotel

If you have a background in managing apartments, running a busy restaurant, or operating a similar business, then owning a hotel franchise may be a natural next step in your business evolution.

Perhaps you have previously managed an apartment complex with an annual lease, but you decide to switch to a hotel business with more day-to-day management.

Hotels are a more profitable investment than running an apartment complex. This is because hotels have more flexibility on the rates they can charge, and they have a higher turnover of guests.

Regardless of your background, you need to be customer-oriented to start a successful hotel business. The quality of customer service and guest experience can make or break your hotel.

Steps Needed to Start a Hotel Business

Building a successful hotel business requires a great deal of preparation and strategy. Below are some key steps to get started.

Make a Business Plan

Establish a business plan to get the ball rolling. It should include in-depth analysis of your market and competitor analysis to evaluate the viability of your project.

Your plan should also outline how you will attract investors. If you plan on involving any management companies, include them in your plan as well. Management companies help with rate setting, hiring, local sales, and day-to-day operations. They can be a great option for those new to the industry. At Wyndham, we can connect owners to management companies that have experience running the daily operations of our hotels.

Acquire Land/Hotel

The next step is to acquire the land or hotel. If you are acquiring an existing hotel, you may not need to worry about purchasing the land.

Secure Equity

Before purchasing a hotel, you must finalize your capital and explore your financing options. Ideally, you should complete the financial projections and outline how you intend to secure investment as part of your business plan.

Construct Your Hotel

The next step is to build the hotel if you are developing one from the ground up. Once you have purchased the land, you will need to select a team to bring your project to life. This includes a general contractor, architect, construction crew, legal support, and more. You will also need to have the necessary permits and licenses before work can begin.

Partner With a Brand

By this point, you likely already have a brand partner in mind. Research any potential partners in depth before beginning your business relationship. A brand partner should match your values, objectives, and business needs by providing the benefits, services, support, and resources you need to develop your brand. Choosing the right brand can help increase the likelihood of obtaining a loan or getting a loan under your preferred terms.

Marketing

When you join a brand, you benefit from the marketing they do around the brand and any built-in loyalty program they have. Consider putting aside a local advertising budget on top of the brand's centralized campaigns to improve bookings. Online marketing can help hotels to connect with travelers in all stages of the customer journey. It also makes it easy to measure analytic data, connect with the right customers, and lower overall costs.

We offer franchisees many highly effective revenue-generating programs like Wyndham Rewards, our award-winning loyalty program with more than 90 million members. This top-rated program drives nearly 50% of stays to Wyndham hotels in the US. Wyndham also provides owners with performance-driven marketing and sales support.

Recruitment

If you don't already have a team of staff, establish an executive leadership team or contact a recruitment agency that can help you find and manage the staff you need. If you own a hotel, a management company can help you to find talented team members and negotiate with recruitment companies on your behalf.

For more information about the steps needed to run a successful hotel, check out our [Path to Ownership](#) brochure.

Is Now a Good Time to Invest in a Hotel?

There has never been a better time to invest in the hotel business. Travel demand is growing, and hotel occupancy rates are continuously rising. If you are a seasoned investor or entrepreneur seeking to build a business in a proven industry with higher returns, then hotel development may be the ideal opportunity for you.

Following the tips outlined above can help you to meet the demands of building long-term generational wealth in the hotel industry.

Partnering with [Wyndham](#) gives you access to a reputable and established brand committed to providing you with the tools and resources you need to succeed.

Speak with a development expert today to [find out we can help](#) you with your hotel development goals.

I was commissioned to write a series of long-form articles, whitepapers and press releases on behalf of Wyndham Hotel, while working at ClearVoice. The articles covered various aspects of the hotel industry. This is one of the articles I wrote.