

Closing a hotel during refurbishment

Q. What is your opinion of the wisdom of hotels staying open while carrying out refurbishment? How do you assess whether to completely shut down or not? Can carrying out refurbishment while trading become a false economy if work is not carried out to schedule? What's the 'best practice' way to manage a project like this?

Opinion

The benefits associated with closing a hotel for a major refurbishment or repositioning are all too often ignored.

And the actual profit lost during a rolling soft refurbishment is often less than feared.

Making the assessment

To assess whether to refurbish whilst remaining open or whether to close, management should perform an economic evaluation of the lost profit under the two options.

Profit is lost as individual or blocks of rooms are out of order for a few days or week at a time. Profit lost will be the marginal profit made on each room and, thus, a high percentage of the achieved room rate.

If the works programme forces rooms to close in high season or on days of high demand, the lost room rate will be high. If the refurbishment programme involves a lot of scaffolding or dust or noise, the actual or perceived disruption to regular guests will be considerable and, therefore, some assessment of the lost goodwill also needs to be taken into account.

A refurbishment programme carried out whilst operating will almost certainly take longer than a programme that involves closing the hotel and the period of profit loss, therefore, will be greater. There will be longer to wait before the profit upside from the refurbishment can be earned.

There is likely to be a need for a higher quality – and, therefore, cost - of project management in the accelerated refurbishment option.

In either case, failure by the contractor to perform should give rise to the right for the hotel owner to withhold a penalty that is at least equal to the lost profit.

The cost of an independent assessment of the options will usually pay handsomely for itself.

What is best practice?

In the case of a soft refurbishment, it is usual to continue to trade.



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If the refurbishment involves significant work to plant and equipment and/or involves a major soft refurbishment associated with fundamental repositioning of the hotel, then it is probably better to close the hotel.



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