

Sector – City and Business Hotels

1. **Management:** Deal with any personnel concerns at the front-end. Link fees to performance targets to provide incentive to improve margins. A technical partner's experience may not qualify it for other markets. Keep the roles of security manager and chief engineer separate.
2. **Environmental guidelines:** Attach to the Investment Agreement and include in the Technical Completion conditions. Review each guideline with the sponsor and require an independent audit. Visit frequently to ensure compliance. Do not waive normal conditions.
3. **Refurbishment:** Work on existing assets tends to overrun but provides better security. Opening in low season can be costly. Ensure standards are specified. Upgrading a hotel will not necessarily result in a commensurate increase in real room rates. Sales will be difficult until the second year.
4. **Sponsors:** Financial strength and commitment, experience and market knowledge are crucial, as are vision, marketing and management ability. Follow-up regularly to discuss potential projects. IFC can provide leverage in negotiating with a government.
5. **Market analysis:** Appoint an independent consultant to perform the analysis, and consider all elements of supply and demand, including trends, major structural changes and temporary distorting factors. Question occupancy projections that exceed market forecasts.
6. **Loan structure:** Revise loan pricing with improving risk to discourage prepayment. Negotiate debt conversion options from the outset. Negotiating leverage is reduced once disbursement is complete.
7. **Foreign exchange:** Match liabilities currency to revenues. Hard currency earnings are not devaluation-proof. Avoid investment where currency is over-valued. Hotel rates adjust slowly to exchange rate movements. Consider the effect of exchange rates on fees.
8. **Lenders' supervisors:** Can help monitor progress and restrain excessive capital expenditure, particularly when in-house project management teams are used.
9. **Expert sources:** Appoint consultants to analyze the market and to review a country's Investment Act when a company is entering an unfamiliar regulatory environment.
10. **Competition:** Carefully assess the competition. Forecasting competing capacity may be more difficult than forecasting demand but requires IFC attention.
11. **Sensitivity analysis:** Examine the potential impact of macro-economic changes (where economies need structural adjustments) and include scenarios where results are below expectations.
12. **Markets/marketing:** A hotel in a developed market may have difficulty generating demand in new market segments. International operators may have conflicts of interest between project marketing strategy changes and operator brand name preservation.

The above lessons are based on 43 lessons from past IFC investments.
Last updated January 8, 1999.