

PUBLIC SERVICE CLUB HOUSE
INVESTMENT ANALYSIS

June 2015

SUMMARY OF KVDA COST BENEFIT ANALYSIS

Towards the development of the project for both the office complex and club house an exhaustive analysis of the viability of the Kerio Valley Development Authority and Public Service Club projects was conducted. Several options were considered. These include;

Option A

The initial option assumes the developer would fully finance the project up to 100% of the cost of development through a commercial loan.

Option B

The second option assumes the Authority will be financed up to 75% of the project cost through a commercial loan with the Authority contributing 25% of the cost.

Option C

This option analyzed the feasibility of the project, should the project be financed up to 50% through debt and the remaining equal portion financed through equity funds by the Authority.

Recommendation

From the results of the analysis, the best option would be to finance the project with 75% commercial loan with the developer, contributing 25% equity in the project. It yields the highest return possible from the investment.

COST BENEFIT ANALYSIS FOR PUBLIC SERVICE CLUB

1. Introduction

This proposal entails the development of a private members club house for the Public Service Club (PSC) comprising of a 6.5 storey hospitality complex. The clubhouse will contain 57 guest rooms of two different configurations which include standard and executive suites. In addition, the facility shall also incorporate a conference facility with a capacity of 200 persons, executive board rooms from the third to fifth floors, spa and wellness centre, executive gym all within the facility located along Mara Rd, in Upper hill, Nairobi.

2. Project cost

The total cost for the development has been estimated based on the actual construction cost on the basis of the actual area and special installations to be included in the facility. A breakdown of the cost is as shown below.

Figure 1: Construction Cost including installations

	Kshs
Concrete Superstructure	71,015,280
External Walling	77,313,600
Internal Walling	26,547,240
Windows	2,184,000
External Doors	1,172,700
Internal Doors	12,216,000
Other Finishes	85,072,800
Lifts	12,840,000
Fixtures and Fittings	17,087,850
Roof finishes	4,572,750
Electrical works	49,561,720
Mechanical works	30,916,060
Preliminaries	19,500,000
Basic Furnishings and Furniture **	45,000,000
Total Cost of Construction	455,000,000

The project cost above required in the construction shall fully be borne by Kerio Valley Development Authority (KVDA). This shall be in exchange for leasing out 2 acres of land by PSC to KVDA for a lease term of 50 years.

3. Project revenues

The facility shall be run as a private members club for its members however it shall also be open to non members after purchase of temporary membership. All the units within the facility shall be placed on a rental pool which will be managed by an in house team specially trained in hospitality management from the club. The below tables illustrates the revenue assumptions used in the analysis.

3.1. Pricing

The pricing has been based on expected going rates within the hospitality sector at the projects operational period and the facilities hospitality rating.

Figure 2: Pricing

	No. of Units	Members	Non-members
		Daily (B&B)*	Daily (B&B) *
Standard suites	51	KES 9,500	KES 12,500
Executive suites	6	KES 14,500	KES 19,000
TOTAL	57		

*Note the above rates are inclusive of taxes.

3.2. Annualized Revenue Projections

Figure 3: Annual Revenues

	Year 1	Year 2	Year 3	Year 4	Year 5
	2019	2020	2021	2022	2023
Inflation Factor (Revenue)	n/a	1.03	1.03	1.03	1.03
No. of Units Available to Let	57	57	57	57	57
Letting Period	365	365	365	365	365
Annual Available Units	20,805	20,805	20,805	20,805	20,805
Estimated Annual Occupancy	40%	55%	65%	75%	85%
No. of Occupied Units	8,291	11,443	13,523	15,604	17,684
Average Daily Rental Rate	8,402	8,655	8,914	9,182	9,457
Net Revenues	69,663,810	99,032,057	120,549,023	143,267,877	167,241,368
Net Food & Beverage Revenues	7,456,021	11,519,553	11,865,140	12,221,094	12,587,727
Net Other Revenues	10,819,001	11,143,571	11,477,878	11,822,215	12,176,881
Total Revenues	87,938,833	121,695,182	143,892,041	167,311,185	192,005,976

4. Expenditure

4.1. Annual direct and indirect expenses

The below table depicts the first year monthly projected expenses for the facility.

Figure 4: Expenditure schedule

	Year 1	Year 2	Year 3	Year 4	Year 5
	2019	2020	2021	2022	2023
Inflation Factor (Expenses)	n/a	1.10	1.10	1.10	1.10
Payroll Costs	18,209,200	20,030,120	22,033,132	24,236,445	26,660,090
Food & Beverage Expenses	5,275,053	5,759,777	5,932,570	6,110,547	6,293,863
Direct Operating Expenses	7,645,110	8,409,621	9,250,583	10,175,641	11,193,206
Administrative Costs	15,626,038	17,188,642	18,907,506	20,798,257	22,878,082
Sales & Marketing	5,573,105	6,130,415	6,743,457	7,417,803	8,159,583
Property Maintenance	901,000	991,100	1,090,210	1,199,231	1,319,154
Utilities	7,340,000	8,074,000	8,881,400	9,769,540	10,746,494
Total	60,569,506	66,583,675	72,838,858	79,707,464	87,250,472

The total operating expenses for the facility in the first year stands at Kshs 60 million. The breakdown of the expenses shown above is based on market experience for hospitality projects. Expected variations are expected to occur which will alter forecast returns owing to time differentials at the operational phase.

5. Operational model

From the above projected revenue model we have illustrated a 5 year forecast operational schedule towards the management of the facility as shown below.

Figure 5: Five Year Operating Projections

	Year 1		Year 2		Year 3		Year 4		Year 5	
	2019	CS	2020	CS	2021	CS	2022	CS	2023	CS
Statistics										
Available Unit nights	20,805		20,805		20,805		20,805		20,805	
Occupied Units	8,291		11,443		13,523		15,604		17,684	
Occupancy Percentage	40%		55%		65%		75%		85%	
Average Rental Rate /Unit	8,402		8,655		8,914		9,182		9,457	
Net Accommodation Revenues	69,663,810	79%	99,032,057	81%	120,549,023	84%	143,267,877	86%	167,241,368	87%
Net Food & Beverage Revenues	7,456,021	8%	11,519,553	9%	11,865,140	8%	12,221,094	7%	12,587,727	7%
Net Other Revenues: (Laundry, transport and conference)	10,819,001	12%	11,143,571	9%	11,477,878	8%	11,822,215	7%	12,176,881	6%
Total Net Revenues	87,938,833	100%	121,695,182	100%	143,892,041	100%	167,311,185	100%	192,005,976	100%
Operating Expenses										
Payroll Costs	18,209,200	21%	20,030,120	16%	22,033,132	15%	24,236,445	14%	26,660,090	14%
Food & Beverage Expenses	5,275,053	6%	5,759,777	5%	5,932,570	4%	6,110,547	4%	6,293,863	3%
Direct Operating Expenses	7,645,110	9%	8,409,621	7%	9,250,583	6%	10,175,641	6%	11,193,206	6%
Administrative Costs	15,626,038	18%	17,188,642	14%	18,907,506	13%	20,798,257	12%	22,878,082	12%
Sales & Marketing	5,573,105	6%	6,130,415	5%	6,743,457	5%	7,417,803	4%	8,159,583	4%
Property Maintenance	901,000	1%	991,100	1%	1,090,210	1%	1,199,231	1%	1,319,154	1%
Utilities	7,340,000	8%	8,074,000	7%	8,881,400	6%	9,769,540	6%	10,746,494	6%
Total Operating Expenses	60,569,506	69%	66,583,675	55%	72,838,858	51%	79,707,464	48%	87,250,472	45%
Profit Before Tax	27,369,327	31%	55,111,507	45%	71,053,183	49%	87,603,722	52%	104,755,504	55%
Corporate tax @30%	8,210,798		16,533,452		21,315,955		26,281,116		31,426,651	
Profit After Tax	19,158,529	100%	38,578,055	100%	49,737,228	100%	61,322,605	100%	73,328,853	100%

Profitability ratios

Figure 6: Ratio Analysis

Metric	2019	2020	2021	2022	2023
Net Operating Margin	31%	45%	49%	52%	55%
Net Profit Margin	22%	32%	35%	37%	38%

The facility has a projected 22% net income margin after taxes in the first year of operation which is normal from industry practice. This is as a result of lower occupancy levels in the first year projected at 40% with a total of 8,291 bed nights occupied. The occupancy level rises to 55% in the second year providing a net profit margin of 32% in the second year of operations. The operating profit in the second to the 5th year stands above 35%, the industry minimum required for any hospitality facility.

6. Project Returns

From the above estimates on the performance of the project, we have enumerated the returns expected to be achieved based on a 5 year cash flow forecast. The results and computation steps are as shown below;

Figure 7: Return computation

		Year 1	Year 2	Year 3	Year 4	Year 5	
Occupancy %		40%	55%	65%	75%	85%	
	Construction period	Open				Sale Year	
Period	Year -2	Year -1	Year 1	Year 2	Year 3	Year 4	Year 5
Outflow	(227,500,000)	(227,500,000)					
Annual Net Cash Flow			19,158,529	38,578,055	49,737,228	61,322,605	73,328,853
Sale of club house							732,782,050
Net Cash Flows	(227,905,500)	(227,905,500)	19,158,529	38,578,055	49,737,228	61,322,605	806,110,903
Value			500,500,000	550,550,000	605,605,000	666,165,500	732,782,050
Annual Capital Gain %		10%	10%	10%	10%	10%	10%
Annual Capital Gain Kshs			45,500,000	50,050,000	55,055,000	60,560,500	66,616,550

* The total cost of the development amounting to Kshs 455 million, is equivalent to the value of the lease being provided to Kerio Valley Development Authority.

Figure 8: Return Summary

Metric	Actual performance	Bench mark return
Project IRR	16%	12-13%
NPV of Net Cash flows	Kshs 165,965,999	
ROI @ NPV	36%	10%
Cash on Cash Profit	Kshs 519,907,320	
Rental yield	7.7%	6.0%

7. Conclusion

The project provides an internal rate of return of 16% to the club over a 5 year period implying the projects' growth potential over time. The rate achieved is well above market rates for commercial property which currently lies between 12-13% on a total project cost basis. The rental yield has recorded a return of 7.7 % which compared to the market, is over the expected rates of between 6% and 7% on an annual basis for hospitality establishments. The project further has a return on investment of 36% on the net present value which as well is above the required minimum threshold of 10% requisite for real estate projects. The returns illustrated above are purely based on total project cost basis and based on a cash equity investment approach; they are bound to be higher. We recommend the development of the project within the lines detailed in this proposal.

8. Market comparables

In the generation of suitable pricing structures for the facility we have surveyed similar facilities to determine the estimates of the pricing structures to be used. A comparison of two categories of facilities have been generated based on the proposed Public Service Club House and the positioning in the market with preference being the hotel industry due to the inability of existing clubhouses being able to mirror the project concept for the clubhouse.

1. Private Members Clubs
2. 4 and 5 star hotel facilities

PRIVATE MEMBERS CLUBS

Clubs			
	Rooms	Kshs	Rating
United Kenya Club	Member Rates:		Limited Service
	Standard Single	2,800.00	
	Deluxe Single	3,200.00	
	Executive Single	3,800.00	
	Standard Double	4,200.00	
	Twin Deluxe	5,000.00	
	Executive Double	6,200.00	
	Non Members Rates:		Limited Service
	Standard Single	3,000.00	
	Deluxe Single	3,300.00	
	Executive Single	3,900.00	
	Standard Double	4,400.00	
	Twin Deluxe	5,600.00	
	Executive Double	6,600.00	
Parklands Sports Club	Non member rates:		Limited Service
	Standard	5,700.00	
	Double	8,635.00	
	Triple	11,860.00	

	Rooms	Kshs	
Nairobi Gymkhana	Non member rates:		Limited Service
	Standard	5,225.00	
	Double	8,580.00	
	Triple	11,550.00	
Nairobi Safari Club	Members Rates:		Full service
	Executive suite(double)	11,500.00	
	Senior suite(double)	13,000.00	
	Non member rates:		
	Executive suite(double)	14,500.00	
	Senior suite(double)	16,000.00	

HOTELS

Names of Hotels	Hotel Rating	Location	Room Type	Average Rates Per Night (Kshs)
Intercontinental hotel	4 star	City Centre	Double	20,049.00
Villa Rosa Kempisky	5 star	Waiyaki Way	Double	26,830.00
The Boma Nairobi	5 star	Bellevue, Off Mombasa Road, Red Cross Road	Double	24,450.00
Nairobi Serena Hotel	5 star	Processional Way, Nairobi City	Double	21,027.00
Best Western Premier Nairobi	4 star	Hurlingham, Argwings Kodhek Road.	Double	12,642.00
Fairmount Norfolk	5 star	Harry Thuku Road	Double	16,528.00
Sankara Nairobi	5 star	Woodvale Groove, Westlands, Nairobi	Double	18,416.00
Bid Wood Suites Hotel	4 star	11 Karuna Road	Double	9,780.00
Sarova Stanley	5 star	Kimathi street	Double	16,626.00
Hilton Nairobi	4 star	Corner of Moi Avenue and Harambee Avenue	Double	17,052.00
Eka Hotel Nairobi	4 star	Mombasa Road	Double	16,562.00
Tribe Hotel	5 star	South C, Bellevue	Double	23,618.00
Hemmingways Nairobi	5 star	Karen	Double	25,297.00