



## Commercial Building Revitalization in the city of Bandung, A feasibility study on “XYZ Hotel” Bandung

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**ABSTRACT:** This thesis explores the feasibility study and potential revitalization of underutilized commercial buildings in Bandung, focusing specifically on the case of XYZ Hotel. The argument contends that many commercial buildings in Bandung remain underutilized, missing out on opportunities to generate higher income by utilizing their full potential. The study employs SWOT analysis and a comprehensive feasibility study to determine the potential of these buildings and propose strategies for their revitalization. The research questions aim to assess the current condition of XYZ Hotel, compare its facilities with competitors, identify alternative functions for the building, and evaluate the feasibility of its revitalization. Through interviews with industry experts and on-site observations, the physical condition of the hotel is evaluated, highlighting the need for significant renovations and upgrades to enhance its appeal and competitiveness. The study also examines the economic feasibility of the revitalization project by conducting a thorough financial analysis. The findings indicate that XYZ Hotel is currently underutilized and faces challenges in terms of outdated infrastructure, lack of modern amenities, and subpar room conditions. Experts recommend a major overhaul of the hotel's facilities, incorporating modern technologies and amenities to meet the expectations of contemporary travellers. The financial analysis demonstrates a positive Net Present Value (NPV) of IDR 47,701,605,549, an Internal Rate of Return (IRR) of 16,61%, a Profitability Index of 1.90 times, and a payback period of 8 years, affirming the financial viability of the revitalization project. Based on the research findings, recommendations are provided for the building owner, ITB, and potential investors. The owner should carefully select investors who align with the vision and values of the project, considering the historical significance of the building and its potential impact on ITB's reputation. For investors, it is crucial to understand the constraints associated with revitalizing a cultural heritage building and leverage the historical value of XYZ Hotel as a unique selling point. In conclusion, the study demonstrates the potential for revitalizing underutilized commercial buildings in Bandung, with XYZ Hotel serving as a case study. The proposed strategies and financial analysis provide valuable insights for stakeholders and future researchers interested in similar projects. By revitalizing and transforming underutilized buildings, Bandung can unlock new economic opportunities and preserve its cultural heritage for generations to come.

**KEYWORDS:** Capital Structure, Capital Budgeting, Financial Projection, Feasibility study, Hotel.

### INTRODUCTION

Tourism is undergoing fundamental changes regarding the market, industry structure, and the product or service offered from it.[1]. In an effort to fulfill the hotel demand in the city of Bandung bustling tourism industry, Hospitality industry standard has been improving immensely throughout the years. Bandung is known for being a hub of culture and education. Numerous colleges, art galleries, and museums are located in the city, drawing students, academics, and lovers of the arts from all over the nation and abroad. This thriving intellectual and cultural environment develops a niche market for boutique hotels. New hotels are constantly being built with modern amenities and stylish designs to cater to the discerning tastes of the growing number of tourists. This has resulted in a competitive market where hotels strive to provide exceptional service and unique experiences to attract visitors. The XYZ Hotel is a cultural heritage site, build in 1920. It is a hotel with a long historical link to one of the most prestige Institute in Bandung. Before it became a hotel, the XYZ Hotel was used as a housing residence for one of the Dutch Lecturer from this Institute. Then During the Japanese occupation, this structure housed this institute instructors who had been evicted from their residences by the Japanese troops. Following Indonesia's independence, ownership of the building was transferred to the Indonesian government and subsequently to the institute.



## BUSINESS ISSUE

XYZ Hotel stand at 1970sqm plot of land in one of the most famous and considered trendy area of the city of Bandung. It is within walking distances of 2 university campuses and within a short driving distance from 4 university campuses. The management of the XYZ Hotel received the Bandung Heritage Award in 2011. The Bandung Heritage Association gave this award because the owner or manager managed to preserve the building. But even with all these advantages and recognition in recent years the condition of the XYZ hotel has become very appalling. The physical condition of the hotel visibly far worse than from its glory days. In the interview with hotel management it is determined that one of the most influencing factors in recent years was covid19 where at that time (specifically 2020 - 2021) the entire hotel industry experienced a very significant decrease in income, due to the issuance of a ban on hotels operating during the Covid19 period. Without income even the big industry player was experiencing a problem like nothing they have ever seen before, which left little to wonder about the smaller hotels such as XYZ Hotel. Recently the Institute as the owner of the site has been considering what should they do with this site.

## METHODOLOGY

Based on the objectives of determining the best function for the site and the feasibility of investing in the site using SWOT analysis and feasibility study, SWOT analysis is an overall evaluation of the strengths, weaknesses, opportunities and threats that the company has. The purpose of this analysis is to combine the four elements, by putting together the strength of the company with the opportunities that exist, so that from these strengths and opportunities can reduce weaknesses and overcome the upcoming threats.[2] while A feasibility study is the initial consideration that must be done before running a business. This study also forms the basis for business decisions, so that neither any party would be harmed [3]. It is frequently determined by applying a formula for investment valuation that takes into account factors like Cash Analysis Flow, Payback Period, Net Present Value, Internal Rate of Return, Benefit Cost Ratio, Profitability Index, and Break-Even Point.[4]. Another analysis done in this study is Capital Structure & Capital Budgeting, Analysis of capital structure will normally show amounts or combination of equity and debt in a company's balance sheet, while financial structure will tell of the content or mix of equity and retained earnings.[5] Capital budgeting refers to the evaluation of prospective investment alternatives and the commitment of funds to preferred projects. Long-term commitments of funds expected to provide cash flows extending beyond 1 year are called capital expenditures. Capital expenditures are made to acquire capital assets, like machines or factories or whole companies. Since such long-term commitments often involve large sums of money, careful planning is required to determine which capital assets to acquire.[6]. Using these analyses combined with expert interviews it can be determined what is the best use of the site and is it feasible to go through with the project.

## RESULT AND DISCUSSION

After gathering the data required a SWOT analysis was conducted to give the experts a better insight of the site's condition, this information is provided for the experts in order to obtain a more accurate answer.

Strength	Weakness
The site's advantageous location offers convenient accessibility and a two-way road system, making it flexible for visitors and potential clients. Being part of the trendy Dago area in Bandung provides access to a wide range of shops, malls, cafes, boutiques, restaurants, and entertainment centers, presenting significant market potential.	The main weakness lies in the old and outdated building, requiring substantial funding for upgrades and modernization. The building's cultural heritage status limits modifications, and its location between two roads leads to significant noise pollution, posing challenges for new ventures.
Opportunity	Threats
The site's location offers numerous opportunities for businesses, particularly due to its high accessibility. The strong connection with The Institute provides direct advertising and marketing opportunities to Institute students and faculty members. Collaboration with Institute, renowned for its influential alumni in various industries, can greatly benefit businesses established on this site.	The presence of various businesses in the vicinity poses a threat, as competitors from the same industry are within a 1 KM radius, potentially leading to direct competition.



Using the SWOT analysis, Photograph, and other data’s the experts give their opinions that Hotel XYZ currently has no competitive advantage even though the site has real potentials, they then give their recommendations on what would be the best use for the site, these opinions are then combine into a single business concept for the best use of the site which is a six story heritage boutique hotel with 55 rooms and dining facilities that can be converted into multipurpose room. Using the heritage approach as one of its competitive advantage Hotel XYZ can offer a unique experience for its guests with its clear cultural heritage status and its long history with the institute as the base of this suggestion.

For the funding of the project it is determined that Hotel XYZ has no capabilities to fund the rebuild effort, with the consideration of reducing the risk for the owner (The Institute) it is proposed that the rebuild will use Build – Operate – Transfer (BOT) Scheme with private investor providing 100% of the investment and run the day – to – day operations after while retaining 90% of the profit generated, the other 10% will be allocated for the owner. The total investment required is IDR 53.253.265.800, with 88% of it going to Capital Expenditures and the other 12% for non-Capital Expenditure. The breakdown are as follow.

<b>CAPITAL EXPENDITURES</b>	
Substructures	IDR 2.127.600.000
Structure & Architecture	IDR 15.957.000.000
Interior FF&E	IDR 10.638.000.000
M&E	IDR 10.638.000.000
Utilities	IDR 5.319.000.000
External	IDR 1.379.000.000
Land Preparation	IDR 788.000.000
<b>Total</b>	<b>IDR 46.846.600.000</b>
<b>Non-Capex required investment</b>	
Legal & Permit	IDR 1.000.000.000
Professionals Fee	IDR 1.435.398.000
General & Administration	IDR 1.435.398.000
Contingency	IDR 2.535.869.800
<b>Total</b>	<b>IDR 6.406.665.800</b>
<b>Total Investment Required</b>	<b>IDR 53.253.265.800</b>

Using an industry standard average Hotel Occupancy 65% provided by the hotel expert and average room rate of IDR 745.675 per Night as the average room rate and other calculation with data provided from the experts the following revenue are projected.

Period	Revenues	Period	Revenues
1st Y	IDR 11.100.906.503	16thY	IDR 20.911.246.330
2nd Y	IDR 11.504.473.006	17thY	IDR 21.895.799.093
3rd Y	IDR 11.873.446.056	18thY	IDR 22.928.432.651
4th Y	IDR 12.367.744.474	19thY	IDR 24.011.531.039
5th Y	IDR 12.732.516.137	20thY	IDR 25.147.832.012
6th Y	IDR 13.121.820.605	21stY	IDR 26.339.728.353
7th Y	IDR 13.583.584.237	22ndY	IDR 27.589.978.730
8th Y	IDR 14.271.285.490	23rdY	IDR 28.901.860.514
9th Y	IDR 14.911.810.692	24thY	IDR 30.278.047.853
10thY	IDR 15.689.220.817	25thY	IDR 31.721.734.153
11thY	IDR 16.419.221.970	26thY	IDR 33.236.272.122
12thY	IDR 17.184.716.829	27thY	IDR 34.825.181.723
13thY	IDR 18.105.988.336	28thY	IDR 36.492.158.541



14thY	IDR 18.953.753.674	29thY	IDR 38.241.513.439
15thY	IDR 19.842.062.906	30thY	IDR 40.076.908.725

In the projected revenue above 87.32% are attributed from room sales revenue while the other 12.68% are attributed from other revenues such as Food and beverages revenue and Minor Operating Department revenue. With the data accumulated the following capital structure analysis are conducted as follow.

**Table 3**

<b>WACC</b>	8,26%
<b>Capital Structure</b>	
Loan	0,00%
Equity	100,00%
<b>Cost of Equity</b>	8,26%
Risk Free Rate*	6,72%
Market Risk Premium**	6,90%
Default Spread	2,33%
Equity Risk Premium	9,23%
Beta	0,22
<b>Cost of Debt</b>	0%
Cost of Debt***	0,00%
Tax Rate	22%

It is determined that the WACC is 9.38%, as such the following are the result of Capital Budgeting conducted.

**Table 4**

NPV	IDR 47.701.605.549	
IRR	16,61%	
Profitability Index	1,90	
Payback Period	8,0	Years
Discounted Payback Period	11,0	Years

The project's capital budgeting ratio after 30 years is displayed in the table above. The project's internal rate of return (IRR) would be 16.61%, greater than the WACC of 8.26%, indicating profitability through the IRR ratio. The project's NPV totaled IDR 47.701.605.549, which means that it is above zero and indicates that the project is exceptionally profitable. According to the project's payback period (PP), which is 8 years, it would take 8 years for the capital invested to start making a profit as compared to the reduced Payback period, which is 11 years. Considering Hotel XYZ current condition and the state of hotel management as it is, this return is much more promising for the future of Hotel XYZ Heritage site. We can also notice that the Profitability index return a 1.90 which we can interpret as the initial investment has return 1.86 times.

With all this consideration we can conclude that the Hotel XYZ revitalization project is an incredibly profitable project and a much better alternative than leaving it at its current condition. With this plan the possibility of Hotel XYZ not only regain back its former glory from the olden days but also start to support itself in preserving itself.

**CONCLUSION AND RECOMMENDATION**

After conducting interviews with experts, it is determined that Hotel XYZ cannot compete with other hotels within a 1km radius, ranging from 3-star and above, in terms of facilities and physical conditions. The experts deem Hotel XYZ underutilized based on the interviews. They also highlight the lack of modern amenities and outdated infrastructure, which contribute to its inability to attract customers. Significant renovations and upgrades are recommended to fully utilize the hotel's potential and bring it up to par with competitors. The experts also emphasize the poor condition of the rooms at Hotel XYZ, which greatly affects the overall guest



experience. Outdated furniture and lack of cleanliness are the main issues. To compete with rivals, experts recommend upgrading amenities, implementing a strict cleaning and maintenance routine, and incorporating modern technology and amenities such as smart TVs, high-speed internet, and upgraded bathroom facilities. As Hotel XYZ is a cultural heritage building owned by the Institute, it is suggested to rebuild a part of the site that is not part of the cultural heritage into proper hotel facilities. Experts propose designing the rebuilding of the hotel with no less than 50 rooms, along with supporting dining and other facilities, to enhance its competitive advantage. The concept involves rebuilding Hotel XYZ into a 55-room boutique hotel with a design that emphasizes its heritage and historical relation with the city of Bandung and the Institute. The project's projection was conducted over a 30-year period, utilizing the Build-Operate-Transfer scheme to minimize the risk for the Institute and provide more profit share to the investor (concessionaire). The investor would take up most of the risk and funding requirements.

Based on a feasibility analysis, the project is expected to generate a nice profit for both parties involved, with a profit share of 90% for the investor and 10% for the Institute. The projection results include a Net Present Value (NPV) of IDR 47.701.605.549, an Internal Rate of Return (IRR) of 16.61%, a Profitability Index of 1.90 times, and a payback period of 8 years (discounted payback period of 11 years). These results indicate that the revitalization of Hotel XYZ is a profitable endeavor.

For the building owner, The Institute, it is recommended to carefully select investors aligned with Hotel XYZ's design and values to safeguard the reputation of The Institute and the city of Bandung. While The Institute will only retain 10% of the hotel's net profit, it should save this as much of this amount over the 30-year period after fulfilling its costs and obligations as the building and site owner. The accumulated income from the hotel's profit share can be utilized for renovating the hotel at the end of the concession, facilitated by the Build-Operate-Transfer scheme. Consequently, The Institute will obtain an asset with minimal book value, enabling independent operation after utilizing the funds amassed over the 30 years. This approach not only secures tangible assets but also intangible assets like brand recognition and market share, which the hotel will have developed throughout the concession period.

For investors interested in Hotel XYZ, several considerations are essential. Firstly, it is crucial to understand the constraints associated with working with a cultural heritage building, including limitations in construction and operations. Secondly, investors should be aware that cultural heritage buildings are subject to careful observation and scrutiny by local and national governments. Thirdly, it is important to recognize that the historical value of the hotel, specifically its connection to The Institute and the city of Bandung, serves as its main selling point. Leveraging and showcasing this historical significance will provide a unique competitive advantage in the industry. Fourthly, while ensuring guest comfort is necessary to meet industry standards, it is not the hotel's primary selling point. Fifthly, the true uniqueness lies in fully utilizing Guest Relation officers and incorporating custom "other" facilities within the Minor Operating Department. These facilities, designed as a semi-butler service, cater to guests' needs during their stay, offering a distinct and unforgettable experience. Sixthly, a credit system of up to IDR.1, 000,000 per room stay of over 3 days can be implemented, with the credit being deducted from the check-out bill. This approach aims to provide guests with remarkable experiences while aligning with Bandung's motto of being "Friendly to guests" or "Soméah Hadé ka Sémah" in Sundanese.

For future research of a similar nature, it is recommended that researchers avoid relying solely on gathered information or pictures and instead visit the site in person. This approach provides a broader perspective and better understanding of the site and its potential. Additionally, it is important for researchers to recognize and understand the constraints of the research subject, which may not be readily apparent, as in the case of the XYZ Hotel site.

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