

Introduction to Hospitality Finance

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Key concepts, financial statements, metrics, and practical applications for hotels, resorts, restaurants, and other hospitality businesses.

1. Why Finance Matters in Hospitality

Reason	What It Means for the Business
Capital-intensive assets	Hotels and resorts require large upfront investments (land, buildings, furnishings).
Seasonality & demand volatility	Cash flow must cover low-demand periods without compromising service quality.
High operating leverage	Fixed costs (mortgage, payroll, utilities) dominate; small revenue changes have big profit impact.
Investor & lender scrutiny	Transparent financial reporting is essential for financing, franchising, and acquisitions.
Strategic decision-making	ROI analysis guides renovation, brand conversion, and expansion projects.

2. Core Financial Statements (Hospitality-Specific)

Statement	Primary Purpose	Hospitality-Specific Items
Income Statement (Profit & Loss)	Shows profitability over a period.	– Room Revenue, Food & Beverage (F&B) Revenue, Other Operated Departments (OD) – Departmental Expenses (e.g., housekeeping, kitchen) – Management Fees, Franchise Fees

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Statement	Primary Purpose	Hospitality? Specific Items
Balance Sheet	Snapshot of assets, liabilities, equity at a point in time.	– Property, Plant & Equipment (PPE) (land, building, furniture, fixtures, equipment – “FF&E”) – Deferred Revenue (pre?paid bookings, gift cards) – Operating Leases (often capitalized under ASC 842/IFRS 16) – Cash from Operations (adjusted for working?capital items like prepaid expenses, accrued liabilities)
Cash Flow Statement	Shows sources & uses of cash (operating, investing, financing).	– Capex (renovations, new construction) – Debt Service (principal & interest payments)

3. Key Hospitality Financial Metrics

Metric	Formula	Interpretation	Typical Benchmark (varies by segment)
Average Daily Rate (ADR)	$\text{Total Room Revenue} \div \text{Number of Rooms Sold}$	Pricing efficiency	\$80?\$200 (mid?scale), \$200+ (luxury)
Occupancy Rate	$\text{Rooms Sold} \div \text{Rooms Available}$	Demand utilization	60?80?% (seasonal), >85?% (high?performing)
Revenue per Available Room (RevPAR)	$\text{ADR} \times \text{Occupancy}$ OR $\text{Total Room Rev} \div \text{Rooms Available}$	Combined pricing & volume	\$60?\$150 (mid?scale)
Gross Operating Profit per Available Room (GOPPAR)	$\text{GOP} \div \text{Rooms Available}$	Profitability after operating expenses	\$30?\$70 (mid?scale)
Food & Beverage Cost %	$\text{F\&B Cost} \div \text{F\&B Revenue}$	Cost control in kitchens & bars	28?35?% (full?service), 20?25?% (quick?service)

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Metric	Formula	Interpretation	Typical Benchmark (varies by segment)
Labor Cost %	$\text{Total Labor Cost} \div \text{Total Revenue}$	Workforce efficiency	30?40?% (hotels), 25?35?% (restaurants)
EBITDA Margin	$\text{EBITDA} \div \text{Total Revenue}$	Overall operating profitability	15?25?% (hotels), 10?20?% (restaurants)
Debt Service Coverage Ratio (DSCR)	$\text{Net Operating Income} \div \text{Debt Service}$	Ability to meet debt obligations	??