

## **ABSTRACT**

The following document contains the Project Report of the Master's in Finance, performed at the *Instituto Superior de Ciências do Trabalho e da Empresa (ISCTE)*, and has the purpose of analysing and applying the Real Options approach as the evaluation method of Hotel assets.

The various valuation criteria typically applied in the Hotels valuation will be presented: Income Criterion, Market Comparison Criterion and Cost Criterion. Currently the Income Criterion, based on the DCF method is considered, by the market, as the most appropriated method to evaluate Hotels.

Notwithstanding, with the present paper we intend to demonstrate the applicability of the Real Options approach as an evaluation method of Hotel real estate assets.

The Real Options approach calculates the value of the management flexibility to adapt their decisions to respond to unexpected developments in the market or to strategic opportunities detected by the management. The companies create value to their shareholders by identifying, generating and exercising real options associated to their investment portfolio.

In order to demonstrate the existing differences between the two above mentioned approaches, we present the evaluation of 2 Hotels: Hotel X, designated in this way because the Owner chose to remain anonymous and the Hotel Altis Park from the Altis Group.

Indeed, the two evaluation exercises presented in this document confirm the applicability and usefulness of the Real Options approach in the Hotels evaluation process. The real options considered in the evaluation of the referred approach add value to the analyzed assets.

Key Words: *Valuation; DCF; Hotels; Real Options*