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Opinions

The risks, opportunities of wellness trends in hotels

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Profitability from investments focused on wellness require the same scrutiny as in any other real estate transaction.

By Roger Allen

Everyone is on the hotel wellness bandwagon, which is driving hotels to offer more health-orientated amenities and activities. For the most part it all sounds and looks good, but are owners seeing a healthy return on such investments?

For the most part, the short answer is no.

It is a common issue to see hotels dedicate far too much real estate to wellness activities while the operating profit is being masked within the PR and marketing rhetoric. The hotels affected the most are obviously resorts and destinations that rely significantly on the on-site experiences that contribute to making the property a more attractive proposition.

The inherent risks of investing in wellness hospitality assets, including resort and destination hotels, is well-known. There are too many moving parts when compared to a city hotel, while many resort operators manage them like they are running a city hotel. In addition, investors are usually nervous about investing in such complex properties given the seasonality risks associated with many of them.

When it comes to new developments as well as asset management of existing properties, there is a very deep focus on rooms with analyses on segmentation, distribution, channel management, etc. Similarly, food and beverage—despite its more limited contribution to the bottom line in most countries—gets a full analysis. However, both departments usually operate as 'silos' independent from each other with little integration and communication between them.

When considering wellness initiatives, there are very limited reporting standards or benchmarking data. When there is a focus, it is driven by high-level revenues without a keen eye on profitability. By seriously considering concepts from the start throughout a hotel and making sure that they are aligned and complement each other in all areas, a hotel can create and is able to maintain a clear sense of direction in all aspects of its operation. If modelled correctly and updated regularly both during development and operations, this can drive materially more

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to the bottom line while simultaneously improving the guest-satisfaction perspective.

The comprehensive application of wellness in hospitality must mean that hotels and resorts implement and introduce a wellness approach into every element of the operation. It's worth considering that this is not a new approach, especially in German-speaking countries where wellness, vital and spa hotels have been popular and a lucrative investment alternative for decades.

However, there is more that can be achieved through approaching guests that have a similar mindset, drive and health consciousness. An integration of new demand management techniques, dedicated online marketing and well-sourced concepts throughout a hotel and resort can achieve this. Large and well-established brands struggle with this as it requires 'silos' to be broken down and a real adaptation of the possibilities and opportunities of each individual property to be explored and implemented. Finally, there is a move toward further specialization through medical hotels, thermal resorts, wellness clinics, retreats or destination spas. These will need a similar approach but even more of a specialized skillset from the conceptualization stage onward.

Financing institutions follow a similar approach to that of the large hotel companies and do not find these new forms of hospitality assets easy to deal with. Both struggle to provide a proper market analysis and forecast for such establishment as standard methodologies do not work in these cases. There are limited data sources and benchmark statistics in this area.

RLA was recently engaged to support the valuation of a resort property. The wellness offering for the number of rooms in the hotel should have occupied only one-third of the space that was actually developed. Furthermore, the total revenue per available room was only marginally higher than the revenue per available room. It was clear that the developer had relied too much on the average daily rate and RevPAR figures and did not seriously consider the relevance of TRevPAR. In properties with strong wellness components, however, it should be at least double. The buyer, in this particular case, gained significantly from such findings because this damaged the valuation put on the property. Furthermore, he was able to add significant incremental value during the course of his ownership. Optimization of space as well as implementation of a clear operational method resulted in a better bottom line.

Our industry is one of the most traditional industries around, and large international operators essentially work in the same way as they did 30 years ago. It is however changing given the way smaller and more nimble management and ownership companies are growing, and not to mention online travel agencies ripping up the traditional rule book on how hotels can sell rooms. Throw Airbnb into the mix along with wellness demands and trends and the hospitality landscape is no longer looking like it did even five years ago.

What is required is a transparent communication between owners, operating companies and operational teams in the hotels and resorts. This must be facilitated by professional asset managers and dedicated independent specialist support. This approach will generate clear and integrated concepts that can be distributed and marketed in a way that is appropriate for the 21st century and reported in such a way that there is clear control and responsibility for profitability in all areas. The incremental profit from this approach will be clear for all to see.

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