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Opinions

The risks, trends, opportunities in resort development

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Make no mistake: Resort development is going through a resurgence lately, and we can point to multiple indicators for the new appreciation of this asset class.

By Roger Allen

A resurgence in resort development is being driven, in part, by improved airlift, making destinations more accessible than ever, and guests' desires for experiential and leisure travel. Operators also are generally doing a better job of managing resorts, and investors are looking beyond the scarce availability of mid-scale city hotels for investment opportunities. The list could go on, but for sure it's an exciting time for resort development all around.

Risks

With all opportunities come risks, and in the case of resorts, they can be very costly. There is much more complexity associated with resort development. It's not easy identifying the ideal resort location that will minimize weather seasonality and offer all year-round good airlift to the destination or a sufficient guest demand within a reasonable driving distance.

Infrastructure investment can be significant, particularly in developing all the resort leisure and recreational facilities and experiences needed, to create the destination appeal and keep guests staying longer while spending onsite. Furthermore, thought must be given to ensuring the guest experience during off-peak-season is on par with the in-season offering. In a climate of experiential travel, unless they receive their lifetime experience, guests will move onto their next bucket-list destination.

Another risk factor is that the operational management of resorts tends to function in silos, which often affects the resorts' overall performance. As resorts become more mixed-use, managing all of the diverse amenities and services is growing more complex, and it is getting more challenging to find appropriately experienced operators of the whole project. This is requiring owners/investors to be more hands-on and have a greater reliance on asset managers to optimize operational performance.

Trends

Most new upper-upscale and luxury resort projects now have a mixed-use component, since the demand for hybrid products to enhance guest experience is at an all-time high, and investors see maximum returns by clustering the demand generators and adding residential units.

Hybrid lifestyle product offerings are being driven by demands for experiential travel, with entertainment hubs that see hotel, branded residential, leisure, recreation, wellness, restaurants, nightclubs, co-working space, conference and retail all offered seamlessly. All of which keeps the guests busy spending onsite, and occupancy and footfall plentiful particularly during the off-season.

While the trends indicate the importance of guest personalization particularly at the luxury end, all-inclusive products are proving as popular as ever particularly for the family segment.

Wellbeing- and health-focused resorts have gotten the attention of developers who have seen the steady rise in how society is becoming more wellness-engaged. However, the lack of mainstream benchmarks for such assets, coupled by the long period before financial stabilization is attained, tend to be barriers to entry. Another potential barrier is the lack of proven management solutions that can operate both lodging and wellbeing components.

It's worth mentioning that the demand for hybrid resort product is also impacted by the way city hotel assets are conceptualized, resulting in the urbanization of the resort offering. This not only generates a more compelling experience for hotel-goers, but also a popular destination for residents.

Investment opportunities

Underperforming, under-capitalized and undermanaged resorts have historically proven to deliver attractive returns for the savvy investor, who is able to achieve a quick turnaround of the asset through re-positioning, re-branding, re-furbishing or a change in operator. This doesn't come without challenges though, and the difference between failure and success is generally far greater for resorts than it is for city hotels. This also applies to the variability of earnings of resorts, compared to city hotels, whose earnings tend to be more stable.

Adding residential, particularly branded residential, to a resort project is becoming a standard consideration at the luxury end, and it is totally understandable given the enormous upside it can have on the business.

TUI, Outrigger Resorts, ClubMed and Apple Leisure are just few examples of the brands leading the resort market expansion, delivering positive performance year-on-year growth. Belmond's hotel portfolio consists mainly of resort asset class, and its acquisition by LVMH, along with IHG's acquisition of Six Senses also underlines the resort investment confidence and the growing opportunities.

It's important to appreciate that no two resorts are the same and, to make an investment success of a resort, it's crucial to understand the market and guests' needs and desires. It's just as important to understand the resort's competitor and distribution dynamics and how that fits into the travel market ecosystem, generally. For the investor who understands and embraces these factors, resorts offer investment opportunities that are highly rewarding, both financially and in terms of the personal satisfaction that comes with providing guests with memorable experiences.

Roger Allen is Group CEO of Resources for Leisure Assets a recognized global advisory speciliased in resort and destination assets with offices in Sonoma, Vienna and Dubai. Mr. Allen is a member of the International Society of Hospitality Consultants (ISHC).