Renaissance ClubSport:
The Concept of the Upscale Hotel/Health Club Unification

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Business travelers in recent times have expressed a greater desire to maintain their health during business trips by exercising and eating healthier on the road. The development of new fitness initiatives by various hotel companies in the past decade have focused on the fitness facility as an amenity to the hotel guest. While these companies focused on improving their fitness facilities, Leisure Sports International (LSI), an operator of high-end sports clubs under the ClubSport brand since 1978, pioneered the concept of the "hotel and fitness resort." This groundbreaking concept combines the features of an upscale, boutique hotel with a luxurious, ±70,000-square-foot fitness complex. The facility generates revenues from hotel guests as well as health club members from the local community. The premise of the Renaissance ClubSport concept is that operating expense and construction cost efficiencies, as well as prospective marketing synergies, result from the combined hotel and health club operations. This article will provide an introduction to the history, premise, and economic benefits of the Renaissance ClubSport concept.

The Evolution of the Renaissance ClubSport Concept

The concept has its roots in Pleasanton, California, the headquarters of LSI. Steven Gilmour founded LSI in 1978 with the intention of developing the "fitness resort" concept. This concept, under the ClubSport brand name, entailed the creation of a luxurious fitness complex that now includes the following:

- five group exercise studios;
- three swimming pools;
- five to seven racquetball and squash courts;
- an NCAA-regulation gymnasium;
- expansive cardiovascular, circuit-training, and free-weight areas;
- a full-service spa and salon;
- a pro shop; and
- a child-care facility.

This facility would target a high-income residential population and workers in corporations in the local community who were looking for a resort-like experience in a suburban or urban area. LSI's first facility, the ClubSport Pleasanton, opened in 1981. During this time, LSI also noticed a shortage of hotel supply in the Pleasanton area. Mr. Gilmour's idea: if a hotel were attached to the existing club, a number of objectives could be achieved, such as a larger amenity package for hotel guests. Furthermore, the club's numerous corporate clients would be able to access the hotel's room accommodations and meeting space. The idea resulted in the development of a $25 million, 300-room Hilton hotel adjacent to the Pleasanton ClubSport in 1985. This development, a partnership between LSI and Travelers Insurance Company, became the root of LSI's mixed-use, hotel/health club concept.

While LSI developed five stand-alone ClubSport facilities around California, Oregon, and Nevada in the 1980s and 1990s, LSI was refining the premise and potential economic benefits of the hotel/health club concept. In addition, LSI was also looking for a strong hotel brand as a partner to create and grow a brand for this hotel/health club concept. Marriott International, which purchased the Renaissance brand in the late 1990s, was looking to grow Renaissance as a boutique-like hotel brand in numerous markets. The attributes of the Renaissance brand seemed like a good fit to partner with the ClubSport brand, and in the late 1990s, the Renaissance ClubSport brand was created under a franchise/co-branding agreement with Marriott International.

The concept turned into reality when the first Renaissance ClubSport development, in Walnut Creek, California, opened to the public in October 2002. This facility has been a resounding success. The health club has almost reached its capacity of 4,500 members with initiation fees averaging around $350 and monthly dues of approximately $160. Additionally, the hotel has achieved annual occupancy levels in the low-70% range with average rates in the low-$140 range, easily outperforming its competitors in the market. The success of the Walnut Creek facility has spurred significant interest in the concept, and new developments are planned in Aliso Viejo, California (Orange County); Chandler, Arizona (Phoenix); and Rockville, Maryland (Washington, D.C.). Other areas that are currently being considered for development are Milwaukee, Wisconsin; Weehawken, New Jersey; Oak Brook, Illinois; and Portland, Oregon.

Moreover, Marriott International launched a strong initiative to develop the Renaissance ClubSport brand by acquiring the ClubSport brand name and intellectual property rights from LSI in September 2005. LSI will receive payments based on future developments. The company will also provide various design, operating, and marketing services for the health club component of each new development. Marriott International plans to develop and open 15 Renaissance ClubSport facilities in the next five to seven years.

The Premise Behind the Renaissance ClubSport Concept

The premise of the Renaissance ClubSport concept is that operating expense and construction cost efficiencies, as well as prospective marketing synergies, result from the combined hotel and health club operations. In addition, the stable cash flow of the health club would complement the more seasonal and cyclical cash flow of the hotel.

The Renaissance hotel and ClubSport health club, when jointly developed and operated, feature shared lobbies and food and beverage facilities, integrated management, and extensive indoor and outdoor recreational and fitness facilities for the use of club members and hotel guests. Hotel guests do not incur an extra charge for use of the health club facilities; the costs are reflected in the regular hotel room tariff. On the other hand, club members receive discounts for hotel accommodations and usage of the hotel's meeting facilities.

The marketing synergies are based on the premise that hotel guests perceive higher value due to the hotel's integration with a first-class athletic club, as well as the inverse: higher perceived value in the club membership due to the club's attachment to a first-class hotel. For example, hotel guests would increase the utilization of the club and spend more on a greater variety of ancillary facilities (than those typically available in a stand-alone Renaissance hotel). Members of the club would increase the utilization of the property's food and beverage facilities and meeting rooms, as well as become a marketing tool to sell the hotel to the members' friends, family, or colleagues.

The stated efficiencies allow for the creation of a resort-like, full-service hotel with a number of amenities and facilities that would not be feasible in a comparable freestanding hotel.

Some key advantages and efficiencies related to the concept are summarized as follows:

- Construction costs and ongoing energy and maintenance expenses are economized as a result of the shared physical plant and building systems (e.g., HVAC, laundry, etc.);
- Integrated management would result in economized staffing levels, as various positions in general management, human resources, accounting, sales and catering, and engineering are expected to be shared, eliminating some ongoing operating expenses;
- The health club provides a more stable and predictable cash flow, which complements the hotel's more seasonal and cyclical cash flow;
- In the property's initial years of operation, the health club generates cash flow from the pre-sale of club memberships and the collection of monthly dues from this membership base. The initial cash flow from the club helps cover expenses for the entire facility while the hotel builds up its operation and cash flow;
- From the standpoint of corporate hotel visitation, the provision of an attached first-class athletic club is consistent with today's trends toward corporate wellness programs, and would provide added appeal for the property as a corporate conference destination;
- The integrated first-class hotel would increase the athletic club's prestige and provide both the hotel and the club with a more resort-like image;
- Club memberships and hotel rooms can be jointly marketed to nearby corporate employers, reducing marketing expenses;
- With two major sources of restaurant, lounge, and banquet demand (hotel guests and club members), the shared food and beverage operation would experience higher sales volume and greater efficiency;
- The facility's parking facilities can be utilized more efficiently since local residents use the health club during the morning and afternoon, while hotel guests, especially commercial transient guests, use the parking facilities overnight.

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The concept is designed to provide a suburban hotel product as an alternative option in business markets and areas with high household income levels and populations with health-conscious individuals. Most Renaissance ClubSport developments are currently planned in suburban locations that are similar to Walnut Creek, California, although the concept can be easily adapted to urban locations.

This methodology has been employed due to the newness of the Renaissance ClubSport concept and the lack of available operating statements for an integrated facility. In addition, this methodology will also provide an indication of the value of each stand-alone operation as well as the added economic value of the integrated operation. The following hypothetical example will provide a basis for the economic benefits of the Renaissance ClubSport concept.

Table 1 Hard Construction Cost Savings

	Square Footage	Cost per Square Foot	Total Cost
Stand-Alone Hotel	125,000	$170.00	$21,250,000
Stand-Alone ClubSport	75,000	230.00	17,250,000
Total of the Stand-Alone Facilities	200,000	192.50	38,500,000
Less: Savings from Common Lobbies/Food and Beverage/Back-of-the-House	15,000	192.50	2,887,500
Hard Construction Cost of Integrated Hotel and Health Club	185,000	$192.50	$35,612,500

Economic Benefits of the Renaissance ClubSport Concept

The economic benefits of the Renaissance ClubSport concept can be quantified in the following ways:

1. Construction cost savings from developing the hotel and health club in one facility;
2. Combination of revenues from the hotel and health club;
3. Potential increases in ancillary revenues from hotel guests and club members;
4. Ongoing energy and maintenance cost savings from the shared physical plant; and
5. Cost savings from the integration of property management and economized staffing.

The methodology for the illustration of the concept's economic benefits can be best described by analyzing the construction costs and income streams for two stand-alone business entities (the hotel and health club); the savings associated with the construction and operation of the integrated development; and the impact on the integrated development's construction cost, cash flow, and economic value added to the joint facility.

Table 1 provides an indication of the hard construction cost savings from the development of the integrated facility.

As shown in the preceding table, the integration of the facility resulted in a cost savings of approximately $3 million. The total square footage of the integrated development typically contains an atrium joining the hotel and health club structures that measures approximately 8,000 square feet, and contains a common lobby, food and beverage facilities, and separate reception areas for the hotel and the health club. Back-of-the-house areas such as the administrative offices and laundry facilities are also shared between the hotel and health club. The integration of the two facilities eliminates approximately 15,000 square feet of usable space necessary to operate the integrated development. In addition to savings on hard construction costs, the economies of scale of developing this intergrated facility also result in savings on indirect costs, yard costs, and pre-opening costs. The estimated savings of the integrated facility is approximately 7% of the cost to develop the two stand-alone facilities. Table 2 provides an outline of these savings.

In addition to cost savings during the development

Table 2 Development Cost Savings

	Units	Cost per Unit	Total Cost
Stand-Alone Hotel	175	$225,000	$39,375,000
Stand-Alone ClubSport	75,000	$400.00	30,000,000
Total of the Stand-Alone Facilities			69,375,000
Less: Savings from Integrated Development			4,856,250
Total Development Cost for Integrated Development			$64,518,750
(SAY)			**$64,500,000**

and construction of the integrated development, the subsequent operation of the the integrated facility also provides opportunities to utilize various operational and marketing synergies in order to lower operational expenses. An estimate of the integrated development's net income potential must include a quantification of savings resulting from shared-space and integrated-staff efficiencies. Due to the shared building space and common building systems of the integrated building, some savings can be foreseen in the energy department. In addition, joint operating savings would result from integrated staffing in the general management, human resources, accounting, sales and catering, front-desk, housekeeping, and engineering departments. Table 3 provides an indication of the positive impact of the integrated development's operational synergies on the facility's stabilized net income levels, as well as the economic value added from the integration of the hotel and health club into one entity.

As shown in Table 3, the integration of the hotel and health club results in an additional $1 million in net income for the integrated facility, as opposed to the combined net income stream from two stand-alone facilities. In addition, the stable cash flow of the health club complements the more seasonal and cyclical cash flow of the hotel. Therefore, the integration of the two facilities also results in a more feasible development with the potential for a significantly higher return on investment. Table 4 provides an indication of the

Table 3 Stabilized Net Income and Valuation Analysis (Revenues and Expenses in '000s)

	175 Room Stand-Alone Hotel	%	75,000 Square Foot Stand-Alone Health Club	%	Total Stand-Alone Facilities	%	Less: Savings from Integrated Development Operation	Integrated Development Operation	%
Occupancy	75%							75%	
Average Rate	$175.00							$175.00	
Memberships			4,400					4,400	
Initiation Fees			$350.00					$350.00	
Monthly Dues			$175.00					$150.00	
Revenues									
Rooms	$8,300	65.4 %	$0	- %	$8,300	32.2 %	-	$8,300	32.2 %
Food and Beverage	3,800	29.9	300	2.3	4,100	15.9	-	4,100	15.9
Health Club		-	12,400	94.7	12,400	48.1	-	12,400	48.1
Other	600	4.7	400	3.1	1,000	3.9	-	1,000	3.9
Total Revenue	12,700	100.0	13,100	100.0	25,800	100.0	-	25,800	100.0
Departmental Expenses									
Rooms	2,158	26.0	0	-	2,158	26.0	($83)	2,075	25.0
Food and Beverage	2,964	78.0	270	90.0	3,234	78.9	(159)	3,075	75.0
Health Club	0	-	4,464	36.0	4,464	36.0	(124)	4,340	35.0
Other	270	45.0	0	-	270	27.0	-	270	27.0
Total Departmental Expenses	5,392	42.5	4,734	36.1	10,126	39.2	-	9,760	37.8
Departmental Profit	7,308	57.5	8,366	63.9	15,674	60.8	-	16,040	62.2
Undistributed Operating Expenses									
Admin/General	1,016	8.0	1,585	12.1	2,601	10.1	(331)	2,270	8.8
Marketing	686	5.4	812	6.2	1,498	5.8	(105)	1,393	5.4
Maintenance	470	3.7	419	3.2	889	3.4	(89)	800	3.1
Utilities	330	2.6	563	4.3	894	3.5	(94)	800	3.1
Management Fee	508	4.0	524	4.0	1,032	4.0	-	1,032	4.0
Total Undistributed Operating Expenses	3,010	23.7	3,904	29.8	6,914	26.8	-	6,295	24.4
Income Before Fixed Charges	4,298	33.8	4,462	34.1	8,760	34.0	-	9,745	37.8
Fixed Expenses									
Property Taxes	350	2.8	400	3.1	750	2.9	-	750	2.9
Insurance	250	2.0	160	1.2	410	1.6	-	410	1.6
Reserve for Replacement	508	4.0	524	4.0	1,032	4.0	-	1,032	4.0
Total Fixed Expenses	1,108	8.7	1,084	8.3	2,192	8.5	-	2,192	8.5
NET INCOME	$3,190	25.1 %	$3,378	25.8 %	$6,568	25.5 %	-	$7,553	29.3 %
Stabilized Capitalization Rate	10.0%		10.0%		10.0%			10.0%	
Stabilized Valuation	$31,901		$33,782		$65,683			$75,528	

feasibility gap or development profit for the two stand-alone facilities and the integrated development.

Table 4 indicates that a stand-alone hotel would not be feasible. In addition, the development of a stand-alone health club would provide a moderate return on investment upon stabilization of operations. On the other hand, the development and operation of the integrated facility results in a development profit of approximately 15% of the total development cost. This hypothetical example illustrates the economic value that is added to the integrated development due to the savings from constructing and operating the facility under one roof.

Table 4 Feasibility Analysis of Integrated Development

	Stand-Alone Hotel	Stand-Alone Health Club	Integrated Hotel/Health Club
Stabilized Valuation	$31,901,000	$33,782,000	$75,528,000
Construction Cost	39,375,000	30,000,000	64,518,750
Feasibility Gap	($7,474,000)	$3,782,000	$11,009,250

About the Author:

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