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PART I OF II

RESORTS – A FOCUS ON VALUE

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Resorts – a Focus on Value

We have witnessed tremendous change over the last 30 years or so in the standard and nature of hospitality assets. What was acceptable in the past in terms of both physical product and the experience on offer has either become completely outdated or has undergone revolutionary change that has left things virtually unrecognizable. Leaps forward in technology, the ubiquitous presence of the Internet and the growth in new forms of communication and social media have resulted in an astonishing increase in consumer awareness, with customers of all types becoming more sophisticated and more demanding of those that serve them.

As owners and operators attempt to attract new customers and keep existing ones loyal, brand managers have come to terms with the huge discrepancies that can exist in hotel rating standards, especially on an international scale, which has resulted in a different approach built on building global brand values and delivering them consistently throughout a portfolio of assets, often independent of what local rating systems may determine for a given property; in short, for the increasingly demanding consumer, the star rating is no longer conveying the right message. Where facilities were once the guiding factor in the quality and star rating of a resort, quality of service has become far more important.

Against this changing background for hotels in general, resort-based properties have perhaps experienced more change than most, such that star ratings and RevPAR may not be enough to use as benchmarks when developing and valuing these assets for sale, purchase or lending purposes. Resorts are usually regarded simply as a type of hotel; but if we were to treat them as a separate asset type we would definitely need to reconsider how to estimate their value.

So, where are the value drivers for Resorts to be found? We believe that we may need to look a little beyond the rooms department and into how Resorts are managed to find the answer.

In the first of two related articles we present a review of the key performance indicators used by Resort operators and owners to measure their businesses. Subsequently we will consider the way in which we value Resort properties by looking at the fundamentals of valuation methodology for traditional hotel properties and considering whether there is a need for change when dealing with Resorts.

How should we benchmark Resorts?

In order to determine where the value of a Resort asset lies, we will start by looking at the definition of "Resort" in today's market and then at some of the key performance indicators used to manage and benchmark one property's performance against its competitors.

DEFINITION OF RESORT

Traditionally the hotel industry has referred to their properties as "Urban" or "Resort" in order to deal with a simple categorization based on location. This is not incorrect, but it does not do justice to the variety of products now available in the market.

If we open a dictionary the most common definitions found for Resort are "a hotel located in a resort area", "a place frequented by people for recreation and relaxation" or "a compound of buildings and facilities located in a scenic area, providing lodgings, entertainment, and a relaxing environment to people on vacation." By looking at these definitions we can see an evolution from just a lodging facility in a holiday location towards a fully integrated leisure development.

Although the definitions presented above do not specifically cover the corporate segment, we cannot totally ignore it as properties in locations usually associated with holidays are often used as a setting for conferences, incentives and other events, in many cases in an effort of offset the effects of seasonality.

To supplement our dictionary definitions and to understand how managers themselves describe their properties we conducted a series of interviews with a number of internationally renowned resort operators.

As a result, we have grouped for the purpose of this article all resort-based properties into three categories.

Resort Hotel

A Resort Hotel is a Hotel located in a resort destination which typically offers some recreational amenities which are sometimes seen more as a necessary complement to the basic lodging product rather than exploited as a significant revenue generator and separate business unit. These properties are often sub-categorised depending on their location such as:

- Beach Resort Hotel
- Mountain Resort Hotel
- Urban Resort Hotel

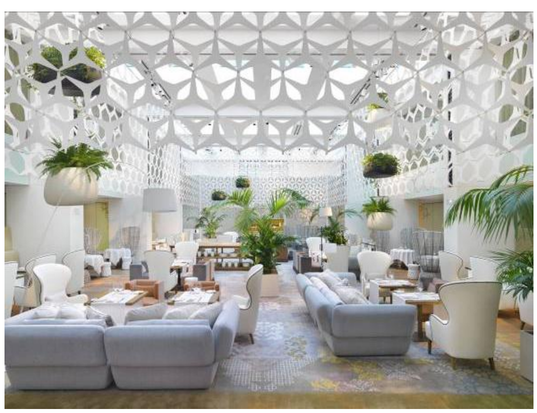
Depending on the extent of the recreational activities offered on site, these properties can generally be approached as traditional hotel properties since most of the revenue is generated by the rooms department.

To illustrate this definition, we have suggested below some examples.

RITZ CARLTON SHARM EL SHEIKH, EGYPT – 'BEACH RESORT'

KEMPINSKI GRAND HOTEL DES BAINS, ST MORITZ, SWITZERLAND –'MOUNTAIN RESORT'

MANDARIN ORIENTAL BARCELONA, SPAIN – 'URBAN RESORT'

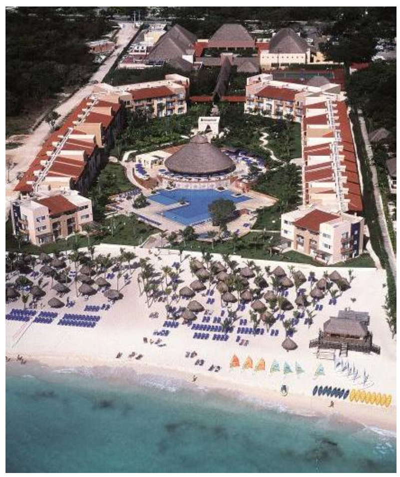


All Inclusive Resort

The all inclusive concept started with branded products such as Club Med and many were and still are upscale and upper upscale resorts in secluded areas such as the Maldives, the Seychelles where the client is to a certain extent "captive", or in highly developed tourist destinations such as Mexico's Riviera Maya and the Canary Islands. In the last five to 10 years some upscale and luxury brands have started to include all inclusive packages in certain destinations (Hilton, Marriott, Starwood, Wyndham etc.).

Arguably any Resort could include an all inclusive package within their product offer, but we believe it is necessary to categorize All Inclusive Resorts differently as the business model revolves around very particular customer behaviour patterns in respect of usage and consumption, which in operational terms changes the way in which performance is monitored and managed.

VIVA WYNDHAM AZTECA, PLAYA DEL CARMEN, MEXICO



Mixed Use Resort

A Mixed Use Resort brings together, in a master-planned integrated development, a number of business models, each of which is typically managed as a separate business unit and which may have common or separate ownership.

Mixed Use business models include, but are not limited to:

- Hotel
- Condo Hotel
- Sale & Leaseback Holiday Homes
- Vacation Ownership/Timeshare
- Fractional Ownership/Private Residence Club
- Branded/Managed Residences
- Bars & Restaurants
- Spa & Fitness Centre

- Golf Courses & Academy
- Casino
- Marina
- Equestrian Centre
- Conference Centre/Events Arena
- Sports Facilities
- Retail & Offices

In most cases, the presence of a traditional hotel property is a usual part of the product mix but this is not always true; each business model needs to have its own market-driven justification.

The Mixed Use model has become increasingly popular for developers looking to find alternative ways to finance the cost of construction of traditional Resort Hotel facilities by means of the sale of real estate. These properties are built around a fully integrated concept that aims to create a community of like-minded owners and guests. The inclusion of residential style property ownership in a resort environment changes the way it is perceived and the way it is managed as it usually implies that the hotel operator will benefit from managing the properties, providing services to residential owners and an increase in food and beverage and other recreational activities due to an increased resort population.

APHRODITE HILLS RESORT, CYPRUS

Benchmark Review

During our interviews with Resort operators we asked about the key performance indicators (KPIs) used to benchmark their businesses.

Below we will present the most common benchmark tools used based on our findings. This non-exhaustive list of key performance indicators used by operators reveals some interesting results, although it also raises the question whether these tools are applicable to all types of resort.

Key Performance Indicators

Rooms

- **RevPAR:** Revenue per available room, the classic rooms department KPI that combines the occupancy and average daily rate of a hotel, is often regarded as the most important financial indicator for a hotel but if the majority of the income of a Resort property is not generated by the rooms department then the asset as a whole should not only be benchmarked on RevPAR basis.

- **Double Occupancy Factor:** the DOF measures how many guests on average are present in a room. For holiday properties the DOF is typically very close to 2.0 (full double occupancy) and can even go higher if children can share their parents' room. An urban property focused on commercial demand will usually have a DOF closer to 1.0.

- **Seasonality:** Seasonality can be actively managed in order not to fall victim of the key component affecting most Resort properties: the weather. A property with a seasonality curve out of line with its local competitors should probably review its strategy (focus on the right client segment for the different seasons (not everybody wants peak family holiday season), adapt the physical and service product to the needs of particualr customer groups etc.). As mentioned earlier some properties located in highly seasonal destinations should always be thinking about ways to offset the effects of seasonality and the inclusion of the MICE segment is one possibility, but care is needed; a few meeting rooms does not turn a tourism-driven hotel into a magnet for the corporate segment. Access, among many other things is a key factor and often forgotten by those planning convention centres in far and distant lands. Ultimately if the destination is too seasonal and properties are not successful it is sometimes more efficient to close the destination a few months a year (as is often the case with Moutain Resorts heaviliy dependent on the ski season).

Food & Beverage

- **RevPASH:** Revenue per available seat hour is a revenue management tool for food and beverage outlets; the equivalent of RevPAR for the rooms department. This key performance indicator is useful in properties attracting a certain amount of walk-ins as it measures the usage and revenue of a seat per hour and allows a better understanding and planning for food and beverage managers; for instance it can help in labour scheduling, food ordering, creation of marketing tools during the lowest occupation ('happy hour') etc.

- **Guest Retention Factor:** this performance indicator is used to assess whether hotel guests are using the hotel food and beverage outlets. This tool is most useful for urban properties or integrated resorts where guests have a large choice of outlet outside the hotel.

- **Number of covers per guest per day:** based on our research we understand that this tool is mostly used in all inclusive resorts or secluded properties where guests have no choice other than to eat within the property. It allows operations managers to monitor how many meals per day a guest will take and adapt their strategy if the consumption is falling below targeted levels.

- **RevPAM:** Revenue per available square metre is often used by managers of properties with extended space for banqueting and conference facilities. The efficiency of the sales department is calculated on the revenue per available square metre of banquet space.

Spa

- **Occupancy of treatment rooms:** this ratio is the most commonly used in Spas as it helps to determine whether the total area dedicated to treatment rooms is being used at optimal levels.

- **Treatments POR (per occupied room):** this performance indicator gives the total number of treatments per (hotel) occupied room. It could be used for any type of hotel but is especially relevant to all inclusive resorts or secluded properties as their facilities are often not accessible to non-hotel guests.

- **RevPA Therapist per hour:** Revenue per available therapist per hour is also commonly used in Spas as it takes into consideration the labour cost of the therapist and therefore helps in assessing profitability, especially important if the Spa is seen as a stand alone business unit.

- **RevPA treatment hour per room:** The revenue per available treatment hour per room is the equivalent of the RevPAR for the hotel but taking the measure to a more detailed level given the need to "turn over" the rooms during the day.

Golf

- **Number of rounds per year:** this is the equivalent of the number of roomnights sold per year within the hotel sector and provides an overall benchmark for market penetration purposes. The type of course and business model will clearly affect the level of annual rounds; for obvious reasons pay per play will generate far higher volumes than private membership-based courses.

- **Number of players per tee time:** this ratio is equivalent to the DOF for a hotel.

- **RevPA tee time:** the Revenue per available tee time is the equivalent of RevPAR for the rooms department of a hotel.

- **Utilization Rate:** Utilization Rate is the occupancy measure for golf courses and is based on the number of available tee times on a daily and monthly basis.

- **Average members per course:** when applicable this gives a good indication of the success and utilization of the golf facilities by local or resident members.

- **Average dues:** member dues are the annual fees paid in order to maintain golf membership and levels need to be monitored so that they remain competitive in the local market as well as ensuring that member-related costs are adequately covered.

- **Ratio of players buying in the pro-shop (retail):** as margins are usually quite attractive in pro-shops then it is important to monitor how many players have purchased items as part of their playing experience in order to create appropriate marketing tools to encourage higher spending on profitable items.

Real Estate

- **Sales Efficiency:** this indicator allows monitoring of the performance of the sales team as well as the marketing team. It is a ratio that indicates the value added by each potential customer irrespective of whether they purchased something. This measure goes beyond conversion rates and measure the financial effectiveness of both the lead generation and the sales business units.

- **Average Sale price per square metre:** this is the classic performance indicator for real estate but care is needed in using it as a benchmark as direct comparability between developments is often difficult to measure with certainty and data in many markets on actual achieved selling prices is extremely unreliable and sometimes not available at all. This ratio is therefore more of an internal measure to be used in setting sales prices and in assessing overall project profitability.

- **Branding multiplier:** it is common for developers to try to achieve a significant premium on price per square metre if the real estate product benefits from a renowned brand. Although the concept of the branding multiplier seems simple enough, it does assume that the market in question offers the same product (size, configuration, quality of finishes, services, location etc.) in an unbranded condition so that the brand premium can be calculated and measured consistently; this is very often not the case and care is needed in applying a simple price uplift based on a market benchmarking exercise.

- **Sales Pace (absorption):** monitoring the Sales Pace of competitive properties is a useful tool for a developer to prepare and monitor projections of cash flow and financial structure. Care is needed in setting sale pace targets and they need to be based on adequate market depth analysis in order to avoid over-building in any given phase of development.

- **Owner & Rental Pool Occupancy:** this indicator is important for the operator or manager of the Resort as owners and renters do not always show the same spending and outlet usage patterns. In such cases renters tend to be closer to hotel guests while owners will tend to use leisure outlets less, often because of the incremental cost that may have been included in transient guest packages. By understanding in detail the behaviour patterns the operator / manager can produce a better rental offer for the market and better prepare their operations for such activities as housekeeping, food and beverage labour scheduling, purchasing etc.)

- **Annual Owner Service Charge:** this indicator is always difficult to benchmark, it represents the cost paid by the owner of an individual property within the Resort in respect of certain common services and the maintenance of their property. Budgeting for this cost is sometimes overlooked in planning Resorts but it is important to understand how it is built up as it can represent a financial barrier for the owners which could ultimately affect the marketability of the properties. In addition, these service charges are a source of revenue and profit for the manager of the Resort which can help to offset the overhead burden of the Resort as a whole.

Property

- **TRevPAR:** Total Revenue per available room does not appear, based on our interviews, to be one of the most used performance indicators, although for all inclusive properties it could be a good benchmarking tool.

- **RevPAC (or TRevPEC):** Revenue per available customer (Total Revenue per client) is a very useful tool for some Resorts with multiple revenue generating outlets as it calculates how much total revenue is generated per customer, taking into account the double occupancy factor.

- **GOPPAR:** Gross Operating Profit per available room is a useful tool for property owners as it monitors the ability of the operator to control their operating expenses.

As noted above, our list of KPIs is non-exhaustive and some companies might use different ratios based on their own particular needs. Ideally, KPIs and the mechanism for their review should be mentioned explicitly in management agreements and will clearly vary depending on the property and the specific requirements of the owner. When appraising a resort the knowledge and use of KPIs is often an indication of the competency of management.

Conclusion

The word “Resort” no longer conveys a simple marketing message; the concept of Resort has grown in complexity over the years and can now be regarded as a separate asset class within hotels in general. As more business models are conceived to create differentiation between Resort products and to generate added returns for owners and developers, the complexity of allocating value increases. The evolution of the Resort market shows an increasing need to address a wider customer base and a consequent need to ensure the continued relevance of the offering. Only by measuring and analysing trends can you effect a strong operational strategy.

It is therefore important to understand how a Resort really works at an operational level, in particular how and why customers are attracted to stay and how they will be spending their money, both prior to arrival and whilst on site. Reliable key performance indicators and relevant industry benchmarks are vital to making sure that the value of the asset reflects its full potential. One thing we can be sure of, at many Resorts the hotel room itself is not going to be the reason why guests make a reservation in a hotel. The real value comes from everything they can do when they are not asleep!

In our second article we will develop these ideas as we investigate how the various value drivers within a Resort can affect how we approach the valuation of the assets involved.

About HVS

HVS is the world's leading consulting and services organization focused on the hotel, restaurant, shared ownership, gaming, and leisure industries. Established in 1980, the company performs more than 2,000 assignments per year for virtually every major industry participant. HVS principals are regarded as the leading professionals in their respective regions of the globe. Through a worldwide network of 30 offices staffed by 400 seasoned industry professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. For further information regarding our expertise and specifics about our services, please visit **www.hvs.com**.

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Philip Bacon, ACA is Managing Director of HVS Madrid office which specializes in the development of mixed used resorts and resorts developed around shared ownership business models such as Vacation Ownership, Residence Clubs, Branded Residences and Condo Hotels.

Following a career with Price Waterhouse in London and Barcelona, Philip has gained comprehensive experience as a finance director and external board adviser of all aspects of hotel and resort development and operations, with particular focus on mixed use resort development including golf and residential business models. Since joining HVS in 2005 He has advised on the development of mixed use resorts in Europe, Africa, and the Middle East involving brands such as Armani, Mandarin Oriental, Four Seasons, Fairmont and Wyndham.