

Canadian Lodging Outlook

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SMITH TRAVEL RESEARCH

Should you build a spa in your hotel?

Carrie Russell, Senior Associate

Today's hotel guests are becoming increasingly selective when choosing hotel properties. Individuals accustomed to regular exercise, and pampering such as massage, manicures, and facials, are demanding these facilities and services when they are travelling. Spas are no longer being considered as an optional amenity for a hotel, but rather a required component to remain competitive. This is especially true for resort properties and hotels that accommodate a significant amount of group meeting demand. Conference attendees and vacationers will often choose one property over another based on the availability of a spa.

The term "spa" has many different meanings, from a small fitness room to an elaborate facility with pools and waterfalls. The most common industry definition, is a facility with an area for exercise equipment, a pool, whirlpool, steam room, sauna, common space for relaxing, and treatment rooms available for services such as massage, facials, manicures and pedicures. Some properties have external membership, and a large amount of local demand, while other facilities depend primarily on usage from their in-house guests. Research gathered by US based Health Fitness Dynamics (HFD) Inc., reports that the primary reason guests use the spa is for relaxation purposes, to

exercise and to be pampered. In addition, the typical spa-goer is a female baby boomer, visiting the hotel or resort with a spouse or friend; although current research indicates that the younger under 30 crowd is becoming more spa savvy.

Health Fitness Dynamics Inc., interviewed spa directors for their 1999 Economic Study of Resort-Based Spas. The research indicated that spas increased a property's marketing advantage, revenue per occupied room, occupancy, perceived value, and average room rate attainable.

Survey of Spa Directors by Health Fitness Dynamics	
Does the spa enhance or increase....	
Marketing Advantage	96.7%
Revenue Per Occupied Room	83.3%
Occupancy	73.3%
Perceived Value-Room Rate	70.0%
Room Rate	56.7%
Length of Stay	43.3%
Guest per Occupied Room	26.7%
Other	3.3%

The majority of spas are between 10,000 and 40,000 square feet; however, this varies significantly depending on the size of the hotel. In terms of profitability, the industry average for net profit from the spa component is 21.0% to 30.0% of revenue.

When looking at the development of a spa, there are many important factors to consider. First, a thorough market study must be conducted to determine the

Net Profit as a Percentage of Gross

< 10%	6.6%
11 - 20%	13.3%
21 - 30%	40.0%
31 - 40%	33.3%
> 41%	6.7%

Source: HFD 1999 Economic Study of US Resort-Based Spas

existing facilities in the market, and the demand for new facilities and services. Once an understanding of the market is gained, an owner must look at the experience they want to provide the guest and develop a plan for the facility around their individual concept. This concept will determine the cost of the facility, which can vary dramatically depending on the chosen finishes and equipment, ranging from \$200 to \$500 per square foot. The feasibility of the spa, will depend on the revenue it is capable of generating. Given the spa's location, revenue sources may or may not include memberships, local day-spa usage, guest treatments, and retail revenue. Once the costs and income are estimated, the return on investment can be calculated to determine the feasibility of the spa addition. As previously mentioned, the spa will increase revenue in other areas of the hotel, so these items, such as increased average room rates, should be factored into the overall analysis.

CANADIAN LODGING OUTLOOK

DEFINITIONS

Occupancy:	The ratio of total occupied rooms to total available rooms.
Average Room Rate:	Defined as room sales divided by the total number of rooms occupied.
RevPAR:	The application of a hotel's average occupancy to its average room rate and a true indicator of the property's ability to generate revenue. It is calculated by multiplying the occupancy by the average room rate.
Number of Rooms:	The total number of rooms at participating hotels.



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The Hotel Association of Canada is a federation of provincial and territorial associations, hotel chains and suppliers with a mandate to represent members nationally and internationally and to provide cost-effective services that stimulate and encourage a free market accommodation industry.

OFFICE: Anthony Pollard, 1016-130 Albert Street, Ottawa, Ontario K1P 5G4
(613) 237-7149



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OFFICE:

105 Music Village Blvd.,
Hendersonville TN 37075
(615) 824-8664

If you have any questions regarding this publication please contact Kimberley Tyls, Office Manager in the HVS Vancouver office.

Website: www.hvsinternational.com

OFFICES:

Vancouver

4235 Prospect Road
North Vancouver, BC
Canada V7N 3L6
(604) 988-9743
(604) 988-4625 fax

Toronto

HVS Toronto
Hospitality Venture Services Inc.,
Hammersmith House
2120 Queen Street East, Suite 202
Toronto, Ontario
Canada M4E 1E2
(416) 686-2260
(416) 686-2264 fax

New York

372 Willis Avenue
Mineola, NY 11501
(516) 248-8828
(516) 742-3059 fax

San Francisco

#620-116 New Montgomery Street
San Francisco, CA 94105
(415) 896-0868 x 108
(415) 896-0516 fax

Miami

#216-8925 SW 148th Street
Miami, FL 33176
(305) 378-0404
(305) 378-4484 fax

Denver

#201-4730 Walnut Street
Boulder, CO 80301
(303) 443-3933 x 11
(303) 443-4186 fax

London

14 Hallam Street
London W1N 5LF
United Kingdom
+44-171-878-7700
+44-171-436-3386 fax

Mexico

Patricio Sanz 1104, Suite 6
Mexico City
03100 Mexico, D.F.
011-525/575-5732
011-525/575-3907 fax

Singapore

100 Beach Road
35-00 Shaw Towers
Singapore, 189702
65-293-4415
65-293-5426 fax

India

B-1/25 Safdarjung Enclave, 1st Fl.
New Delhi, 110029 India
91-11-911-610-4644
91-11-911-610-4552 fax

Brasil

HVS São Paulo
Estrada Fernando Nobre 1897
06700-000 Cotia, São Paulo
Brasil
+55-11-7922-00565 (phone and fax)