

Rising Capex, Development and Wellness Construction

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Introduction

This article reviews contributing factors to rising capital expenditures and investment demands in relationship to progressively important guest experiences and wellness attributes. As increasing wellness and lifestyle features continue to emerge across the hospitality sector focused on well-being, new value propositions continue to evolve. This article reviews Capex spending increases amid rising construction costs, and consumer demand with an emphasis on the value of incorporating enhanced spa and wellness-oriented property features.



Transition and Demand

Over the last decade, the spa and wellness sector has faced tremendous growth in the hospitality industry. This evolution has significantly evolved over the last few years. Many hotels and resorts have found it increasingly necessary to adopt new performance models, renovate existing structures, and greatly enhance their food and beverage programs. This has also stimulated innovative property updates to accommodations, public spaces and spa and wellness facilities.

Throughout this transition, emerging wellness trends have grown into a new category of demand generators centered around well-being. This has impacted guest expectations, new customer preferences and in some cases, transformed traditional hotel and resort leisure principles. With this, guest profiles and different social demographics are changing the way people use today's hotel and resort spa facilities and public spaces.

With a rising demand for improved personalization, wellness initiatives, and new program offers, many hotels and resorts have been led to go above and beyond conventional offerings in order to remain competitive. Some of these improvements include faster broader ranging internet, swifter check-ins, and new booking systems. As advancements in new technology advance with greater speed, incorporating these tools and updating existing systems on the front and back end have become essential investments.

U.S. Spa Industry Growth

The U.S. Spa market has been on an upward trajectory for the last eight consecutive years. Starting in 2009, there have been dramatic increases across five of the leading revenue segments in the U.S. The International Spa Association (ISPA) calls these the "Big Five" which include record increases to the number of spa businesses, employees in the workforce, spa revenue, average treatment rates and average spend per guest.^[1] Despite the

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widespread economic downturn between 2008-2009, spa and wellness growth has continued to thrive.

Big Five Revenue Growth

- Total revenue over \$17.5 billion, 3% over 2016
- Spa visits grew to 187 billion, a 1.6 % increase over 2016
- Spa locations spread to 21,770 in 2017, from 21,260 in 2016
- Employee count grew to 372,100 in 2018, with a 1.9% increase over 2016
- Spa revenue per visit gained 2.7 %, from \$91.30 in 2016 to \$93.70 in 2017

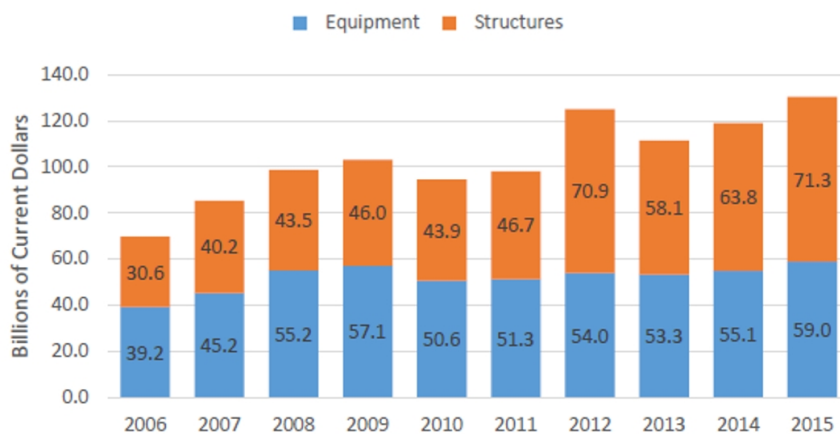
Property Pillars and Programming

Whereas only ten years ago the hotel guest experience mainly revolved around a property's event space, food and beverage assets, and rooms decor. Today's expectations have exceeded standards of the past with an emphasis on well-being, quality of food, multi-functional spaces and comfort. This has also prompted innovations in architecture, design and the inclusion of healthier and well-built structures with a variety of new utility considerations.

In addition to steady spa and wellness growth, there has been a compelling series of strategic hotel acquisitions with wellness-centered initiatives. Many hotels and resorts have expanded their spa and wellness experiences, into property pillars, positioning these aspects as a core part of their brand message. These trends are being embraced by leading hotel groups such as Hyatt, Accor, IHG, and others. In addition to this, Skift recently launched its "Wellness Newsletter" as an option to their content program.^[2]

With an increasing number of properties of varying types choosing to include wellness as a part of their message and mainstays, these aspects no longer linger heavily in the luxury segment. Upper-upscale property types also have exciting opportunities to expand upon their wellness experiences and thereby enhance their market positioning. In November 2018, HVS announced its first Annual Spa Performance Report. This report includes profitability and performance data from 51 sample luxury and upper-upscale hotels and resorts between 2017 through the third quarter of 2018.^[3]

Total Capital Expenditures by Type for Companies with Employee Utilities, 2006-2015



Source: ACES Survey, 2017 Capital Spending Report

Capex Spending Increases

As shown in Figure 1, according to the 2017 Annual Capital Expenditures Survey (ACES) capital spending for equipment and structures in the U.S. has been on the rise, showing considerable growth since 2006.^[4] While a fraction of increased spending can be attributed to the 2017 U.S. Federal Tax Reform and Job Laws, spending patterns have diversified to include a wider range of expenditures as a whole.

The 2017 tax advantages have impacted a variety of hospitality sectors including acquisitions, manufacturing, construction, and supply channels. However, in 2017 average capital expenditures were reported to have

increased more than 25-30% than the average RevPAR.

This highlights a need to study Capex spending, calculate investments and develop practical revenue generating solutions to balance the outlay of expenditures with anticipated returns. While many Capex costs are linked to new construction, remodeling and new equipment, it's vital to also develop initiatives that advance programs and assets in healthy proportion to capital spending. In light of escalating construction costs, even with improved cashflow, Capex spending should be carefully examined to ensure cost and performance ratios are of benefit to the subject property.

Wellness Tourism and Demand

Recent wellness tourism growth has played a considerable role in accelerating the need to advance spa and wellness property features. This may be perceived as positive momentum forward. Yet, the market continues to demand an ever-increasing spectrum of new experiences. As a result, this retells the importance of carefully selecting investments with an accurate understanding of value and return. Thereby making it critical to launch programs and accompaniments that not only make sense but also yield returns and benefit RevPAR growth.

"Wellness tourism burst into the consumer consciousness just a very few years ago, and it's hard to grasp the speed of its growth and evolution," noted Katherine Johnston and Ophelia Yeung, GWI Sr. Researchers. "The wellness concept is transforming almost every aspect of travel and wellness tourism will only grow faster in years ahead, as it lies at the powerful intersection of two massive, booming industries, the \$2.6 trillion tourism industry and the \$4.2 trillion wellness market."^[5]

Spa amenities and wellness features often warrant significant investments. Whereas hotel spa amenities generally include extensive heat and water facilities, locker rooms, relaxation lounges and fitness space. In addition to traditional spa facility inclusions, an assortment of new spa features is swiftly being developed and assimilated into these upward spaces. Some of these new aspects include halotherapy, floating systems, hydrotherapy, culinary demonstration space, health and lifestyle technologies and new personalized program offerings.

Final Thoughts

As new market demographics come into play, being prepared to meet tomorrow's market demands are essential aspects to any spa and wellness development and planning. Capex spending in 2018 was reported to include record averages across multiple industries. Again, raising the importance of refining investment choices geared towards creating new revenue streams, increasing RevPAR functioning and elevating guest experiences through focused customer care training.

Personal well-being, health and quality of life are fundamental factors that matter to everyone. While some aspects of travel can be vulnerable to various social demographics and economic circumstances, wellness is becoming a core importance among a growing population of people. Moreover, as wellness principles and lifestyle values amass wider inclusions, the level of quality and care will demand heightened and genuine customer-care to fulfill these extensions with sustainable success.

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^[1] ISPA's Big Five Statistics (experienceispa.com/blog/item/u-s-spa-industry-study-s-big-five-sets-new-records)

^[2] Skift - Wellness Newsletter (skift.com)

^[3] HVS Spa Performance Report; Spa Department (hvs.com/article/8392-2018-hvs-performance-report-spa-department)

^[4] United States Census Bureau (census.gov/programs-surveys/aces.html)

^[5] Global Wellness Tourism Economy (globalwellnessinstitute.org/industry-research/global-wellness-tourism-economy)

About **Mia A. Mackman**



Mia A. Mackman, HVS Managing Director of Spa and Wellness Consulting, leads the spa and wellness aspects of our consulting engagements, encompassing market studies, feasibility studies, strategic planning, valuation, and forecasting. Mia has predicted leading shifts in the transition of the spa and wellness market since 2004. Known for her agility, leadership, and intuitive insight, she works with global investment companies, property developers, hospitality organizations, industry groups, and global think-tanks.

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