# WELLNESS REAL ESTATE REPORT

Tracking the financial impact of wellbeing and wellness on real estate performance

wellnessrealestatereport.com

2021 edition

RLA Global

# Foreword

The objective of this report is to support industry stakeholders in evaluating the tangible impacts of wellbeing and wellness on the performance of real estate and key factors they should consider when planning these activities within real estate projects.

The Covid-19 pandemic had a twofold effect on resorts, hotels and other real estate assets with a wellbeing and wellness proposition. It cut revenues and profits in 2020 due to lockdowns and restricted airlift, but at the same time it created a stronger customer focus on health, both mental and physical, translating into an increased demand for wellbeing and wellness offerings.

The 2020 data reflects the overall disruption the pandemic caused in hotel performance, with closures for varied lengths of time, rescheduled openings and adjustments to comply with health restrictions. This made it more difficult to assess how wellbeing and wellness features impact the bottom line of the entire turned benchmarking the competitive set of lodging units with wellbeing and wellness offerings into an even more complex process. However, our data mining revealed some very interesting performance observations that we believe will help investors, developers, operators and hospitality stakeholders better understand how wellness and wellbeing influences property-level performance.

In order to provide factual context to the publication, we have used HotStats data to enable us to analyse the various angles necessary in understanding performance from a total revenue and ultimately, a profit standpoint. We hope you will find the latest edition of the Wellness Real Estate report an indispensable tool to help navigate the currently unsettled markets and evaluate expected trends in a post-Covid era going forward.

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# Wellbeing & wellness in real estate

## Definitions and distinctions

Differentiating between wellbeing and wellness can help investors and developers assess the value and impact of wellbeing activities and facilities on real estate, including hotels, resorts, active living and real estate communities as well as mixed-use developments[1]. This may provide higher transparency on the expected financial returns of such investments[2].

Wellbeing and wellness are both multidimensional concepts, but they are based on different assumptions: while wellness is seen to relate to action and has a strong physical dimension, wellbeing is perceived as a state of being with a key mental or emotional aspect. Wellbeing can be considered a holistic approach to improving health and achieving happiness through forms of leisure, recreation, sport, spa, wellness, travel, healthcare, better social interactions and higher eco consciousness[3].

## Calculating wellbeing value

Investors and developers need to be cautious with wellbeing investment as it spans an ever broading range of activities and specialties.

Corresponding the wellbeing activities to the specific characteristics of the property is important, whilst understanding the direct internal rate of return (IRR) on investments related to wellbeing is fundamental.

The EBITDA analysis of a real estate development with wellness should include all direct operating expenses and revenue streams. Revenues may also include the spa utilization credit (SUC) as an allowance for hotel guests to use spa facilities without charge, calculated on a per occupied room basis.

When all revenues and costs are correctly listed, the profits method can be used for valuation - it brings measurability and transparency to identifying the contribution of wellbeing operations or facilities to the overall property performance and value[4].

## Data methodology

The Wellness Real Estate Report evaluates average hotel performance based on data from P&L benchmarking company HotStats covering 3,200 properties of all classes worldwide. Our tables break down and compare revenue, cost and profitability data for three groups of hotels, differentiated by the revenue amount of their wellness operations in 2020. Hotels with major wellness represent properties, which generated wellness revenue exceeding $1mn and 10% of total revenues, while hotels with minor wellness include units that had wellness revenue of less than $1mn and 10% of total property revenues. Those hotels with no wellness didn't generate any revenue from wellness whatsoever.

The classification of the wellness data referenced follows the departmental categorisation of health club and spa according to Uniform Systems of Accounts for the Lodging Industry (USALI), the standard way of reporting trading data for the industry. For evaluating the performance of hotel leisure departments, our data sample incorporate all leisure services and activities including membership programs and golf.

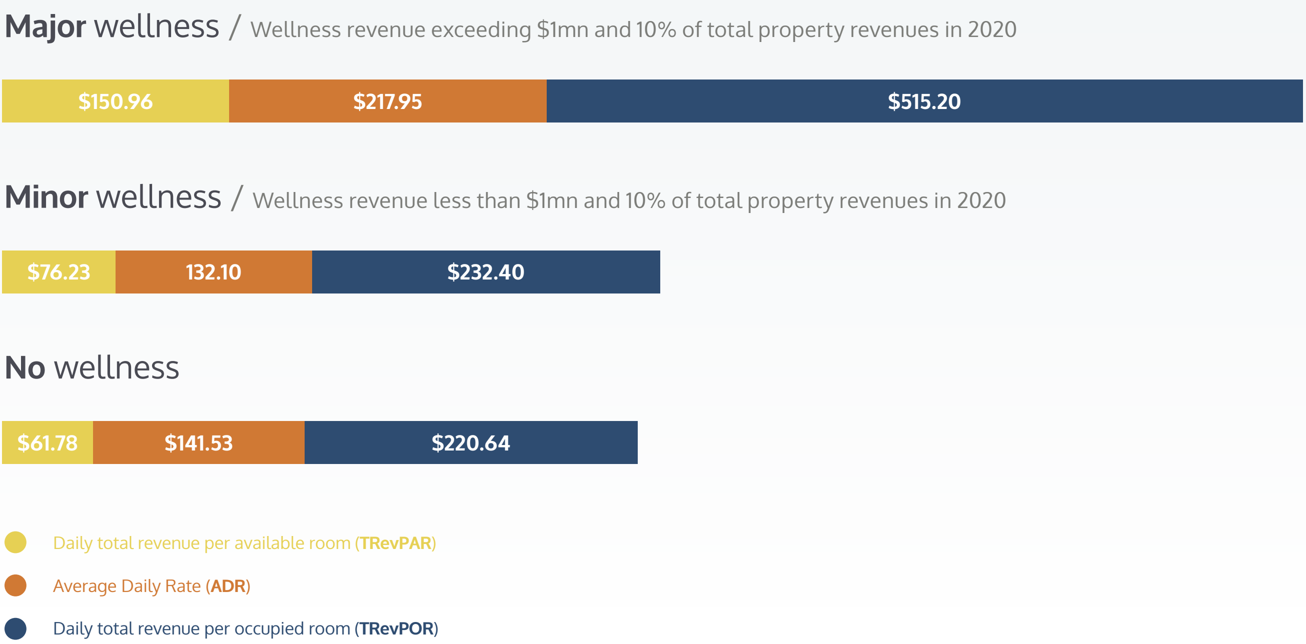
# Impact of Wellness on hotel performance

For understanding the impacts of wellness on the overall hotel performance, we have evaluated the main performance drivers.

Hotels with major wellness offerings generated nearly 144% more in total revenues per available room (TRevPAR) in average compared to hotels with no wellness in 2020, according to data from HotStats. Hotels with major wellness services are typically upscale and luxury properties that expectedly drive higher level of spending, notably average daily rates (ADR). However, the huge difference is partially due to a 54% gap in average daily rates (ADR), to the advantage of major wellness hotels.

Investors assessing the potential extent of wellbeing or wellness offerings at their future hotel should consider that properties with extensive wellness operations benefited from 65% higher ADR and generated 98% more in average revenues per room last year compared to hotels with a minor wellness operation. Although the difference in ADR drives the gap in total revenues, the leisure department accounts for 17,7% of the difference in revenue between major wellness hotels and hotels with minor wellness operations.

## ROOM PRICING & REVENUES




source:
HOTSTATS
Hospitality Intelligence

## Hotel revenues continued

Hotels with major wellness are more successful than properties in the other two categories in terms of overall revenues per room sold (TRevPOR), which include guest spending on all types of services, including food and beverage, room service. It is particularly striking that hotels with minor wellness generated 121% less in TRevPOR than properties with extensive wellness offerings. Hotels with major wellness operations had significantly more resources to drive income than minor wellness hotels in 2020. Whilst rooms remained offline for many months, hotels with major wellness took advantage of their extensive F&B, spa and extra leisure facilities, such as pools and beaches, to attract external guests from the local surroundings. Minor and no-wellness properties are generally more reliant on internal guests and did not have the means to maintain a reasonable revenue stream in 2020.

In 2020, this huge difference is not only the result of more significant wellness operations and services. Indeed, the number of rooms sold in major wellness hotels was significantly lower due to their typical reliance on leisure guests when compared to little or no-wellness hotels; leisure guests who were less wary to take on the travel red tape due to the Covid-19 than corporate travellers. However, wellness hotels have the ability to increase their room rates significantly to partially offset the lack of occupancy.

Simply adding wellbeing or wellness features doesn't necessarily translate to higher revenues per room, properties with minor wellness generated less in total daily revenues per room than hotels with no wellness. Average room rates of minor wellness hotels were almost 7% lower than those of hotels without wellness offerings. However, a 7% drop is only significant if the context of the investment made to the wellbeing department is considered.

The pandemic may have further marked this trend. One, as local tourism is booming due to the major travel constraints brought by the pandemic, tourists tend to save on flights and transfers; budget that they have re-allocated to afford better quality hotels along with leisure and wellness experiences during their trip. Second, a significant part of the wellness department revenue comes from the local community, notably in urban hotels. As the pandemic hit and the number of tourists dropped, hotels with wellness operations were able to recover quickly, driving revenue from the local communities using their F&B and leisure facilities.

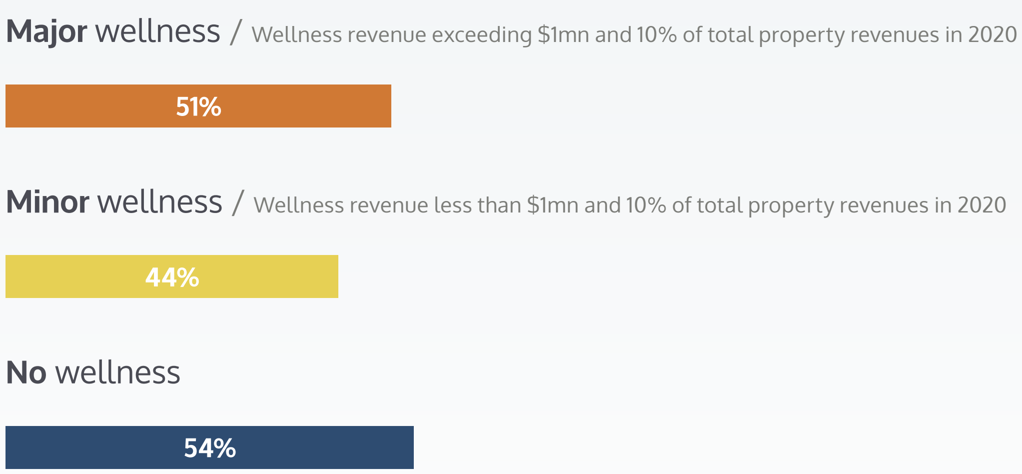
# Operating costs

Hotels and resorts with extensive wellbeing or wellness offerings normally have higher operating costs compared to standard hotels because of increased energy, utility, and staff expenses. Labor expenses have the biggest share in operating costs at most traditional wellness and spa facilities. Other operating costs like energy and utility expenses may be reduced by adopting new eco-friendly and sustainable technology solutions, like LED lighting with sensors, remote systems tracking temperature or humidity, or artificial intelligence solutions helping hotels measure and reduce food waste at the restaurants.

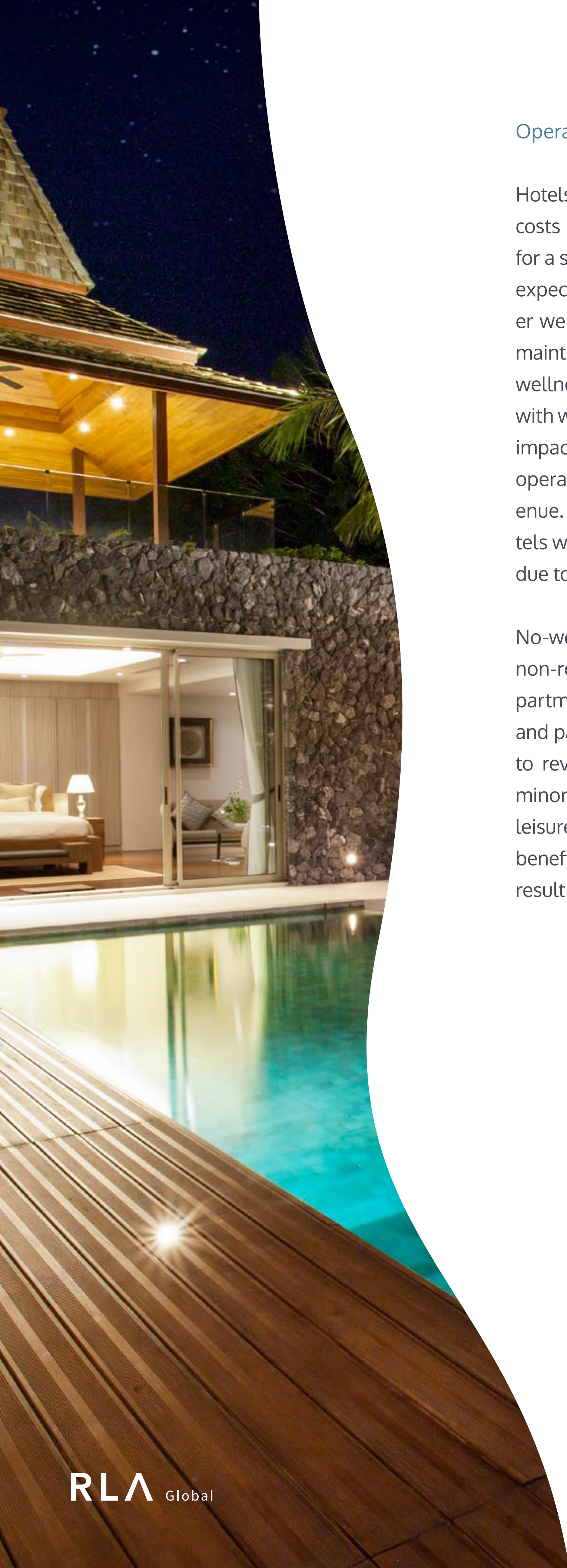
As payroll represents a significant ratio within the operating costs, it is important to consider this cost component.

In 2020, most governments offered financial support, such as grants, loans leverage, tax incentives, and write-offs of employer charges to help hotels and leisure assets get through the pandemic. Those supporting measures provided all properties with income that were not related to the sale of a room or service but partially covered operating costs; therefore, operating costs, notably payroll expenses ratios don’t seem to be as high as expected during a closed-down period.

## PAYROLL COSTS IN PERCENTAGE OF TOTAL HOTEL REVENUE




source: HOTSTATS Hospitality Intelligence



## Operating Costs continued

Hotels with major wellness operations have higher operating costs than hotels with minor hotel operations due to their need for a significant number of staff to maintain the quality standards expected in high-end facilities, combined with a typically larger wellness and public space calling for additional utilities and maintenance costs. It is particularly striking that hotels with no wellness operations have higher operating costs than hotels with wellness operations. As hotels with no wellness were more impacted by the pandemic than hotels with wellness facilities, operating costs did not decrease in proportion to the drop in revenue. Whilst operating costs did not increase significantly in hotels with no wellness, operating costs to revenue ratio increased due to the lack of revenue.

No-wellness hotels are typically urban hotels with very little non-room offerings, which suffered greatly from the room department's closure in 2020. As revenue significantly dropped and payroll needed to be paid out, the ratio of payroll in relation to revenue increased at no-wellness hotels. On the contrary, minor wellness properties were able to partially leverage their leisure offerings to maintain some sort of revenue stream whilst benefiting from lower payroll charge than major wellness hotels, resulting in a lower payroll to revenue ratio.

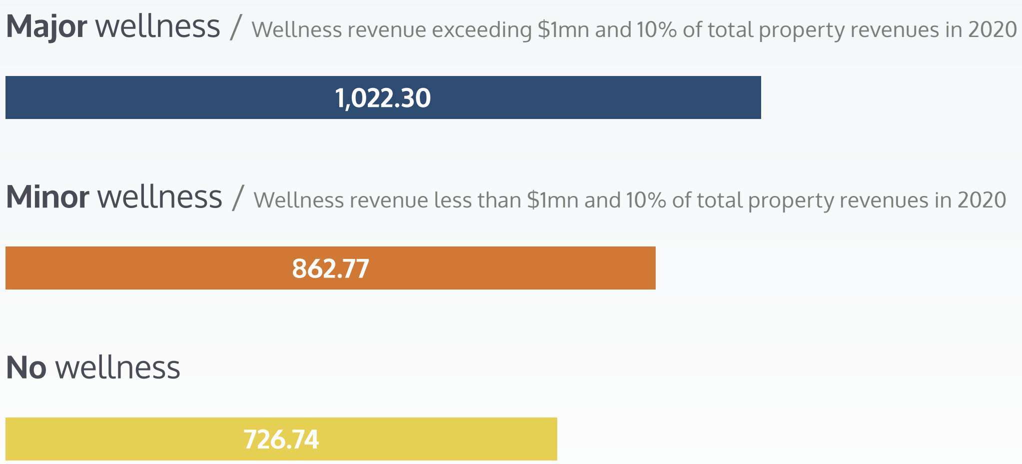
# Food & Beverage performance

In 2020, major wellness hotels and resorts generated nearly 18.5% more in average F&B revenue at their restaurants than those properties with smaller wellness and 40.7% higher than those properties with no wellness.

This gap can be partially explained by the fact that wellness hotels and resorts were able to drive more walk-in guests that ultimately use the F&B outlets whereas limited wellness properties did not have the resources to attract external guests into their premises. It also indicates that, with travel restrictions, guests re-allocated their resources to F&B and wellness. The F&B revenue per occupied room at wellness hotels was higher than it was in 2019.

Many hotels and resorts with extensive wellness operate in the luxury category, where discretionary spend is usually higher. This is also reflected in our F&B performance analysis. Interestingly, the share of food-only revenue to total hotel revenue at properties with major wellness was almost double than at properties with no wellness offerings.

## AVERAGE F&B REVENUE PER OUTLET IN 2020 ('000s US$)




source: HOTSTATS Hospitality Intelligence

F&B Performance continued

Looking at the F&B profit conversion rates provides notable findings. Hotels with minor wellness outperformed their bigger rivals in terms of F&B profit conversion. These findings support the general notion that F&B concepts and operations require close attention when offered at hotels with extensive wellness to ensure they translate into higher profits.

Surprisingly, the share of F&B revenue to total revenue was higher at minor wellness hotels (33,1%) when compared to major wellness hotels in 2020. That can be explained by many factors:

- Major wellness hotels were overall able to maintain a higher stream of total revenue thanks to their leisure operations; therefore, although F&B revenue are higher in absolute number at major wellness properties, the ratio to total revenue comes mathematically lower than in minor wellness properties with a lower stream of income in 2020.

- Major wellness hotels typically have extensive F&B facilities. During the pandemic in 2020, they operated with a limited number of outlets opened, which had an impact on their overall F&B revenue.

The combination of these two factors results in a higher share of F&B revenue to total revenue at minor-wellness hotels when compared to hotels with major wellness offerings.

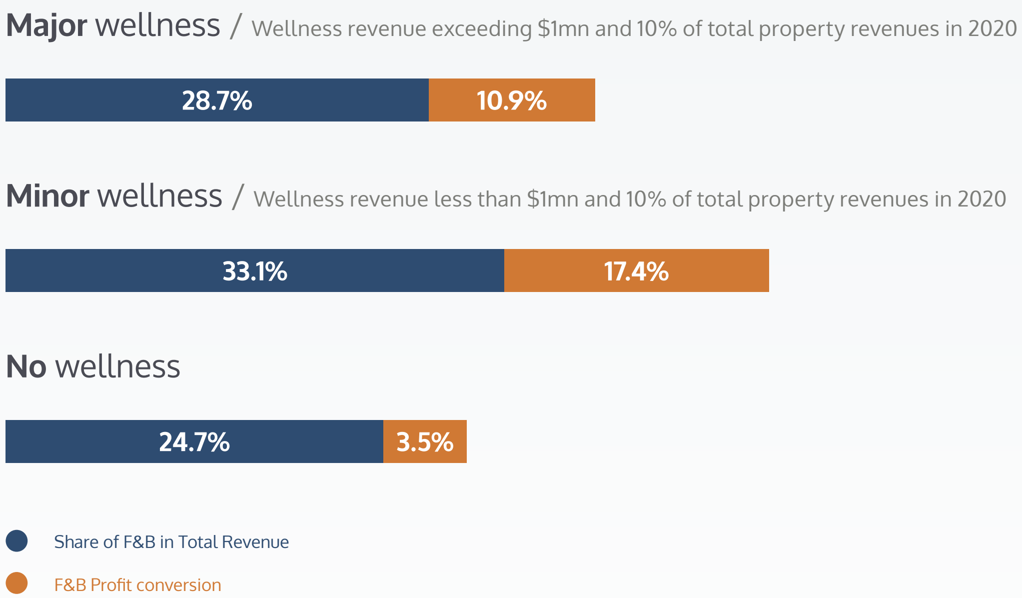
However, major wellness properties partially relied on the sales of beverage that contributed to the success of their F&B outlets in 2020. Beverage revenue per room let in major wellness hotels was US$25,94 against US$9,79 at minor wellness properties and was more than three times the beverage revenue per room let at no-wellness properties. Beverage consumption is driven by the sales of beverage at the restaurants and the bar with a minor contribution of the room service (10%). One point to note is that the contribution of beverage revenue to total F&B revenue at the bar is higher in no-wellness hotels (59%) than in minor wellness (51%) and major wellness (48%). No-wellness properties being mainly driven by the corporate segment, the bar is typically used as a meeting point or after-work time whilst guests at minor and major wellness properties may use the bar as an F&B outlet, ordering food along with drinks.

Beverage gross profit conversion in major wellness properties is 75%, lower than in minor wellness and no-wellness properties at respectively 76% and 78%. That suggests that beverage consumption in major wellness properties is more of non-alcoholic drinks thank in minor wellness and no-wellness properties as the profit margin on alcoholic beverage is typically higher than on non-alcoholic beverages.

It is also remarkable that F&B profit conversion rates were 7.4 points higher for properties with major wellness compared to no-wellness hotels, due to the significant lack of income from F&B outlets at hotels with no wellness. It is a clear indication that a wellness offering is not only a source of additional income but has an impact on the activity and performance of other non-room outlets at wellness properties.

In addition, hotels with a wellness offering usually benefit from a larger kitchen space that they could repurpose as 'ghost kitchens' during the pandemic to set up take-aways and deliveries services, allowing them to maintain a revenue stream whilst the hotels were closed. The repurposing of kitchen allowed wellness properties to partially cover operating and payroll costs; therefore, driving reasonable profit conversion from their F&B activities. The difference between minor and major wellness comes from higher operating costs incurred at major wellness properties.

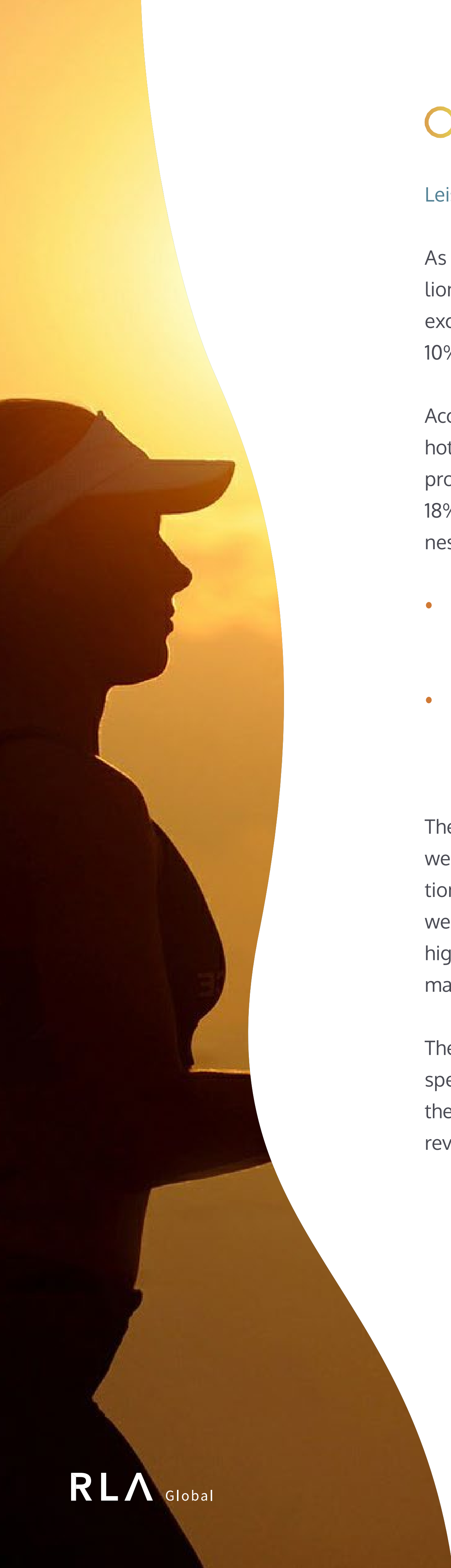
# F&B REVENUE AND PROFITABILITY




source: HOTSTATS Hospitality Intelligence

*"F&B income streams are ever more important in remote locations, while providing a range of F&B offerings is certainly vital to attracting a defined target market. Furthermore, the impact of F&B performance is particularly influenced by the increased demand and extended length of stay at wellness and leisure orientated hotels during the off season."*

Jason Wischhoff, managing director at Benihana, Japanese Teppan Steakhouse, part of Minor International



# Leisure performance

## Leisure revenue

As per the definition, major wellness properties generate more than US$1 million in revenue and more than 10% of their total revenue from leisure activities, excluding golf, whilst minor wellness hotels make less than US$1 million and 10% of their total revenue from their leisure offerings.

According to the data provided by Hotsats, leisure revenue at major wellness hotels is nearly three times the leisure revenue generated by minor wellness properties. Major wellness offerings represent US$91.3 per occupied room or 18% of the total hotel revenue on average against US$3.2 or 1% in minor wellness. That significant gap derives from:

- A significantly larger leisure area in major wellness properties that goes beyond the typical spa and relaxation area.
- A wider range of leisure offer in major wellness properties with specific spa treatments, tailored-made health programmes, extended fitness and outdoor facilities, beaches and extra leisure activities.

The gap in revenue from wellness offerings between the two categories of wellness properties translate into the profit conversion; however, not proportionally. Minor wellness properties drive a leisure profit of 21% when major wellness drives a profit of 42%, twice as much with revenue that are three times higher than their “little sister”. That is primarily due to higher operating costs in major wellness properties that require extra staff but also amenities.

The leisure revenue and profit conversion must however be looked at in perspective of the investment. A long-term approach is required to understand if the wellness offering will provide a competitive advantage and whether the revenue generated will provide a reasonable rate of return to the investors.

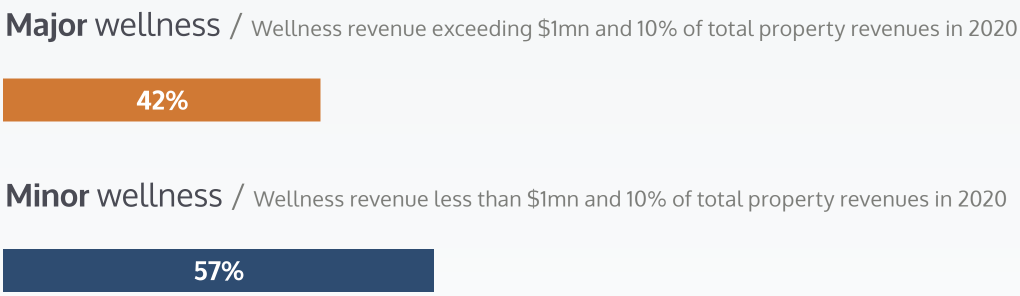
When evaluating the profitability of leisure departments and taking a closer look at the cost components, the analysis shows that labour expenses represent the highest cost ratio versus revenues in the leisure departments of hotels, regardless of the wellness revenue threshold.

## Food & Beverage performance

Payroll expenses at properties with major wellness totalled less than 45% of leisure revenues in 2020 and were about 15 percentage points lower than those at hotels with relatively small wellness. This again points to the fact that the larger size of operations works in favour of major wellness hotels, which can normally achieve greater payroll efficiencies versus revenues gen- erated.

It is also interesting to note that payroll expenses in 2020 at major wellness were only 2 percentage points higher than in 2019 showing that wellness hotels were able to manage wellness income and associated payroll revenue efficiently during the pandemic. Because they could maintain a source of revenue from their leisure assets, major wellness hotels were able to minimize the payroll ratio. In addition, major wellness properties often outsource the operations of one or many of their leisure assets such as the spa; hence they do not bear the cost of payroll. As leisure activities slow down, fees paid to third-party and "extra" leisure staff payroll decreased proportionally. Minor wellness properties often managed their leisure assets in-house and thus had to bear the cost of payroll even though leisure revenue dropped resulting in high- er payroll ratio than major wellness assets.

# LEISURE PAYROLL COSTS IN PERCENTAGE OF LEISURE DEPARTMENT REVENUE




source: HOTSTATS Hospitality Intelligence

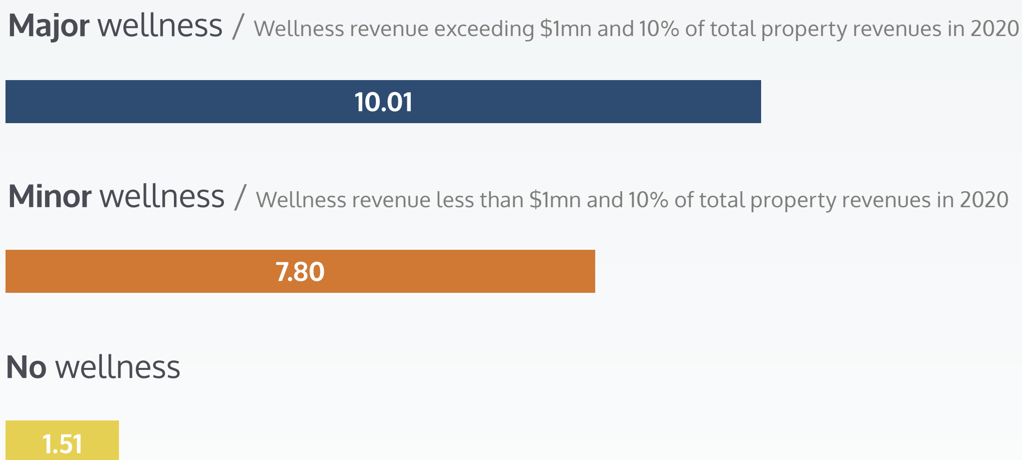
Evaluating the average performance of hotel leisure departments, which in our data sample incorporate all leisure services and activities including golf, we can see a significant difference in departmental profitability at major wellness hotels and those properties with minor wellness.

The profit conversion rate of leisure departments at properties with wellness was 22 percentage points higher than their smaller performing rivals, showing that operational and financial efficiencies can be usually best achieved at major wellness hotels.

# Profit levels

Gross operating profit per available room (GOPPAR) at hotels and resorts tend to be higher when a significant wellbeing offering is in place. This is not only through the enhanced spend from the direct wellbeing facilities, but also from increased use of suites, and increased high-end F&B spend.

## DAILY GROSS OPERATING PROFIT PER AVALIABLE ROOM (GOPPAR US$)



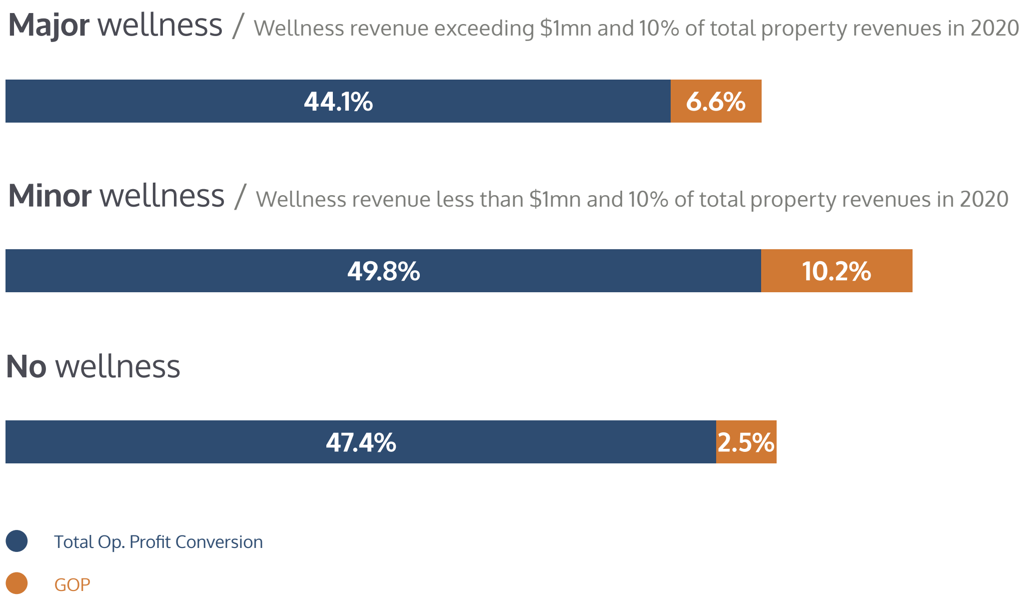

source:
HOTSTATS
Hospitality Intelligence

Wellness operations during the pandemic tended to leverage GOPPAR levels that are almost ten times higher than hotels with no wellness. Whilst those numbers are in line with previous trends, the pandemic in 2020 deepened the gap. Whilst luxury hotels could increase their average spending due to less price-sensitive guests and out-of-the room source of revenue that could be leveraged during the pandemic, hotels with no wellness had little room for adaptability during the pandemic. Not being able to offset the loss in room revenue, hotels with no wellness experiences significantly lower level of GOP during 2020.

Wellness hotels typically have higher GOP numbers. However, the development of such properties typically require a significant amount of extra capital prior and after the opening of the hotel. Investors assessing the reasonability of wellness investments need to consider both variables against return on investment and payback period.

> *"Interpreting the data from different points of view is important, in particular when evaluating very different business models and isolating the performance impact of a particular part of the business. The wellness offering is not a separate entity and therefore the holistic approach to data analysis and the wider strategy is key to understanding the true output."*
> Michael Grove, Managing Director-EMEA, HotStats

# IMPACT OF WELLNESS ON PROFITABILITY AT PROPERTY LEVEL




source: HOTSTATS Hospitality Intelligence

Although the GOP margin of major wellness hotels was also narrower compared to the properties with minor wellness, it was 4.3%higher than GOP margins in hotels with no-wellness. In 2019, the GOP profit margin of hotels with no wellness was 36,2%, higher than the two other categories of properties. That reflects the impact of the pandemic on the performance of hospitality assets and points out the partial role of wellness in offsetting the impact of the Covid-19 travel restrictions on operating performance. As wellness services can cater to the local community, hotels with wellness offerings can drive some income from that market to moderately counterbalance the loss in room revenue.

However, data from HotStats imply running large wellness operations doesn't necessarily lead to better bottom-line performance as associated expenses may diminish profits. Hotels with significant wellness offerings achieved lower operating profit conversion than those with minor or no wellness operations in 2020.

When assessing investments in wellness, investors should not only look at the potential profit from the operations of the wellness centre but at the impact that such operations have on the overall performance of each hotel department and on the project's net operating income that drives the value and return on investment of a project.

# Conclusion of data finding

Real estate investors, developers and operators need to assess a number of factors when evaluating the 2020 report data. Whilst major wellness properties tend to result in higher income than minor wellness properties, that is only significant if the context of the investment made to the wellness department is addressed. Rather than just aiming at higher profit margins, real estate investors should read projected profit levels against wellbeing investment levels to evaluate the impact of a wellbeing offering on the future value and in turn returns provided by an asset. Stakeholders must measure the concrete effects of these investments in advance, with a focus on future profit and managing expectations.

Data from hotel market analysis company HotStats, our partner for the Wellness Real Estate Report 2021, offer statistical evidence that larger wellbeing and wellness operations don't necessarily translate into higher profit margin. However, investors need to understand the broader impact of wellness offerings on the overall performance of the assets and in turn its value.

Hotels with significant wellness offerings generated nearly 144% more in total revenues per available room (TRevPAR) on average compared to hotels with no wellness in 2020, driven by 54% higher ADR. Although it could be argued that it comes from the luxury positioning of most major wellness properties, it is worth mentioning that this significant gap in TREVPAR was driven by a 17.7% higher performance in the leisure department.

Our findings support the general notion that F&B concepts and operations require close attention at hotels with ex- tensive wellness to ensure they translate into higher profits. The F&B profit conversion rates were 7.4 points higher for properties with major wellness than no wellness, pointing out the fact that a wellness offering has a direct impact on the activity and performance of other non-room outlets at wellness properties.

Beyond the numbers, the pandemic notably emphasized the potential of wellness properties to drive additional income, nota- bly in times of crisis. Opportunities are two-fold: a creative re-use of space at wellness properties that are typically larger than no-wellness properties, and a strategic repositioning of the leisure and wellness offering to meet an evolving demand. During the pandemic, hotels with major wellness operations had significantly more resources to drive income than minor wellness and no-wellness hotels in 2020. They were able to reposition to attract the local community, thereby driving additional income from non-room department during time of closure. They used extra space and suites to host small private events; their F&B facilities converted to serving local communities or restaurants needing ghost kitchens.

Wellness has become a key component of real estate development driving a high-premium over no-wellness developments. Branded residences have proved more resilient than many sectors of the real estate market, driven by their leisure, wellness, and spa offerings, and their market appeal to high-net-worth individuals.

The pandemic also accelerated trends in the wellness industry that are now expected to become major considerations when building hospitality or residential assets. For example, one growing segment in wellness travel is the medical wellness resort hybrid. An increasing number of high-end resorts offer medical facilities. Although trackable performance data is currently limited, health and medical facilities will certainly occupy a large space within the tourism industry. Other trends include luxury stand-alone villas in remote locations, co-working space, and glamping. The glamping proposition is gaining traction among the investment community thanks to high EBITDA margins and low upfront development costs.

Wellbeing and wellness within real estate developments will continue to be a popular and important attraction. However, as investors and developers try to navigate the markets following the Covid-19 pandemic, they will need to continue taking a cautious approach with wellbeing investment, given that it spans a broad range of activities. Corresponding the wellbeing activities to the specific characteristics of the property is important, whilst understanding the direct internal rate of return (IRR) on investments related to wellbeing remains fundamental.

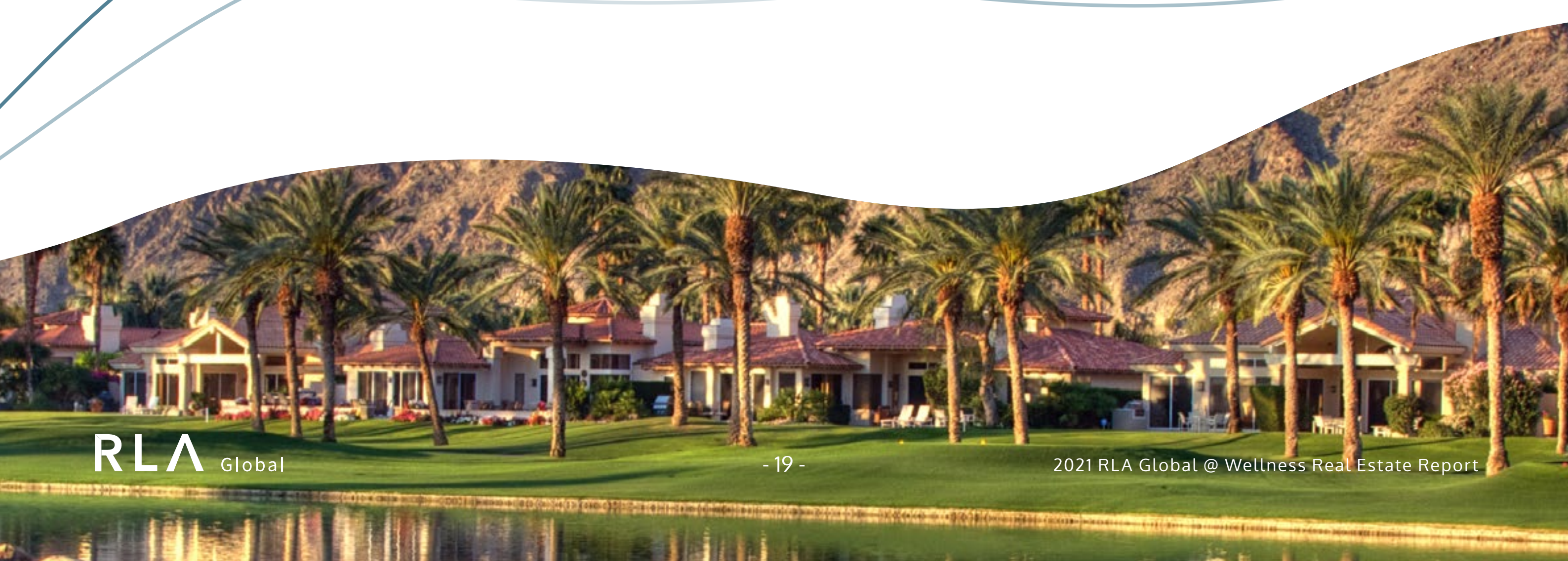
# Industry Trends
# Influencing Wellness in Real Estate

## Hotels and Resorts

In times past, wellness travel was synonymous with a visit to a spa resort. But no more.
The Covid-19 era has brought to the forefront the idea that wellness travel is a far broader health-motivated construct than pampering. There is growing recognition that wellness seekers are looking to enhance not only their physical health, but their mental and spiritual health as well. At the same time, travelers are more concerned about the wellness of the places they are visiting. Instead of taxing local resources, visitors are looking for regenerative travel opportunities, where the travel serves to better both the natural environment and the local community.

As expectations of the wellness traveler evolve, and the market for wellness travel broadens, developers of hotels and resorts catering to this segment must consider how to integrate wellness into projects from the ground up, and inside and out. Travelers are looking for holistic wellness experiences that extend throughout the resort campus. For example, the wellbeing experience is integrated into buildings through the use of natural materials, the incorporation of biophilic design, and the inclusion of smart, state-of-the-art air circulation and water purification systems. Designing in indoor/outdoor spaces and using surrounding land for added wellness features (forest bathing trails, Zen gardens, etc.) may become de rigueur for new resorts.

Embracing the overall opportunities in the wellness hotel and resort sector, owners and developers have opted to expand their wellness offerings in recent years. Several of the world's largest hotel groups have entered the segment through acquisition or the development of new wellness-focused flags.



## Branded Residential

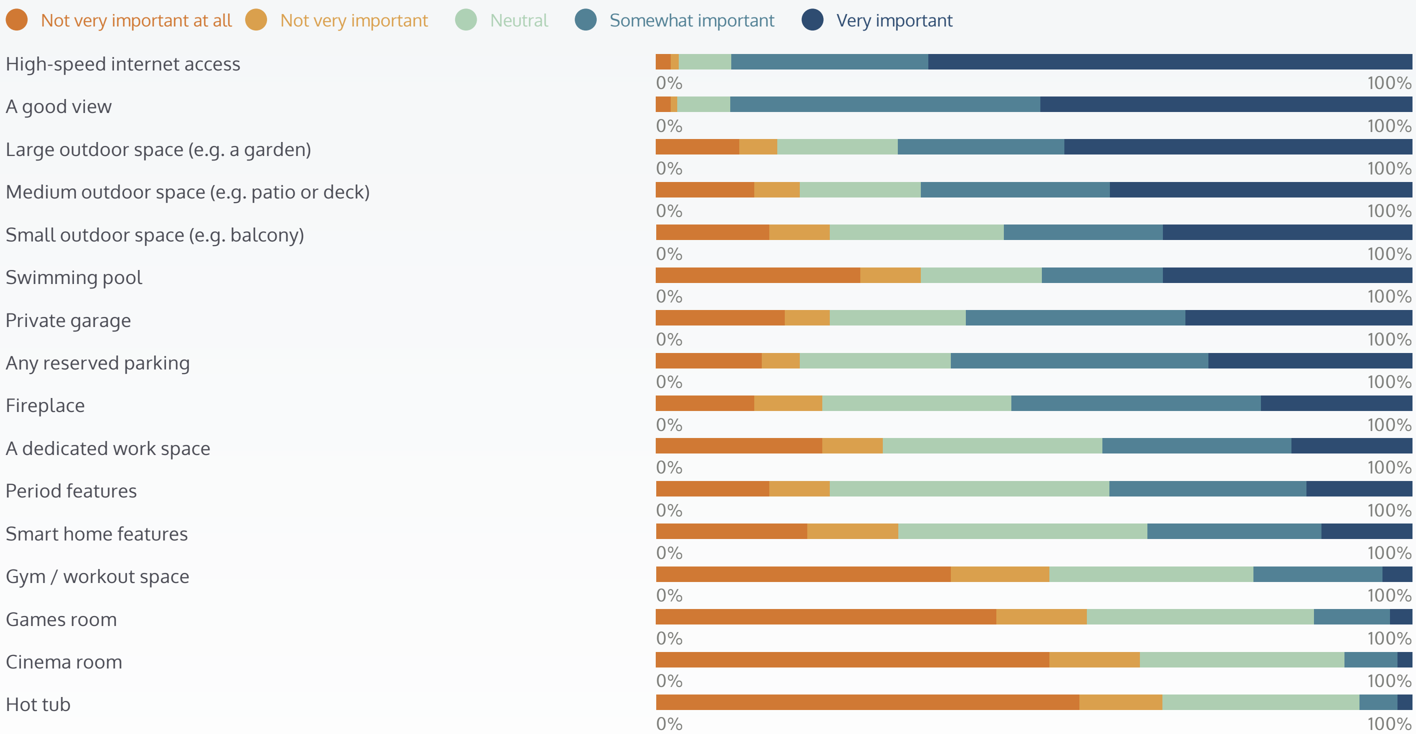
Branded residence projects, traditionally defined as hotel developments with integrated residences, are attracting renewed customer interest as a result of growing global wealth and the post-Covid demand for real estate in less-crowded, non-urban environments. Additionally, the recognition that work can, in many circumstances, be conducted away from a central office means owners have increased opportunity to utilize these "second homes" for longer periods of time.

During the past ten years, branded residences have proved more resilient than many sectors of the real estate market. In the previous decade, the number of branded residences increased by 170%, adding more than 52,000 units across 370 schemes.[4] The concept can be appealing for developers, since branded residences sell for a global average price premium of 31% compared to non-branded products. It is important to note that the premium fluctuates wildly depending on location and market maturity. For example, in London and Singapore, the differential averages less than 10%, while in emerging markets like Belgrade and Almaty, it can soar to up beyond 120%.

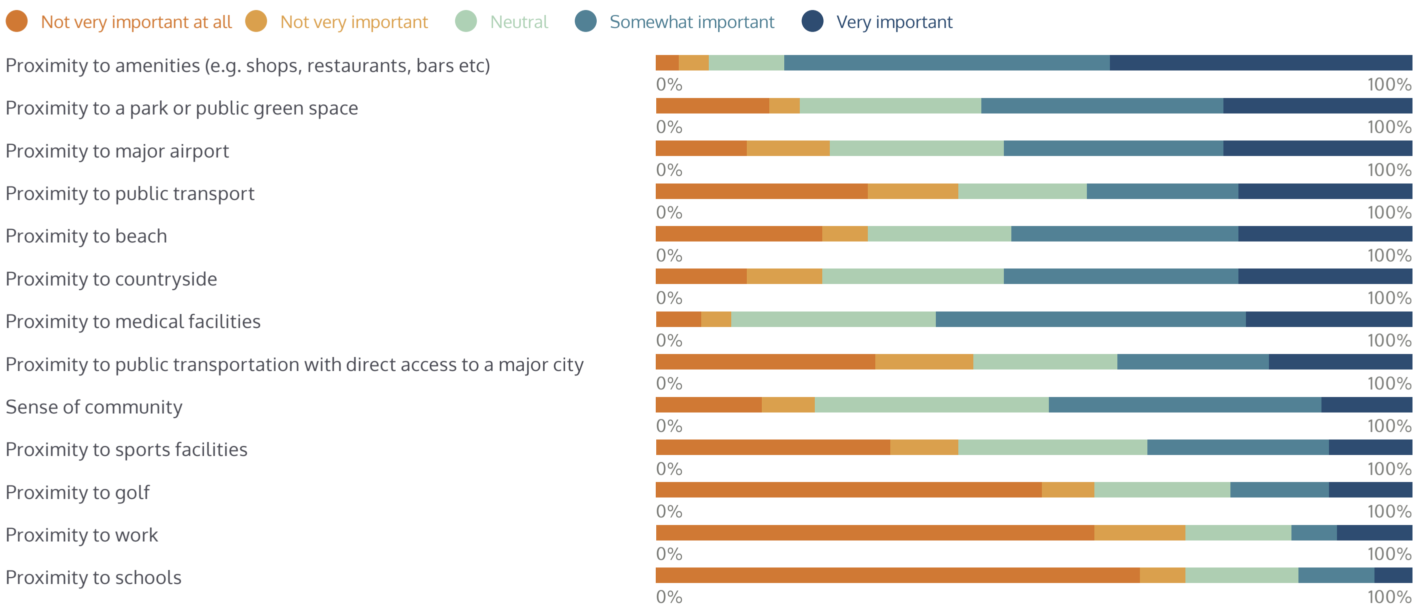
Nearly every high-end hospitality company has added a branded residential component to its development portfolio during the past 15 years. That's why hospitality brands currently dominate the mixed-use concept (84%), However, in recent years, luxury brands outside of the hotel industry, such as Porsche, Armani and Nobu, have entered the space.

# PREFERENCES FOR BRANDED RESIDENCES

## Amenities




## Proximity




Source: **Savills Research & Savills International Development Consultancy**

It may be only a matter of time before consumer wellness brands enter the space as well.  Equinox has already breached the hotel sector, so branded residences could evolve from that. La Prairie, the famous Swiss skincare brand, opened its first branded residence in Hong Kong at the end of 2020. But the main wellness brands now in the space come from the world of hospitality. Canyon Ranch, Banyan Tree and Six Senses are among the wellness hospitality brands that are adding residential components to their resorts.

Sports and leisure activities are become key drivers, and hotels targeting second home buyers need to be located close to demand generators, access to water sports, hiking, cycling or trails are at least of some importance to more than 60 percent of property buyers.

## Wellness Real Estate Communities

The COVID era ushered in with it the realization that home is where the health is. Post-pandemic, interest in buying healthy homes and real estate in wellness communities is likely to grow as more people take greater consideration of how their living environments impact their physical, mental and emotional well-being.

As a result, low-density communities designed to cater to wellness needs will become increasingly desirable. However, given the novelty of this interest, current development statistics don't reflect reaction to this potential demand.

An American LIVES survey of U.S. households with incomes over $75,000, found more than 25 percent would want to live in a wellness community, while 38 percent were at least inclined to visit a wellness community and consider living there at least part time.[5]

Right now, most of the traction in the wellness residential community space is coming out of the upper-upscale end of the market and from the Active Agers (55+) sector. The latter provides a potential model for age-agnostic wellness communities.

In the United States, the active adult (55+) community market size was valued at USD 523.4 billion in 2019 and is expected to expand at a compound annual growth rate of around 4.3% from 2020 to 2027.[6]

Today's newly or soon-to-be retired generations have different perspectives on aging than previous generations. Instead of looking for retirement homes that focus on health care, many are increasingly attracted to active adult (55+) communities, where the focus is on a wellness lifestyle. Those communities are filled with single-family homes or condominiums designed with wellbeing features. Often located near a nature asset, these developments place a strong emphasis on community spaces, programming and activities.

Otherwise, the main movement in the development of under 55 wellness communities sits at the highest end of the market. Right now, most high-end wellness communities are located in mixed-use residential/resort complexes, such as Carillon Miami Wellness Resort and Canyon Ranch Residences. In this arena, there's a great deal of overlap with the second home sector. In terms of dedicated wellness communities largely serving full-time residents, right now, there are few. Some examples include Villa Valencia in Coral Gables, Sunplay Bangsaray on the coast of Thailand, and Waterline Square in New York City. However, we believe that with a heightened interest in wellness living, dedicated wellness residential communities are a real estate trend whose time has come.

## Glamping

Glamping is defined as an elevated form of camping that allows travelers to stay in unique accommodations (tents, treehouses, tiny houses) with services and amenities more often experienced at a four or five-star resort. Certainly, the pandemic helped glamping leap from niche to more mainstream. Glamping-style resorts have witnessed explosive demand due to their ability to provide socially distant, stress-free and secluded sojourns with immersion in nature.

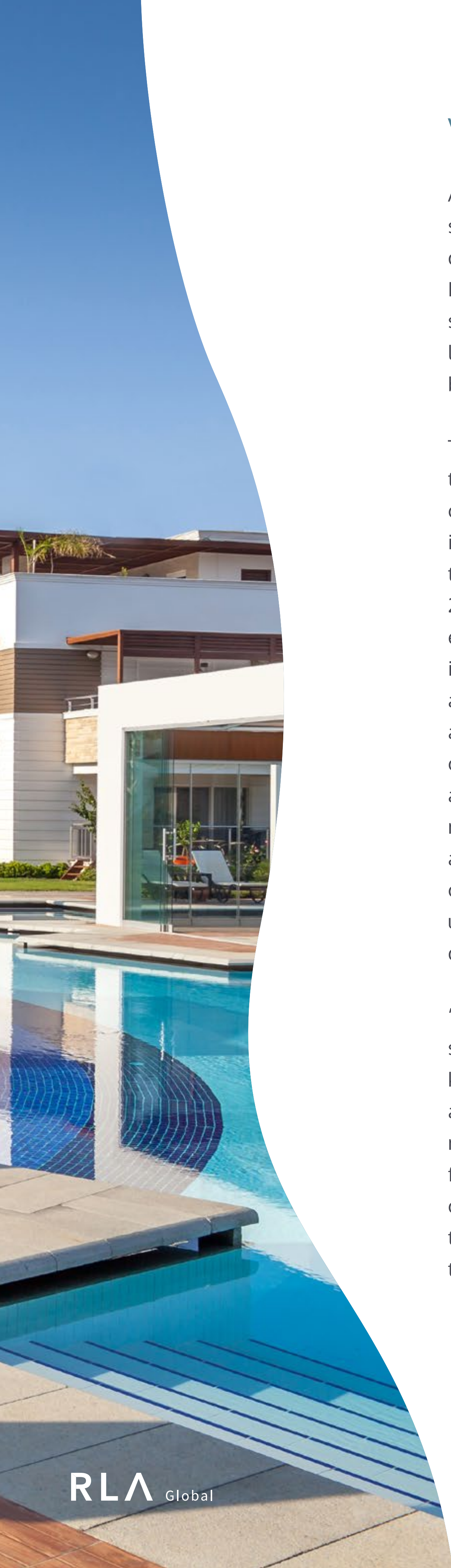
In a forecast released prior to the COVID-19 pandemic, the global glamping market size, valued at USD 1.88 billion, was predicted to expand to USD 5.41 billion by 2028,[7] with an annual growth rate forecast at 14.1 percent from 2021 to 2028. Given the boost the sector has received during the COVID era (one of the few hospitality sectors that actually benefited from the pandemic), those forecasts may now be on the low side. In fact, glamping, a high-end form of camping that appeals to a broad range of travelers looking to spend more time outdoors, appears to be the right product for the right time.

While the type of safari tents often used by glamping developments were once solely associated with trips into the wilds of Africa, today, we see glamping resorts popping up through Europe and North America. While Europe has a 34.9 percent revenue share of the market in 2020, the North American glamping market is expected to expand at the fastest annual growth rate (16.7%) through 2028.[8]

Pre-Covid era factors fueling the growth of the sector included easier access to exotic, unconventional landscapes; the ability of social media to promote small, remote glamping sites at a low cost; and greater interest in outdoor adventure among luxury travelers. Interesting, as business for glamping has increased two-fold during the past two years, traditional camping revenue has dropped.

The glamping proposition is gaining traction among the investment community thanks to high EBITDA margins and low upfront development costs. Hospitality operators that invest in tented projects can expect to generate 20 to 40 percent more in revenues than their six-star bricks and mortar counterparts, and construction costs can be up to 50 percent less.[9] As for products with fewer services, along the lines of Tentrr and HipCamp, margins are even higher.

As a result of such attractive numbers, and the growth of interest in glamping among travelers writ large, industry players have been able to secure multi-million dollar deals from the investment community. Another recent development is that brick and mortar resorts have started adding glamping units on-site.



## Villas & Secluded privacy

As the concept of wellness became conflated with wide open spaces and privacy in a healthy environment during the pandemic, the luxury villa market exploded during 2020. Luxury Escapes, which offers a range of high-end holiday packages, saw an increase of one million new subscribers in 2020, driven largely by the demand for private house/villa rentals. Need to build more quality private rentals in non-traditional locations.

The success of the private villa sector is another example of the pandemic ac- celerating a trend that was already nascent, as several big hospitality players jumped into the space in 2019. During that year, Homes & Villas by Marriott International launched, with a plan to build a portfolio of more than 25,000 homes around the world through partnerships with existing home-management companies. Airbnb Luxe was also introduced, featuring more than 2,000 vetted luxury homes around the world. By the end of 2020, Accorhotels introduced an Apartments and Villas website which is dedicated to rentals of private residences. The site encompasses more than 50,000 apartments, vil- las and chalets, drawing from Accorhotel's mixed-used developments, branded private residences (such as Raffles Residences, Banyan Tree Residences, etc.) and one-of-a-kind private rental from onefinestay. Additionally, the luxury villa concept is being incorporated in the branded residence division of sev- eral hospitality companies.

"As the concept of wellness became conflated with wide open spaces and privacy during the pandemic, the luxury villa market exploded during 2020.  LuxuryEscapes.com, which offers a range of high-end holiday packages, saw an increase of one million new subscribers in 2020, driven largely by the demand for private house/villa rentals. According to Paul Gorman head of Owner Engagement, Luxury Escapes, single level properties, outdoor experiences and a healthy environment was on the guest priority list when selecting a destination"

## Trend Watch — Technology

With gyms and spas closed for months at a time during the pandemic, consumers became accustomed to utilizing wellness apps to maintain physical and mental health at home. This accelerated expansion of digital wellness alternatives may have an impact on hotel development, as consumers may shift to preferring in-room fitness over a visit to the hotel gym.

**Implications:**

- Developers may be able to dispense with the hotel fitness center, instead devoting more in-room alternatives to fitness and wellness. This option is also made possible, at least for city hotels, with the expansion of apps like Class - Pass, which allow users to take fitness classes at preferred gyms and yoga studios without having full membership.

- Expect more partnerships between hotel companies and third-party wellness brands. In the past year alone, Hyatt started a global wellness collaboration with Headspace focusing on sleep improvement and mindfulness; Kempinski and Citizen M teamed with Peloton to provide guests with in-room equipment; and Accorhotels partnered with AXA, a glob- al leader in insurance, to provide guests with free access to medical teleconsultations.

- Smart technology will be increasingly employed for in-room guest wellness and comfort, including voice-controlled thermostats, circadian rhythm lighting to enhance sleep, and smart air purification systems.

## Trend Watch — Medical Wellness

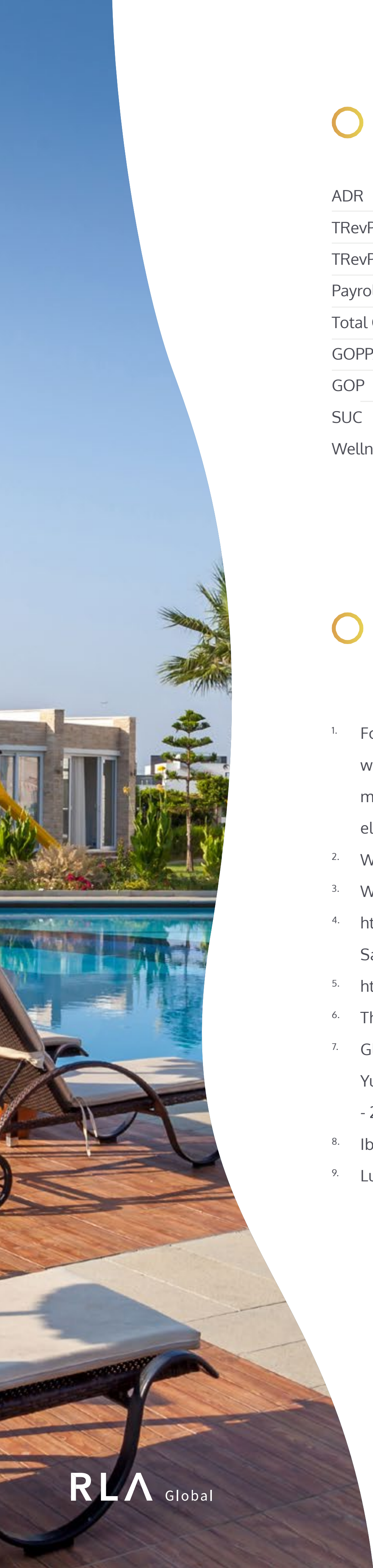
In recent years, the concept of wellness tourism has increasingly overlapped with medical tourism. We are seeing a growing number of wellness resorts and retreats combining best practices from Eastern and Western medical disciplines.

The concept of medical wellness is seen most prominently in medically integrated facilities, where traditional alternative wellness therapies are complemented by state-of-the-art medical diagnostics, functional medicine and personal consultations with fitness, nutrition and health professionals.

The hybrid medical wellness traveler typically stays longer, and spends more, than the average wellness-only tourist. Most properties offering these types of services operate on a multi-day package structure that includes accommodations, diagnostics, treatments and services and education. While the per-day revenue of such a format can be up to three times greater than a per-night-plus-services approach, the costs involved in the facility set-up, especially in terms of staffing and equipment, are generally significantly higher as well.

For developers not interested in investing in medical facilities, another option is to develop wellness resorts near existing health complexes and/or partnerships with local health care systems to provide guests access to top doctors and specialists.

> *"During the pandemic, the Lanserhof Group has seen a surge in guest demand for medical evaluations to assess their health risk.  This has been supported with programs designed to boost the immune system and overall health"*
>
> Nils Behrens, Chief Marketing Officer – Lanserhof Group



# Glossary of terms

| | |
|---|---|
| ADR | Average Daily Rate |
| TRevPOR | Total Revenue Per Occupied Room |
| TRevPAR | Total Revenue Per Available Room |
| Payroll | Total amount of salaries and benefits |
| Total Operating Profit Conversion | Aggregate of all departmental profits |
| GOPPAR | Gross Operating Profit Per Available Room |
| GOP | Gross Operating Profit |
| SUC | Spa Utilization Credit |
| Wellness Data | The classification of the wellness data referenced follows the departmental categorisation of health club and spa according to Uniform Systems of Accounts for the Lodging Industry (USALI), the standard way of reporting trading data for the industry. |

# Sources


1. For the purposes of this report, we use the definition by the Global Wellness Institute (GWI) for wellness real estate: the construction of residential and commercial or institutional (office, hospitality, mixed-use or multi-family, medical and leisure) properties that incorporate intentional wellness elements in their design, materials and building as well as their amenities, services or programming.
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8. Ibid
9. Luxury Frontiers

RLA Global

## About RLA Global

RLA is a recognized global advisory to investors, owners, developers and management companies. Specialized in hospitality, leisure, recreation, wellbeing and health tourism related to hotels, resorts, residential, mixed-use, healthcare, active living communities and destination tourism developments. RLA Global works closely with the public and private sector in the Americas, Europe, Middle East and Africa to provide conceptual planning, feasibility and financial analysis and asset management of complex properties such as resorts, retreats, destination assets and wellness & spa related operations. Our advisory practice addresses the evolving landscape of the Resort & Hotel sector, Leisure experiential, Spa consulting and Health-Wellness-Medical Tourism & Life Enhancing Destinations.

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HOTSTATS

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HotStats provide monthly P&L benchmarking for the hotel industry, collecting detailed financial data from over 6,000 hotels worldwide from over 100 brands and independent hotels, and provides over 550 different KPIs covering all operating revenues, payroll, expenses, cost of sales and ultimately departmental and total hotel profitability.

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