

# **Global Spa Summit** JOINING TOGETHER. SHAPING THE FUTURE.

**General Session**  
**Monday, May 19th, 2008**  
**12:15pm – 1:00pm**  
**Empire Room**

## **The Investment Potential: Where Are the Risks and Rewards?**

*Panel Leader:*

*Richard Dusseau, CEO, Spatality, Colorado*

*Panelists:*

*Byron Carlock, Jr., President & CEO, CNL Lifestyle Company, LLC, Florida*

*Neil Jacobs, President, Starwood Capital Hotel Group, Connecticut*

*Manav Thadani, Managing Director, HVS Hospitality Services, India*

*Scribes:*

*Michal Gordon (Cornell), Alexis Palmer-Strong (Cornell), and Jennifer Simonian (EHL)*

**Richard Dusseau (Panel Leader):**

\$9.7 billion will change hands between Baby Boomers and their children during the period 2009 – 2017.



Plans for this session include a discussion on spa industry ventures:

- How are they paid for?
- Is the return there?
- What is the risk?

**Richard Dusseau (Panel Leader):**

Currently we are seeing an abysmal capital market. It's tough to finance a home, so how would you be able to finance a spa?

**Byron Carlock:**

We are seeing a convergence of spa, wellness, and fitness. This is now offering a better lifestyle. Like the automobile industry, the spa industry has to go through the cycle of maturity and convergence. The industry matures by making itself attractive to institutional capital. Spas are starting to mature into a business like hospitality and have started to achieve returns like hotels.

**Richard Dusseau (Panel Leader):**

Give us an overview about India.

**Manav Thadani:**

India has a huge population. There are approximately 30,000-35,000 branded hotel rooms with really high rates because there are not nearly enough. There is a focus on the luxury market, but India is just beginning to scratch the surface on wellness.

**Richard Dusseau (Panel Leader):**

Are proprietary brands required to build a high-end spa?  
How do you mandate quality execution?

**Neil Jacobs:**

I would argue that it is less expensive to own a proprietary brand because you only have one fee. Also, proprietary brands strengthen the hotel brand.

It makes sense to include a spa in hotel marketing because if you spend so much on marketing, you should give the spa a place to shine and communicate to the guest.

**Richard Dusseau (Panel Leader):**

Smith Travel Research found that there was a \$76 premium on room revenue per night in a resort with a spa. Another statistic that we should be considering is whether or not a spa is necessary to sell a residential property? This still needs to be proven. We were seeing



a premium for residential properties with spas before the market stopped. When the market picks back up, will that pick up too?

**Byron Carlock:**

I would say probably yes. There is a premium to living in an environment where you know you can enhance your life. It is helpful to subscribe to the notion that spa is a necessity to wellness.



**Neil Jacobs:**

There is a 15-20% premium on development that includes a spa, but it must be a destination spa concept. In other words, it must stretch beyond the walls of the spa into a lifestyle idea.

**Manav Thadani:**

Residential spas are a new concept to India, but the market is showing interest.

**Richard Dusseau (Panel Leader):**

How about differentiation? Does the spa need to be a step up to command a premium?

**Manav Thadani:**

The fact that you cannot get a time slot at a spa indicates that there is undersupply, so I am not seeing a need to differentiate now but having a spa is certainly a necessity.

**Neil Jacobs:**

Luxury companies are using a combination of in-house research and consulting expertise. There is not a huge corporate spa unit in most cases, but there is a corporate spa unit presence with the rest being outsourced. But I do see luxury companies branding their own operations.

**Richard Dusseau (Panel Leader):**

Are there resources to expand branded spas globally (i.e. hotel branded spas)?

**Byron Carlock:**

We have to look at the need. People are crying out for wellness solutions. Business minded capitalists will find a way to deliver products to satisfy that need. There are two brand types - "Wal-Mart" and "Neimans" Presenting sophisticated, holistic solutions to diseases. Transformational experiences. One can achieve higher margins because branding offers selling solutions.

### Neil Jacobs:

The financial upside in this industry is huge in Asia and the Middle East. The incredible growth means that these are profitable businesses in most countries.

### Richard Dusseau (Panel Leader):

What are the expectations of investors?

### Manav Thadani:

Investors are looking for gross operating profit (GOP) of 55-60%. They are looking for an internal rate of return (IRR) of 20-25%.

### Byron Carlock:

Investors are looking for:

- Good credit.
- A dependable leasing contract and someone to stand by and grow the business.
- They expect a 7-10 year holding period for their return on investment.
- This is a right brain business in need of left-brain discipline.
- There needs to be a credit worthy sponsor to sign the lease. There just are not that many in the spa industry.

Consolidation and aggregation and a sponsor who will support that is needed. There may need to be more aggregation of the industry to gain impact/status/trust from investors.

### Richard Dusseau (Panel Leader):

What needs to change to make the spa industry more appealing to investors?

### Manav Thadani:

We need different approaches

### Neil Jacobs:

Benchmarking, improved data, and more gathering and sharing of data.  
Finding and training more spa business people.

### Byron Carlock:

- Encourage more Steve Case types with a natural, healthy lifestyles approach to invest.
- More training. Increase and improve training to enhance credibility.
- Combine modalities such as Yoga, Pilates, medical, supplements.

### Richard Dusseau (Panel Leader):

What would you consider to be the valuation differences between leisure businesses?

**Manav Thadani:**

In India, the cap rates are 9.5-11.5 but no transaction.

**Byron Carlock:**

In real estate, I would say comparable to India. For products, a 20% cap rate.

Decoupling of real estate and operations.

**Audience Question:**

When will the market recover enough for real estate to take off again?

**Byron Carlock:**

A credit crisis lock up has left the banks unable to get capital out. In my opinion this is a shallow recession, not a deep one. We need the secondary market to be freed up. We have a financeable industry and we always will.

**Manav Thadani:**

American slack is being picked up by companies abroad.



The Global Spa Summit is an international organization that brings together leaders and visionaries to positively impact and shape the future of the global spa and wellness industry.