

SPA INFLUENCE ON ADR, REVPAR AND OCCUPANCY

Cornell University, Ecole Hôtelière de Lausanne, Smith Travel Research and Spa Finder¹

Introduction

Extensive consumer demand for spas in the early 1990s changed the face of the hotel industry and the need for hotel/resort spa development world- wide. Here-to-fore there has been little information regarding the influence of spa on hotel performance.²

On April, 2006 representatives from The Cornell Hotel School, Four Seasons Hotels, and Smith Travel Research (STR) set forth the hypothesis that Spa effects average daily rate (ADR), Revenue per available room (RevPAR) and Occupancy (OCC) of hotels and resorts in the United States. Subsequently, Jan Freitag of STR found ADR and RevPAR to be strongly elevated in hotels with Spas as compared to hotels without Spas with little sacrifice to occupancy in the U.S.³

Purpose of Current Study

The purpose of the 2008/2009 study, conducted by Cornell University, Ecole Hôtelière de Lausanne and Smith Travel Research for Spa Finder and The Global Spa Summit, was to determine the impact that spa operations have on ADR, RevPAR and Occupancy through out several regions of the world.

Methodology

Smith Travel Research provided extensive data bases of Luxury and Upper Upscale hotels/resorts from Asia, Africa, Australia, Europe, United Kingdom, and The United States. Researchers from Cornell University, Ecole Hôtelière de Lausanne, and Spa Finder separated these extensive data bases into Luxury hotels/resorts with spa and Luxury hotels/resorts without spa. The same differentiation was applied to Upper Upscale hotels/resorts. All data received were/are kept strictly confidential.

¹ Authors are in alphabetical order: Jan Freitag, Justin Grimes, Demian Hodari, Theresa Jaeger, Mary H. Tabacchi and Lei Zhou

² Sironvalle, Cristian, Yeager, David, Toepke, Thomas. 2006. Analyzing the Spa Effect on RevPAR. Cornell University Report.

³ Jan Freitag. 2006. Smith Travel Research Presentation for The Cornell Hotel Society Spa Symposium, San Diego

STR provided data from 724 luxury and upper upscale hotels in Asia, 125 from Australia, 348 from Europe, 110 from Latin/South America, 87 from the UK and 253 from the U.S.

Benchmark measures studied were: RevPAR, Occupancy and Average Daily Rate. These were based upon 12 month moving averages and days of the week averages.

It is remembered that $\text{RevPAR} = \text{OCC} \times \text{ADR}$, hence RevPAR and ADR are related.

Results

Asia Pacific

The Asian Spa Industry has experienced tremendous growth in the past 20 years, generating billions in revenues and supporting thousands of employees and a booming tourist trade.

Asian hotels/resorts with spa experience lower occupancy (2-6%) but increased ADR and RevPAR as opposed to hotels/resorts without spas. However hotel/resorts with spas had a \$33 premium for ADR and a \$14 premium for RevPAR over hotel/resorts without spas in late 2008.

Australia

Australia also has experienced tremendous growth in its spa industry although the absolute number of hotel/resort spas per capita may be smaller there.

Occupancy in hotels/resorts with spas in Australia was 3-6 % lower than non spa hotels at various time periods from January 2005 to January 2008. ADR premium ranged from \$27 to \$32 Aus\$ for hotels with spas over hotels without. RevPAR premium ranged from \$13.6 to \$14.5 Aus\$ over the period from January 2005 to December 2008.

Europe

Europe has enjoyed a long history of spa tourism and today revenues are rapidly increasing due to a re-birth of spa popularity.

Hotels without spas had around a 7% higher occupancy in January 2008 than hotels with spas. In general in this European sample, occupancies ranged from 3-5% higher in those hotels without spa. Amazingly, European hotels/resorts with spas had ADR premiums of 45€ in 2003 and increased to 81€ in 2008, concomitantly, RevPAR premiums of hotels with spas over those without increased in January 2005 from 18.5€ to 41€ in December 2008. These are incredibly significant premiums for hotels.

Latin/South America

Recently due to ecotourism, the resort and spa resort industry has blossomed in this part of the world. Un-crowded beaches, protected rain forests and spectacular undeveloped land have made

this area a paradise for adventure travelers and those seeking the peace of nature. It is hoped that much unclaimed wilderness will be protected for generations to come so that eco spas will thrive.

Once more, high end hotels without spas had higher occupancies (3-6 %) throughout January 2007 until the end of 2008. As predicted hotels with spa had much higher ADR premiums (\$21 in January 2007 to \$27 in late 2008). RevPAR premiums are similarly higher for hotels with spas maintaining a \$10 premium in January 2007 to a \$14 premium in late 2008.

UK Hotel Performance

The current UK was once a spa bather's paradise and spa usage revival there is strong, especially in the hotel/resort sector.

The greatest difference in occupancy here was in January 2007 with about a 4% elevation in occupancy in hotels without spas versus those with spas. During the same time period, the ADR premiums ranged from 44£ in January 2005 to 86£ in December 2008. RevPAR premiums moved from 22£ to 55£ in the same time periods. This is an amazing doubling of ADR and RevPAR premiums over the space of 4 years. However, other factors beside the presence of spa may need to be considered.

US Hotel Spa Performance

Occupancies were near 72% in non spa hotels and 70% in hotels with spas in late Jan 2006 but much of the rest of the time occupancies were similar in the U.S. In the same time period (2005 to late 2008) the ADR premium for hotels with spas grew from \$64 in 2005 to \$75 in late 2008. RevPAR differences ranged from \$45 in January 2005 to \$47 in late December 2008. As in the UK, spa appears to add incredible ADR and RevPAR premiums. However, it must be noted that we are not at all sure that the relationship between spa and these benchmarks are causal.

Regional Differences

Occupancies of U.S. hotels with spas barely declined when compared to hotels without spas. All other regions show a negative effect of spa on occupancies.

The limited African hotels studied suggested an ADR premium of 50% for those with spas over those hotels with no spa, Europe's premium averages around 45%, the U.S. is at 30%, Australia and South America around 20% and Asia around 10%. Africa, the U.S. and Asia show the greatest RevPAR premium of all regions studied.

Time Fluctuations

In the areas we studied, almost universally, hotel/resort occupancy, RevPAR and ADR peak during late December and early January. In Upper Upscale and Luxury Hotels with or without spas, peak times are Tuesday, Wednesday and Thursday.

Conclusions

Occupancy percentages in general run higher for hotels without spa. However occupancy differences may be less important given that $RevPAR = OCC \times ADR$. In almost all cases there is a strong premium for ADR and RevPAR for hotel/resorts with spas. It would appear that the presence of a spa increases ADR which of course enhances RevPAR. However, one cannot conclude that it is only the presence of a spa on a property that enhances revenues. We were unable to tease out other factors that could have increased ADR and RevPAR for high end properties. Please see discussion of the limitations of the study.

Summary

Overview of Findings

Category	Occupancy of (1) vs. (2)	Effect of (1) on ADR	Effect of (1) on RevPAR	Comments
Luxury Brand with spa (1) vs. w/out spa (2)	-	+	+	<ul style="list-style-type: none"> Spa has negative effect on occupancy Spa has positive effect on average daily rate Spa has positive effect in RevPAR Spa has greater ability to recover occupancy Hotels have higher mid-week occupancy
Upper Upscale Brand with spa (1) vs. w/out spa (2)	-	+	+	<ul style="list-style-type: none"> Spa has negative effect on occupancy Spa has positive effect on average daily rate Spa has positive effect in RevPAR Spa has ability to maintain occupancy during economic declines Hotels have higher mid-week occupancy

Limitations of Study

- The study is based on three key benchmarks: RevPAR, ADR and Occupancy. These three benchmarks are not independent because $RevPAR = Occupancy \times ADR$.
- We did not control for age of property, location, brand, real estate value, resort versus urban, business hotel versus vacation site, management behavior, economic swings, types

of amenities offered at hotels and resorts, cultural travel habits, size of spas, size of rooms, or size of properties among other variables.

Suggestions for Future Study Regarding Spa Property versus non Spa Property

- Study urban hotel spas versus hotel resort spas.
- Study hotels with greater than 1000 rooms versus those with less than 1000 rooms.
- Study hotels with recent capital investments vs those who have not made such investments.
- Determine what other amenities are present in addition to spas in spa hotels.
- Eventually develop a multiple regression model to clearly determine effect of spa on hotel revenue.



Hotel Performance Statistics:

An international comparison
of hotels with spas
and hotels without spas



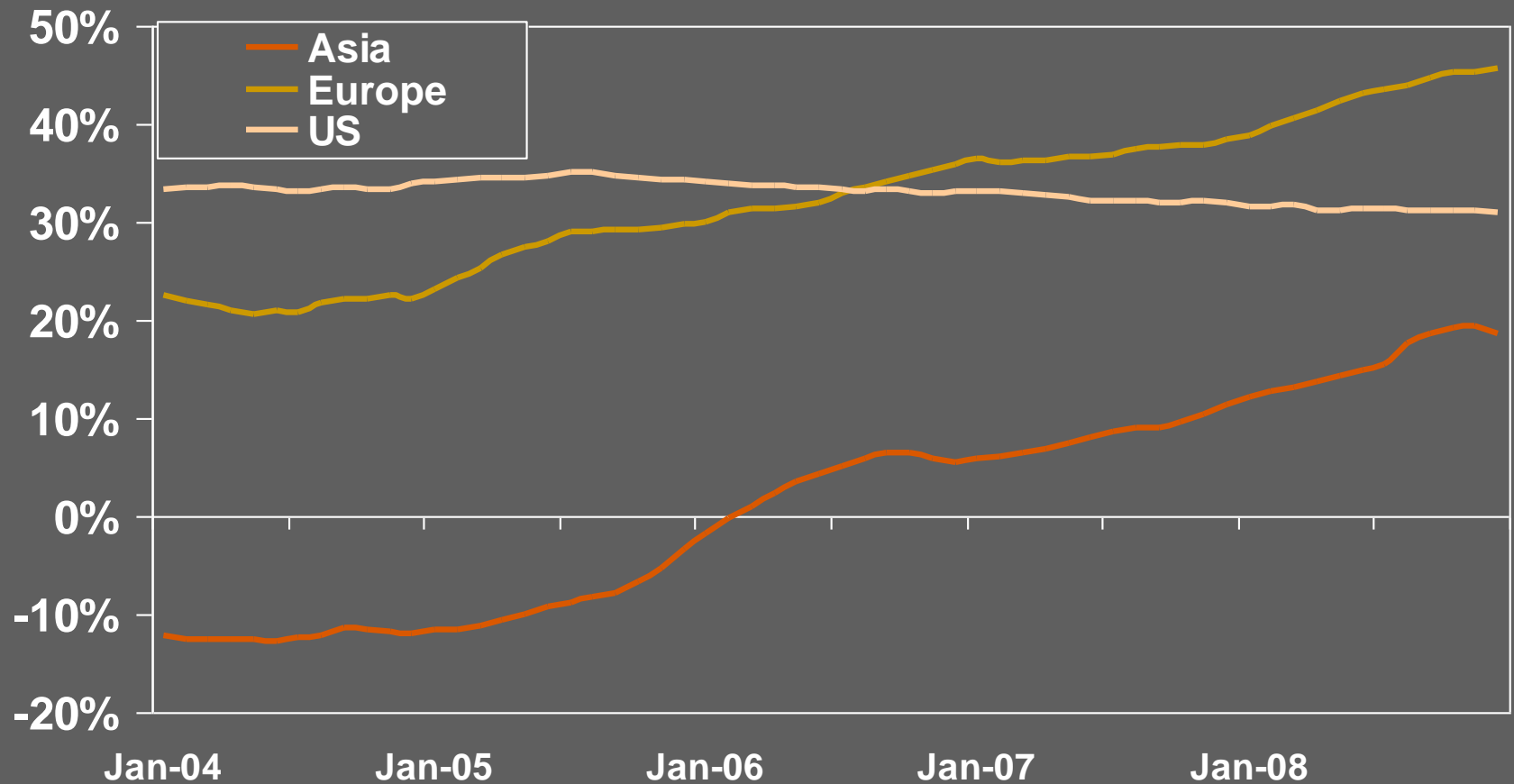


Average Daily Rate (ADR)



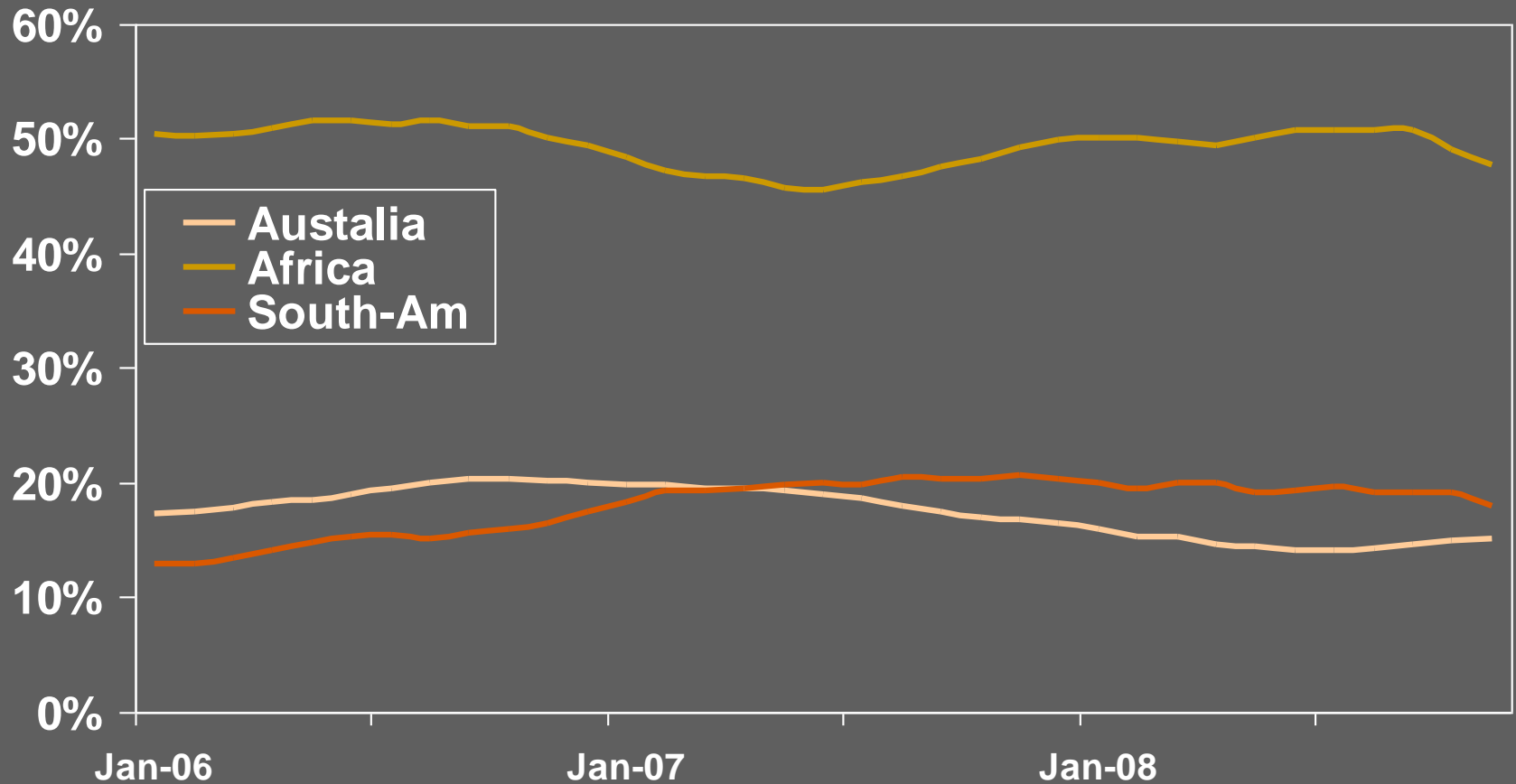
ADR premium of hotels w/ spa over hotels w/out spa in comparison

Twelve Month Moving Average Jan 2004 – Dec 2008



ADR premium of hotels w/ spa over hotels w/out spa in comparison

Twelve Month Moving Average Jan 2006 – Nov 2008



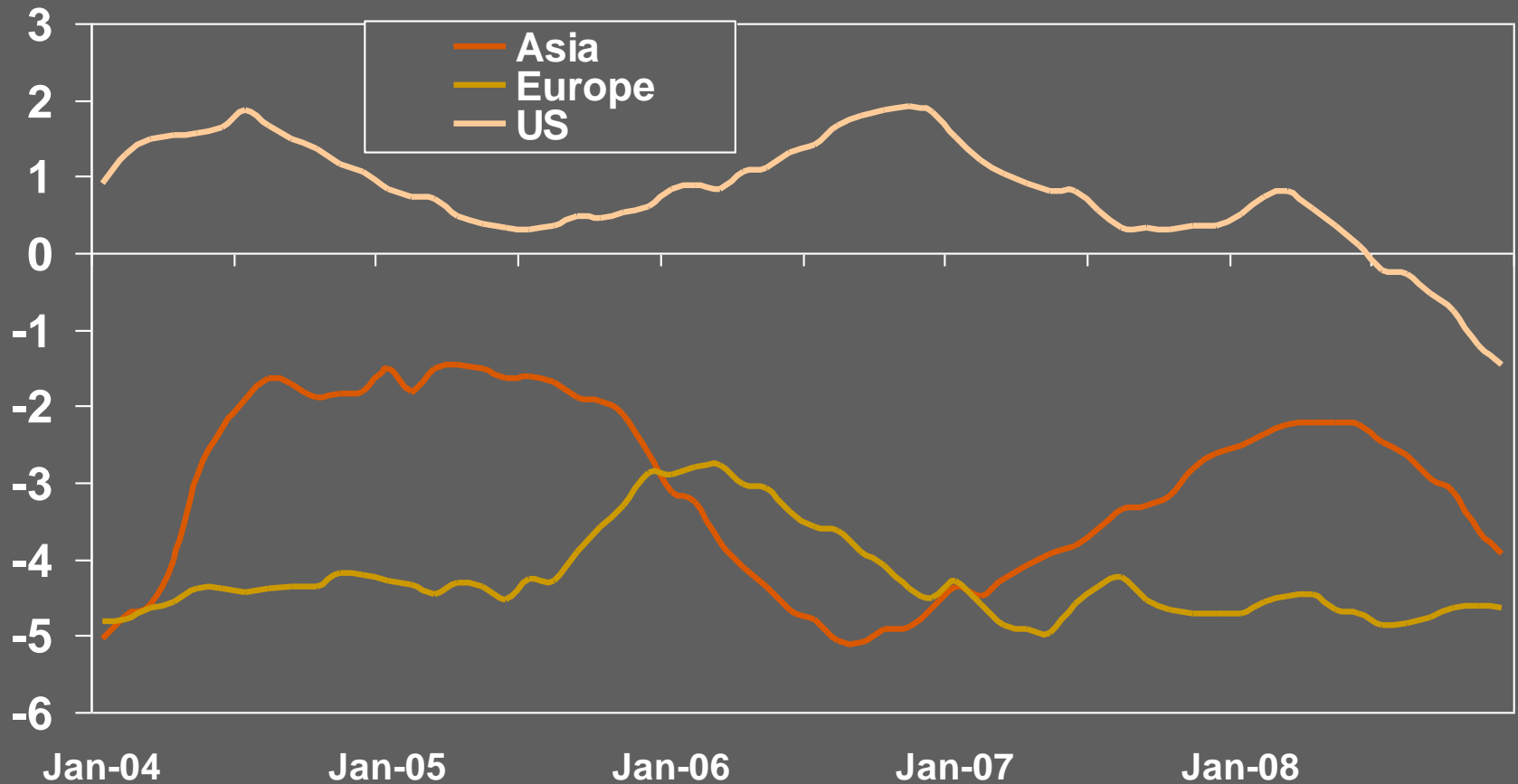


Occupancy



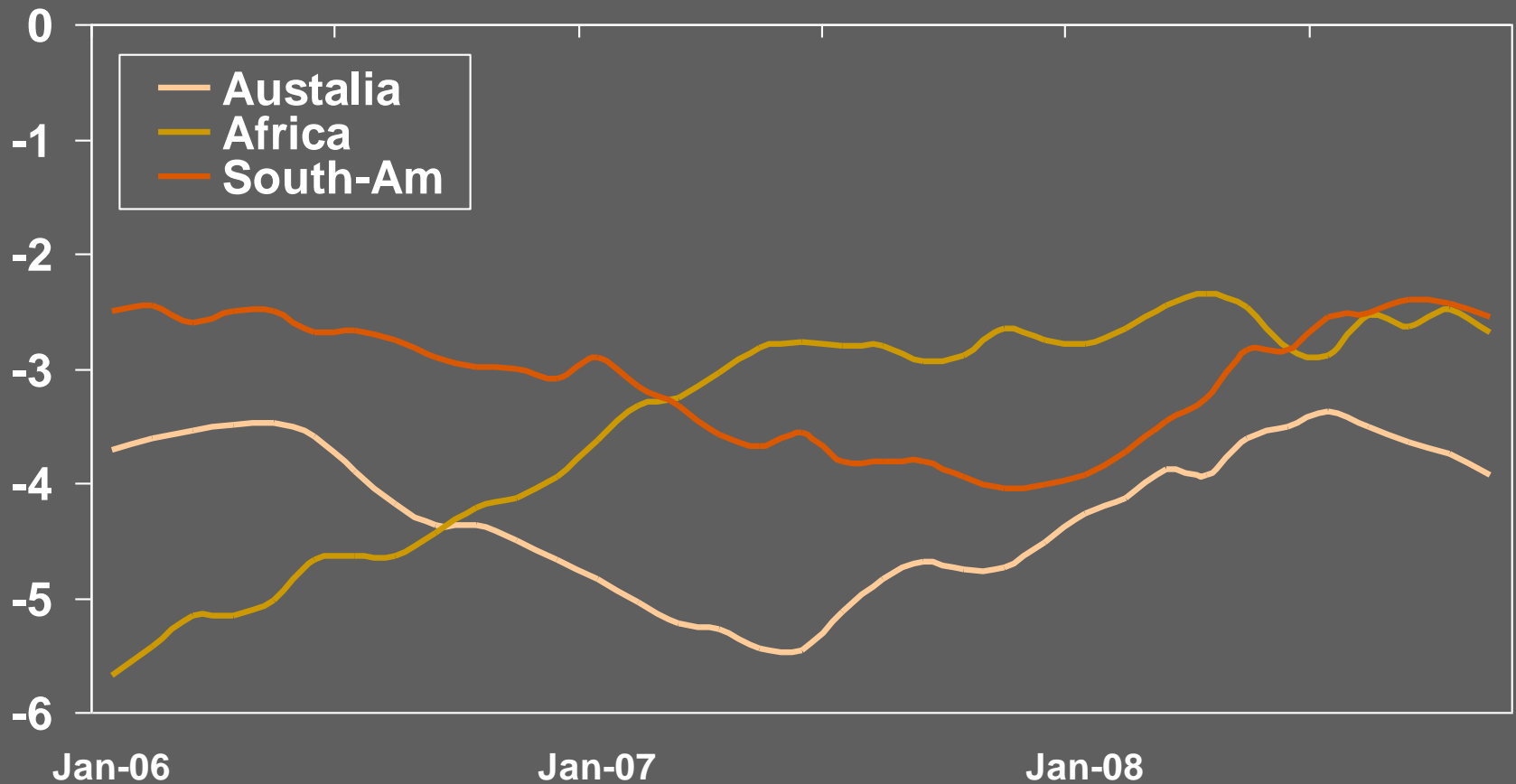
Occupancy difference of hotels w/ spa over hotels w/out spa in comparison

Twelve Month Moving Average Jan 2004 – Dec 2008



Occupancy difference of hotels w/ spa over hotels w/out spa in comparison

Twelve Month Moving Average Jan 2006 – Nov 2008



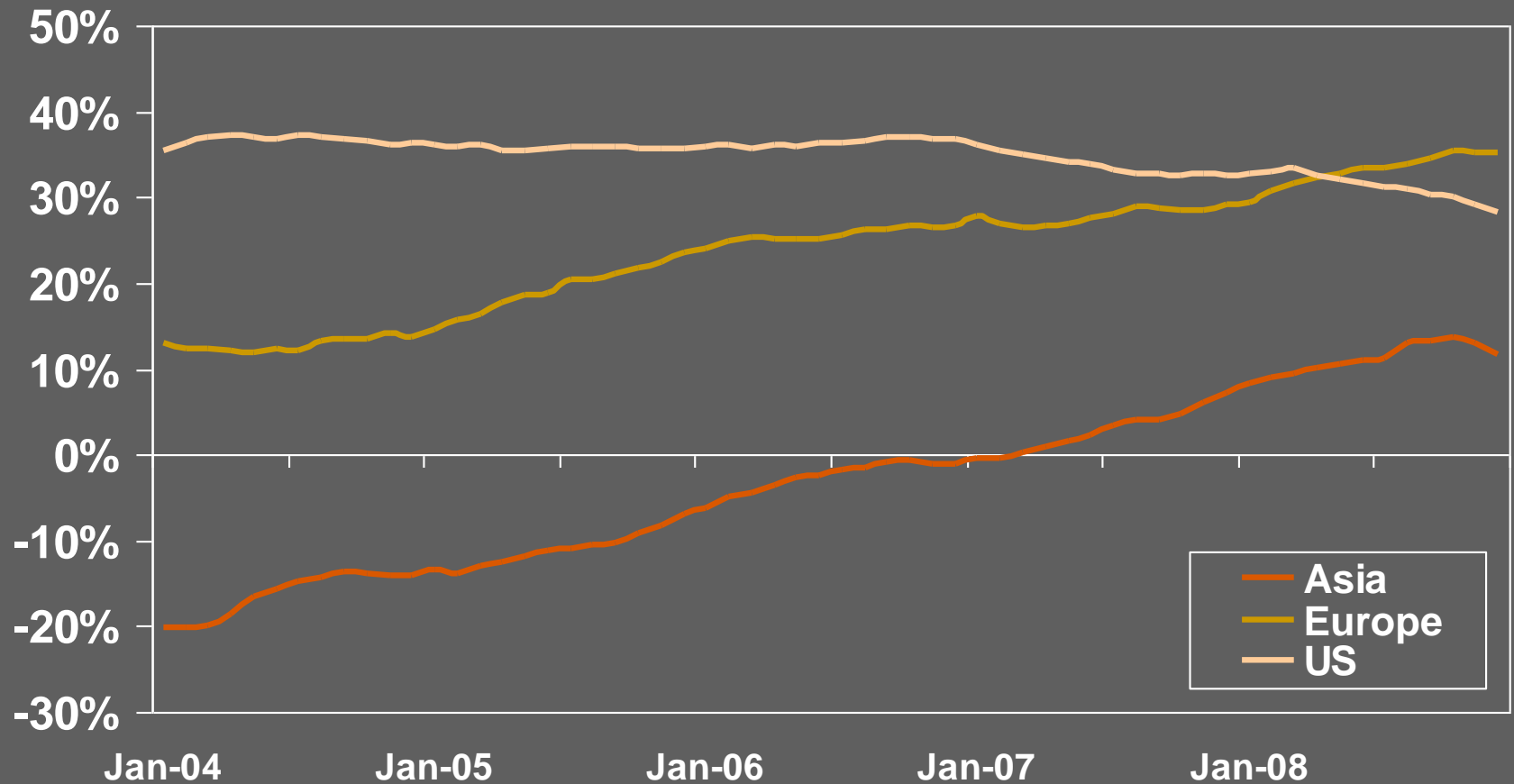


RevPAR



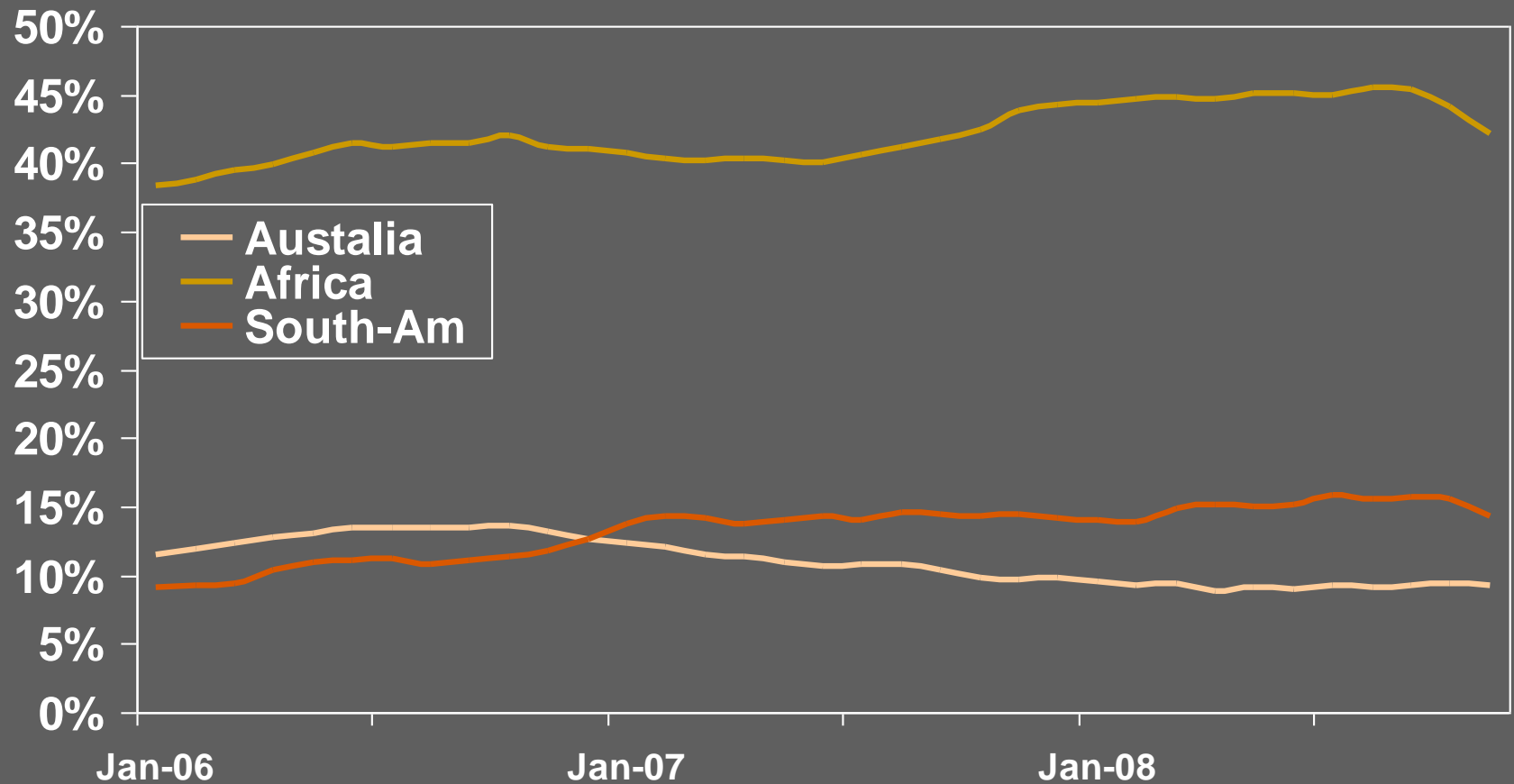
RevPAR premium of hotels w/ spa over hotels w/out spa in comparison

Twelve Month Moving Average Jan 2004 – Dec 2008



RevPAR premium of hotels w/ spa over hotels w/out spa in comparison

Twelve Month Moving Average Jan 2006 – Nov 2008





**This research was conducted for the 3rd
Annual Global Spa Summit by:**

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