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Hotel, Tourism and Leisure

The Complexities of Delivering Transformational Travel Experiences

Purpose-driven Hotels are Best Suited to Offer Transformational Experiences

The semantics have been evolving, and rightly so. Once resorts and hotels began to provide authenticity and a sense of place, the space was created for guests to enhance their 'stays' and refer to their stays as experiences.

With farm-to-table menus featuring seasonal and regional cuisine, excursions designed to allow one to see the destination 'like a local', residential (rather than institutional) architecture and interior design that subliminally makes travellers feel more 'at home', the service provided to guests gradually extended from 'accommodation' to experiential travel.

This evolution was described in a couple of paragraphs but should not be minimized. As new hotels and resorts can attest, the food and beverage positioning, in addition to wellness programming and cultural sampling activities, have all made the hotel and resort development process more complex and challenging.

In addition to the 'soft' items such as programming, hard construction investment decisions also need to be made: Do we follow architectural trends which are costly to change, such as building more intimate (smaller) hotel rooms but larger social areas? And to what extent should sustainable construction and operating methods be implemented?

At times I worry for hoteliers. Just as they are getting the knack of experiential travel, they now find that guests are no longer satisfied with it - wanting transformational travel in its place. Again, the evolution makes sense.

As we move from providing a clean bed and bath as well as availability of meals in away-from-home locations, to providing a host of customized experiences, guest satisfaction increases, yet new needs arise.

That is, like apps on a smart phone, improved product and programming at hotels are additional tools with which guests discover new desires. (*I want to pay for things with my phone, I want to see who is at my front door with my phone, etc.*).

The market for phones that just make phone calls has all but disappeared. Resorts that only provide lodging may follow the same progression.

Experience Becomes Transformation

This current shift from experiential to transformational travel takes some thought and description to grasp and internalize. My favourite definition of 'transformation', of the half dozen or so in the dictionary, is the following: *"a process by which one expression or function is converted into another that is equivalent in some important respect, but is differently expressed or represented."*

Restraining the temptation to equate this definition with "same same, but different," the meaning conveys, in the context of travel: *"I'm happy to be who I am, but in my daily life I'm not open to reflect or dwell on the essence of myself like I can when I'm traveling on vacation. My goal in this trip/journey is to internalize the experiences I have so that they enrich, and alter, my perspective."*

An informative article from Skift.com titled 'The Rise of Transformational Travel' recently helped me to correctly label the differences I was noticing as I work with clients and visit resorts large and small, ranging from those that are wellness-focused to adventure-focused, eco-focused and retreat-focused.

The Transformational Travel Council, founded in 2016, asserts that transformation is most likely to happen when individuals travel like HEROS, an acronym that stands for: *"traveling with **H**eart; seeking **E**ngagement; having the **R**esolve to work through challenges; and leaving your heart, mind, and soul **O**pen to the unknown."*

A recent issue of AFAR Magazine was entirely devoted to the benefits and challenges of being 'unplugged'. Sure enough, if you have to ask people for directions, or restaurant recommendations, instead of using your smart phone apps, you need to engage more with the local residents, you become more open to the unknown and probably will face more challenges that need to be resolved. Perhaps the heart just follows once problem solving and interacting with people disrupts the normal routine of staring at the phone screen?

A survey noted in the Skift report helps explain why travel, unlike many activities, can be a catalyst for transformation. *"In the survey, travellers who have had such an (transformative) experience were most likely to say that gaining a new perspective and learning something new took the experience to the next*

level, at 52 percent and 44 percent, respectively. Reflective moments played a large role as well, with 30 percent of travellers saying these led to a personal shift."
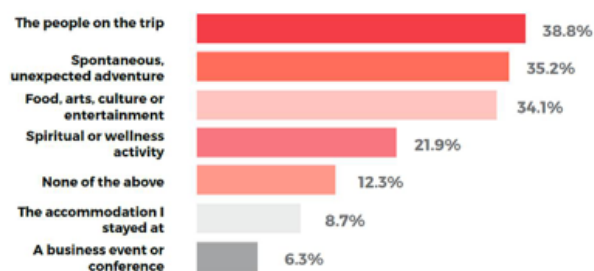
For example, I like to scuba dive and I have had a dozen or so diving experiences, all of which were rewarding and enjoyable. The time I went diving with the Reef Restoration Foundation in Curacao however, was a transformative experience. With steel wool, we cleaned damaging algae off the coral, which challenged my skills (staying still enough twenty feet under water to gently clean the pieces without breaking them or pulling the whole rack of coral along with me) and added purpose and reflection to the experience. Yes, I am helping to restore, rather than consume, but is it really making a difference or is it a drop in the giant bucket of the ocean? The experience also reminded me of the meditative activity that I enjoyed as a child with my father, of weeding a garden.

I may confuse the dive in which I saw the giant squid or the magnificent brain coral, but the Curacao Reef Restoration dive is more indelibly implanted in my memory - as I had to overcome a skill challenge, felt a deeper connection with the world around me, and even recalled that getting my hands in the dirt and watching a garden grow are experiences that I miss.

As Sharon Cohen, vice president of Fairmont brand management for AccorHotels states in the Skift report, *"I think transformative travel takes place when experiential travel goes a step further and expands the mind, shifts perspective, pushes boundaries of one's comfort zones, and creates cultural understanding."*

Two more learnings from the Skift report were thought-provoking. First, its 2017 survey researched external factors that were causally related to transformative travel experiences.

Which external factors led to that transformational moment ? (choose top two)
631 answers from 401 respondents

Factor	Percentage
The people on the trip	38.8%
Spontaneous, unexpected adventure	35.2%
Food, arts, culture or entertainment	34.1%
Spiritual or wellness activity	21.9%
None of the above	12.3%
The accommodation I stayed at	8.7%
A business event or conference	6.3%

Source: Skift Survey, 2017

Respondents were very clear that the 'community' aspect of the travel experience is a key ingredient for transformation. It is also interesting that the respondents' choice of accommodations ranked 6th among the seven factors identified.

It appears that these results reinforce the architectural trend of shifting space away from overly generous guestrooms to shared social spaces (depending on luxury tier), especially if the destination or property attracts like-minded guest populations in a manner that eco-resorts and extreme adventure destinations tend to do.

Implications for Developers and Owners

Finally, the Skift report addresses the owners of resort hotels where such transformative travel takes place.

"Considering that travel is already a prime source of life-altering experiences, the industry is well-positioned to engage with this new reality.

Those companies and destinations that have a purpose-driven business ethic are best situated to attract customers looking for these experiences, as their messaging will authentically align with their offerings (emphasis added).

While it's possible to use 'transformative' as a branding buzzword, this approach is most effective when a company's or destination's offerings are an extension of its essential nature."

This quote addresses several important issues in the resort and hotel development world. First, it brings the evolution of trends referenced at the beginning of this article full circle, essentially saying to developers, *"You can't fake authenticity."*

Not surprisingly, so many experiential resorts and hotels are single-property operations. They are often expressions of or extensions of, a world view or an aspect of life to which the founder(s) are devoted and in which they are heavily invested.

Whether the focus is surfing, yoga, longevity and anti-aging protocols, or appreciating nature, we have observed this pattern in working with many clients who aspire to, or have achieved, the development of a sustainable resort business model. That is, they themselves are the role model guest, or belong to the target market segment of the planned resort or hotel.

The flip side of this tendency is that it appears to be quite difficult to 'mainstream' transformationally positioned resort properties or achieve typical hotel industry brand scale in this realm.

During the past decade, the health & wellness and experiential travel sectors have been identified as not only displaying growth trends but constituting a larger role in people's daily lives and spending patterns.

Investment organizations, which are trained to find such growth opportunities, have pumped hundreds of millions of dollars into many of the sector's leading family businesses, including Canyon Ranch, Miraval, Six Senses and Banyan Tree. It appears their intent was to get in the 'ground floor' and with capital infusions, to expand and scale the various small brands and create value.

Despite these grand plans, we have observed that experiential resorts are not easily duplicated or integrated by the traditional 'heads on beds' hotel companies.

Miraval, for example, has been known throughout the wellness industry for its emphasis on mindfulness. Its new parent company Hyatt, however, has brand pillars founded on a broader base of lodging and lifestyle offers. Time will tell if the essence of Miraval can be sustained in such a 'production-based' hospitality company, compared, for example, with how the Kimpton brand maintains its essential brand pillars within the InterContinental Hotel Group (IHG).

As Kimpton and IHG are both hotel companies in which room occupancy and ADR are the key metrics, the Kimpton to IHG integration process may proceed more smoothly in the long-run. Combining one management team that measures total spend per occupied room, with another that is fixated on room rate only may be a more difficult challenge. Though several formerly family-run brands, including Six Senses, for example, are well on the way to achieving scale as a result of capital infusions, we observe that many of the resorts that are fertile ground for transformational travel remain single-property brands or maintain an extremely conservative approach to growth.

Year to date 2018, my team has worked with three proposed resort properties that fit the market segments of eco-, adventure-, retreat-, and/or wellness-travel. One is located in the Virgin Islands and was closed for a few years when the hurricanes of last autumn destroyed most of the landscaping and construction; another is located

in a small Costa Rican village known for surfing; and the third is located in southern Utah. Despite the different geographies, these resort developers share several obstacles and risk factors that are common to many transformational resort properties:

Remote Locations
It can be quite difficult to forecast demand for a new resort if it is in a pioneering, or remote location.

For North American visitors, the Costa Rica resort development referenced above requires one or two flights to get to San Jose, the capital city, and then another flight on a propeller plane to the air strip nearest the resort site, followed by an hour or more drive (half of which is over unpaved roads). Such locations with limited access must typically forego the technical know-how and marketing pull of global hotel brands, as they are typically far smaller in room count required by many brands.

As we often tell clients who are not located near major airports, *"if you are going to a particular restaurant and you pass twenty other restaurants on the way, there better be something very special about this particular restaurant."*

Similarly, a remotely located resort had better be worth the trip, or at the very least the journey should be part of the adventure. For the Utah resort, the unusual and beautiful terrain, as well as the extreme sports activity this landscape enables, is the 'something very special.'

Sustainability Issues
The foundations of sustainability are often described as three legs of a common stool, one leg is economic sustainability, one is social, and the third is environmental. In the case of remote resorts planned for areas of sparse population or fragile ecosystems, the social and environmental legs of sustainability's three-legged stool can be the most difficult to manage.

For example, an 80- or 100-room resort hotel can have an oversized impact in the character of a small community, such as a Costa Rican surf village. An influx of constantly changing visitors can disrupt the camaraderie and limited resources of previously tightly knit neighbours.

Acquiring, and more importantly, retaining trained employees can be quite difficult when adding to a very small base of lodging facilities in remote areas. Hiring trained staff from a capital city and moving them to a remote eco-resort can sound enticing to the employees, but the isolation and lack of diversions they experience after the first few months in the new environment can result in high turnover.

In interviewing a 25-year-old eco-resort's general manager, she reported that most of the staff has been with the hotel for 20 years or more. Once the right match between employees and lifestyle is made, the issue appears to be resolved.

However, it can easily take the first five (and most critical for economic viability) years for those matches to happen, after investing heavily in repeated relocation and training expenses.

Further, you don't need to look to emerging markets to find growing pains. In Moab, Utah, six hotels are under construction, following several that have opened in recent years. The town witnessed a boom and bust cycle several decades ago, as its economy was heavily dependent on a uranium mine just outside of the downtown area.

After many years of a stagnant economy, the town's terrain began to attract the growing market segment of extreme sports enthusiasts such as rock climbers, mountain bikers, off-road Jeep riders and river rafters. This burst of activity was the catalyst for the first wave of limited- and select-service hotel construction.

Visit Utah implemented a very successful campaign in 2013, advertising "The Mighty Five" National Parks, two of which are in close proximity to Moab. The campaign has been so successful at attracting visitors that the Salt Lake Tribune has reported that the National Park Service is now considering admittance to Arches National Park on a reservation-only basis, as congestion in the park has become a serious impairment to its enjoyment. Several million visitors annually now travel the Mighty Five circuit in a very rural area with limited tourism infrastructure.

Interestingly, much of the housing that is newly constructed in the Moab area is configured in rows of townhouses and condominium units, many of which are purchased by investors. With such units renting via AirBnB or other methods, there is not much incentive to rent units on a year-round basis to local residents.

In 2017, median monthly housing rental cost in the area was $975, while condominium rentals on homeaway.com advertise $750 for a three-night weekend rental.

The success of tourism growth has created stress on the road infrastructure, on hotel workers to commute long distances and, as in most of the western United States, on the water supply. Developers and tourists are no longer enthusiastically welcomed by the local community, even though the local economy has found a new engine in tourism. Such issues are not normally faced by towns with a population of 5,000 and become difficult to manage with a correspondingly limited municipal budget resulting from a small tax base.

Valuation Methodology

Most commercial real estate is valued by appraisers based on the income approach, which concludes the present value of the net income expected to be generated in the coming years, plus the present value of gain from selling the property at the end of the typical owner's holding period. The net income is typically generated by the rent, less the expenses that ownership must bear to generate that rent (such as property management fees and other operating expenses). In most hotels, this method works fine, as 70% to 90% of the net income is earned by renting rooms.

However, in destination spa resorts, hotels that primarily host retreats, and other facilities that have extensive programming or club membership fees in addition to food and beverage, e.g. local cultural excursions and/or sports fees (golf, surf school, fishing charters, SCUBA center and dive shop, etc.), the proportion of net income that is generated by room rental may be as low as 40%. Investors and lenders sometimes balk at valuing extensive 'non-rent-like' net income sources as real estate, as they may not be replaceable by a typical real estate purchaser.

For example, suppose a hotel also is the home of a Deepak Chopra Center, that generates one-third of the net income, and by the methodology described, one-third of the hotel's value. If the hotel is sold and the Chopra Center departs, a typical owner, or a bank that lends based on the hotel's value, most likely will not have the ability to replace that portion of the hotel's net income quickly or effectively.

At times we are forced to apply a higher cap rate (or lower multiple) to certain components of net income if they are perceived as riskier cash flows to typical buyers of these properties.

Development Funding

In helping clients position their business plans to maximize the chances for a successful capital raise, we have become familiar with the 'pecking order' of the traditional U.S. and Canada-based investor comfort levels, which are inversely proportional to risk levels.

The 'darling' of the investment community is a cash-flowing operating hotel/resort, especially one that is underperforming, creating an opportunity for quick value creation. Acquisition financing is the preferred equity/debt placement, but renovation and/or conversion financing is also typically routine to acquire.

By geographic location, a 'top ten' urban location is easiest to finance (in general), followed by secondary markets, and finally tertiary U.S. destinations and offshore locations. By product type, the order is roughly limited- and select- service first, then full-service hotels, and lastly resort properties. Even when capital is considered to be readily available, as in the current environment, resort construction funding in the tropics can be extremely difficult to confirm.

This structural impediment to funding calls for alternative capitalization strategies if this sector is going to have growth in supply commensurate with growth in demand.

Much like the pattern referenced earlier in this article, that these 'affinity-based' resort properties are typically an extension of the developers' passions and value systems, investment sources that are also aligned with the values of transformation, adventure and nature will need to be identified and properly compensated for playing in this higher risk product type.

It may be that a venture capital structure, like that used for tech company startups, is more appropriate for this product-type. It is to be expected that some may fail for being too remote, or for appealing to an extremely small niche, or for being too dogmatic in over-structuring the guest experience rather than providing a blank canvas and tools with which guests can create their own experiences.

But despite a potentially high failure rate, the 'winners' that reach a balance in these and other factors to create a scalable product, with an economically beneficial positioning strategy - should have great success.

The difficulty of getting so many development factors right creates its own barrier to entry; however pursuing these measures protect those who do succeed in developing and operating resorts where transformational experiences happen - where the business model sufficiently sustains employees, adds value to the local community as well as the natural surroundings, and rewards the capital stack participants.

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Andrew Cohan, MAI, is the Managing Director of the Horwath HTL office in Miami primarily serving Florida and the Caribbean Basin.

A seasoned hospitality professional with extensive real estate, marketing and account management skills in North and Latin America, Andrew has consulted for leading branded management companies such as Canyon Ranch, Six Senses, Montage, Solage and Bulgari.

He has extensive experience with health and wellness resort properties and has performed numerous feasibility studies for planned resorts in the Caribbean and Central America. He especially enjoys working on greenfield projects, teaming with land planners to determine the optimal resort configuration in order to fit market demand with destination and site attributes.

As health and wellness have moved from the margins of the industry to become important components of mainstream hospitality projects, Andrew's expertise has been in demand to conduct an increasing number of assignments for proposed resort properties, particularly as the industry recovery continues to strengthen in Central America, the Caribbean, Mexico and the 'sunbelt states' in the United States.

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