Chapter 1

RESORTS: AN INTRODUCTION

INTRODUCTION

To understand where the resort industry is today, it is important to consider how resorts have evolved through the ages. A historical perspective leads to a picture of the modern types of resorts.

HISTORY OF RESORTS[1] The sole purpose of a resort, in the classic sense, is to afford its users a place for escape or restoration from the world of work and daily care.

—CHUCK Y. GEE
Resort Development and Management

Roman Empire

Prior to the eighteenth century, pleasure travel was not available for the masses. Lack of time and money combined with poor transportation and a general lack of facilities to make travel something that one had to do rather than wanted to do.

However, the roots of the resort concept can be traced to the Romans. Extending from the public baths, resorts were initially built in and around Rome before being developed for the pleasure of Roman legionnaires and consuls throughout the empire—from the coast of North Africa to Greece and Turkey, from southern Germany to St. Moritz in Switzerland, and on through England. In fact, Bath in England still has relics dating to A.D. 54, when it was known as Aquae Sulis (Waters of the Sun).

The first baths, introduced in the second century B.C., were small and modestly furnished. Men were separated from women. Later, the baths became integrated, larger, and more ornate. They served both health and social purposes. The public bath allowed for relaxation, while the sale of food and drink on the premises encouraged social interaction. A typical structure consisted of an atrium surrounded by recreational and sporting amenities, restaurants, rooms, and shops.

Outside the major centers of population, baths were located by mineral springs, which were known for their restorative powers. The Greeks had earlier associated mineral springs with the gods and had built holy wells and altars on the sites. Roman legions appropriated these sites for the construction of baths.

The Roman Empire began to decline at the beginning of the fifth century A.D. Social life at the English resorts languished until the seventeenth century, when it was refueled by improvements in roads and the introduction of the stagecoach.

Europe

In A.D. 1326, Colin le Loup, a Belgian ironmaster, was cured of a long-term illness by the iron-rich waters of a spring near Liège. As thanks, he developed a shelter there to welcome others. The popularity of the area grew so much it was renamed Spa, meaning fountain.

A Roman bath in Bath, England. *Courtesy Peter Adams/Digital Vision*

Back in England, King Charles II restored the monarchy in 1660 after years of Puritan rule. He spent time at the popular resorts of the day—Bath, Tunbridge Wells, and Harrogate. Thus began a long history of attractions being popularized by the rich and famous, a tradition that continues today. In other parts of the world, royalty continues to be the trendsetters, while in North America, stars of the popular culture determine the "in" places. There is an old saying in tourism that mass follows class. Destinations are initially made popular by a small band of influential people. This puts the place on the map. Seeking to emulate this group, others are attracted to the location.

A second factor leading to the popularity of the spas was the endorsement of the medical profession. The waters of Tunbridge Wells, for example, were promoted as an aphrodisiac. Likewise, bathing in and even drinking salt water was regarded as a cure for numerous diseases and helped promote seaside resorts. Popular activities at the baths included gambling, dancing, and other forms of entertainment, including concerts, grand parades, and the pump room, where health-seekers "took the waters."

The rise in popularity of the spas created a demand on the part of the affluent for more private facilities. This led directly to the development of the Swiss resort industry. Before railroads were built, guests traveled long distances over poor roads to arrive at their destination. Having spent so much time and effort in reaching the spa, they wanted to spend a long time—up to two months—to get their money's worth. This led to the development of facilities more extensive than those offered by a modest inn. In Zurich, the most famous resort was the Hotel Baur au Lac, opened by Johannes Baur in 1844. After several expansions, the hotel was completely rebuilt with an innovative design that still is used today. While all other hotels faced the town, Baur built the new resort facing Lake Lucerne. He became the first developer to recognize the benefit of a scenic view.

In the early 1800s, Switzerland was known as a summer resort. However, in 1860, several English visitors were convinced to stay on for the winter. Skating was already a favorite activity. In Switzerland, the guests were introduced to skiing and tobogganing. While the initial attraction was the promise of health cures, the popularity of the resorts was due more to the social activities organized by management. One example was the Bains de Monaco, renamed Le Mont Charles (Monte Carlo) in 1863. Operating in the winter months when traditional summer resorts were closed, it offered guests year-round gambling. While the health spa was the overt attraction, the real source of the resort's success was the gambling.

North America

The earliest resorts in the United States were developed in the East and, as in Europe, were established around spas. Resort hotels were opened in Virginia, New York, and West Virginia in the eighteenth century. At approximately the same time, the seaside resort became popular. Examples include Long Branch, New Jersey, and Newport, Rhode Island. The latter was a commercial port where molasses was distilled into rum, which was then traded for slaves from Africa. When the slave trade was abolished at the end of the eighteenth century, the town turned to tourism for its economic future. Wealthy southerners ventured north to escape the heat and malaria of South Carolina in the summer.

Amenities Early hotels were rather barren in terms of amenities. The forerunner of many upgraded facilities to be later found in resort hotels was not a resort hotel itself. The Tremont Hotel in Boston, built in 1829, is credited with introducing a number of innovations in service, including:

- elegant marble
- carved walnut furniture in private rooms
- a pitcher and bowl and free cake of soap in each guestroom
- gaslight instead of candles
- French cuisine and silver table service that included forks
- bellboys to handle guest luggage
- an "annunciator"—the forerunner of the room telephone

Civil War The American Civil War changed the nature of many Eastern resorts. Saratoga Springs, New York, had long catered to southern gentlemen who brought their horses (and their slaves) with them to race while they took the waters. As the popularity of the springs declined, the resort focused on its social activities. A new racetrack was built, but ultimately it could not compete with the higher purses at Newport and Monmouth Park in Long Branch, New Jersey. The resort turned to gambling and drew some interesting and some notorious characters until the early twentieth century, when reformists took their toll.

White Sulphur Springs, West Virginia, changed too after the war. A shortage of eligible men and a surplus of eligible women led the resort to position itself as a place to find a worthy husband. The addition of a railroad line through the town in 1868 gave it a leg up on the competition. Not until 1891 a spur was extended into Hot Springs, enabling The Homestead to compete successfully with the Greenbrier of White Sulphur Springs, as it does to this day.

Resort Cities

America's first resort city was Atlantic City. Developed in the late 1800s, it attracted the middle as well as the upper classes. It built the first boardwalk to accommodate those seeking the health benefits of sunshine and fresh air, the first amusement pier that extended over the Atlantic, and the Observation Roundabout—later

The Greenbrier in White Sulphur Springs, West Virginia, is a traditional resort.
Courtesy The Greenbrier

renamed the Ferris wheel. The railroad brought day trippers; other guests stayed for the season in boardinghouses and resort hotels. Today, buses bring day gamblers from New York City and other metropolitan areas.

The Twentieth Century

The typical resort hotel in North America at the beginning of the twentieth century was a summer operation. Improvements in transportation changed the structure of resorts. The railroads were instrumental in opening up areas of the country that were previously inaccessible. Both railroads and resorts targeted the relatively few, very wealthy individuals who, before the enactment of a federal income tax law, had a great deal of disposable income.

Winter resorts did not become popular until the development of the automobile, which provided access to areas of the country suitable for winter vacations. California, in contrast, was the first area to develop as a warm winter resort, appealing to those looking to escape the winter cold. Florida, as a warm winter resort, was developed later and more slowly. There, Henry Flagler saw the importance of transportation in opening up new destinations and was instrumental in laying railroad tracks to the south of the state. By 1920, Florida had surpassed California in popularity as a winter retreat for North Americans.

The economy had barely climbed back from the stock market crash of 1929 when the Second World War erupted. Resort development was put on hold. The end of rationing after the war precipitated a period of economic prosperity. Leisure travel was available to a much broader segment of the population. The development of the interstate highway system in the 1950s gave the average American great mobility. The development of Disneyland in California in 1955 was followed by numerous other theme parks in the 1960s and 1970s. Disney World opened in 1971 in Florida and has set the standard for destination family resorts.

In the mid-1950s, the development of jet travel opened up, for North Americans, areas of Europe and the Pacific that were previously inaccessible. Air travel was still costly, however, and relatively few could afford it.

The early 1960s saw the development of the four-season resort. Realizing the risk involved in relying for business on one season of the year, hotels sought to develop year-round attractions. The Homestead added skiing in 1959, while resorts in Colorado extended their season by developing golf and tennis packages and summer music festivals. Others went after group business by constructing convention centers. It can be argued that the shift to conference business is the most significant economic trend in resorts in the past 20 years. In fact, for most large resorts, between 45 and 70 percent of occupancy come from group business.[2] Resorts are attractive to corporate meeting planners because the resort is self-contained. Attendees do not have to leave the premises and can enjoy various recreational activities as a break from meetings.

Planned resort communities—large scale communities with a variety of accommodation options, recreational facilities, and infrastructure—like Sea Pines Plantation on Hilton Head Island in South Carolina and Costa Esmeralda on the island of Sardinia in the Mediterranean have also emerged in recent years.

The past decade has seen a new type of resort entering the marketplace—mega-resorts or family resorts. These properties are not necessarily the largest of resorts. Rather they are properties that have upscale amenities on-site such as a spa, fitness center, shopping, recreational activities, and a fun nightlife. Examples include the Hyatt Regency Waikaloa in Hawaii and the Disney and Hyatt Grand Cypress hotels in Orlando, Florida. Because of the high cost of amenities provided and the often fantasy themes that are part of the resort experience, the properties require high room rates and occupancies to be financially viable.

In contrast to the large resort hotel is the small boutique resort hotel. Targeting the high-end market and emphasizing service, quality, and privacy, these properties—such as the Ventana Inn in Big Sur, California—have a strong focus on lodging and related amenities and offer limited shopping and residential development.

In Eastern Europe, Japan, and some parts of Western Europe, social tourism contributed to resort development. Social tourism involves offering employees vacations that are wholly or partially subsidized. While government and unions subsidize much of the social tourism in Eastern Europe, the equivalent in Japan is the corporate resort that is owned and operated by a major company to provide va-

Quick Getaway 1.1

Resolving Resort Parking Problems

Resorts have legendary traffic and parking problems. Managing vehicle traffic can be a very tricky business, because although the resorts often rely on motor vehicles to bring visitors and supplies, too much traffic can destroy the elements that made the resort so attractive in the first place.

Fortunately, there are a few steps that can be taken to prevent a resort from becoming a vehicular disaster:

- Implementing total or partial prohibitions on driving in certain areas. Visitors will easily understand, especially if it is made clear that too much traffic threatens their enjoyment of the resort.
- Creating restrictions on times when certain types of vehicles may use certain roadways.
- Limiting certain lanes or roads to high occupancy vehicles to ensure that buses and other group transport vehicles don't get caught in bad traffic.
- Limiting the number of vehicles allowed in the resort area (either by metering vehicles or by letting congestion become self-limiting).
- Using road pricing. A charge may be levied for driving on certain roads or into an area, which discourages automobile travel.
- Implementing traffic calming strategies, which limit traffic speeds and volumes, particularly around pedestrian areas.

Source: Litman, Todd. "First Resort: Resort Community Transportation Demand Management." Victoria Transport Policy Institute, November 1999. http://www.vtpi.org/resort.pdf

DISCUSSION QUESTION:

Do you think that resort visitors would accept a severely restricted traffic management strategy better if they were told that it was designed with their interests in mind? Do you think it's necessary for the resort managers to explain themselves to the visitors?

cations for white-collar workers. A common alternative in Western Europe is the holiday fund. Equal contributions are made by the employee, the company, and the government to provide funds that employees use for vacation travel.

Lessons

Four things can be learned from a brief review of the history of resorts:

1. The history of transportation has, to a large extent, determined where, when, and what types of resorts have evolved.
2. The desire for pleasure travel is deep-rooted.
3. Resorts began as seasonal operations. To minimize the risk of relying on one season of the year, resorts developed year-round attractions and appealed to the group market.
4. Resorts develop through life cycles. To be successful, resorts have had to adapt to changes in transportation, consumer tastes, demographics, and competition.

TYPES OF RESORTS

Resort communities work best when they are not 100 percent resort but have a mix of full- and part-time residents. Full-time residents provide customers for the doctors, the lawyers, and the restaurants year round. [This] enables the community to provide a myriad of services that would not be possible with just seasonal residents.

—CHARLES E. FRASER
Founder and Chair, Sea Pines Company

Resorts can be characterized in terms of:

- proximity to primary market
- setting and primary amenities
- mix of residential and lodging properties (2)

Proximity to Primary Market

Resorts are either destination resorts or nondestination resorts. The difference depends on how far the resort is from its primary market; how visitors reach the resort; and the patterns of stay—how many times a guest visits, how long the stay is, and the quality of the setting. Destination resorts tend to be at least several hundred miles from the market. Visitors tend to fly rather than drive there and visit once a year for one to two weeks. Further, the resorts are located at places attractive enough to entice people to travel large distances to get there.

Nondestination resorts tend to be within a two- to three-hour drive of the primary market. Guests arrive by car, visit more frequently, and stay three to four days each time. As a result, destination resorts have a higher ratio of hotel rooms to second homes than do regional resorts. Within these generalities, it should be mentioned that a resort may fit into both categories. Colorado resorts, for example, draw visitors from Denver several times over the season while also attracting people from Europe for a once-a-season experience.

Setting and Primary Amenities

Visitors categorize resorts by their location and amenities. Defined thus, resorts can be either ocean resorts, lake/river resorts, mountain/ski resorts, or golf resorts.[3] Ocean resorts depend on the quality and extent of their beaches, views, climate, and water sports activities. Lake/river resorts obviously rely on water but rely even more on the recreational activities that are water-oriented than do ocean resorts. They are more likely to be located several hours by auto from the resident's home and marketed as second-home communities. Mountain/ski resorts have, in recent years, moved away from their traditional reliance on the winter season to become four-season resorts. Capitalizing on their spa heritage, many are using health as their theme. Mountain resorts in the West tend to be destination resorts, while those in the Midwest and Northeast, because of their proximity to large population bases, tend to be regional in scope.

The increased popularity of golf has helped spawn an increase in the number of resort properties themed around this activity. Growth is also a function of supply. As the number of waterfront locations expanded, fewer sites associated with water were available. As a result, golf course resort developments have sprung up in Florida, North Carolina, and southern California. They are also popular in desert settings, which, lacking water, rely on scenery, climate, and golf to attract visitors. Other resorts rely on specialized amenities, including tennis, equestrian facilities, ranches, health, natural attractions, sporting expeditions, and entertainment.

Residential and Lodging Properties

Real estate people like to categorize resorts based on the type and mix of residential lodging facilities. There are four specific parts to what is being called the hybrid lodging or alternative lodging sector:[4]

- traditional lodging
- timeshare or vacation ownership
- condominium hotels
- destination clubs

Traditional Lodging

The resort hotel is the most common form of resort development. It requires a relatively modest financial investment. The guest at a traditional hotel selects the property on the basis of convenience. For the business traveler, convenience might mean the hotel is close to the highway or to the businesses to be visited. For the leisure traveler, convenience translates into proximity to the beach or other tourist attractions. The resort hotel guest, on the other hand, visits the development simply for relaxation. A growing number of resort hotels, however, are seeking to attract the businessperson, usually as part of a conference or meeting. The company holding a business meeting in a self-contained resort setting keeps the outside distractions of a city to a minimum while utilizing the recuperative effects of recreation to improve business productivity.

Resort hotels differ from their commercial counterparts in other ways. They are located in areas that take advantage of attractive natural features, and they offer more amenities, either on-site or with easy access to off-site facilities. They can range from as few as five rooms to as many as 1,500 or more. Facilities under 25 rooms are independently owned and managed guesthouses, bed-and-breakfasts, inns, cabins, or motel-type properties. They tend to be located in rural areas and cater to short-stay guests.

Facilities in the 25- to 125-room range can include properties from the above group as well as small specialty resorts. Many are called lodges and cater to hikers, hunters, and skiers. Part of this category is the growing number of boutique resort hotels that cater to a small, upscale segment of the market. These are often located in beautiful and delicate settings that are not appropriate for larger-scale development.

Fine dining is just one attraction of many traditional resorts. *Courtesy The Greenbrier*

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Resort hotels ranging in size from 125 to 400 rooms tend to be affiliated with a chain and located in major resort areas. They can be either low-rise or high-rise, though they are usually more horizontal than vertical in design. They have large balconies and larger rooms than comparable commercial hotels, and offer more amenities as well. Hotels with more than 400 rooms are located in prime resort locations offering major attractions such as beach frontage (Florida, the Caribbean, and Hawaii), ski facilities (Colorado, Utah), large theme parks (Orlando), gaming (Las Vegas), and golf (Arizona, Palm Springs).

Timeshare and Vacation Ownership Resorts

Timesharing began in France in the late 1960s and was first seen in the United States in the 1970s.[5] Over 4,300 timeshare resorts owned by almost 10 million households are located in more than 80 countries. The U.S. and Europe account for a combined 40 percent of the total.[6] The term *vacation ownership* is also used to mean *timeshare*. Timesharing is defined as "the right to accommodations at a vacation development for a specified period each year, for a specified number of years or for perpetuity."[7] Each condominium or unit is divided into intervals by the week or as points and sold separately. Owners pay a lump sum up front (a fraction of the total ownership costs), either in full or financed over a seven- to ten-year period, in addition to an annual maintenance, management, and operations fee. Units are priced differently based on unit size, resort amenities, location, and season of the year. The purchaser owns the accommodation for the amount of time it is used. This is usually one or two weeks out of the year. Fractionals allow the purchaser to buy longer intervals—usually 4 to 12 weeks a year. They can cost as much as $600,000.

Five types are available:[8]

- The *luxury* product, in the $20,000 per interval range, is found in tourist destinations and is often a penthouse with 1,500 square feet.
- The *up-market,* priced between $15,000 and $25,000 per week, is also found at destination resorts and offers anywhere from 1,100 (one bedroom) to 1,800 (two bedroom) square feet.
- The *quality* unit goes for $9,000 to $17,000 and offers 800 square feet for a one bedroom unit.
- *Value* units are found at regional resorts and are priced from $7,000 to $10,000 for 800 to 1,000 square feet.
- *Economy* units, also found in regional markets, offer 600 square feet (studio) to 900 square feet (one bedroom) for $5,000 to $8,000.

Annual fees cover the cost of management and maintenance of the resort. Timeshare owners can exchange weeks through membership in exchange companies like Interval International and Resort Condominium International.

Entry into the field by such companies as Marriott, Hyatt, Hilton, Thomas Cook, and Disney has helped improve the image of the industry while blurring the distinction between timeshare and hotel. Expansion by these established companies also has an effect on the popularity of the concept. Forty percent of those interested in purchasing a timeshare prefer a branded product, while 21 percent rate it as very or extremely unimportant in their decision making.[9]

Timeshare Options. Several timeshare options are possible.[10] The *fixed week option* allows consumers to buy a specific week—for example, the first week in August. Under the *floating week option*, consumers buy a week within a given period. For example, consumers may buy one week within weeks 6 through 12. A *combination option* allows weeks in high-demand periods to be fixed and those in low-demand periods to float. School holidays, for example, might be fixed at a specific week, while, for the rest of the year, people buy the right to use the resort for a nonspecific week during the off-season. Four Season Resort Club operates by selling a fee-simple deed for both floating and fixed weeks.

Recently, resorts have introduced *points-based memberships*, which give members points that can be used to "buy" resort stays. Marriott Vacation Club International and Hilton Grand Vacations are both point-based programs. Times of high demand require more points than times of low demand. Guests can bank, borrow, or split up how and when they use their points. Many properties are finding that they can cut back on marketing expenses because they sell the points program to a captive audience. It is, however, initially confusing for the guest and, as such, more complex for the operating company to run.

Points programs make particular sense for a company with multiple sites. To work effectively, choices must be available for the customer, and multiple sites allow for this. The keys to successful implementation of a points system are:

- setting the dollar-per-point ratio and sending the corresponding message to the community
- having a staff sophisticated enough to track point values and inventory
- effective communication between the marketing staff and the operator
- implementing the technology and a central reservation system with sufficient capital to back it up[11]

Finally, the *club concept* does not involve any ownership of real estate. Instead, consumers buy shares or points in the club; these are exchanged for accommodation or travel. Hyatt's Hyatt Vacation Club and the Sunterra Corporation brand (Embassy Vacation Resorts, Westin Vacation Club Resorts, and Sunterra Resorts) are examples of the club-based concept.

Timeshare options have evolved in recent years. They started with traditional fixed units in a set week, then added a floating week option and, most recently, the flexible points option.[12] Segments tend to be region focused—based on a specific geographic region—or theme-focused such as golf, fishing, skiing.

"The baby boom generation is at an age when building a custom vacation home is very complex, time-consuming and frustrating, especially if it's in a remote location. They'd rather buy a turnkey unit, and let someone else take care of it."

—ROB LOWE, PRESIDENT OF DESTINATION DEVELOPMENT

Wall Street Journal, February 1, 2006, D8

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Condominium Hotels

In a condominium hotel, or condotel, guests buy fee-simple equity in the unit—buying a hotel guestroom. They can be used as permanent or second (sometimes third) homes. They are especially popular in hot real estate markets such as Miami, Hawaii, and Las Vegas. They have developed to meet the needs of individuals, especially baby boomers, interested in ownership of vacation real estate (approximately 1,000 baby boomers turn 60 every day in the U.S.).

Owners can earn income (depending on the policy of the hotel) by renting out their units independently or through the rental program of the management company. Condo hotel salespeople cannot promise the units will generate income. To do so might mean that the Securities and Exchange Commission would classify condo hotels as securities. This would subject them to more stringent regulations. Thus, buyers can only be told that they may have the opportunity to place their units into a rental arrangement. While most developers prefer to avoid registration due to the time and paperwork involved, it means that they are unable to require that owners participate in a rental pool. This makes it difficult to project realistic income forecasts for those owners who do participate in the pool. There are also potential problems as owners react to the realities of the hotel business—seasonality, Average Daily Rates (ADR) versus rack rates, frequent renovation (and its attendant costs), etc. For the project to have the best chance for success, it must make sense from a market and economic point of view as a hotel before being considered as a condotel.

Some developers feel that the capital markets will no longer finance traditional high-end hotels anymore. Rather than spending several years looking for financing, they produce a brochure, a model room and are often able to get 80 to 85 percent financing of the project by pre-selling all of the rooms as condominium residences. Individuals cannot get mortgages for hotel rooms but they can for condo apartments that have kitchens and dining areas. Owners are responsible for maintenance and operating expenses. Chicago's Trump International Hotel and Tower pre-sold over 70 percent of its 286 units two years before it opened. Prices range from $815,000 for a studio with a small kitchen and bathroom to $3 million for a two-bedroom with a large living room, dining room, and two and a half bathrooms. In addition, if owners want their unit rented out, they must pay for upscale furniture, plasma televisions, linens, and china that cost from $45,000 to $90,000.[13]

Condo hotels can be:[14]

- Ownership structure where rooms are sold to individuals as an investment. Owners stay for the minimum time required by law.
- Mixed-use project with a hotel and a primary residence piece. Owners live in residences similar to those sold by companies such as The Ritz-Carlton and Four Seasons.
- Mixed-use in a resort area with a hotel where the condo can be used as a second home. When the owner is not using it the unit is placed into a rental program to generate income for the owner.

Typically, the first type is not a good investment while the latter two can be. There is no guarantee that resale prices will be greater than the initial cost of the condo. The latter two options offer owners the opportunity to generate income throughout the life of the project. Condo hotel unit owners can receive anywhere from 30 to 60 percent of the revenue when their unit is rented.

Destination Clubs This newest niche targets affluent travelers. Initiation fees can be as high as \$500,000 in addition to annual fees of \$25,000. Customers stay for weeks at a time in luxury residences and villas in both urban and resort locations. Exclusive Resorts, formed in 2002, has 200 homes to offer their 1,500 members. Customers join as they would a country club by paying initiation fees that range from \$200,000 to \$400,000 with yearly fees of between \$10,000 and \$25,000. Eighty percent of the initiation fee is refundable. Members stay between 15 and 25 days a year at these \$3 million homes.

Quick Getaway 1.2

The Condo Revolution

Condo "villages" and hotels have long been popular in mountainous ski areas. This success has inspired many Florida chains to experiment with hotel-condo combinations, which have proved very popular so far.

Some planners have been nervous that shifting to condos will reduce the number of available rooms at the hotel, or that the condo owners will bump groups from room blocks. In reality, neither problem is likely to be a significant issue. The disruptions would last only during the construction process, and owners are made to understand when they buy the condo that they can't disrupt the reservations process. If their condo has been rented, then they have to stay in another condo or wait for their condo to free up.

"From a consumer's perspective they really shouldn't know the difference. It should look like a hotel, act like a hotel, and serve like a hotel," says Scott Berman, U.S. leader for the hospitality and leisure advisory group at PricewaterhouseCoopers in New York City. "I think too much is probably made of the condo hotel versus a traditional hotel. At the end of the day there shouldn't be much of a difference at all, aside from who the owners are. . . The bricks and mortar had better operate as a hotel to be successful."

"In South Florida, I think one of the concerns is that everyone is going to a condominium hotel," says Tom Ireland, principal partner at The Ireland Companies. In the span of only a few years, "We went from 1,000 condo-hotel units proposed down here to 50,000."

John Heiser, vice president for Intrawest Placemaking says that Intrawest's future projects will be condo-hotel based. "We're seeing more and more of the convention/meeting/condo-hotel resort development," says Heiser. "Our operators are screaming for more of that."

Source: "The resort marketing changing—here's a look at what's happening now and what's happening next." *Successful Meetings* (January 2006).

DISCUSSION QUESTION:

Would you buy a condo at a condo hotel if you knew that it would not always be at your disposal?

Mixed-Use Developments

The majority of high-end hotel and resort properties in the U.S. now incorporate some type of residential component. According to the Lodging Industry Investment Council—an independent industry think-tank with 70 high-profile members from the lodging-investment community—this trend will increase dramatically with condo hotels and timeshare units becoming commonplace in parts of the luxury hotel market.[15] Increased numbers of resorts are utilizing mixed-use developments, which feature a timeshare component.[16] In the past, developers built a property, then created demand for it. Nowadays, the demand for timeshare products dictates production. Preferred configurations are:

- two-bedroom suite (55 percent)
- one-bedroom suite (27 percent)
- three-bedroom suite (16 percent)
- studio (2 percent)[17]

A major reason for mixed-use developments is the high cost of amenities. Because high-quality amenities cost a great deal of money, being able to spread out the use and cost of these facilities makes it cheaper for everyone. In addition to the cross-utilization of amenities, hotel guests are exposed to timeshare products and may well be induced to buy. In this way, timeshare operators can reduce their marketing costs. The timeshare component brings a steady stream of revenue into the resort; everyone benefits. It does, however, take an experienced staff to meet the differing needs of timeshare owners and hotel guests.

Because of the unique nature of timeshare financing, specialized timeshare lenders have emerged. The financing of a timeshare property is different from that of a traditional hotel. Most hotel mortgages are long-term deals wherein the payback comes from the hotel's cash flow, which is generated from daily operations. Timeshare loans, on the other hand, are shorter-term loans based on the developer's ability to market and sell interest in the timeshare.[18] In addition, the lending process is more complex because of the regulatory issues involved in timeshare.

However, in many respects, timeshare financing is simpler and more predictable than hotel financing. Both revenue and expenses are more foreseeable for timeshares. Once the timeshare unit is sold, revenue is accounted for. The hotel room has to be resold each and every night, with no guarantee that it will produce revenue. Hotels incur many costs whether they are full or empty, while timeshare costs are easier to predict. High customer satisfaction with and solid growth of timeshares, together with the financial characteristics noted above, means fewer timeshare defaults compared to hotels.

Second-Home Developments

A second-home development consists of a project that consists primarily of second homes and does not include a resort hotel. A second home is "a home that is owned fee simple by an individual or family that also owns or rents another home as a primary residence."[19] In other words, the family owns both a primary and a second home. While second homes are not necessarily found in resort areas, *Quick Getaway 1.3*

Mixing Resort Options: Good or Bad Plan?

Mixing up condos with rented hotel rooms can have great results, if it's the best option for the situation. But how do you know if a mixed-use project is the right choice?

Pros

- Every aspect in the project supports the others.
- The customers' money remains in your own development.
- Timeshare sales provide capital for the continued expansion of the entire resort.
- There's opportunity for an ongoing revenue stream through management fees after the resort is sold out.
- Customers attracted by retail, hotel, and other features are potential leads for a timeshare operation.
- A bigger project may mean bigger profits.
- More amenities and entertainment options allow guests a richer experience.

Cons

- Planning and executing the project takes more time, patience—and money.
- If one component fails, it can taint the whole project.
- There's a greater need for capital—both equity and debt.
- Planning and governmental approval of larger, multiple-use projects are more complicated.
- There's a need for higher levels of expertise in many areas.
- Large projects require more management and control of product consistency.

Source: "To Mix or Not to Mix." *Timeshare Business* (January/February 2003): 22.

DISCUSSION QUESTION:

Is it advisable to mix condos with rented hotel rooms?

second-home *developments* are. They consist of a variety of types of properties—detached, attached, multifamily—and can be combined with other uses. The Miami region of Florida, the Phoenix region of Arizona, and the Palm Springs region of California are examples of combination retirement, primary-, and second-home developments.

Developments are one of four types:

1. *Resort condominiums* are usually high-rises located on oceanfronts.
2. *Small, low-density residential communities* are typically located close to a beach or lake.
3. *Single-family developments* incorporate a golf course or clubhouse.
4. *Large planned communities* include a variety of housing types as well as a number of amenities.[20]

Compared to primary homes, second homes place more emphasis on outdoor areas, they are developed at lower densities, and their design is less formal. They are managed under a long-term arrangement by a community association rather than by a developer or resort operator. However, the latter may be involved in the management of a principal amenity, such as a golf course.

Multiuse Resort Communities

A multiuse resort community combines two or more of the above categories of facilities. As such, they tend to be larger than the other types. By offering more than one type of ownership and use pattern, they can appeal to a larger variety of markets. Their amenity package is more extensive and usually consists of at least two major amenities, such as a beach and a golf course, or ski slopes and a

Quick Getaway 1.4

Which Is the Real All-Inclusive Deal?

A seven-day stay at an all-inclusive resort or a seven-day all-inclusive cruise? At first glance, the only factor that seems to matter in the decision is whether you get seasick. But buyer beware! Not every all-inclusive package includes everything, and the difference between the cruise and the land stay could be more than you think.

Cruises and resorts tend to include different amenities in their base prices. On a mainstream cruise, you'll generally receive accommodations, onboard activities and entertainment, all meals and snacks, certain beverages during meal times, the use of the ship's facilities (such as the pool, kids' club, and fitness center), and transportation between ports-of-call. However, you'll have to fork over some extra cash for soft drinks and alcoholic beverages, gratuity, spa visits, onshore excursions, airfare, and airport transfers. Keep in mind that luxury lines sometimes include gratuity and alcohol in the base price.

Of course, all-inclusive resort packages usually include accommodations, all meals and beverages, access to the resort's facilities, nightly entertainment, use of all non-motorized water-sports equipment (things like snorkeling gear, sailboats, and windsurfing boards) and gratuity. That's a lot more than the cruise offers . . . land resorts just seem to include more.

It appears that the decision between an all-inclusive cruise and an all-inclusive resort vacation involves more than simply asking yourself ''do I like boats?'' However, it's important to remember that if what you really want *is* a cruise, no amount of amenities at a land resort will make up for missing out on a vacation at sea.

Source: ''Are you a cruise or resort vacationer?'' www.usatoday.com/travel/deals/inside/2004-12-22-column_x.htm

DISCUSSION QUESTION:

Do you think that labeling a vacation as ''all-inclusive'' is deliberately misleading advertising, when it's more than likely that the consumer will have to pay additional amounts after arriving?

golf course in a four-season format. As the needs of the resort user change, the development offers appropriate units for rent or purchase. A resort guest may end up buying a second home for eventual retirement. The diversity of property types requires more sophisticated management.

INDUSTRY TRENDS

The most significant trends in the resort industry are:

- Health Spas and Fitness Facilities
  Because more people are concerned with health, fitness facilities are

Quick Getaway 1.5
Hotels, Resorts, and Condos

Due to the current success of many condo-hotel properties, many hotel and resort owners are considering the "condo conversion." However, owners should keep in mind that pulling off a successful and profitable condo hotel conversion can be a real challenge.

Luckily, there exist suggestions that a hotel owner can use as a guideline to ensure the best result. To convert a resort or hotel property into a condo hotel, you should:

- Determine your target prospect
- Measure the demand for a product like yours
- Consider whether your location is one that will attract hotel guests and will also have appeal as a second or vacation home
- Evaluate the competition which includes other hotels and also straight condos
- Determine the unit mix (studios, one bedrooms, two bedrooms, etc.)
- Put together an amenity package that will appeal to your target market
- Calculate the costs of needed property upgrades, remodeling, and furnishings
- Select a quality management company, preferably one with a name-brand franchise
- Hire a savvy sales and marketing company with a proven track record
- Price units to sell at a good pace, but not so low as to leave money on the table
- Estimate potential profits as a condo hotel versus continuing the existing operation without conversion

Source: "Condo Hotel Conversions." Condo Hotel Center: Condo Hotels and Fractionals. http://www.condohotelcenter.com/for-developers/conversions.html

DISCUSSION QUESTION:

Given your knowledge of hotels, resorts, and resort hotels, do you think a resort owner or a hotel owner faces a greater challenge if they both decide to convert to condos?

now a basic amenity for resort properties. Many resorts have on-site spas as a complement to existing fitness facilities. They offer a mixture of pampering, education, and medical programs. They require a high capital cost and highly skilled personnel that can result in high payroll costs.

- Soft Adventure Programs
  Offering a combination of adventure and fantasy, ‘‘soft’’ adventures such as white-water rafting, multiple day hikes, and wild-game hunting, need guides to provide safety to guests seeking a thrill as part of their vacation experience.
- Gaming
  Increasing numbers of states are looking to the legalization of gaming as a way to raise revenue through taxes. More than 12 states allow casino gaming on land or water. The increase in the number of resorts offering gaming may reduce its uniqueness as a draw.
- Ecotourism
  Ecotourism is increasing as a subset of the environmental movement. Examples include trips to the rain forests of the Amazon and to study the Galapagos tortoises. Because these trips involve visits to fragile environments they are best handled by smaller ‘‘boutique’’ resorts.[21]

SUMMARY

A brief history of resorts demonstrates that transportation has, to a large extent, determined where, when, and the type of resorts that have evolved; that the desire for pleasure travel is deep-rooted; that resorts developed year-round operations to minimize the risk of relying on one season of the year; and that resorts move through life cycles. Today, resorts can be characterized in terms of their proximity to primary markets, the setting and primary amenities, and the mix of residential and lodging properties. Industry trends are identified and will be explored in detail in the remaining chapters.

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