APRIL 2015 | PRICE €400

IN FOCUS:

THERMAL HOTELS & SPAS IN ITALY

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This article provides an overview of Italy's Hotel Thermal Baths/Spa industry, and analyses recent trends of the sector.

Italian Thermal Bath /Spa Industry Overview

The Italian thermal spa industry dates back to the ancient times. The Roman baths represented a place for the wellbeing in the modern sense of the word. In the early Republican era the Romans used to have open air baths with cold water. Soon, many Romans used a room of their house as a bathroom, which became heated and increasingly large, with more rooms used for sauna, massages or just relaxation.

When decomposing a modern spa facility, the basic principle of operation is mostly the same as it was in the days of the Roman Empire. However there are a few intricacies in the Italian thermal bath market: thermal springs are public property, and resorts in their vicinity are either operated by the local communes or leased to operators. A good amount of revenues comes from the Italian National Health Service (NHS), as studies have found that thermal and spa treatments can result in fewer costs over a more traditional medical course of action in treating certain conditions. As a result, Italian thermal centres usually have three main income streams: (a) NHS subsidised treatments (82.0% of revenues for the average Italian thermal-spa); (b) individual visitors seeking treatment or relaxation services; and (c) hotel guests that couple their stay at a thermal spa's lodging facility with services offered by the wellness component of the business.

There were 326 thermal spas in Italy in 2013. There are approximately 20 of them still managed by local governments out of which some are still totally managed by a single (e.g. 100.0% of the thermal baths in Agnano and Stabia are managed by their relative municipalities) or more public authorities (e.g. 79.0% of the ownership of the thermal baths of Acqui belongs to the Piedmont Region, while 16.8% belongs to the municipality and the residual share belongs to two local banks). In other cases the relative authority has ceded significant shares of the equity, though it maintains control of the baths themselves (e.g. a stake of 58.0% in the Baths of Sant' Agnese is owned by the municipality). Others have initiated privatization programs that have yet to be completed.

Thermal spa operators in several areas of Italy have come together to form Spa/Thermal consortiums. The three largest consortia are: (a) the Emilia Romagna Consortium; (b) the Euganei Hills Pole; and (c) the Ischian Pole. The three consortia combined represent approximately 45.0% of thermal spa revenues in Italy, while when combined with other smaller consortia they constitute 50.0% of thermal spa revenues in the country.

The rationale for developing these consortiums revolves around the following premises:

- Advantages for thermal spas:
    - Develop projects that, because of their high capital investment, could not be actuated by a single establishment;
    - Public support in actions aimed at promoting, enhancing and increasing the economies in the relative thermal area.
- Advantages for the municipalities/territorial authorities:
    - Direct and develop initiatives that in most cases create positive economic and/or employment results for the territory.
- Advantages for both:
    - Shared marketing projects for the territory (specialized fairs/workshops, co-marketing between spas and other participants in the hospitality sector);
    - Coordination of mass media promotion (television, radio, the press, the internet);
    - Organization of packaged and coordinated offerings to tourists that would include Thermal activities.

Visitation at Thermal Tourism Facilities

CHART 1: ARRIVALS AT THERMAL TOURISM FACILITIES – ITALY, 2007-13

Source: Eurostat, Osservatorio Nazionale del Turismo, Unioncamere, Federterme, HVS Analysis

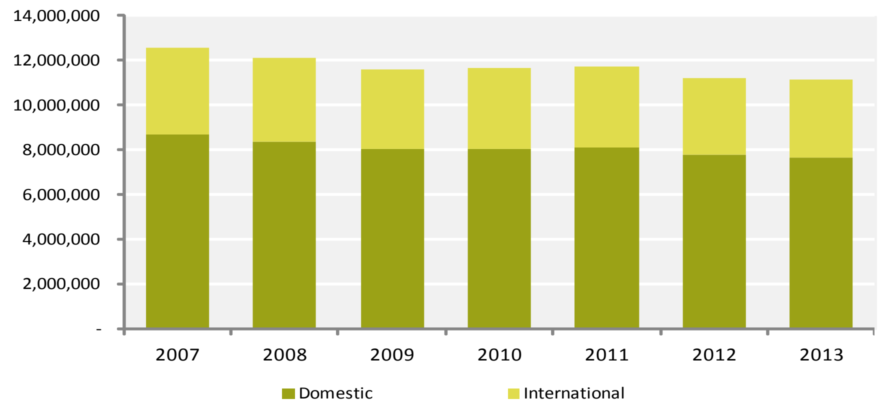
Arrivals

Visitation to thermal facilities in the country has shown a slightly declining trend over the past seven years, both for international and domestic visitors. This can be attributed to many factors, but the most important to be considered is the unfavourable economic situation in Europe, which has managed a broad hit in tourism, and the spa/wellness industry has not escaped its consequences. Nevertheless, the change in visitation to thermal facilities has not seen very important fluctuations year-over-year for the period examined here, resulting to a near-zero compound annual growth rate. This fact is also attributed to the Italian Health Service's subsidisation of treatments, which, as mentioned before, accounts for approximately 82.0% of a typical establishment's revenues.

Bednights

Analysis of the data shows a clear targeting of the domestic market that leaves untapped international potential. Moreover, although arrivals have remained fairly constant as discussed, accommodated bednights show a gentle, albeit steady decline. A reduced average length of stay is the immediate result of such behaviour of visitors, and can develop into a problem if corrective measures are not considered and applied.

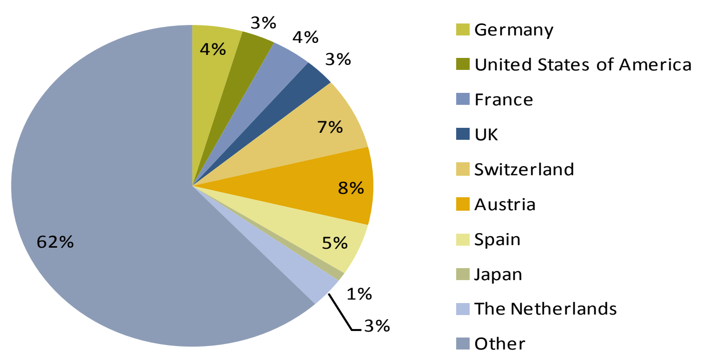
CHART 2: ACCOMODATED BEDNIGHTS AT THERMAL TOURISM FACILITIES – ITALY, 2007-13



Source: Eurostat, Osservatorio Nazionale del Turismo, Unioncamere, Federterme, HVS Analysis

Bednights, in this case, show best how travellers have altered their preferences in recent years. The key takeaway here is that guests will not deny a specific treatment – regardless of whether it is for health or relaxation purposes, but they will limit their average length of stay, which eventually will surely impact the key metrics of a hotel operation.

CHART 3: INTERNATIONAL VISITATION TO THERMAL TOURISM FACILITIES – ITALY, 2012



The major international source markets are Austria, Switzerland, Spain, Germany, France and the United States of America (USA). A more detailed breakdown is presented in chart 3.

Average stay declined from four days to 3.5 days from 2007 to 2013. The decline in bednights, coupled with decreased budget allocated by the NHS to the sector, resulted in a drop of more than 10% of the total revenues of the Italian Thermal Spa facilities from 2008 to 2013 (€745 million).

Hotel Supply

Thermal facilities are not evenly spread out among the Northern, Central, and Southern regions of the country. The majority of the establishments are to be found in the northern and southern regions, with only 14.4% or 47 units of them being located in the central regions. The regions with the highest concentration of complexes are, respectively, Veneto (115), Campania (89), Tuscany (28) and Emilia Romagna (24).

According to our research, the majority of thermal spa hotels belong to the three- and four-star categories (even though four- and five-star hotel rooms account for more than 50% of beds), and are mostly not affiliated with any international or local brand. On the other hand, the consortiums mentioned previously in the article partially compensate for the absence of recognized branding. This means that the majority of promotion is geared towards domestic tourists, and leaves a good amount of unrealised potential in the international guest base the facilities could serve.

There are approximately 26,400 hotel beds annexed to thermal complexes (resulting in an average of 81 beds per facility), while there are 166,900 additional hotel beds in the immediate surroundings, resulting in a total accommodation capacity of 192,300 hotel beds.

CHART 5: THERMAL HOTEL SUPPLY BY REGION – ITALY, 2013

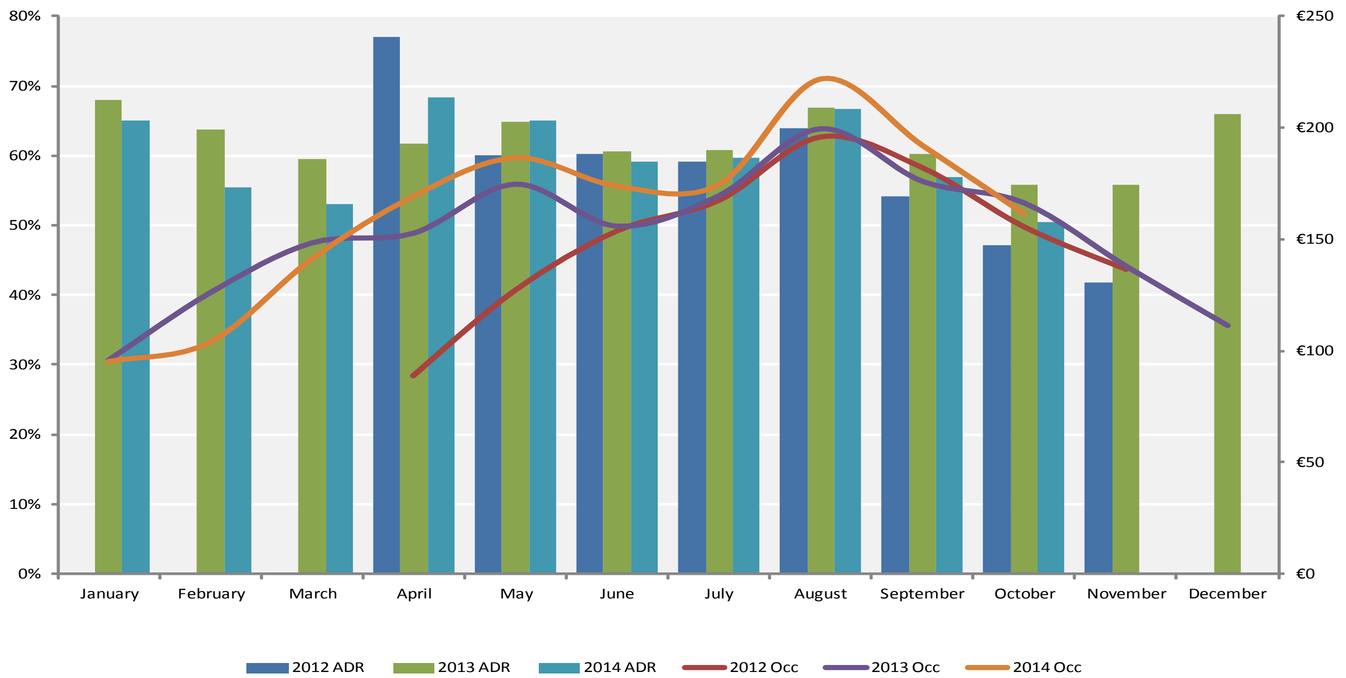
	2013	Share %
North-West	**21**	**6.4%**
Piedmont	6	1.8%
Aosta Valley	1	0.3%
Liguria	1	0.3%
Lombardy	13	4.0%
North-East	**147**	**45.1%**
Trentino Alto Adige	6	1.8%
Veneto	115	35.3%
Friuli-Venezia Giulia	2	0.6%
Emilia-Romagna	24	7.4%
Center	**47**	**14.4%**
Tuscuny	28	8.6%
Umbria	2	0.6%
Marche	6	1.8%
Lazio	11	3.4%
South	**111**	**34.0%**
Total	**326**	**100%**

Source: Federterme

Hotel Performance

The sample of hotels studied in the following charts represents six hotels and 649 rooms in the four- and five-star categories located in various countryside resorts of Italy. Although this sample is not representative of the whole industry, it gives a good indication of how quality establishments known for their practices perform.

CHART 6: AVERAGE RATE & OCCUPANCY SEASONALITY BY MONTH – SELECTED THERMAL HOTELS ITALY 2012-14



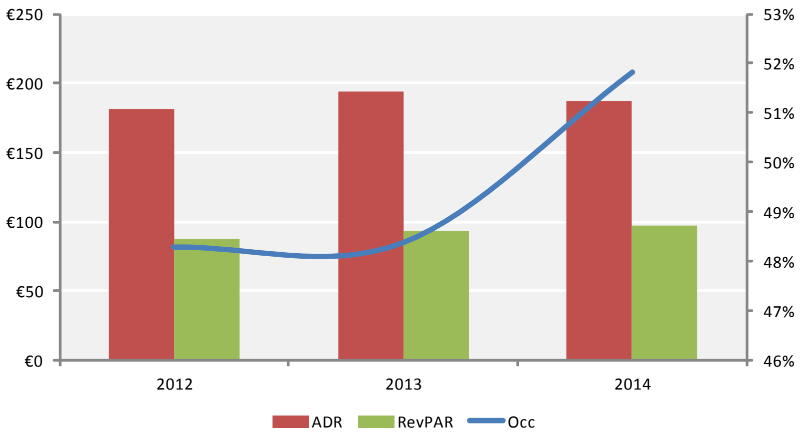
Source: STR Global

Charts 6 and 7 show the sample's seasonality patterns by month of the year and day of the week respectively. The monthly data reveal that business generally starts to pick up in April, with high season lasting from mid-July to mid-September – the traditional holiday period for Italians. The weekly data show a very stable pattern for the first four days of the week, and peak on the weekends. Workdays occupancy can be explained by the use of Thermal Spas by the Italian NHS as centres for alternative treatment of specific conditions.

CHART 7: AVERAGE RATE & OCCUPANCY SEASONALITY BY DAY OF WEEK – SELECTED THERMAL HOTELS ITALY 2012-14

Source: STR Global

CHART 8: ANNUAL PERFORMANCE – SELECTED THERMAL HOTELS ITALY 2012-14



Source: STR Global

The examined sample of hotels experienced a strong increase in occupancy since 2012 while average rate, although increased in 2013, slightly declined by 2.1% in 2014. This was a result of hotel operators focusing more on volume rather than average rate. As a result of the occupancy and average rate dynamics, RevPAR was steadily increasing during 2012-14 to reach €93 at the end of the period starting from €77 in 2012. Italian hotels in resort destinations face a high seasonality pattern of tourism arrivals both within the year but also within a week. It is normal for demand to peak in summer months whereas those hotels also record their highest occupancy levels and average charges in weekends. Chart 8 displays the discussed performance.

Conclusion

Italy has more than 2,000 years of tradition in the area of thermal baths, and is the birthplace of what we now call Spa treatments. Thermal tourism enterprises have a clear preference in targeting domestic guests as their main source of business. Given Italy's tumultuous economic situation, a shift of targeting, with international business in scope, should take place. Taking full advantage of the history of the Italian thermal spa sector, the rich tradition that has developed in this specific niche market, and the continually enhanced expertise of the establishments' staff should suffice in slightly boosting international arrivals. Introducing more health and wellness activities in the services offered at thermal establishments could further induce international demand. The supply is not in decline, with 326 thermal/spa hotels in 2013, featuring 26,400 beds inside the facilities and 166,000 around them, but being mostly focused on the domestic market creates disturbances tangent to the state of the country's economy. This introversion has, in many cases, led to deterioration in the quality of the supplied product – many properties have outdated facilities and equipment – although spa facilities seem to be well maintained. Targeting and capturing more international business can serve as a good "safety net" that could assure healthy business results year after year, but this extroversion would only bring results provided that the owners of the thermal properties would invest in required renovations that would bring them closer to their targeted guests' expectations.

In order to face the decline in arrivals and average stay, several thermal centres decided to reposition themselves in the thermal/wellness market. Various thermal centres have been restructured through investments aiming at upgrading and modernizing their facilities, in order to be positioned closer to the concept of thermal spa/beauty farm/wellness centre integrated with lodging facilities. Initiatives are focused in particular on locating new sites in which thermal waters can be used, restructuring existing establishments, and opening new ones. In fact, the wellness sector represents one of the most vibrant ones in the Italian national economy. Demand is growing and market trends indicate an intensifying request for treatments connected with psychic and physical wellness. More than 2,500 spa/wellness centres are operating in the country on top of the 326 thermal spa complexes.

Another trend worth mentioning is medical tourism. There are several cases of traditional hotels converted or promoted as clinic/thermal properties. With or without thermal baths, these hotels target another niche that records increasing popularity in Italy; the main examples are Palace Merano ~ Espace Henry Chenot, named the best medical centre in the world by the Conde Nast Traveller, and Villa Paradiso by the lake of Garda.

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