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A Guide to Developing Wellness Real Estate

By Ingo Schweder, Founder & CEO at GOCO
Hospitality, Managing Director at
Horwath HTL Health & Wellness

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About the Author



Ingo Schweder injects fresh ideas and professional management into the rapidly expanding wellness hospitality sector, bringing together more than 30 years of experience in the wellness and hospitality industries. He leads the multidisciplinary teams at GOCO Hospitality and Horwath HTL Health and Wellness to strategize, conceptualize, design, and manage the latest wellness developments for the world's top hospitality and real estate brands. From individual hotel spas to dedicated wellness resorts and master-planned mixed-use developments, Ingo's experience and insights have taken over 400 projects worth more than US\$3.5 billion across upwards of 42 countries from initial idea to profitable realization and on-going management. [LinkedIn](#)

The Wellness Real Estate Development Process Explained



Introduction

People are becoming increasingly aware of how lifestyle and external environmental factors impact their wellbeing and are seeking health-and-wellness enhancing solutions in their daily lives. A majority of physical spaces are unable to provide such solutions, often limiting the achievement of health and wellness goals. The real estate industry started undergoing a transformation in the 21st century, aligning with the expectations of today's residents and combating the health epidemics affecting populations globally.

This evolution birthed “wellness real estate,” which today represents a key industry within the global wellness economy. The environment created is different from that of traditional real estate, as can be viewed in the wellness real estate development process. This article provides an overview of wellness real estate, defines the particularities of the development process, and explains why a specific approach is required.

Overview of the Wellness Real Estate Market

Industry Definition and Key Characteristics

According to the Global Wellness Institute (GWI), wellness real estate is defined as “the construction of residential and commercial/institutional (i.e. office, hospitality, mixed-use/multi-family, medical, leisure, etc.) properties that incorporate intentional wellness elements in their design, materials, buildings, amenities, services, and/or programming.” Although recent, the movement was inspired by others that shaped building and living spaces since the 1900s. Among these were planned communities, food movements, design movements, and the green and sustainable building movements. All of these movements helped create and grow the wellness real estate industry in the 21st century.

Industry Size and Growth Outlook

As of 2020, the industry was worth USD 275.1 billion, growing at a CAGR of 22.8% between 2017 and 2020. Given the rising awareness of the direct influence that living and working environments have on our wellbeing, the industry has been witnessing significant growth and an increasing pipeline of projects and sales, despite wellness real estate purchases coming with sales premiums averaging 10.0 - 25.0% over traditional real estate.

Comparing regions, North America represents the biggest market (USD 118.5 billion), ahead of Asia Pacific (USD 98.7 billion) and Europe (USD 56.2 billion). The global industry is expected to grow at a CAGR of 16.1%, reaching a value of USD 580.3 billion in 2025.

Top Five Wellness Real Estate Markets (USD; billion)



Source: Global Wellness Institute, 2021

The Wellness Real Estate Development Process

This section focuses on the development process of wellness lifestyle real estate, specifically as it relates to developments that include the integration of a wellness resort (as an anchor) and a wellness lifestyle real estate component, with the purpose of creating a wellness community. Under this concept, wellness lifestyle real estate is essentially developed according to processes and key phases similar to traditional residential real estate development. However, the process contains key distinctions in concept development, master planning, and design.

Site Selection and Analysis

The determinants that make a site suitable include the following:

- **Location:** Situated far enough from any source of noise pollution (e.g. busy roads, airports, factories), yet accessible and well-connected to facilitate the journey to and from.
- **Topography:** Minimal elevation difference, supporting seamless circulation and walkable neighborhoods. Water sources, trees, and rock formations are desirable as

they provide an existing landscape base that can drive the master plan layout without many limitations.

- **Scenery:** While surrounding natural scenery is desired, open vistas towards the outside of the site are not necessary. For end-users, sites without open external views may still support internally-focused concepts, where the inner community and landscaping drive the wellness experience. However, for developers, unique and open views are more attractive as they fetch higher premiums.

Market Research and Feasibility

This phase addresses the following areas:

- **Market Condition, Outlook, and Trends:** The global, regional, and local market is analyzed to understand ongoing trends, shifts in supply and demand, and overall dynamics of the asset class. Similarly, the local traditional residential real estate market is evaluated to identify existing opportunities for wellness lifestyle real estate developments.
- **Competitive Analysis:** The identification, selection, and analysis of existing or pipeline projects anticipated to compete with the intended development focuses on:
 - Unit types, mix, sizing, configuration, and design;
 - Sales strategy, including buyer profile (typically 3 categories):

End users: Purchasers seeking first, secondary or holiday homes, less interested in renting their property;

Investment buyers: Purchasers seeking annual returns/capital gains, and high-guaranteed yields;

Lifestyle investors: Purchasers enhancing lifestyle while also seeking asset value appreciation;

- **Ownership regulations:** Authorized type of tenure (leasehold, freehold, and power of attorney); ownership regulations have direct impact on sales strategy;

- o Absorption rate: Achieved unit sales rate of an existing competitive development or anticipated sales rate of pipeline developments, calculated as the number of units sold on a monthly/yearly basis;
- o Rental program: When units are branded by a wellness resort operator, a sale and leaseback scheme may exist. In this scheme, the developer sells the units and the owners accept leasing back to the developer in exchange for a return, thus including the units in the wellness resort's accommodation inventory. Rental programs are structured as following:
 - o Optional/mandatory;
 - o Owner usage days, ranges between 20-90 days annually;

Owner's return, calculated as a percentage of net room revenue or net profit, is paid on a monthly basis after deducting service charges (sales and marketing, telecommunications, utilities, management fee, and common area maintenance expenses) paid by the owner. It is important for the operator and developer to consider the impact of the owner's return on the wellness resort's P&L statement. While the developer's investment return benefits from real estate sales proceeds, the owner's return may result in a significant monthly expense, adversely impacting the wellness resort's bottom line.

Wellness Concept Development Strategy

Based on site selection and outcome of market research and competitive analysis, a differentiated development strategy is established, with key criteria to drive sales, marketing, and the business model of the development. The development strategy includes the following:

- **Positioning and Target Market:** The positioning ranges between numerous categories (senior living, multi-generational housing, master-planned wellness communities, mixed-use projects, and resort/spa based real estate). Different positionings attract distinct target markets; yet, wellness lifestyle real estate predominantly targets local buyers as opposed to international buyers.
- **Development Components:** Established positioning and target market determine the wellness amenities to be included. Additionally, different nationalities have different preferences. End users expect: a club house (spa, fitness center, healthy dining options, a kid's club) and outdoor wellness facilities (yoga platforms,

functional fitness equipment, trails, parks, and organic farms). For communities anchored around a wellness resort, the latter generally becomes the clubhouse. Wellness communities are defined by a strong social component brought by common spaces hosting workshops/events or gardens and plazas fostering interactions.

Design and Development Brief

The Design and Development Brief presents a summary of the development, as per the concept strategy, and a detailed area program that includes sizes allocated to each space. The document's purpose is to provide the master planners, architects, and designers with necessary guidelines for aligning the detailed master plan with the concept strategy. Given the particularities in concept, components, and space allocation, the design brief is crucial and serves to translate a project vision into a successfully executed development where all details have a significant impact on the user experience of the end product.

Master Plan

The master plan focuses on the following elements:

- **Component Location:** While privacy is important for creating a soothing environment for wellness residents, fostering a sense of community between guests and residents by designing interactions, is essential for the layout. For example, developments anchored around a wellness resort, the wellness center, and certain F&B outlets should be strategically located between the resort and residences for easy access.
- **Circulation of People:** Connectivity and comfortable walking distances between the different areas of the development are essential. An extensive circulation system incorporating walking, running, and biking trails makes more active movement convenient.
- **Landscaping:** Landscaping can be used to support the therapeutic effect of greenery and natural circulation of people. It also enables an environment that maximizes exposure to light while optimizing shading, encourages airflow, isolates noise, naturally regulates temperatures, and creates cocooning spaces – all factors essential to the wellbeing of guests and residents. Whereas the topography and composition of a site may impose certain landscaping limitations, creating a unique layout could present its own opportunities. Minimizing land disturbances is key to a

successful wellness landscape.

Design Guidelines for the Master Plan

Once finalized, the next step requires establishing the design parameters for the entire development. The purpose is to create coherence among the different components (design, architectural, landscaping, and concept standpoint).

The absence of such parameters creates clutter and can result in the isolation of clusters within the development, thus acting against the creation of an integrated wellness environment and community, translating into poor asset performance. Examples of such design parameters include type and color of materials, width of roads and sidewalks, height of buildings, and architectural elements, among others.

Detailed Design of Individual Facilities

This step in the process focuses on the architecture and interior design of each of the facilities and is key to merging the entire development together within a wellness foundation. The details required in this phase present an opportunity to incorporate several wellness and sustainability focused elements, such as:

- **Orientation and Form:** Positioning and designing the form of the buildings to maximize use of environmental resources (light, air, views, cross-ventilation) to create comfort and optimize energy consumption.
- **Materials:** Prioritizing natural, durable, and functional materials requiring minimal maintenance to create a sense of warmth with surfaces that are soft to touch. To limit the carbon footprint, these materials should be locally sourced. Such materials include natural stones, wood, and textured tiles and should naturally blend with the shapes and tones of the local landscape.
- **Biophilic Design:** Incorporating nature into the building can increase the sense of connectedness to the natural environment. This can be achieved with vegetation walls (internal/external), designs mimicking natural forms and patterns, and water features.

For branded real estate, decision-making regarding leasing of some or all units sold to independent owners back to the wellness resort is crucial. Such a decision impacts the

use and architectural design of the units. While the units sold need to be standardized from a functional, layout, interior design, and safety perspective, they must accommodate private owner needs (adding kitchens, maid rooms, and owner's storage space).

Construction

While similar to traditional development, certain new technologies enable a more sustainable construction process using prefabricated technology. This model is based on the manufacture and assembly of building components in off-site factories. Benefits of this model include significant reduction in construction time and costs, minimization of pollution and waste, decrease of construction safety hazards, and superior quality control.

For developments that include a wellness resort and real estate, the construction phase starts with the wellness resort component. To generate desired sales price premiums, it is essential the wellness resort be operational and established as an anchor. Thus, the construction phase comes after the wellness resort's opening.

Marketing and Sales

The marketing and sales phase begins simultaneously with the construction phase. A specialized in-house team is established that works with third-party professionals. Partnerships with other market enablers such as health and wellness-related consortiums, publications, and events help increase awareness of targeted buyers.

Industry Components

This part of the article highlights the various components of the industry as well as the benefits of wellness lifestyle real estate. Furthermore, it illustrates the various concepts highlighted in the earlier part of this article through a case study of the Glen Ivy Hot Springs Resort wellness real estate development in California.

Industry Components

The wellness real estate industry consists of various components, each with their own key definitions and characteristics. For the purpose of this article, we will be focusing on wellness lifestyle real estate and wellness communities, and how they are anchored through wellness hospitality developments.

Wellness Lifestyle Real Estate

The GWI defines wellness lifestyle real estate as "homes that are proactively designed and built to support the holistic health of their residents." In other words, wellness

lifestyle real estate corresponds to the residential component of wellness real estate. For buyers, given that the purchase of a home generally represents one of their largest lifetime investments, integrating a personal health and wellbeing component into this investment is becoming increasingly appealing. For developers, the biggest interest in wellness lifestyle real estate stems from its potential to create large and integrated mixed-use wellness community developments.

Wellness Communities

A wellness community is “a group of people living in close proximity who share common goals, interests, and experiences in proactively pursuing wellness across its many dimensions” (GWI, 2018). While wellness communities can be created through wellness lifestyle real estate, they can also exist through social or cultural networks, independent of physical spaces such as real estate. Physical wellness communities are master-planned in a way that fosters environments and connections that enable people’s health and wellbeing to thrive. Such physical wellness communities target different types of buyers or residents depending on the asset class; while senior living wellness communities generally target mid- to upper-class retirees, residential wellness communities target younger and active couples and families. Regardless of their type, physical wellness communities are most successful when developed around a wellness anchor, which can consist of a wellness resort, a destination spa, or a natural asset such as hot springs, among others. Blue Zones, a concept defined by award-winning author and journalist Dan Buettner as regions where people live longer and healthier lives than the rest of the world, represent a successful example of wellness communities. Based on nine (9) core lifestyle habits (Move Naturally, Know Your Purpose, Down Shift, 80% Rule, Plant Slant, Wine at 5, Family First, Belong, and Right Tribe), Blue Zones are unique in their characteristics and represent a good benchmark for the ideal impact of wellness communities on people’s health and wellbeing.

Benefits of Wellness Lifestyle Real Estate

For Buyers

The immediate and more apparent benefit of wellness lifestyle real estate is on its end users. The philosophy and guidelines underlying this asset class is, above all, to provide healthy environments for people to live, work, and play, which is achieved through a combination of location, design, architecture, landscaping, choice of materials, and technology, among other factors. Thus, assuming an appropriately developed wellness lifestyle real estate project, the achieved impact is an increase in the health and wellbeing of end users. Additionally, for lifestyle investors who are interested in

properties that will not only enhance their lifestyle but also appreciate in asset value, wellness lifestyle real estate results, on average, in faster value growth, and thus a more attractive investment compared to traditional real estate.

For Developers

The main advantage of wellness lifestyle real estate for developers is the increased returns that such developments produce. Although development costs are typically higher, on average, than traditional real estate developments, the enhanced lifestyle that is brought to buyers of wellness lifestyle real estate results in significant sales price premiums due to faster anticipated asset value appreciation. Wellness lifestyle real estate developments typically achieve average sales price premiums of 10.0% to 25.0% over comparable traditional real estate developments in respective markets; yet, these premiums can range widely between 10.0% and 55.0%, and higher premiums are generally achieved when wellness lifestyle real estate is developed around a wellness anchor, such as a wellness resort, as previously mentioned.

For Operators

In the case of wellness lifestyle real estate that is developed around a wellness resort, the operator of the resort draws significant benefits from the development as a whole. Firstly, the wellness resort typically becomes a “club house” for the surrounding residents, thus enabling the operator to generate increased demand for the resort’s operating departments. Indeed, residents typically utilize the resort’s wellness center, food and beverage outlets, and participate in wellness programs or workshops. As a result, the wellness resort’s overall capture of external guests increases, which subsequently contributes to higher overall resort revenues and profit margins, and thus higher base and incentive fees for the operator. Secondly, in the case of branded residences that are developed alongside wellness lifestyle real estate units as part of the development, the operator generally grants the developer a license to use its brand for marketing and sales purposes. In exchange, the operator requires compensation in the form of a real estate branding fee (also known as a marketing license fee). Real estate branding fees range between 2.0% and 5.0%, on average, of the gross sales volume achieved through the sale of any of the branded real estate units. Finally, branded real estate also provides an opportunity to operate a sale and leaseback model. Such a model enables the operator to increase its unit inventory and thus drive more accommodation departmental revenue while also benefiting from management fees paid by the unit owners. Further details pertaining to the structure and mechanics of the sale and leaseback model are explained in the following section of this article.

Case Study: The Temescal Valley Project

Owned and operated by GOCO Hospitality, Glen Ivy Hot Springs Resort is a historic natural mineral hot springs destination resort that was established in 1860. It is located within Riverside County's Temescal Valley in California, United States, approximately a 70-minute drive from Los Angeles and a 90-minute drive from San Diego. GOCO Hospitality is currently in the planning stage of developing a master-planned integrated wellness community (the "Development") surrounding the Glen Ivy Hot Springs Resort that will include the following components:

- Expansion of the existing Glen Ivy Hot Springs Resort facilities to enhance the day spa experience
- Lifestyle Boutique hotel of approximately 140 keys for overnight stays (the "Lifestyle Boutique Hotel")
- Wellness retreat of approximately 45 keys for targeted wellness programs (the "Wellness Retreat")
- Community retail village (the "Village")
- Private and branded residences
- Outdoor recreation and conservation areas

The first phase of the Development will begin with an expansion of the existing Glen Ivy Hot Springs Resort facilities and be followed by the development of the Lifestyle Boutique Hotel. The purpose of the first phase is to create a true destination spa experience by enhancing the service offering and by providing guests with an opportunity to extend their stay with overnight accommodation. Anchored by the expanded Glen Ivy Hot Springs destination, the second phase of the Development will include the Wellness Retreat, a variety of private and branded residences, the Village, and outdoor public recreation areas. The purpose of the second phase is to provide a luxury getaway for guests seeking targeted wellness programs at the Wellness Retreat, and to create a dynamic wellness community by developing a range of accommodation types targeting different users, such as full and part time residents through a sale and leaseback model.

The residences will also be developed in phases along with the public spaces. Phasing the Development in such a way will enable the developer to progressively build key anchors that will contribute to increased real estate sales premiums.

The Development will present certain key elements that define wellness real estate developments, such as:

- **Landscaping, Conservation, and Outdoor Recreation:** 32.2 acres, or 39.5% of the entire Development area, is dedicated to outdoor components. The purpose of these areas is to preserve the site's rich natural heritage while minimizing environmental degradation, encouraging active circulation, and providing activity, relaxation, and contemplation spaces that reconnect the residents and guests with nature. The Development's outdoor components include a trail through old oak trees, organic orchards and gardens, passive open spaces, hiking, biking and walking trails, outdoor fitness equipment, relaxation areas, children's play areas, and a natural open space conservation area, among others.
- **Community Creation and Engagement:** One of the key pillars of the Development is to create a community of residents and guests who share the same interests in wellness, an active lifestyle, and outdoor living. The combination and proximity of the Lifestyle Boutique Hotel, the Glen Ivy Hot Springs Resort, and the Village support this pillar by establishing a focal point for the community to interact through a range of wellness- and lifestyle-related retail shops, art galleries, interactive spaces, and event spaces. Furthermore, the "park once" concept dedicates only one parking area within the commercial part of the Development as a way to encourage pedestrian circulation and limit parking use. Finally, memberships for the Wellness Retreat and Glen Ivy Hot Springs Resort will be made available to residents, thus further engaging them and strengthening the community.
- **Wellness Design Standards:** The Development follows specific design guidelines that help to create spaces that emphasize wellbeing, quietude, connectedness, and natural rhythms. These guidelines are consistent throughout the entire Development, while still giving each of its components a distinctive identity. The underlying architectural style is defined as "Contemporary Californian Resort"; it is modern and simple with straight or clean edges that emphasize a connection between indoor and outdoor environments, and it integrates the surrounding landscape. Key elements of the design guidelines include large roof overhangs that create covered arcade corridors, large glass facades, use of natural materials, courtyards, gardens and open terraces, as well as trellises to create spaces that combine light and shadow. All of these physical elements bring to life a soothing and uncluttered atmosphere that encourages healthy lifestyles.

The Glen Ivy Hot Springs Resort Development process features some of the key characteristics that define the wellness real estate development process, as described in this article. The current day hot springs destination facilities, as well as the future commercial development components, will provide residents with significant added value from a wellness lifestyle perspective, and thus support the achievement of premiums on the sale of the residential units. Upon completion of the Development, the Glen Ivy Hot Springs Resort is set to become a benchmark for integrated wellness communities globally.

Conclusion and Outlook

Driven by the impact of physical spaces on our health and wellbeing, the industry is growing and progressively redefining standards of our surroundings. The power of wellness real estate can be attributed to healthy lifestyles, fostering communities that share similar values, and personal goals. Achieving defined objectives requires complying with particularities during the development process and involving specialized consultants. It can be anticipated that such developments will become the norm, progressively transforming residential neighborhoods and cities. Such a transformation would benefit populations and the environment, and result in higher profitability and returns for all stakeholders. Although wellness real estate represents a small portion of the real estate industry, the benefits it brings are expected to generate a rising interest from stakeholders globally.

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