

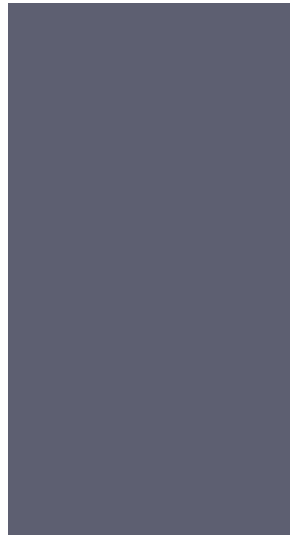
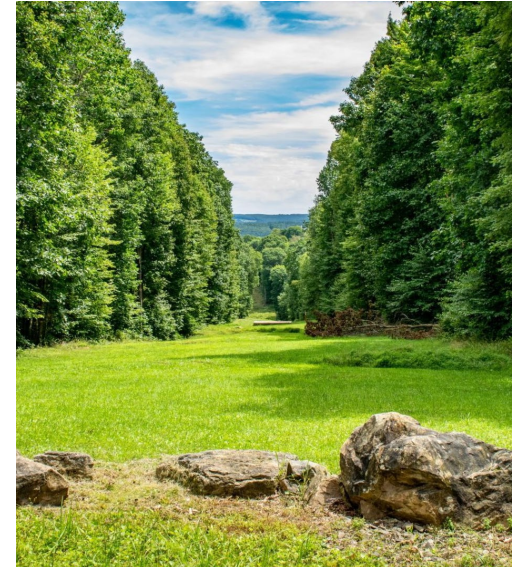
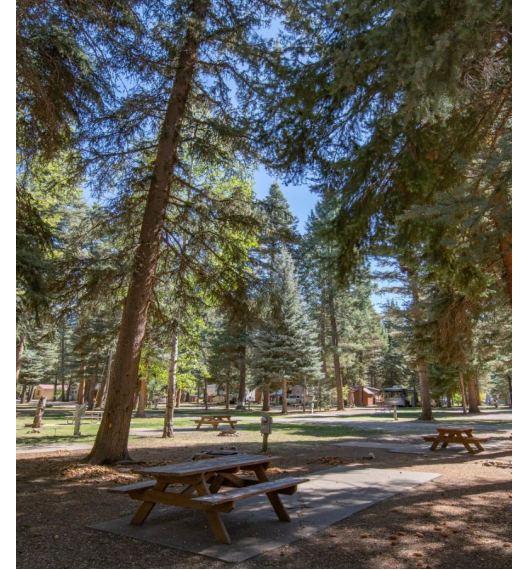


Economic Forecast for the Outdoor Hospitality Industry:

A review of industry and economic trends

OHI Annual Conference
Kansas City, Missouri

November 2023



“

There has been plenty of change these past 3 years – from the pandemic bump to a post pandemic hangover – but ultimately the industry remains on track at or above its pre-pandemic growth trajectory

”



Agenda

- 1 Macroeconomic Environment
- 2 Operating Income Trends
- 3 Property Value Drivers
- 4 Investor Trends
- 5 Conclusions



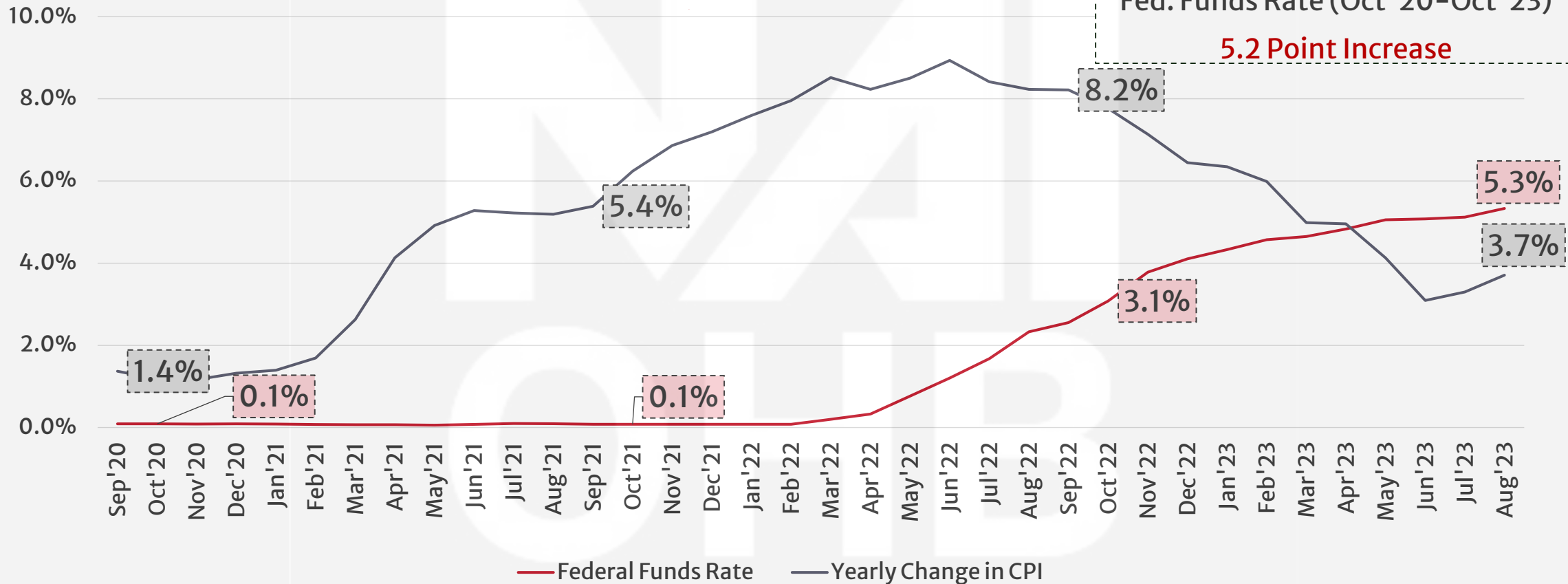
1

Macroeconomic Environment

Current Economic Snapshot

Federal Funds Rate vs Inflation

(%)

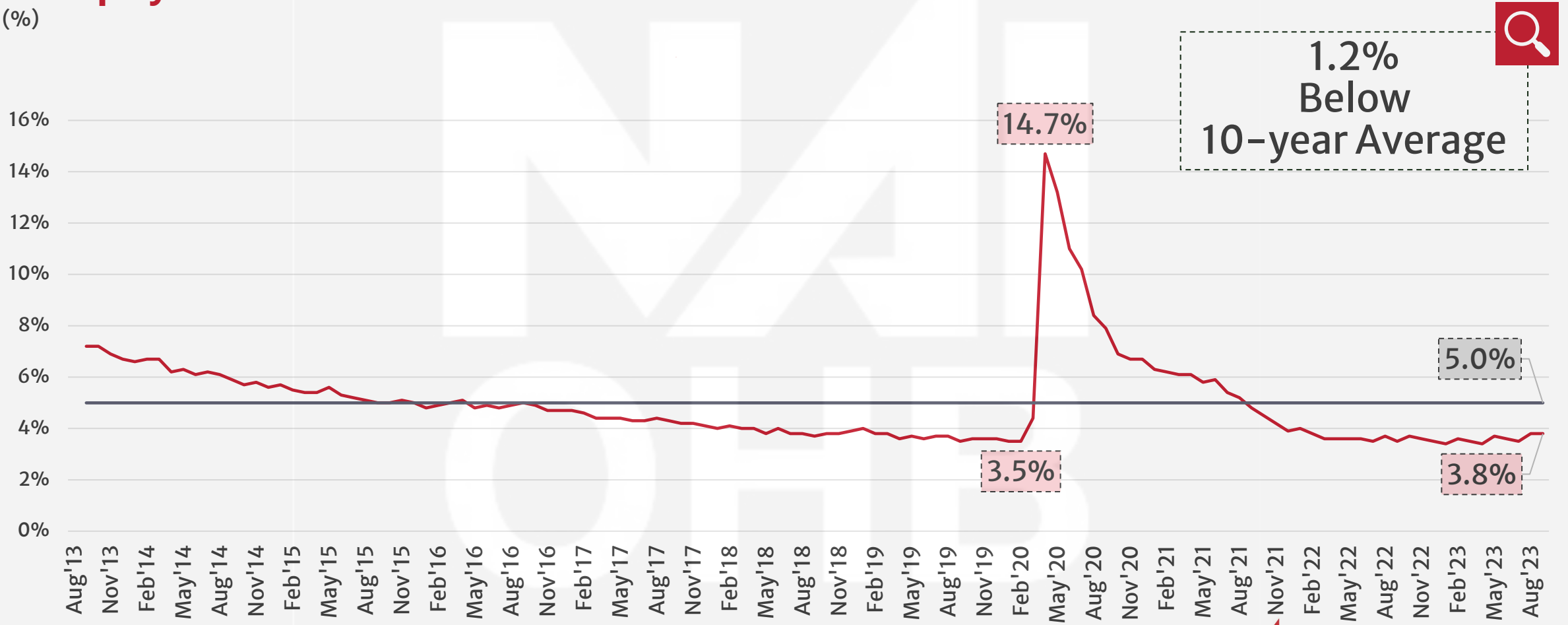




Unemployment continues to trend near historic lows

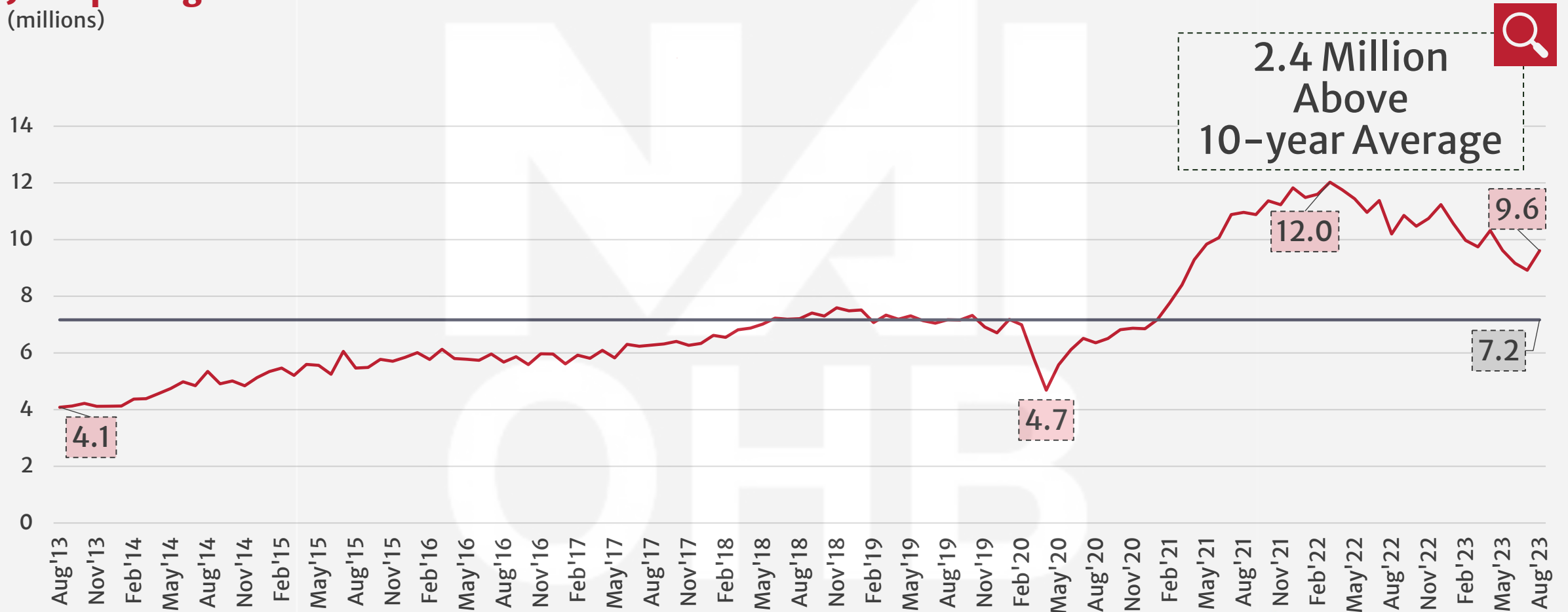
Unemployment Rate

(%)



Job openings have remained at high levels despite FED tightening

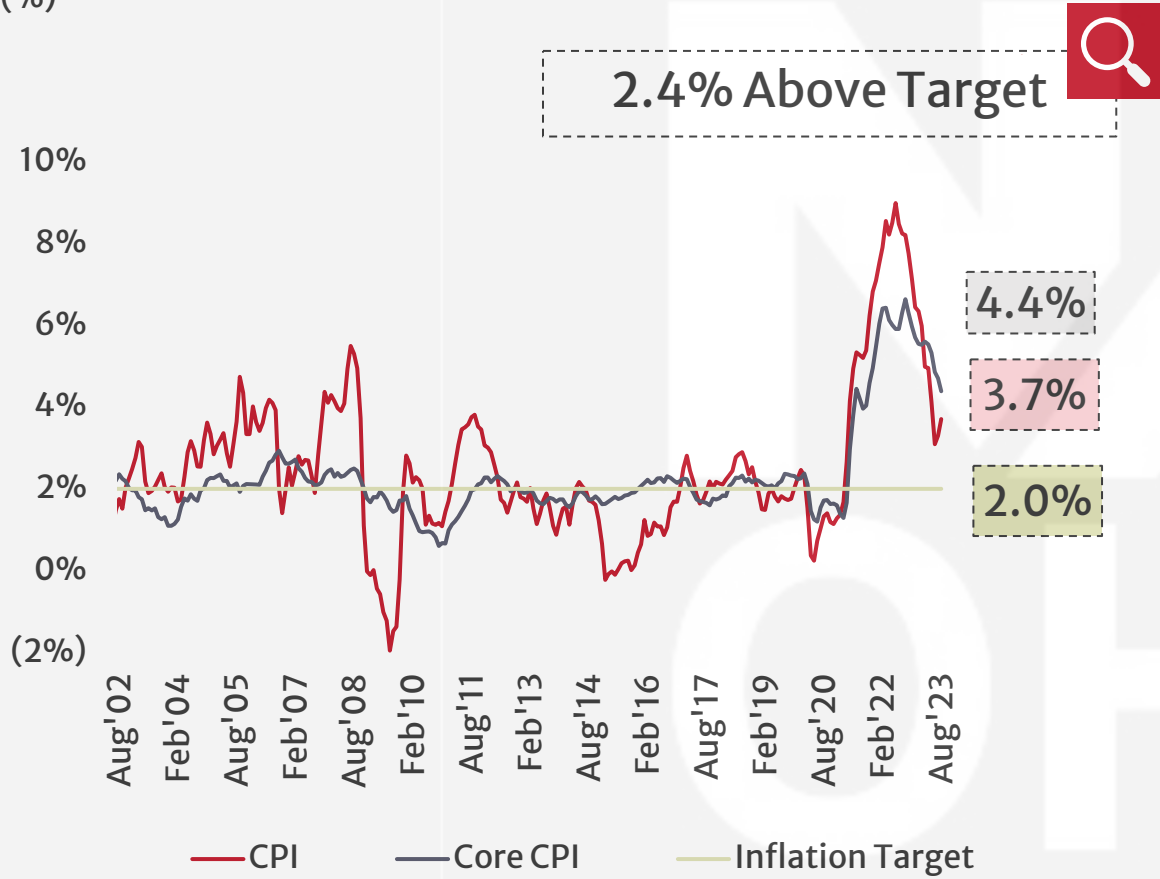
Job Openings (millions)



Inflation remains elevated while war in the Middle East is likely to exacerbate rising fuel costs

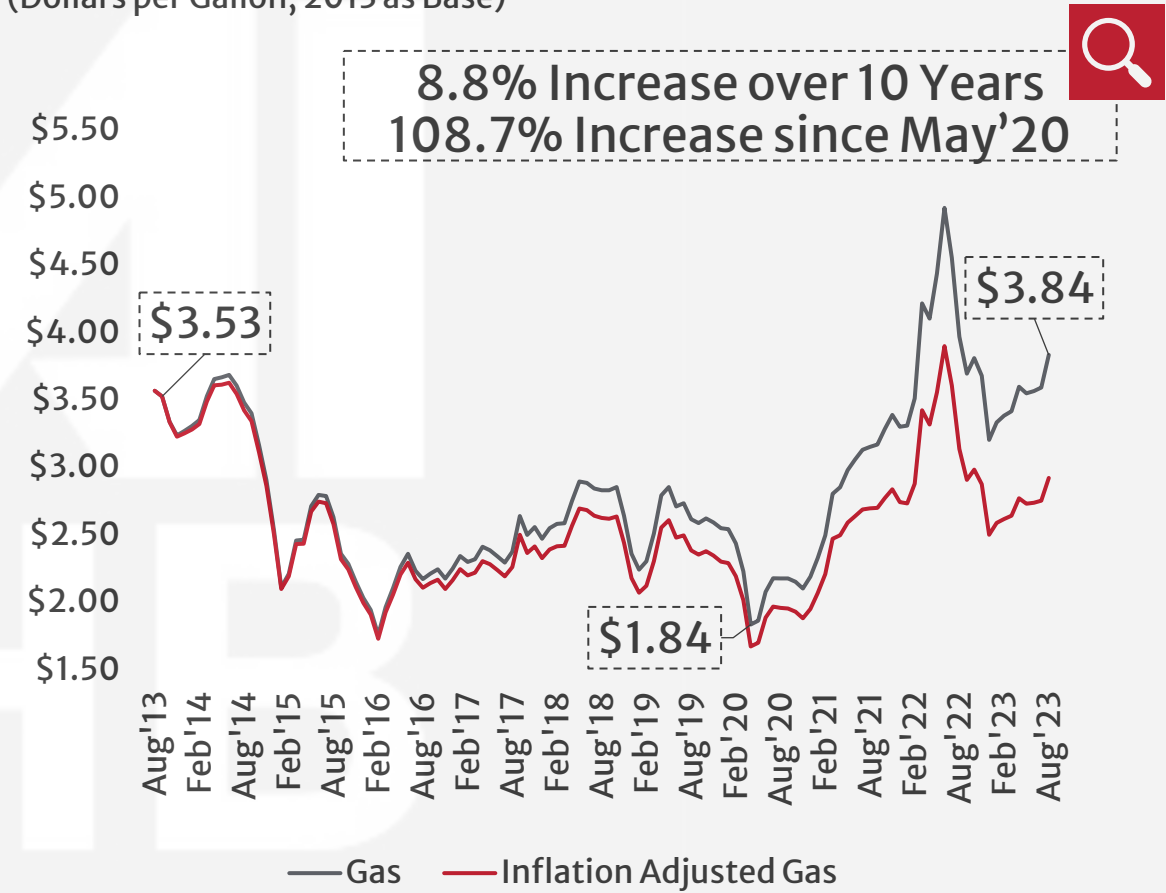
Annual Change in Consumer Price Index (CPI)

(%)



Gas Prices

(Dollars per Gallon, 2013 as Base)





10-Year Treasury Bond Rates are still below the long-term average

10-Year Treasury Rate

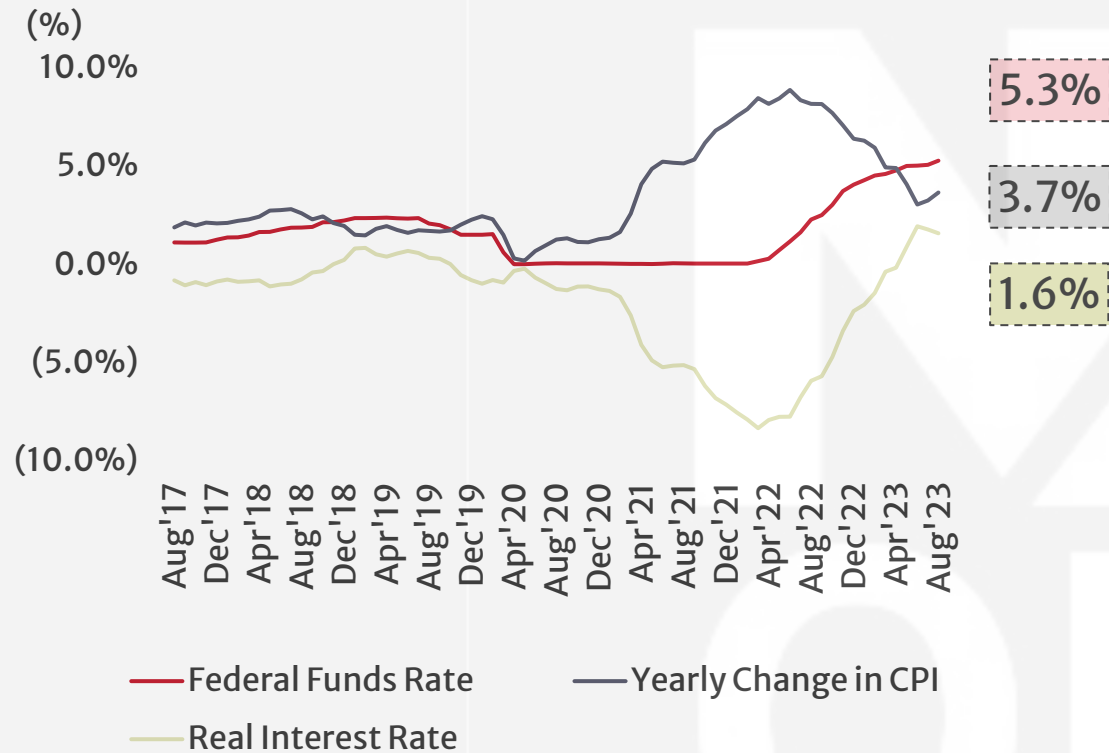
(%)





The FED is expected to take an extended pause of rate hikes if inflation continues to cool

Federal Funds Rate



Federal Reserve Chair Jerome Powell suggested the run-up in long-term Treasury yields could *allow the central bank to suspend a historic run of interest-rate increases* so long as recent progress on inflation continues.
 - Wall Street Journal
 October 19th, 2023



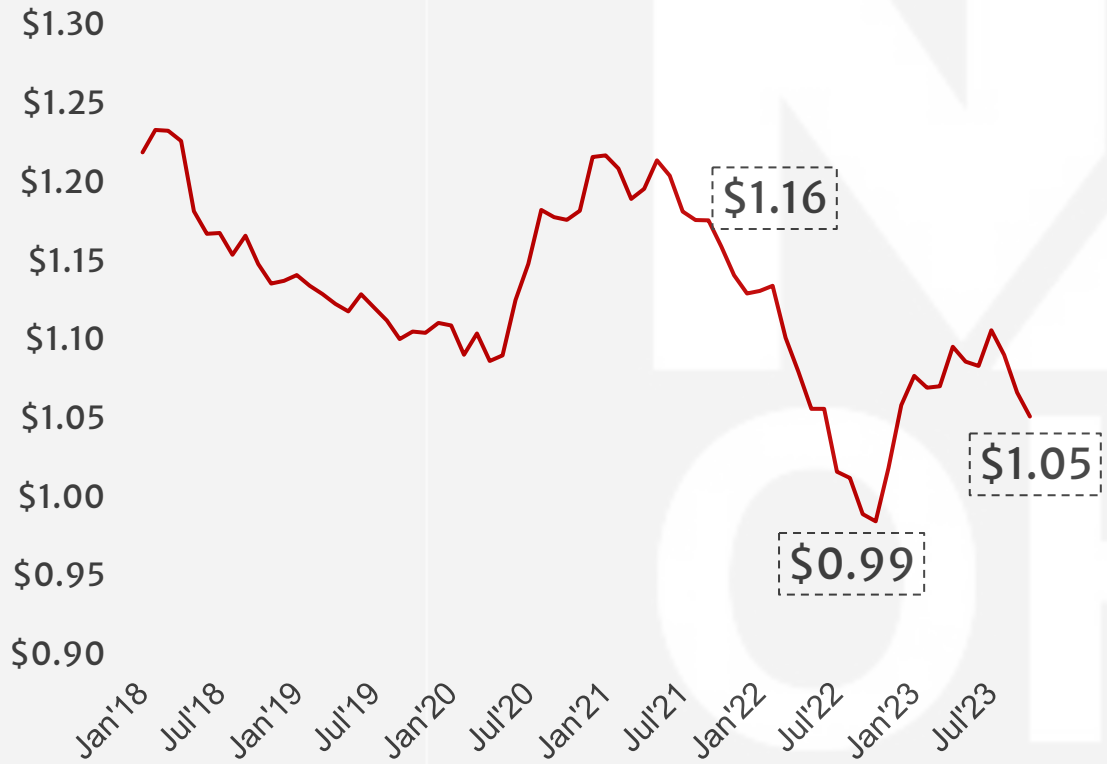
$$\text{Real Interest Rate} = \text{Nominal Interest Rate} - \text{Inflation Rate}$$



Recent depreciation of the dollar may incentivize domestic travel

Dollar to Euro Exchange Rate

(dollars per Euro)



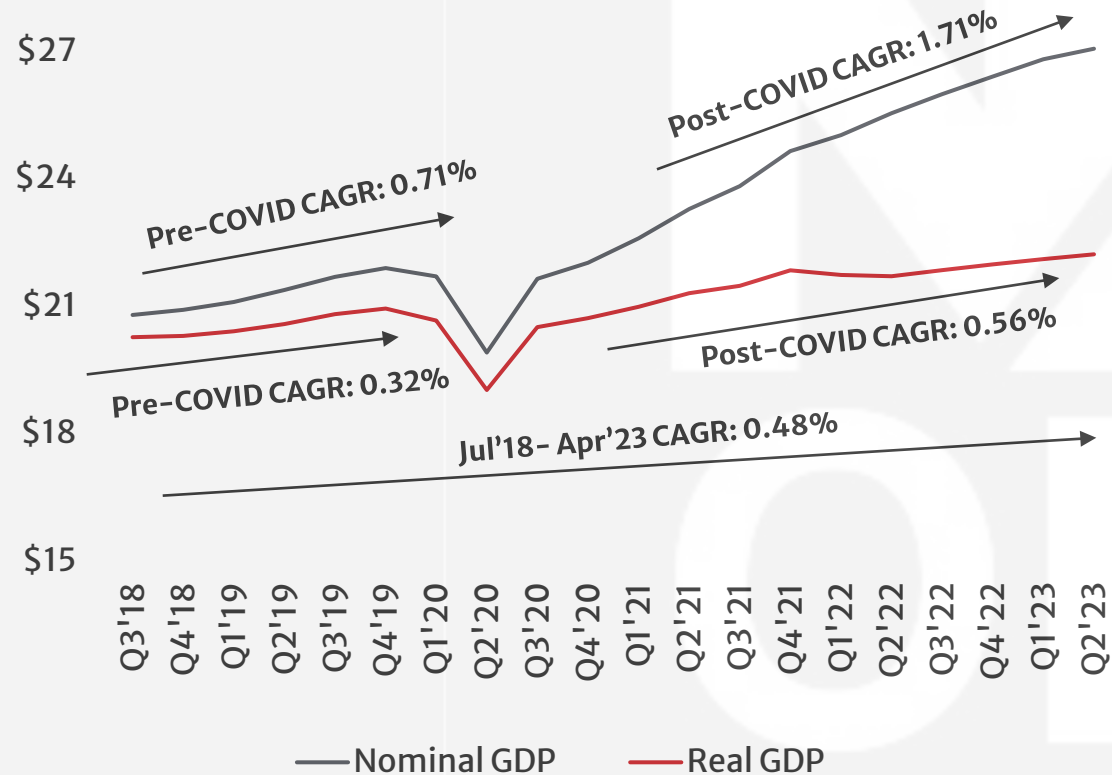
The dollar continues to hold pandemic-level strength but has begun to lose ground

9.5% appreciation compared to October, 2020

6.0% depreciation compared to October, 2022

The US economy continues recovering as of the second quarter of 2023

US Gross Domestic Product (trillions)



Growth for the 3rd quarter of the year is estimated to be **4.9%** on a year-over-year basis

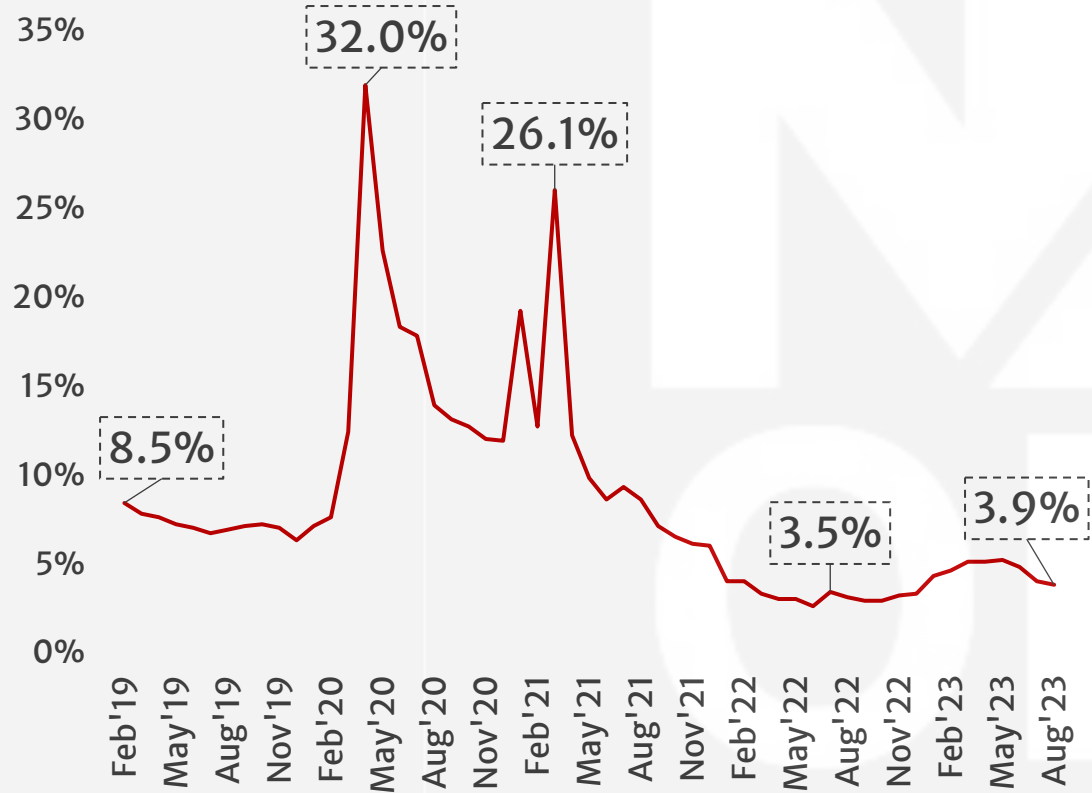
A “Soft Landing” which avoids recession seems increasingly plausible



Savings rates suggest wages have not kept up with prolonged inflation

Savings Rate

(%)



Savings rate increased **0.4%** relative to August 2022, reaching **3.9%** much below historical averages.



2

Operating Income Trends

“

Camping incidence has grown significantly over the past decade and now anchors about one third of the leisure travel market

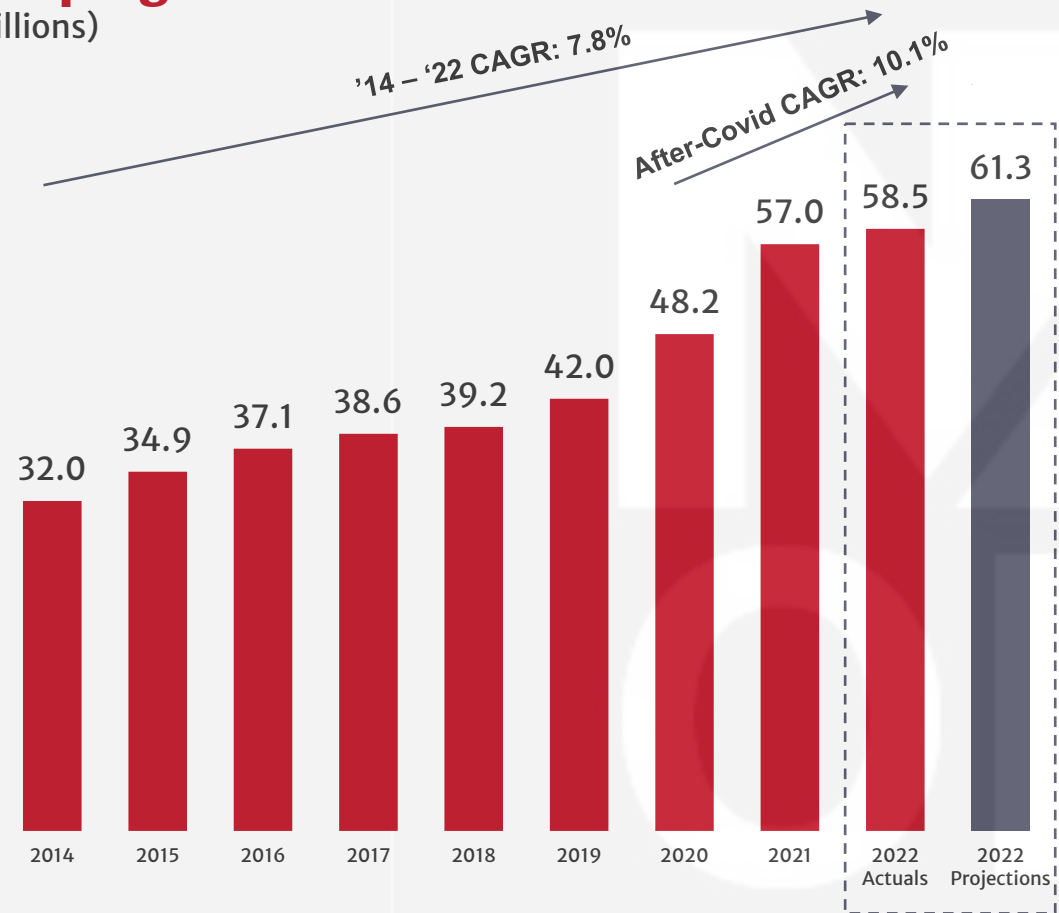
**– KOA North American Camping Report
2023**

”



Active camping households have continued to grow but may be stabilizing with a strong long-term growth rate near 8%

Camping Households (millions)



Camping households increased **1.5M** relative to 2021 (+2.6%)...

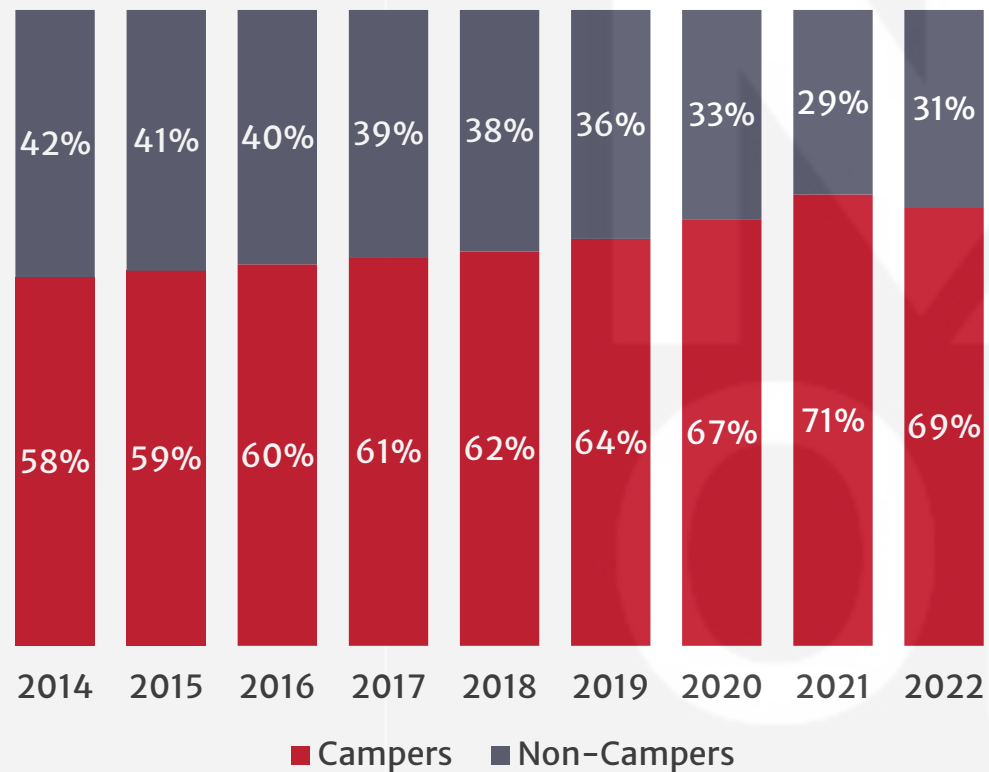
...missing industry expectations by **2.8M** households...

...but sustaining a **very strong long-term growth** trajectory



A lower proportion of households identified as campers in 2022 and higher than 2019

U.S Camping Households (%)



Households identifying as campers are **2 percentage points fewer** compared to 2021 and **5 pts higher** than 2019

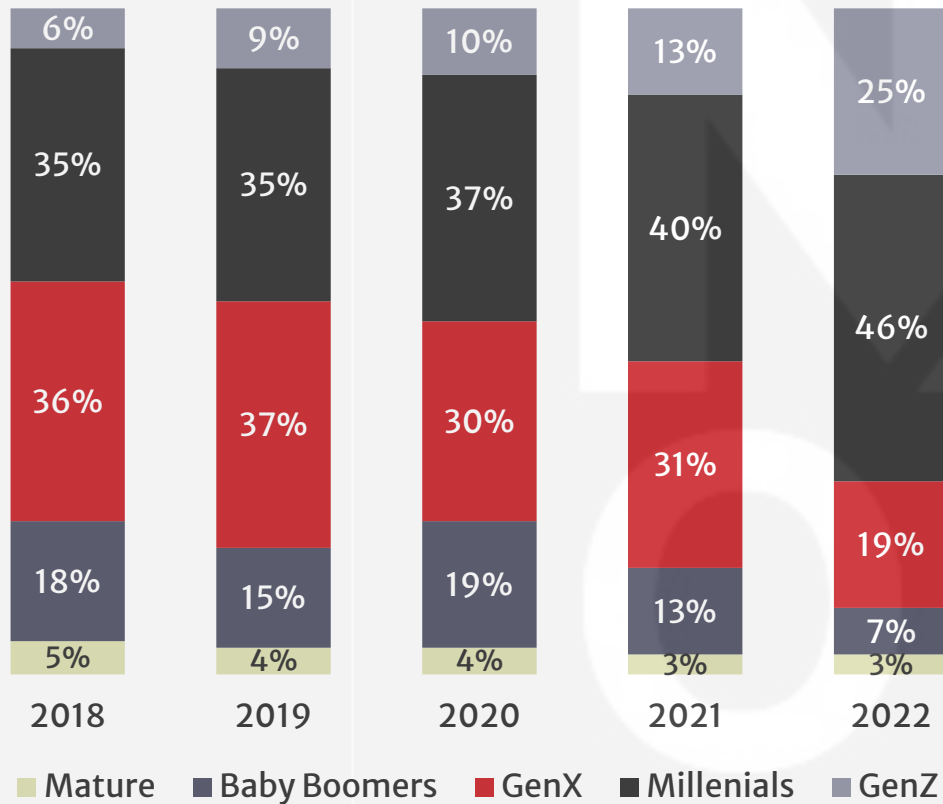
This drop is closely tied to COVID campers returning to previous travel habits, **however, the long-term trend remains on track**



Gen Z has become the second most important demographic

Camper Demographics (All Campers)

(%)

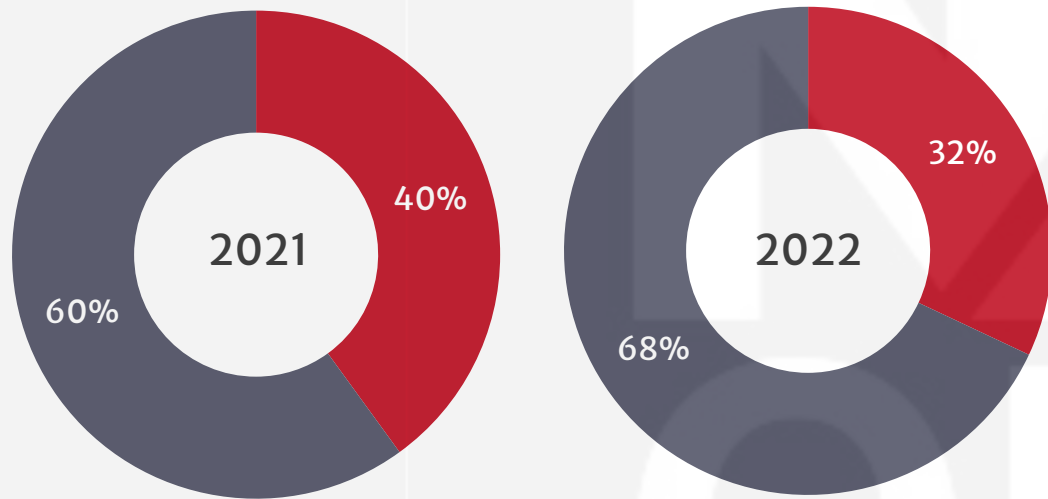


Gen Z accounts for **25%** of all campers, thanks to a **12 point** year-over-year increase



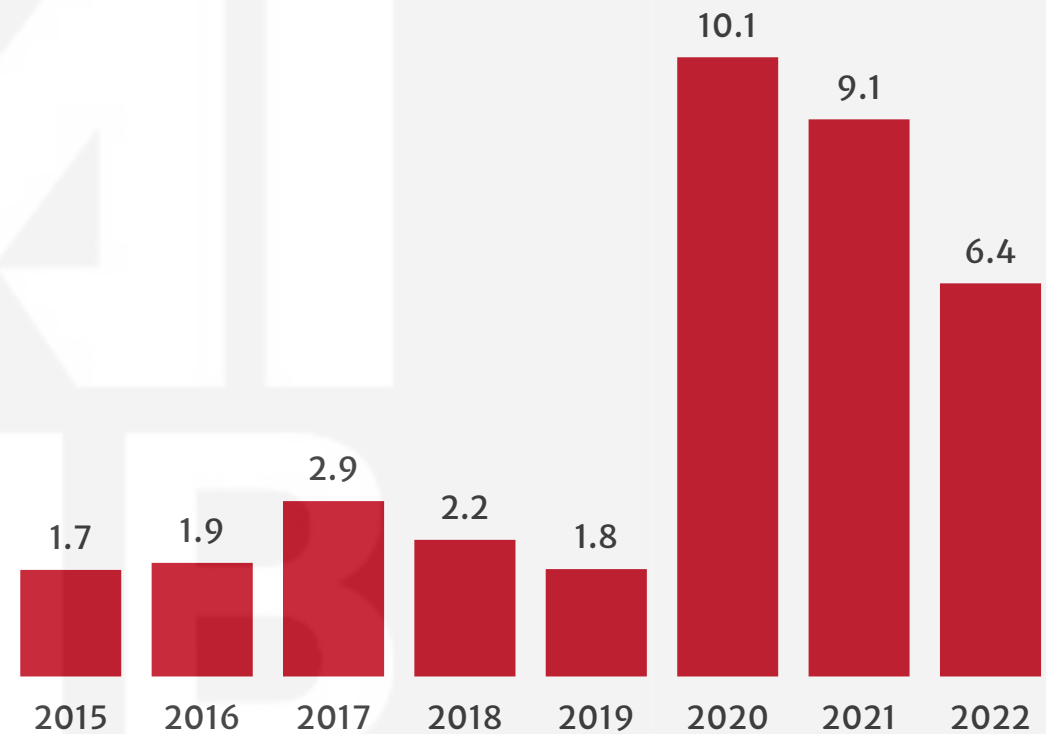
Camping growth is slowing relative to COVID, but are still well above pre-pandemic levels...

Share of Leisure Trips (%)



■ Camping as a Share of Leisure Travel

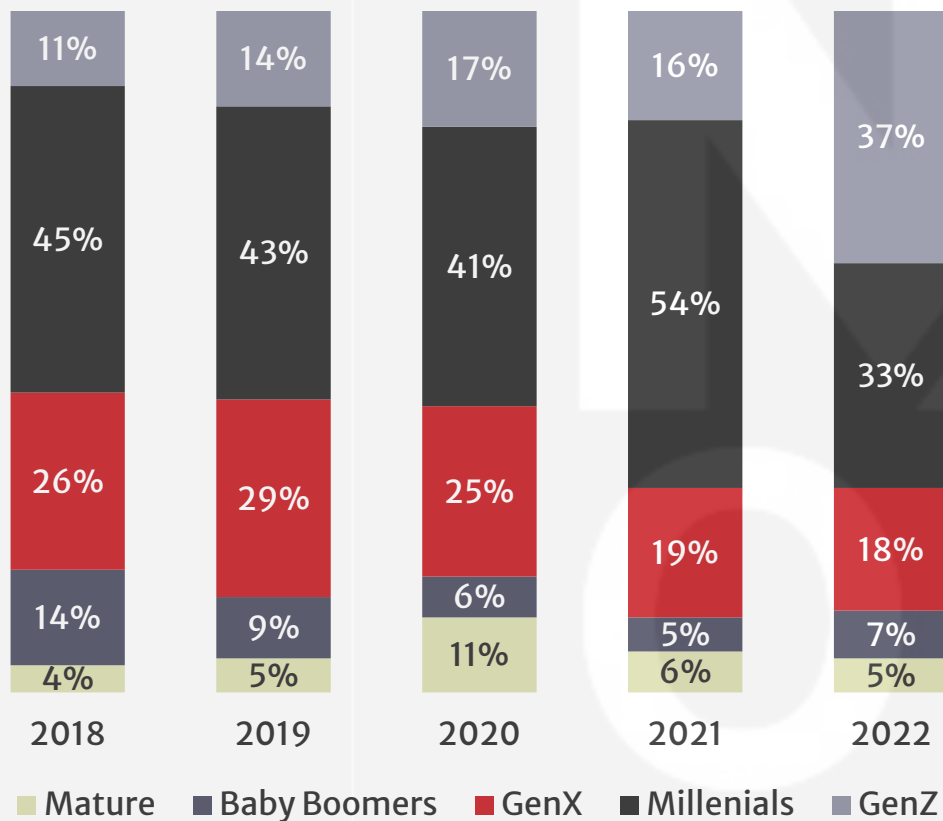
New Camping Households (millions)





...due in large part to younger generations' increasing presence among new campers

Camper demographics (new campers)
(%)



37% of the new campers are part of Gen Z

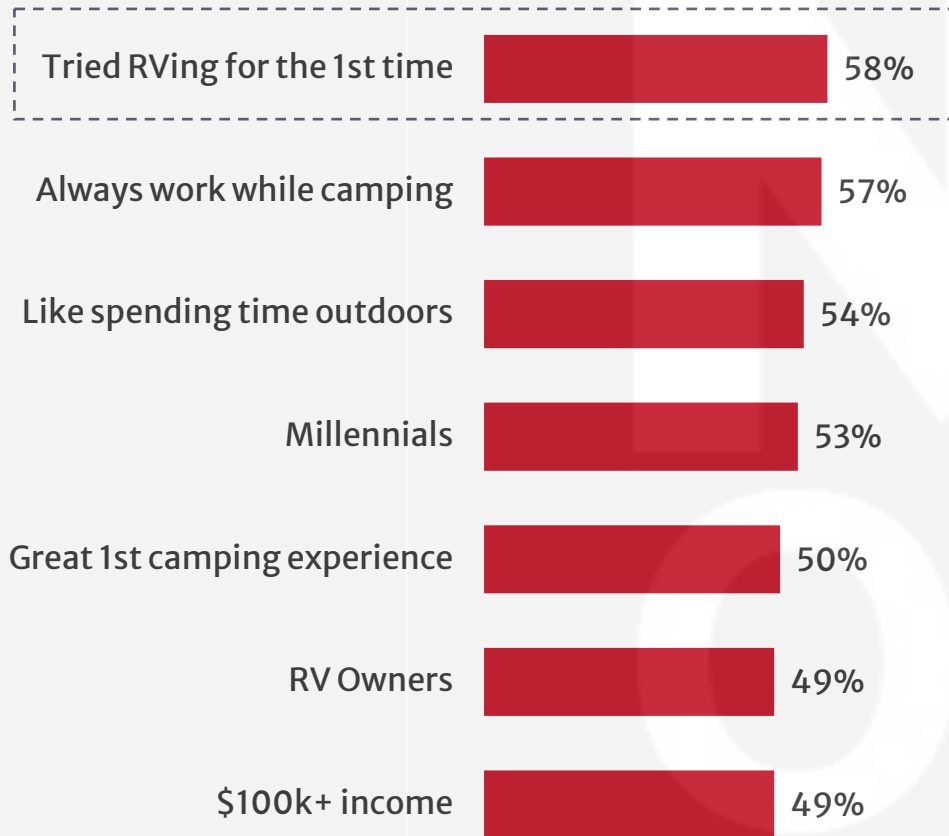
Millennial camper share decreased by **21 points** relative to 2021



RV first-timers and those with the ability to work while camping are most likely to expect to continue camping

Likelihood to Continue Camping in 2023

(%)



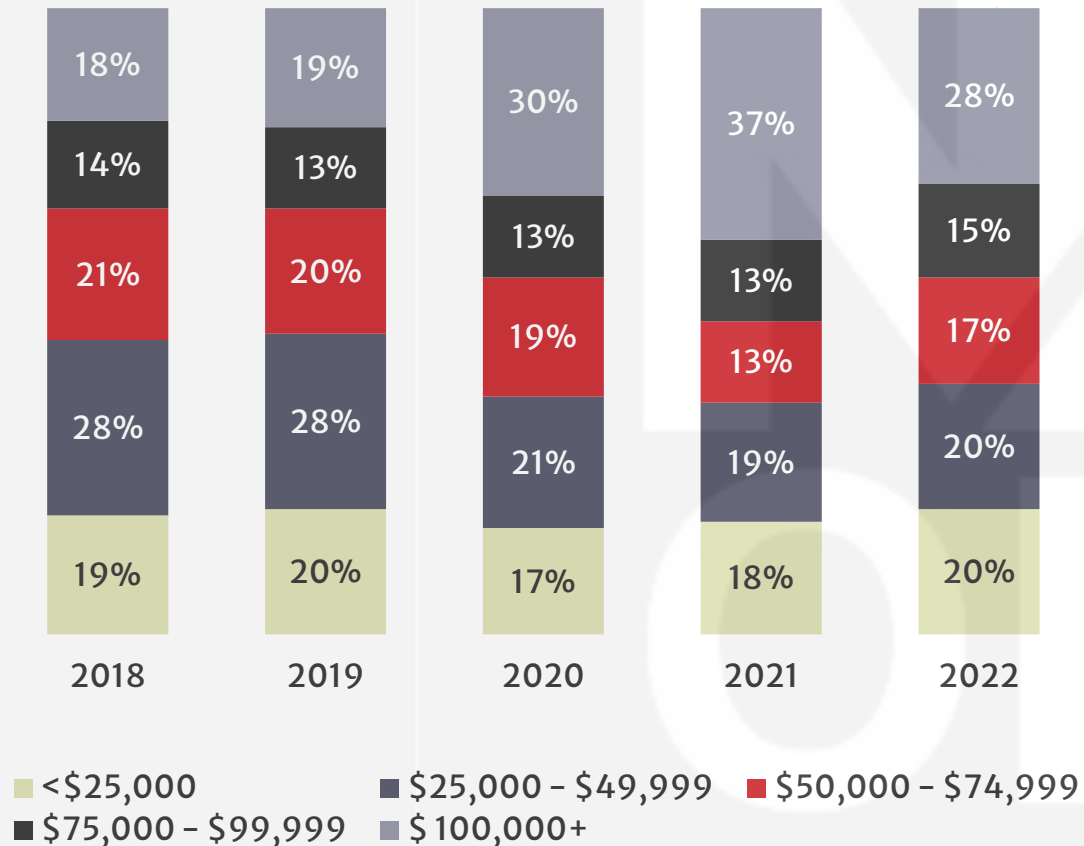
58% of RV first-timers said they would continue camping

Retention is also impacted by the ability to work while camping

When grouped by household income, campers mirror those from 2020

Percentage of Campers by Household Income

(%)



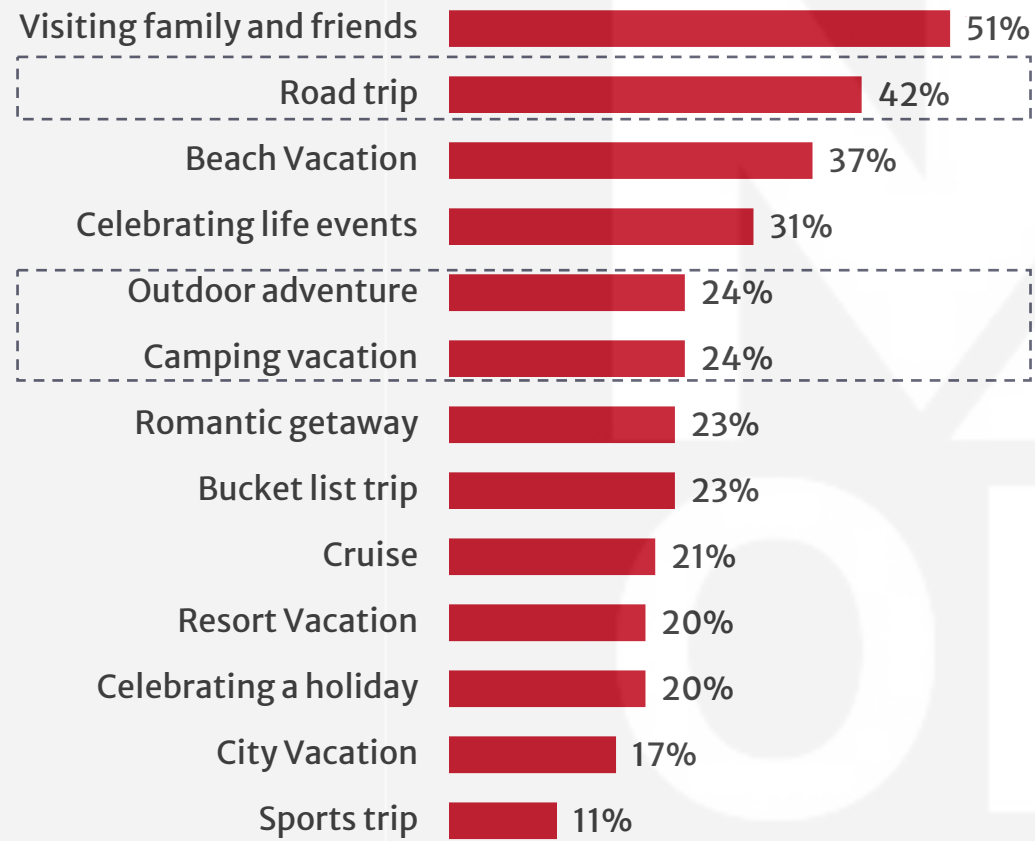
28% of campers had a household income of \$100k or higher in 2022...

...this represents a 9 point reduction compared to 2021, but a 9 point increase compared to pre-pandemic levels

Camping accounts for 24% of travel plans while inflation remains an influential factor

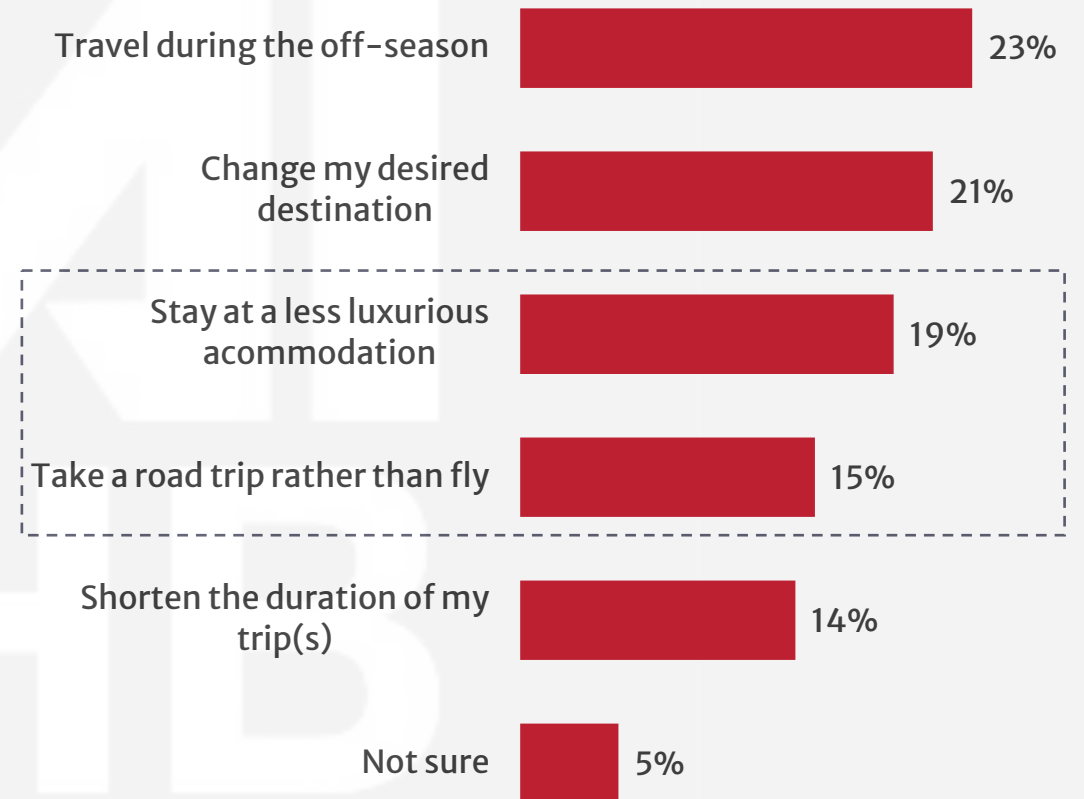
Types of Trips Americans Planned for 2023

(%)



Travel Changes Planned due to Inflation⁽¹⁾

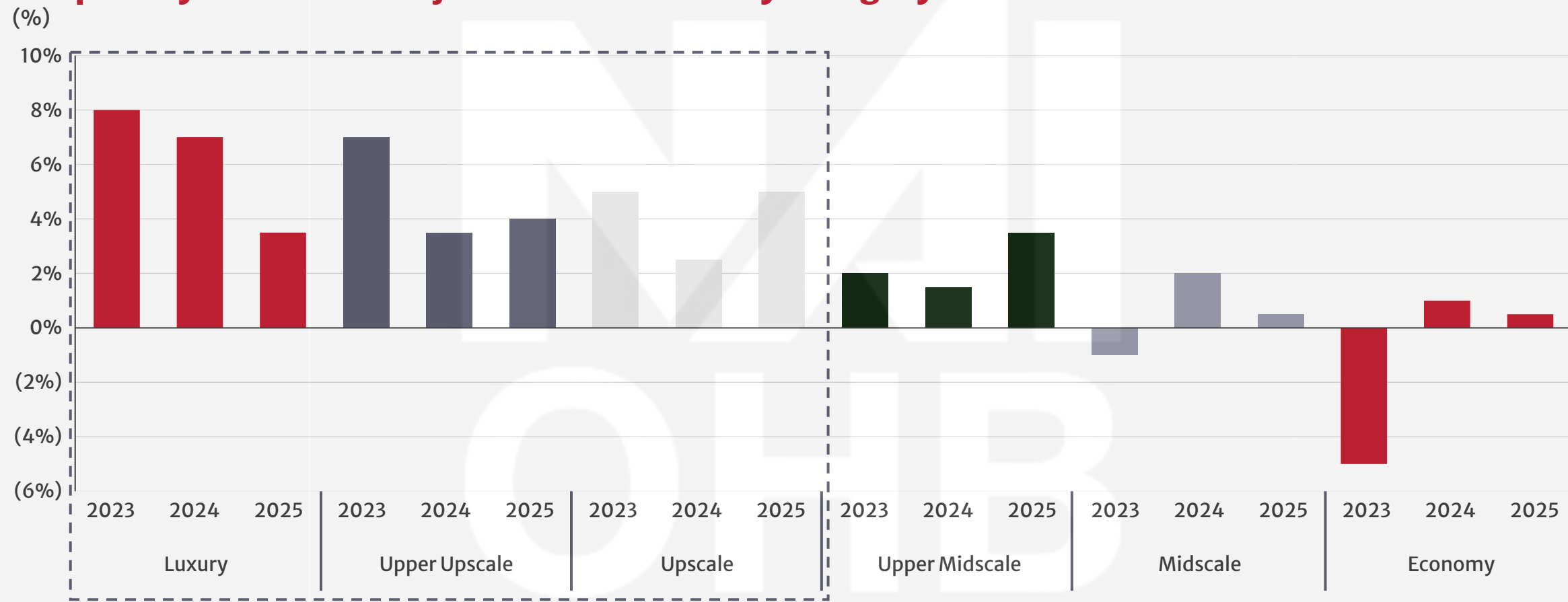
(%)





Projected demand growth is focused in mid-to-upper tier categories

Hospitality Demand – Projected YoY Growth by Category

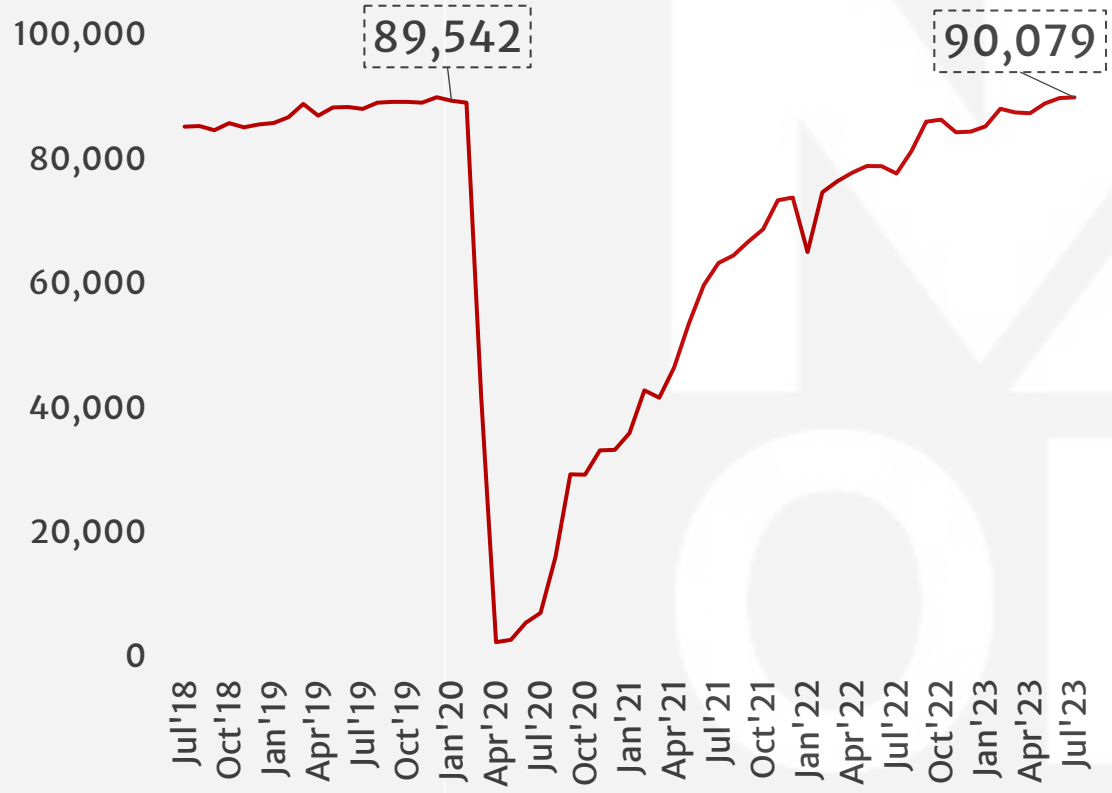




Long distance travel has rebounded to a pre-pandemic level and is projected to grow over the next five years

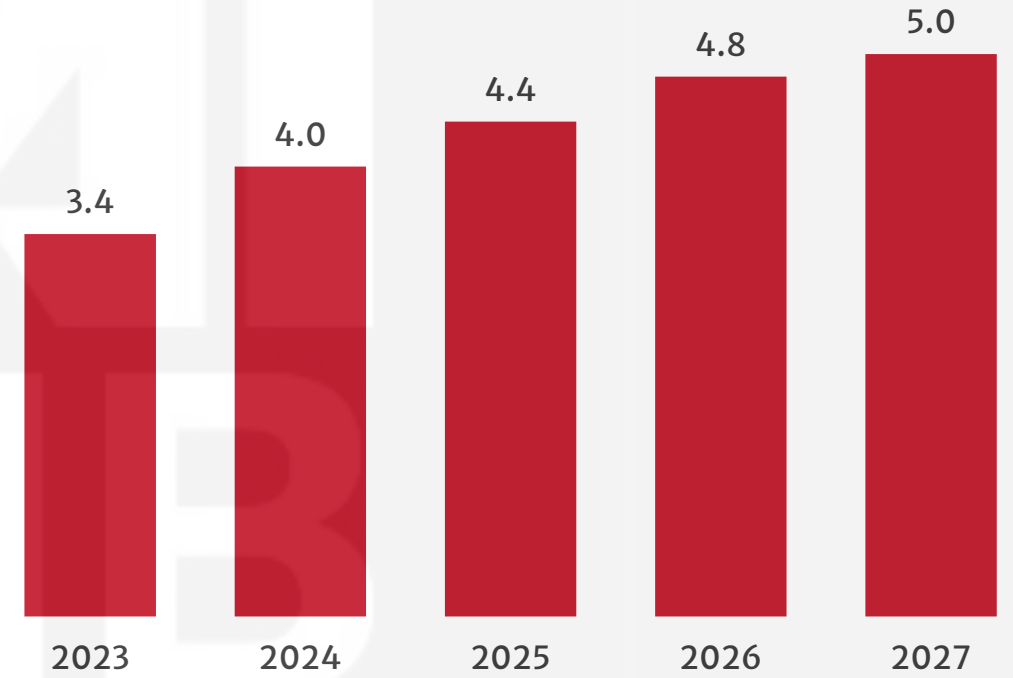
Air Revenue Passenger Miles

(million per month)



Projected Global Air Passengers Traffic

(billions of passengers)

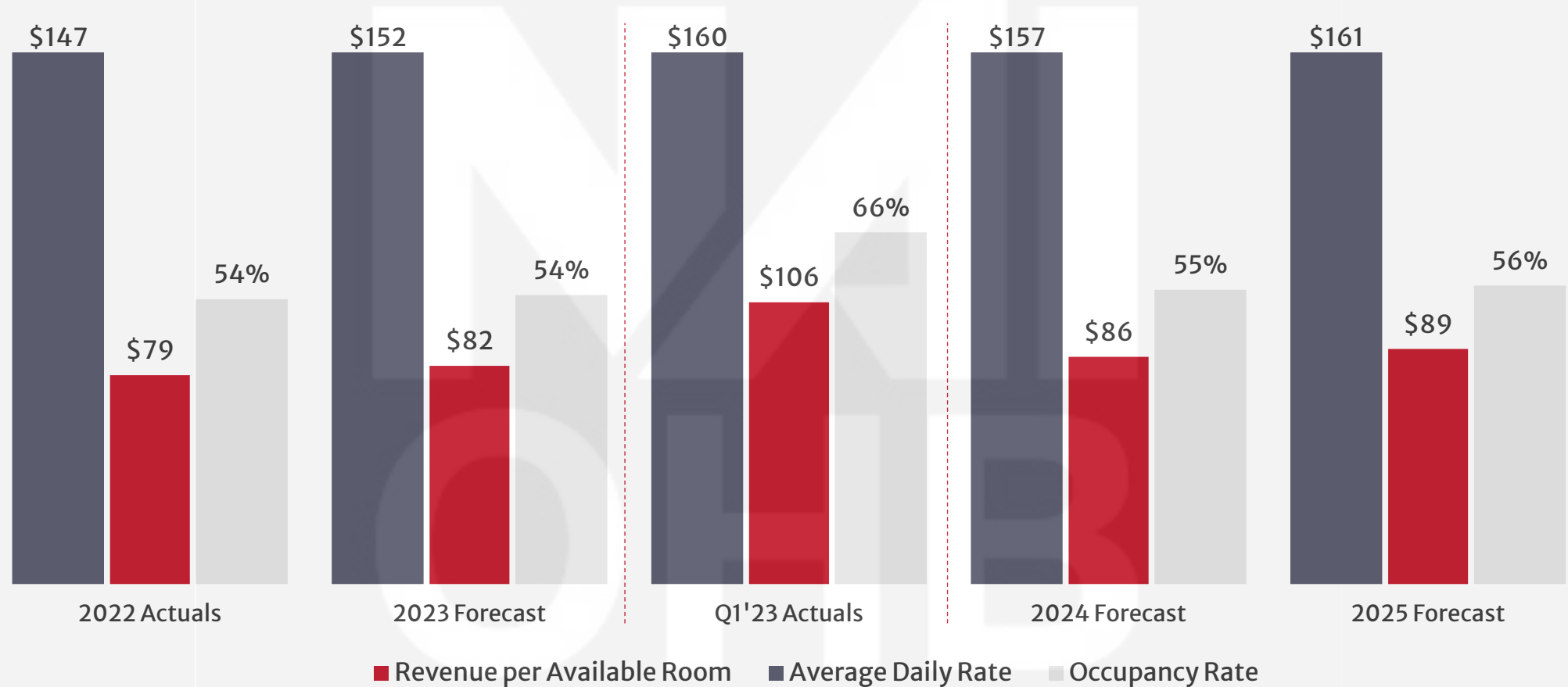




Traditional hotel occupancy is expected to continue growing, but at a much slower pace

US Hotel Key Performance Indicators

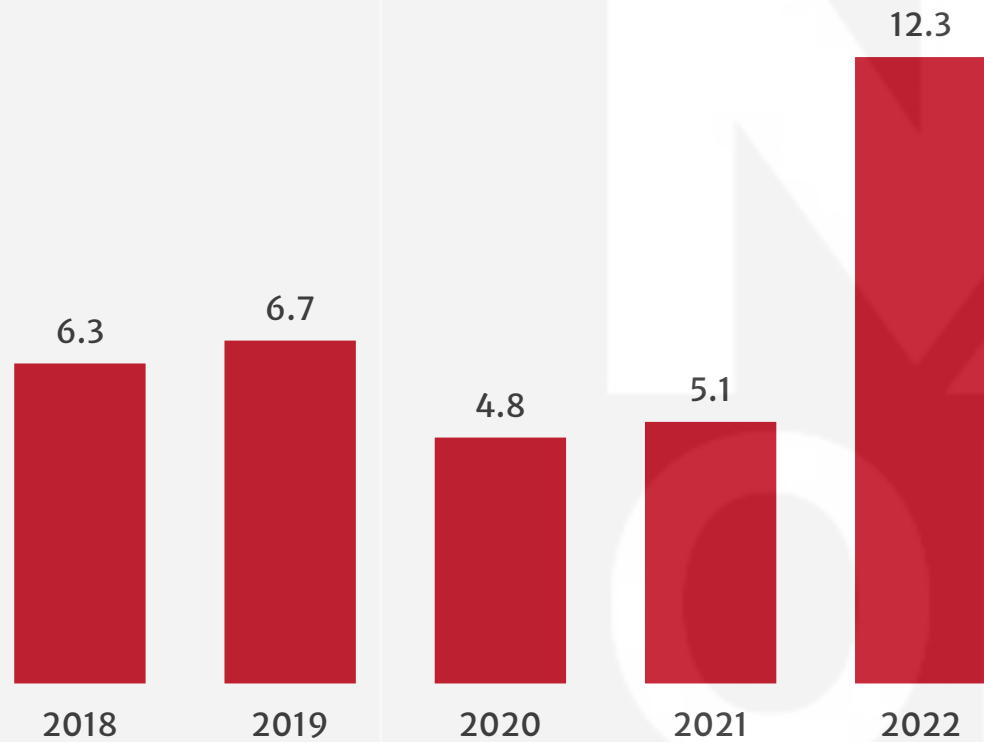
(Dollars, %)





Cabins/Glamping are rising as a strong substitute for RVs, offering campers innovative outdoor experiences

Number of Cabin/Glamping Households (millions)

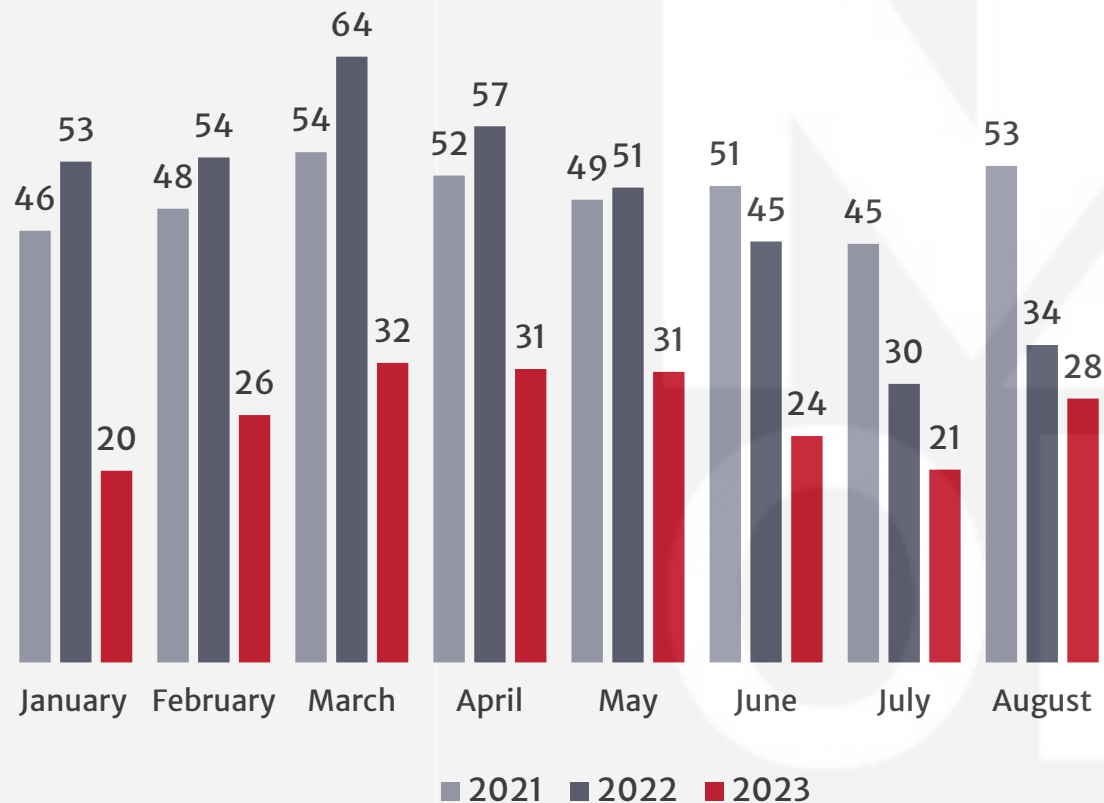


Why Travelers Want to Experience Glamping (%)

Main Reasons	2021	2022
An experience that blends the benefits of staying at a resort and the outdoors	37%	63%
Wanting to stay in unique accommodations	48%	53%
Having services and amenities that aren't available with camping	28%	40%
Do not want to go camping, but still want to have an outdoors experience	N/A	33%
Want a new or different kind of vacation	32%	33%

RV shipments experienced a significant decline over the last year

Total Monthly RV Shipments⁽¹⁾ (thousands)



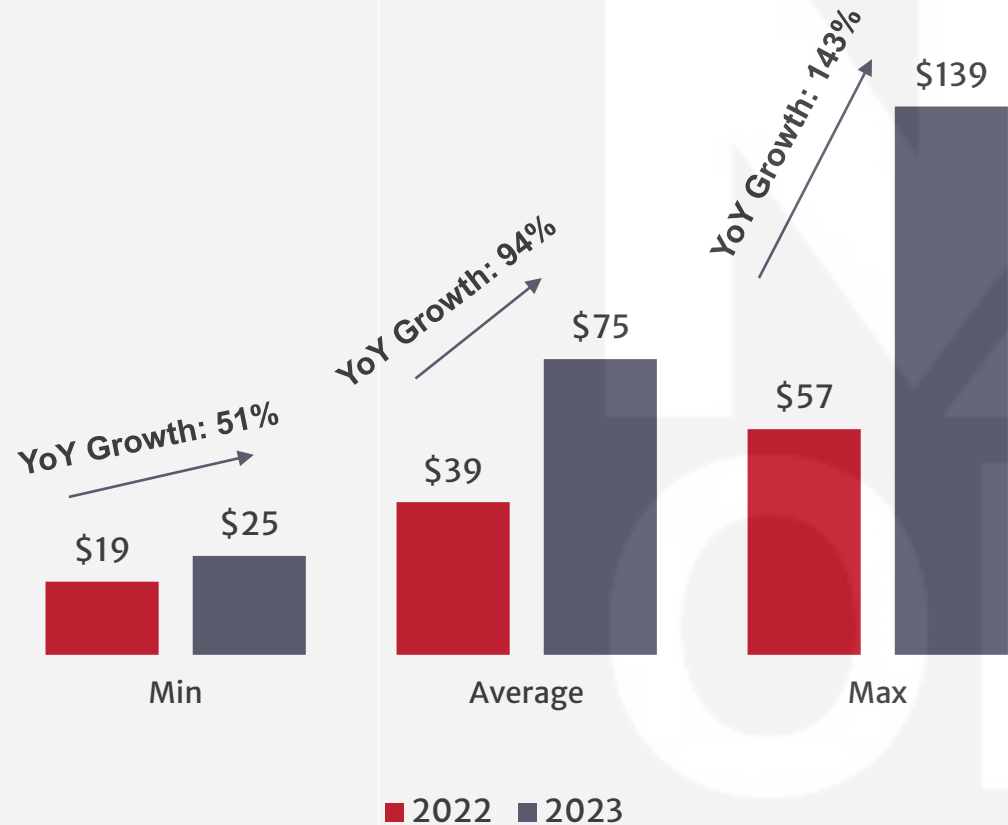
RV Shipments Summary⁽²⁾ (units)

	YTD '21	YTD '22	YTD '23	YoY Growth
Travel Trailers (All)	279,470	269,363	137,971	(48.8%)
Travel Trailers - 5th Wheel	71,832	68,111	36,949	(45.8%)
Folding Camping Trailers	5,213	5,797	3,534	(39.0%)
Truck Campers	3,004	3,827	2,522	(34.1%)
All Towable RVs	359,519	347,098	180,976	(47.9%)
Conventional (Type A)	10,428	10,745	6,940	(35.4%)
Van Campers (Type B)	8,675	12,374	8,691	(29.8%)
Mini (Type C)	19,001	17,659	16,814	(4.8%)
All Motorhomes	38,104	40,778	32,445	(20.4%)
Total RV Shipments	397,623	387,876	213,421	(45.0%)



Increasing labor costs continue to directly affect RV park cost structures

RV Park Manager Yearly Salary (\$000's)



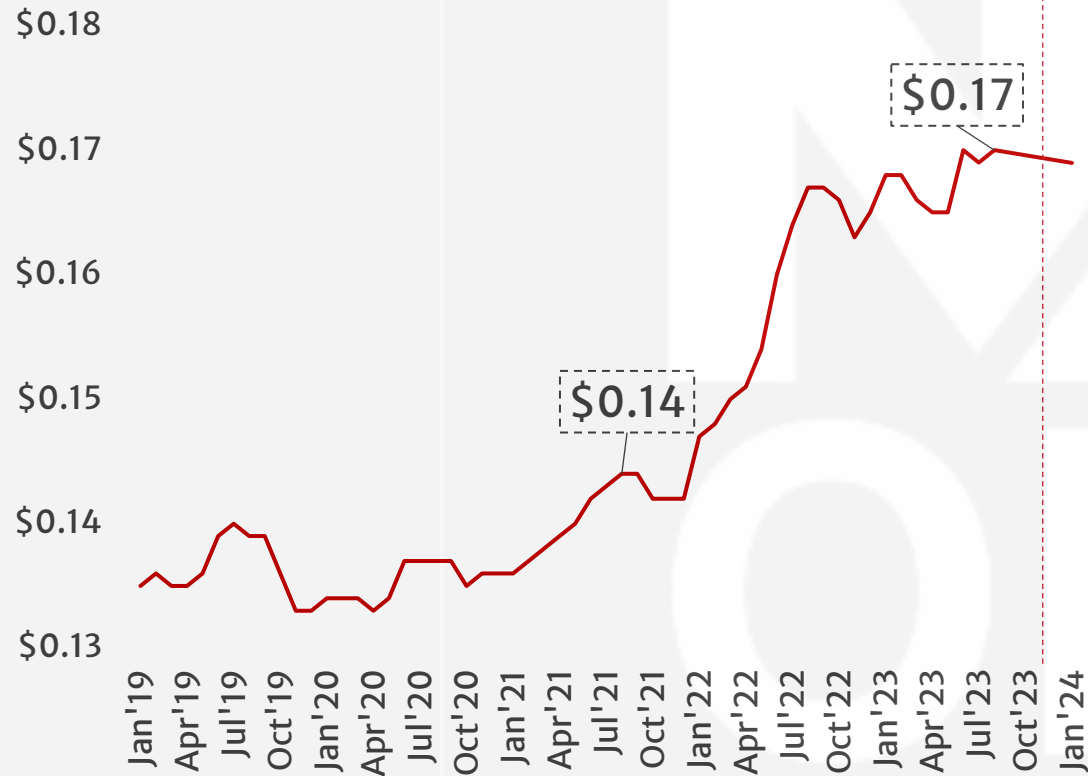
Labor, the largest operating expense in RV parks' cost structure, has increased relative to last year and labor cost pressures will remain



Utilities and tax rates are expected to remain generally flat, but rising insurance costs are a growing concern

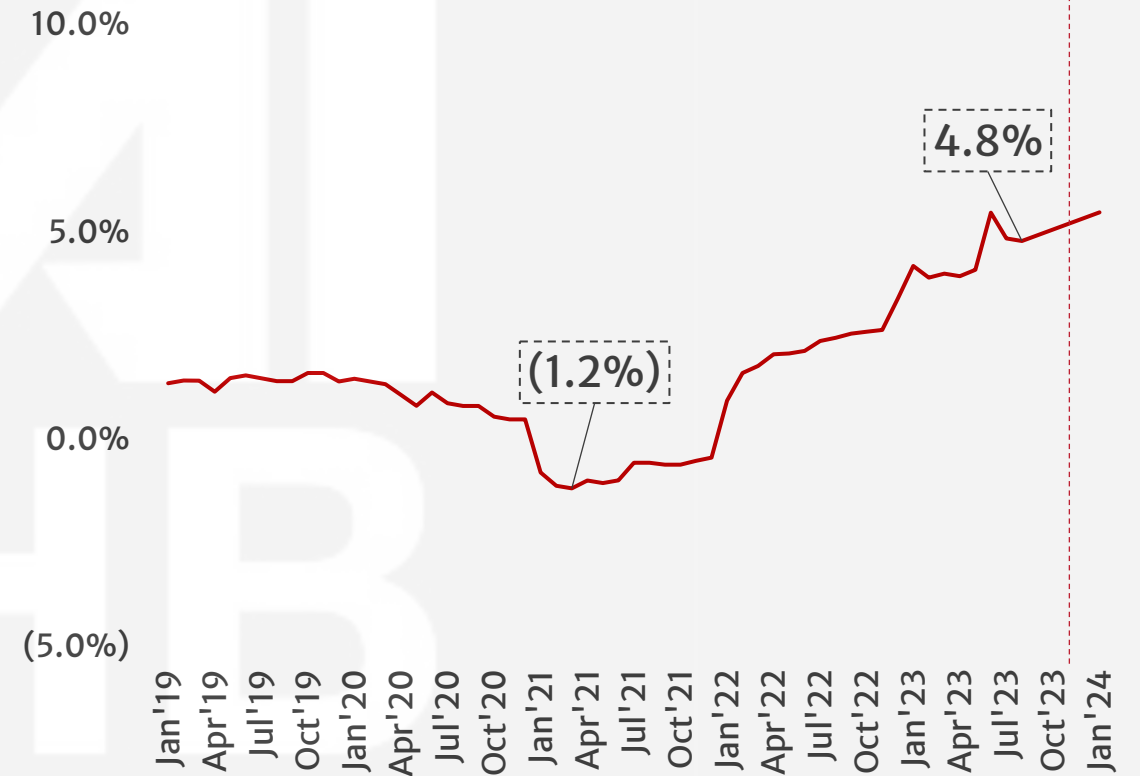
Price per KWH

(\$)



Premia for Property and Casualty Insurance

(% change from Prior Year)





3

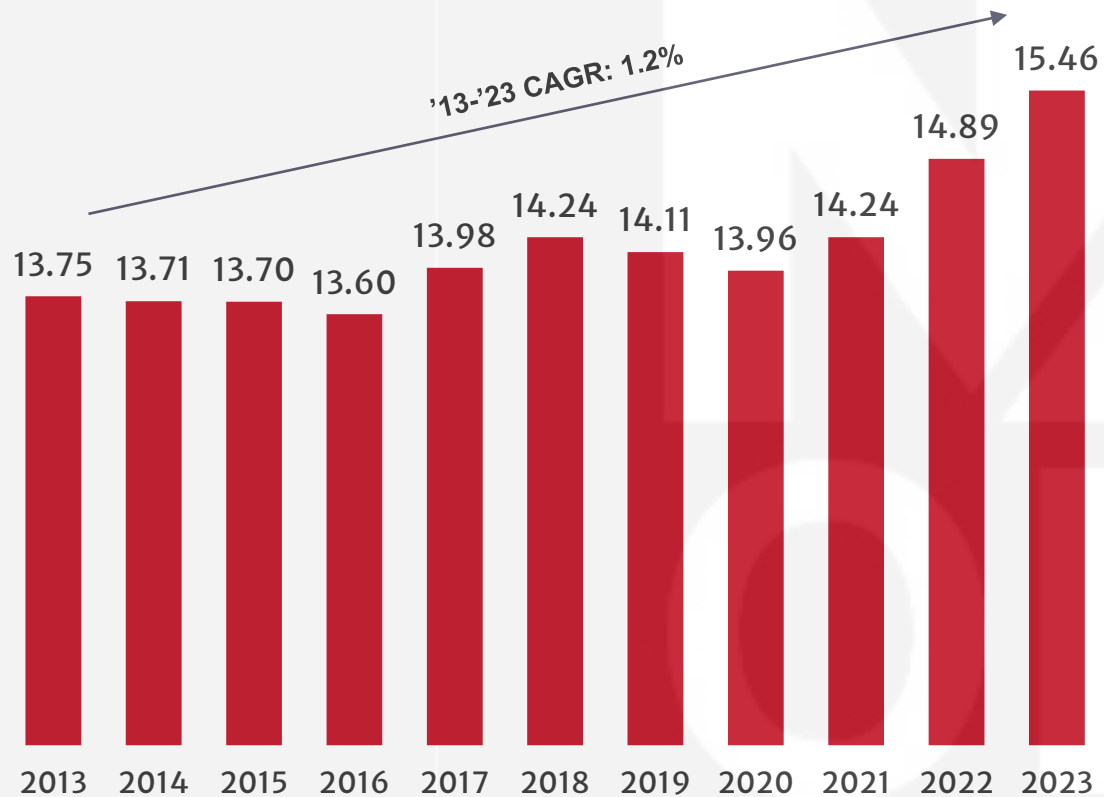
Property Value Drivers



Quantity of campground properties and RV parks is trending up...

Campgrounds & RV Parks in the US

(thousands of businesses)

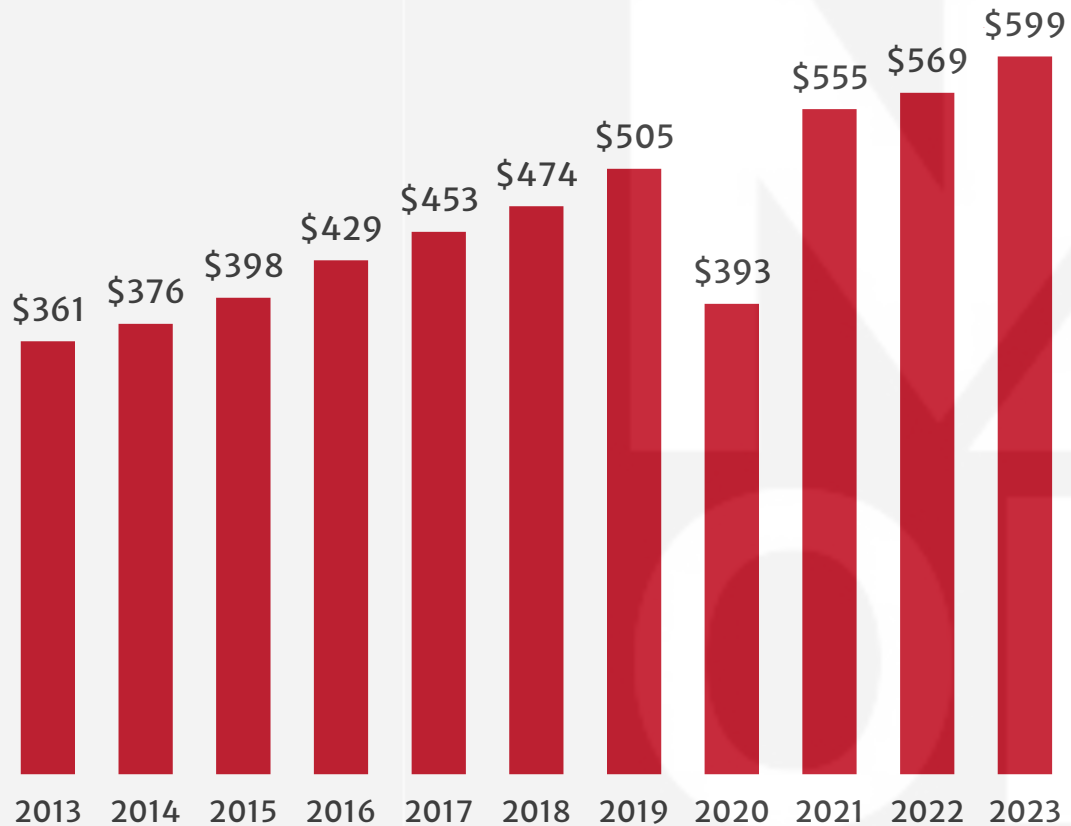


of Campgrounds increased **3.8%** year-over-year in 2023 - camping household growth up 2.6%



... and so is average revenue per business

Average Annual Revenue per RV Park (\$000's)

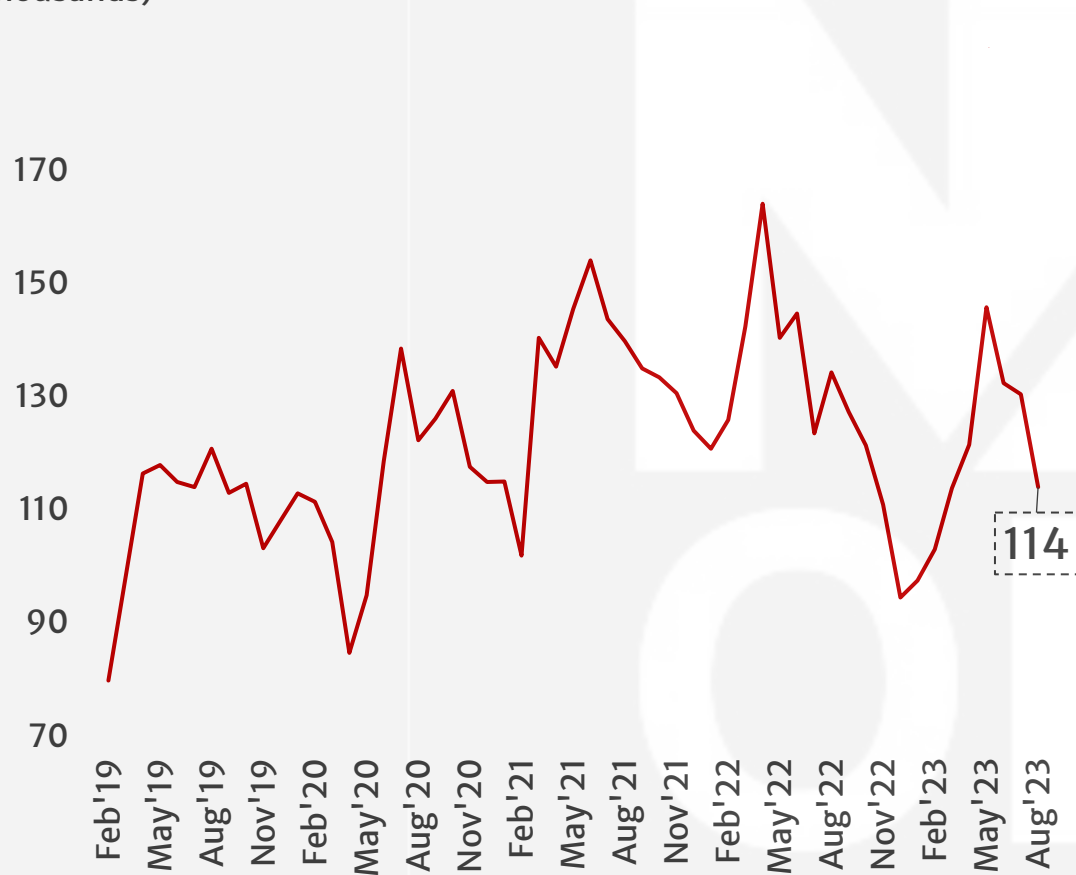


Average revenue per RV Park has increased **5.3%** year-over-year, and **18.6%** since 2019

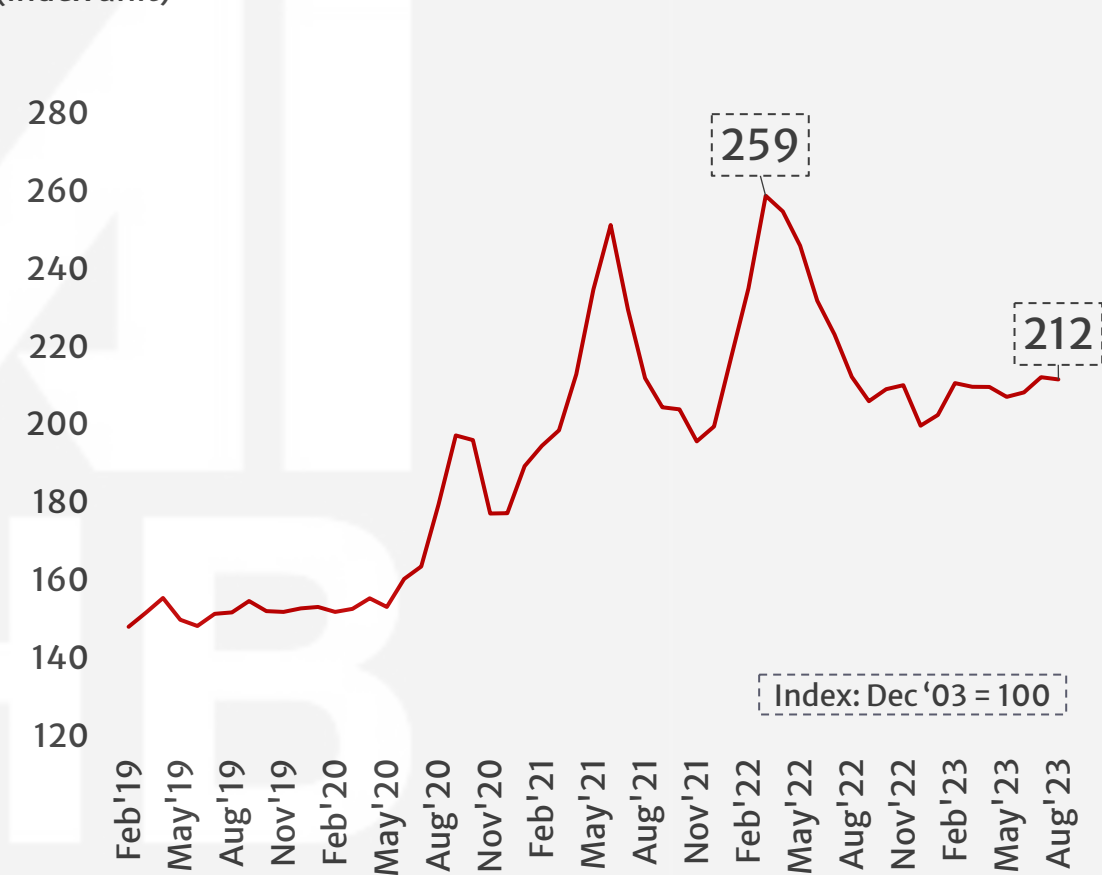


New housing developments have slowed while building materials costs have normalized, suggesting decreased start-up costs for new parks

New Housing Construction in the US (thousands)



Buildings Material and Supplies Dealers CPI (index unit)





4

Investor Trends



Capitalization rates are a measure of property income efficiency

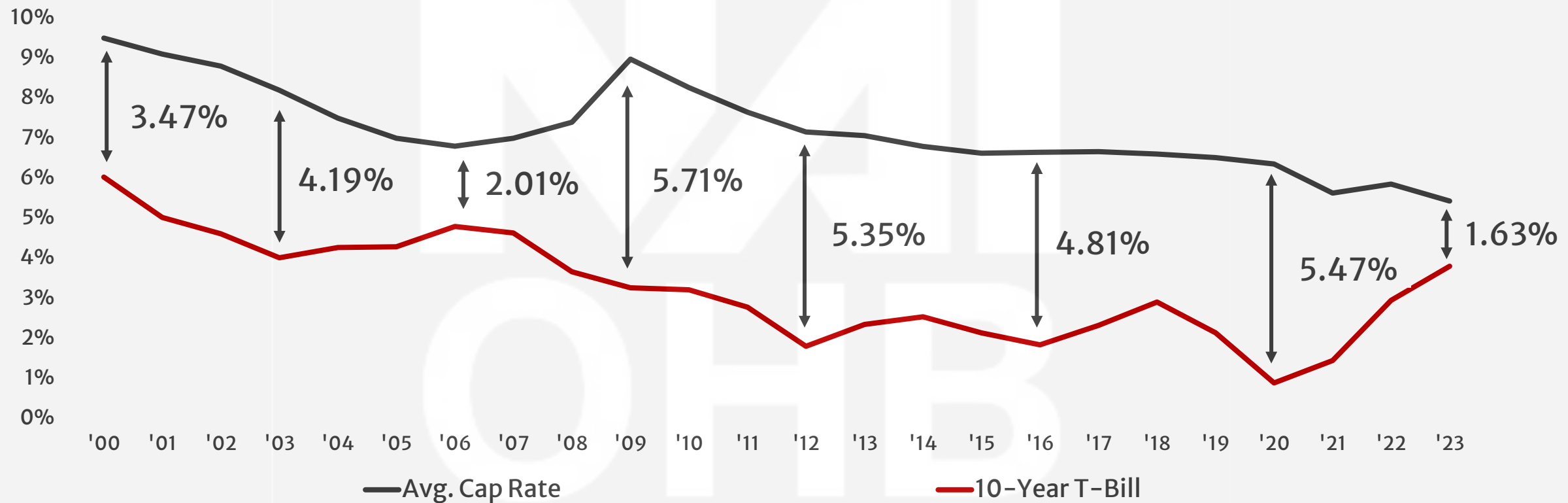
$$\text{Capitalization Rate} = \frac{\text{Net Operating Income}}{\text{Property Value}}$$

Capitalization rates are a ratio of net operating income to property value, measuring the base efficiency of a property's cash flow generation from operations



Higher costs of capital are squeezing cap rates' spread above 10-year treasuries

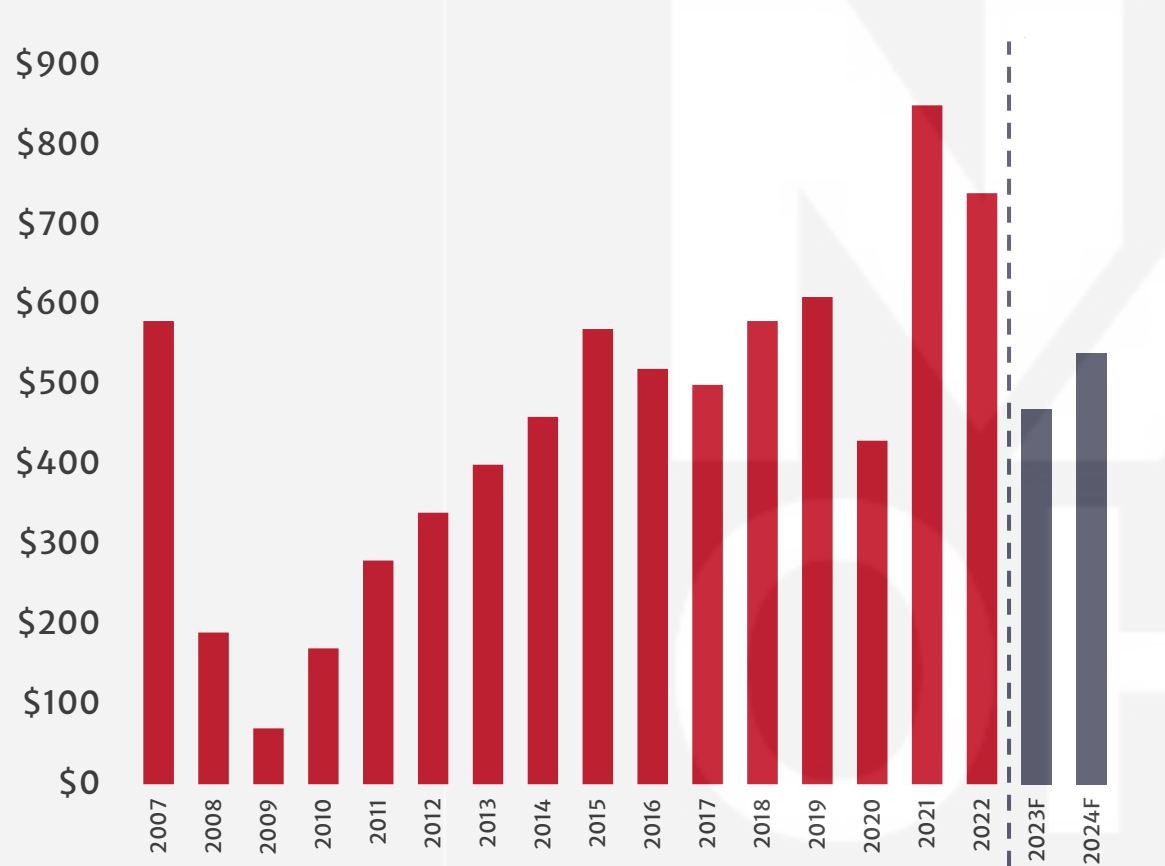
US All Commercial Real Estate Cap Rates and 10 Year T-Bill
(%)



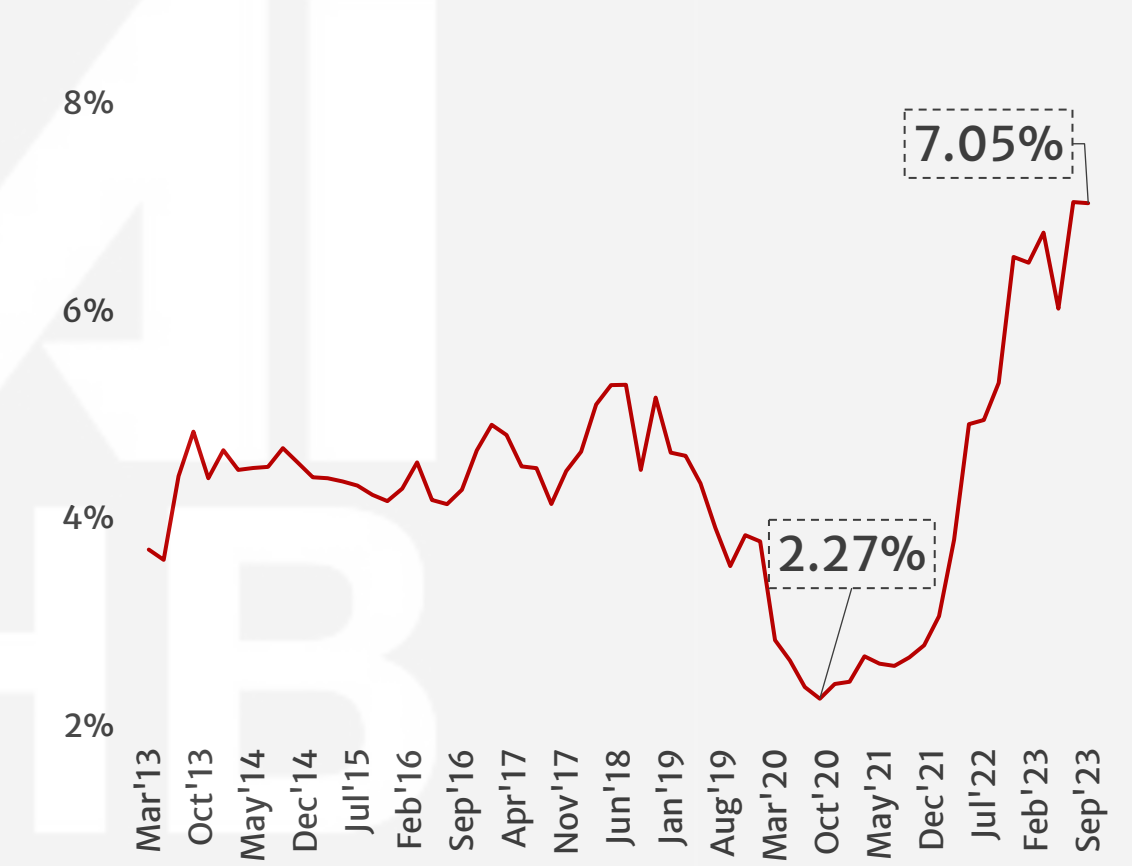


Investment volume will face headwinds from higher cost of capital, weaker economic activity, and a strong USD

Real Estate Investment Volume in the US (billions)



Estimated Commercial Real Estate Loan Rate⁽¹⁾ (%)

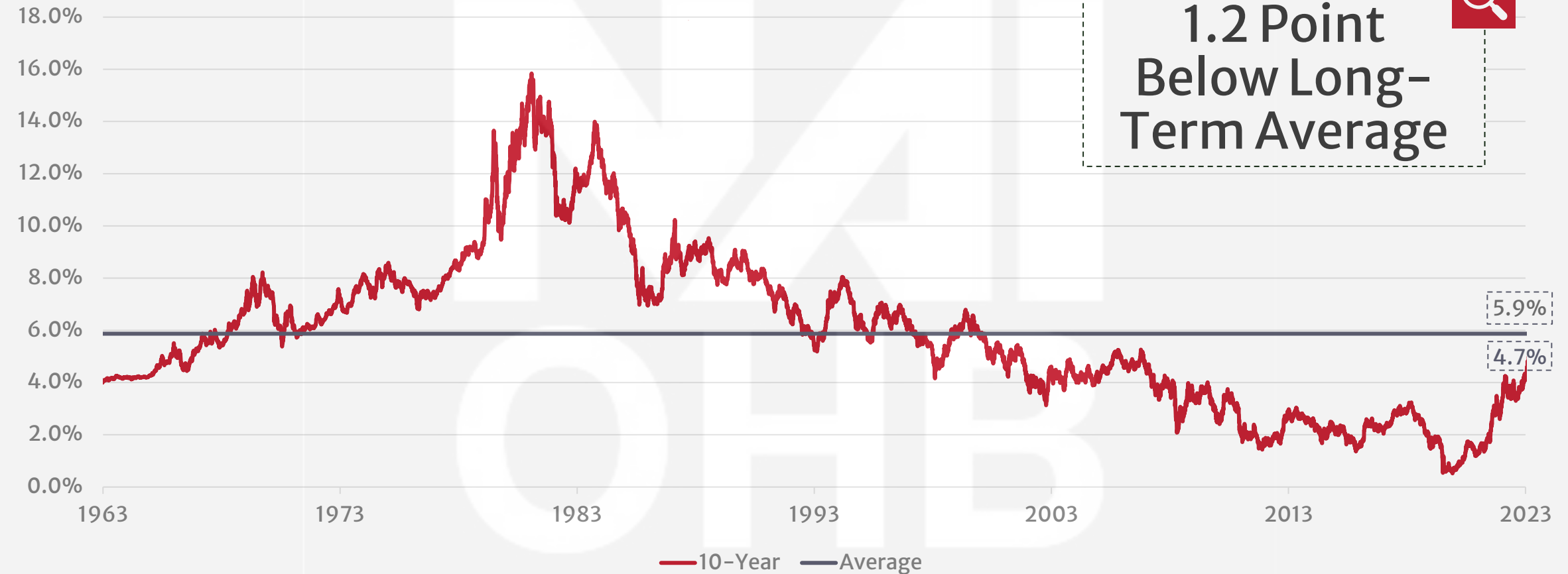




10-Year Treasury Bond Rates are still below the long-term average

10-Year Treasury Rate

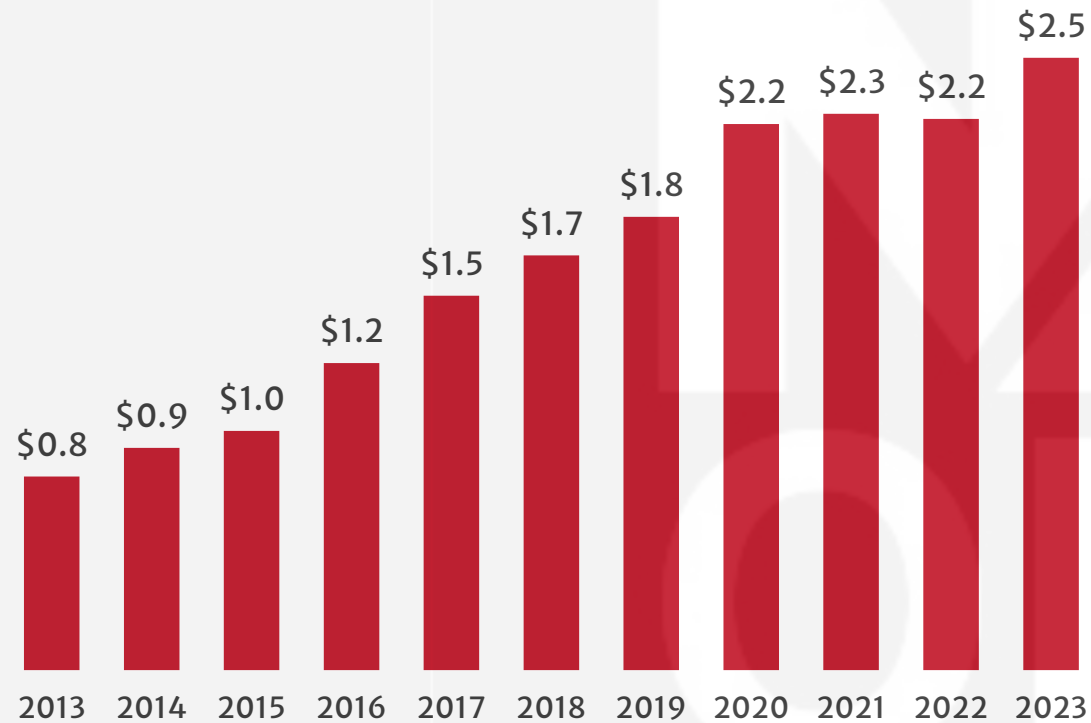
(%)



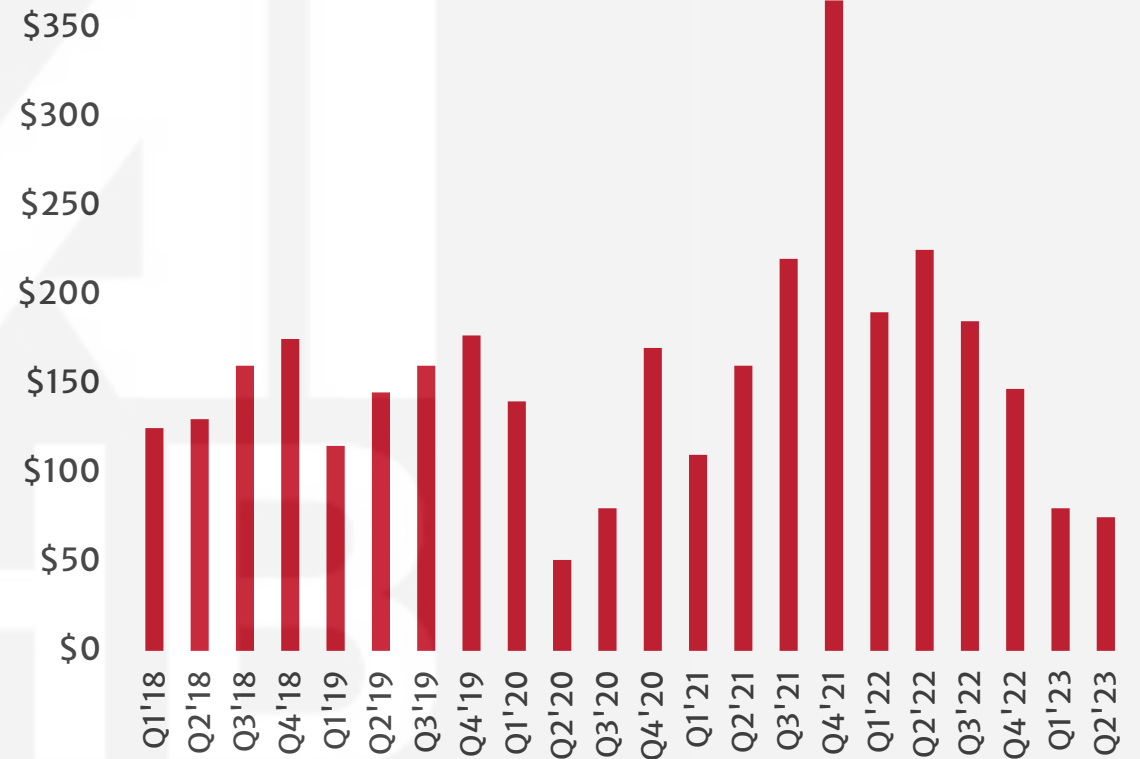


Private equity dry powder continues to accumulate amid slowing deal activity

Private Equity Dry Powder (trillions)



US Real Estate Transactions (billions)





Equity investors' sentiment has moved to guarded optimism about the hospitality sector

Hospitality Investment Sentiment Indicators (index scores)

Positive Key Indicators	Index Score	Q2'23 v Q1'23
The availability of investable hospitality stock	66.1	+11.8pts
Your confidence in total revenue growth (next 12-months)	62.5	+5.4pts
Your appetite for risk	55.4	+6.8pts
The competition to acquire hospitality investment opportunities	55.4	-6.1pts

Hospitality Investment Sentiment Indicators (index scores)

Negative Key Indicators	Index Score	Q2'23 v Q1'23
Your confidence in corporate accommodation demand growth (next 12 months)	48.2	-13.2pts
Your confidence in total profit growth (next 12-months)	33.9	-7.5pts
Your investment focus on alternative accommodation types (i.e., extended-stay, hostels, co-living, etc.)	55.4	-8.9pts
Your unallocated capital to invest in hospitality (dry powder)	55.4	-7.5pts



5

Consolidated Conclusions

Industry Implications

- Long-term growth trend for Outdoor Hospitality still positive – after COVID Bump – and normalizing at a strong growth trajectory – **7.8% CAGR**
- Our Campers continue to get **younger and more affluent**.
- Increasing operating costs – **labor, insurance, utilities, and property taxes all increasing** – will impact NOI Growth
- Glut of RVs on dealers' lots is clearing up and **returning to equilibrium**
- Low household savings rate is impacting consumer spending on discretionary items – likely to continue to drive **RV Camping as an economically viable vacation substitute**
- Continued **competition from air travel** which is expected to grow – influenced by strong Dollar

Economic Implications

- Stubbornly low unemployment rates and high Job openings may keep inflationary pressure up and cause **the Fed to continue to raise rates or maintain higher rates.**
- Inflationary pressures and low savings rate a positive for camping industry offering a **cost effective vacation experience.**
- Mild recession predicted Q4 2023 to Q2 2024 **may still be averted**
- Interest rates will likely plateau and start coming **down in mid-to-late 2024**
- Extremely low interest rate environment we saw from 2020–2022 **will not return for many years – return to levels of 2011–2018 ?**
- Investment Real Estate valuations may not return to 2021–2022 levels for many years due to **cost of debt returning to a more normal levels**



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