

THE HOLIDAY LODGE MARKET



TOURISM & LEISURE MARKET OVERVIEW

Britain is expected to have a tourism industry worth over £257 billion by 2025 – just under 10% of UK GDP and supporting almost 3.8 million jobs, which is around 11% of the total UK workforce¹.

Tourism spending in 2013 was forecast to reach £113bn, of which £24bn came through spending by international visitors on visits to the UK and fares paid to UK carriers and £89bn from spending by domestic residents. The preponderance of UK tourism volume and value is therefore from the home market.

However, the tourism and leisure market both in the UK and overseas has been evolving rapidly over the last decade or so and has become much more dynamic. As a result there is far greater uncertainty within all sectors. Adaptation to rapid changes in the market is therefore becoming a watch word within the tourism and leisure industry.

This UK tourism market trends over the last 40 years can be characterised by:

- Increasing demand for and growth in holiday-taking by UK residents abroad
- Growth in long holidays (plus 4 nights) abroad; and
- Growth in short-breaks both at home and abroad (especially for second and third holidays)
- Decline in traditional resort tourism
- Improvement in demand for inland/rural-retreat locations
- A move from catered to self-catering holiday accommodation
- Growth in demand for sustainable/green tourism

There have been three principle drivers of the holiday market for the British in the 10 years to 2008:

- A healthy economy - giving confidence to holiday taking
- An increase in the proportion of the population in socio-economic group ABC1 – who have a much higher propensity toward holiday taking
- An ageing and more affluent population who are used to travelling

The economic uncertainties of the last few years have however led to a marked change in these trends. Those people who can afford to take any holiday at all have increasingly adopted a "staycation" approach.

While the UK economy as a whole has languished since the start of the global financial crisis in 2008, the UK tourism industry has continued to grow strongly. Revenue from inbound tourism has increased by almost 30% since 2008 – meaning that the tourism industry is now the UK's fifth largest export earner, generating £24bn per annum for the UK economy.

Domestic tourism has also grown significantly, with revenue increasing by 11% to £78bn over the last three years alone. This compares favourably with manufacturing, which grew by only 0.3%, and the service sector as a whole, which achieved growth of 6% over the same period.²

¹ Visit Britain 2014 – 'Tourism Jobs & Growth'

² UKTS – Tourism Alliance 2014

In addition, the level of inbound tourism remained relatively low during the economic downturn. The number of tourism trips per person and per household declined and the purchase of luxuries and 'extras' also fell victim to a tighter holiday spend regime.

In their *Tourism Policy 2011*³ the Government note that:

Tourism is an often underestimated but tremendously important sector of the UK's economy. It's already one of our six biggest industries and our third-largest export earner. It accounts for almost £90bn direct spend each year, contains over 200,000 businesses and provides 4.4% of our nation's jobs¹. Equally importantly, it creates wealth and employment in all parts of the country, not just the south-east, and it's a cost-effective way to regenerate run-down communities. A thriving tourism industry creates beautiful places to visit all around the country, which also improves the quality of life for everyone who lives near them as well.

One of the principle aims of the policy is to:

Increase the proportion of UK residents who holiday in the UK to match those who holiday abroad each year. For longer stays (4 nights or more) this would mean 29% of travellers holidaying in Britain rather than just 20% today (creating 4.5m extra domestic trips each year, £1.3bn more spend and 26,000 new jobs). And if we can replicate this scale of improvement for shorter stays as well, we will create a further £750m of spend and 11,000 new jobs.

However, the last 12-24 months have seen changing home tourism patterns as perception of the market and personal financial security begins to strengthen once again.

At the British Holiday & Home Parks (BHHPA) Conference in Cardiff in February 2015 VisitEngland CEO James Berresford provided an in-depth insight into the trends affecting tourism.

He noted that from a domestic 'staycation' perspective tourism has generally done well with levels of holiday-taking now exceeding pre-recession levels.

Social grade is also a factor with significant uplift in the ABC1 socio-economic group, with a continuing decline in the DE socio-economic groups who still face economic pressures. However, people are reluctant to cut back on taking holidays and consumers continue to prioritise leisure above most other areas of spending.

Demographic trends also indicate that the 'baby boomers' – those aged 55 plus – are once again taking more holidays. A guaranteed income and increasing desire for engagement in activities is assisting this trend. The oft mentioned 'Skiing' (spending the kids' inheritance) continues to support these trends.

'Spending the Kids Inheritance' has become a typical attitude, not necessarily through any selfish motives, but more from the facts that either they have no children (and hence grandchildren) - 'empty nesters' - to pass on to, or that offspring are now more readily able to support themselves financially from a much earlier age and the need to be supported by their parents is therefore far less, leaving much higher levels of discretionary income in previous generations.

By 2020 the number of over 50s will outnumber those in the younger generations.

Known as the 'Limbo Generation' or 'Affluent Greys' the trend towards an increasingly older, more affluent population will have significant impacts upon the leisure industry. Life

³ Government Tourism Policy (March 2011) DCMS

expectancy is increasing. In 1900 it was no more than 47 years, whilst today it is around 77 and by 2030 is forecast to be up to 85 years. With extra lifetime come opportunities for such things as multiple careers and second homes.

The current generation of over-60s is the healthiest and most active on record. It is also estimated that they will soon have under their control 50% of all discretionary income and be responsible for up to 80% of luxury travel. Up to one in five over 60's are going on three or more holidays a year and with greater intensity, seeking multiple experiences based upon previous well established travel experience. The days of the package holiday are giving way to the designer package, often put together online by individuals not afraid to arrange their own leisure time and with a much more discerning eye and high expectations of quality.

There is continuing growth in domestic overnight stays, although the length of stay is still decreasing⁴. The average now stands at 3 days. Whilst people still want a main holiday they also want to have short-breaks which can be 'guilt free'. Remaining uncertainty about being away from the office for long periods of time still dominates thinking in some quarters.

While the average length of trips in England has remained relatively unchanged during the five year period from 2009 to 2013, the value of these trips has risen both in terms of overall spend and spend per night (at an average % change of +2.5% and +3.7% respectively over the five year period).

When people do take a holiday they are indulging themselves. These general trends are true for GB as a whole.

It is estimated that in 2013, GB residents took around 123 million trips of one night or more within GB. These trips involved a total of 374 million nights away from home, resulting in an average tourism trip length of three nights.

The number of domestic trips was 11% higher than in 2014, and the amount spent increased by 8%, reaching an all-time high in nominal terms.

GB Tourism Survey

Social media is also a positive force for tourism which increases consumer demand through peer pressure - the fear of missing out culture (FOMO) – with posts of holidays on Facebook, Instagram and their ilk generating demand.



⁴ BHPA Journal (March-April 2015)

THE LODGE MARKET

Background

The holiday accommodation sector has been for decades rooted in hotels, guest houses and the various forms of camping and caravan parks. The 1970's and mid-1980's began to emerge as a period when the holidaying public moved from simply renting their holiday accommodation on a weekly basis to ownership, particularly within the static caravan sector. This led to a revolution in the industry with a diverse range of larger and more luxurious units being manufactured to feed this growing demand. The evolution of the 'log cabin' market, now re-branded as 'lodges' gained a significant foothold.

Timber holiday lodges developed mainly in response to a perception in the market that holiday makers require more sophisticated accommodation than was offered by aluminium clad units. In the 1980's there was a strong belief that they would usurp the role of static caravans which would gradually be phased out. Although this has proved to be short of the mark, partly because specification of traditional units has improved dramatically, lodges are considerably more expensive and price has determined levels of sales.

Many new lodge developments associated themselves with other developments and activities that are popular amongst the older and more affluent members of the population. In particular, lodge developments have sought to align themselves with marinas and water-based activities such as sailing and fishing.



What is a Lodge?

Lodges may be built structures or, more commonly (especially on holiday parks) a pre-manufactured unit which has all the external appearance of a timber building. A particular benefit of the latter is that they can be upgraded and improved very easily over time (through replacement) rather than building structures which may be less adaptable.

The Lodge market is multifaceted and varies considerably in scale and nature from site to site. Lodges are often used for holiday letting purposes on a periodic (weekly usually) basis in the same manner as holiday caravans and now tend to form the upper end of a range of holiday accommodation on offer within traditional holiday parks.

Much smaller in scale are the purely 'owned' lodges where no external letting arrangements are permitted. The middle ground is provided by privately owned lodges that are then made available for let.

Generally, the trend in 'upmarket' lodge developments have proved popular and many developments have been constructed in small numbers and in phases to reinforce the idea of exclusivity.

Holiday lodge developments where the units are acquired by individuals (but which offer guaranteed rental income through subletting via the holiday park management) have proved especially popular. The initial purchase provides a realistic commercial return on the development investment so that the scheme is delivered much faster and to a higher standard than might be the case for traditional schemes. Subletting helps to offset the large capital outlay associated with the acquisition of new lodges and offers investors a minimum expected return on their initial investment. This format also allows the holiday park to operate at its optimum levels throughout the season and sustains central facilities by maintaining higher on-site population levels than might otherwise be the case.

Impact of the Recession

In 2010 specialist consultants HLL Humberts Leisure reported that:

'.....the current downturn in the housing market has had a considerable effect on people's confidence to invest in the lodge market and over the last 2 years we have generally seen a marked fall in demand for the purchase of such units, particularly within the middle market range of price from £100,000 to £200,000. Against this background, developers have had to adapt their 'offer' and many have revised their business model with the increased use of letting units, with the expectation that these can be offered for sale when the market recovers.

It appears that there have been relatively few lodge park sales in the last year. However, against a trend of reducing values, we sold in the Autumn 2008 an un-serviced site in West Sussex for the development of 40 lodges and a manager's/warden's residential unit at a price equating to approximately £28,000 per pitch to a lodge manufacturer seeking a base in England to introduce their product to the market.

As we foresaw last winter, some lodge sites have entered the market in receivership. For example, the Dream Lodge Group with four parks has recently been sold at a price of only £10,000 for undeveloped lodge pitches and £20,000 for developed pitches, with the perception that the parks are all in relatively weak locations. We anticipate that normal market sale prices for serviced lodge sites in a reasonable location will be priced between £20,000 - £35,000 per plot but, again, prices may be lower where there are a significant number to develop.

One area where we expect greater activity in the lodge sales' sector is through the 'buy to let' market. Falling interest rates for savers' money and increasing rental income levels offer an attractive return on capital as well as the prospect of the owner's use of the lodge for occasional holidays.'

Despite its apparent attractiveness to the market, the lodge sector can be price sensitive. Sales rely upon public confidence in both sufficient levels and availability of personal discretionary income. Many lodge developments were brought forward in anticipation of a market position that failed to materialize following the market crash in 2008.

The Re-Emerging Market

Nevertheless, the holiday lodge market has grown significantly in recent years, and the purchase of a lodge as a second home for holiday purposes has become increasingly popular again, particularly with the older, more affluent sections of the population. The UK has an ageing and growing population, and this offers wider opportunities for lodge parks to expand in the future to take account of the likely increase in demand for such properties.

Lodge parks are relatively small in unit numbers, and tend to have a lower unit density than traditional forms of holiday accommodation. This has helped to reinforce the appeal of the lodge to more affluent members of the population, trading on their tranquillity and exclusivity.

Traditional holiday park operators are now redeveloping rapidly toward the lodge market, in some cases with whole parks being transitioned from traditional static caravan to Lodge style units.



Pure Leisure's South Lakeland Leisure Village at Carnforth. The Park is situated in the countryside on the borders of the Southern Lake District and Yorkshire Dales and the Arnsdale and Silverdale 'Area of Outstanding Natural Beauty'. The park provides additional facilities such as the Waters Edge restaurant and bar, gymnasium with fitness suites, an indoor heated pool and steam room together with fishing and wifi throughout.



Those who purchase holiday park-based lodges have a strong AB socio economic group bias with an age range of over 40 years old. The holiday rental market for lodges tends to be broader and a generation younger.

The buy to let arrangements present an opportunity of value, not only to the park operator, but also the holidaymaker. It should be remembered that acquisition of a lodge in this way establishes a regular commitment for holiday taking to the local area and further helps reduce the vagaries and risks of park operation that arise from a pure letting format.

Many lodge parks also have a number of leisure and entertainment facilities on-site. Interestingly, however, location appears to be a more important factor than facilities to prospective purchasers.



Pure Leisure's Tydd St Giles Golf and Country Club in Cambridgeshire, has been developed as an exclusive community of luxury holiday lodges around an 18 hole golf course which is available throughout the year. The park provides an indoor heated swimming pool with sauna, steam room, gym and fitness centre together with a cafe, restaurant and bars. The park is ideally suited for fishing, nature walks and horse riding.