

Our Changing Times
What the Crystal Ball Says About Tourism Development
11/15/08

Panorama has accomplished in depth guidance for a variety of clients borne from thoughtful and complete research on what they must do to adjust their development pace, marketing and financing to the realities of today.

In actuality, this is a constantly moving scene that all developers should continually “tune up” as even in the best of times the development, marketing and financing plans are dynamic and must be adjusted to the realities of the market. A sensitive eye must be attuned to the competition and still differentiate from the flock.

Differentiation is the key word, and developers need to stay on the cutting edge of what makes their offering unique and desirable.

Today’s recent economic events represent unique events that are worthy of special focus. These would include the skyrocketing price of oil. Even though we are enjoying a brief respite, Panorama and their advisors believe that prices will start to escalate once again.

Of course the Economic Crisis of 2008 affects us all, but to varying degrees and each segment of activity is affected somewhat differently. Notably and obviously a great segment of the wealth associated with the housing market and the stock market has-for the time being-evaporated. This leaves the wealthy-less wealthy, and with less spendable cash to acquire and invest in resort housing.

The Petroleum Crisis of 2008 affects us all and will likely have a much longer lasting effect, as prices start to increase once again until a more permanent solution is found. The price of Petroleum affects everything we do, and our industry was built on inexpensive transportation, deliveries, and supplies. As consumers and suppliers alike adjust to the new realities of energy costs, developers should try to anticipate appropriate changes.

Without disclosing any specific situations or points we have been asked to respond to by clients, we can without breaking these confidences summarize a few important points that may be of interest.

• **THE MARKET AS IT AFFECTS THE TRAVELLER:**

- Petroleum prices although temporarily down are predicted to increase which will place substantial pressure on all sectors of the economy and will impact the traveler through higher prices across the board, particularly in airfare.
- Spendable income although reduced is not expected to decrease tourism in the long term. In fact credible predictions still are projecting an increase in tourism for the 2008 period.

- **THE MARKET AS IT AFFECTS THE BUYER**

- Capital available for second home purchases has been reduced although it is hard to tell by what margin. We estimate the available capital will reduce the second home market by as much as 50%.
- The market for non U-S International retirement housing is expected to increase because of lower prices and higher life style that is available in many emerging areas.
- Escapism is an unknown but could be a significant factor.

- **TOURISM**

In a survey of operators, property owners and developers there is understandable concern regarding the market demand however the general forecast is upbeat, with the prediction that although the market will be off somewhat for the short term-probably around 7% to 10% it does not spell disaster, as people still will take their vacations.

- This is particularly true in the up market resorts and hotels catering to the wealthy.
- In the lower categories of tourism most vacations are planned and budgeted, with many vacations already committed to or bought.
- Globally the predictions are that all travel, both leisure and business will be off 10% to 15%.

- **RESORT HOTEL OCCUPANCY:** We believe will be off 7% to 10% annualized for 2009. This may correct itself to be a more positive figure because of the recently decreasing petroleum prices.

- **RESORT HOTEL CONSTRUCTION:** There are transactions in the pipeline which will likely continue and others that will voluntarily or involuntarily be put on hold or which will be withdrawn from the market. Notably this latter option has occurred already in Costa Rica, Mexico and other areas.

- New proposals are possible to finance through some banking but also non-banking sources but banks will continue to be very cautious and very well secured in their loan commitments. They will continue working with consulting and ownership names they have confidence in.

- **RESORT DEVELOPMENT:** There are transactions in the Pipeline which will continue, but smart developers will cut back on their growth so they will be pacing development to the new perceived market demand. This requires some updating of intelligence. Financing for new resort developments has always been difficult, as the monitoring of this financing is sometimes difficult for institutions, and it is very much a specialty. There are specialized knowledgeable lenders that are still interested in financing well conceived Resort Developments.

- **RESIDENTIAL PURCHASES:** The modern resort sometimes has a substantial residential component. As mentioned initially, many fortunes have been reduced substantially over the last several months, and to that extent the real (and paper) wealth that was disposable will likely cause a reduction in commitment to second homes for the foreseeable future.

- For primary residences and retirement: Panorama does not forecast much of a dip in retirement housing in international areas. Much of this market is linked to a second home that morphs into a retirement home in the future.
 - It is possible that this market if concentrated upon could increase.
- From second homes: There are several aspects to this market, which Panorama suggests will not be vibrant in some markets and very vibrant in others. Panorama suggests the entire market will be reduced to about 50% of the former gross sales.
 - Speculative purchases will be reduced sharply
 - Second and third homes because of the reduction in surplus spendable income will also be reduced but will not disappear.
- International Market: The focus should be to appeal to the broadest market possible and to bring in markets that have not been focused upon. The lack of dependency on any given market could be a great strength.
- Regional Market: The market within the region of the resort will remain stable and perhaps increase, as travel costs may encourage a drive in or close-by fly-in buyer or guest to commit rather than take a more expensive vacation in a further away venue.
- Escapism: There is an unknown factor of people and families that move their residences because of dissatisfaction with their country of origin.

Summary – Of course Panorama’s crystal ball may be clouded, and all of this may be more positive or more negative than forecast, but on balance the industry will be held back by the same things that have always hampered it but to a greater degree. Financing will continue to be difficult to place, and the market will be somewhat off as predicted, but will not be a complete disaster, as some of the market was superheated for the wrong reasons.

We need to adjust to a norm which will become evident over the next few months.