Darwin Leisure Property Fund
Briefing Note – Holiday Park Market Outlook

Executive Summary

The Covid-19 pandemic and series of lockdowns in the UK have hit the holiday park market hard. However, the market is expected to rebound strongly and is already doing so – our Darwin Escapes holiday parks are achieving record rental rates driven by strong demand. In 2021 the market will benefit from a fall in international travel and self-contained holiday park accommodation will be particularly attractive to those holidaying in the UK. The pandemic is continuing to attract a new breed of customer to holiday parks who will help drive growth in the market going forward. Holiday home sales will be boosted by the increase in remote working, with more people wanting a countryside retreat to escape to, as well as the impact of Brexit, which makes holiday home ownership in Europe less attractive. The Darwin Leisure Property Fund is well positioned to capitalise on the anticipated market growth and to take advantage of opportunities to acquire holiday parks which do not have sound financial backing.

Market Overview

The start of 2021 has not been easy for the Fund, with all of the holiday parks remaining closed and the vast majority of staff being furloughed. Despite this, we wanted to share with investors our optimism for the sector once these latest lockdowns have ended, based not only on broader macro-economic factors but also the data we are seeing for holiday rental bookings and holiday home sales.

The UK Government has repeatedly stated that vaccination is our way out of the cycle of lockdowns, and as at 14 February 2021, the UK had the highest COVID-19 vaccination rate in Europe, having administered 22.98 doses per 100 people in the country[1]. With over 15 million people now having received their first vaccine, and everyone in the top 4 priority groups having been offered a vaccine, it is hoped that restrictions will begin to be lifted in England when the government announces its 'roadmap out of lockdown' on 22 February.

Despite the strong progress of the vaccination programme, the UK Government is introducing increasingly more stringent travel restrictions, which are likely to have a significant impact on international travel. Anyone entering the UK, including British citizens, are currently required to quarantine for 10 days on arrival, and will need to take two Covid tests during this time, as well as a test before entering the country. This could add more than £1,000 to the cost of a holiday abroad for a family of 4. Anyone arriving in England from a country on the 'red list' of 33 countries will be required to quarantine in a hotel for 10 days, at a cost of £1,750 and the government has suggested that other countries could be added with just a few hours notice. In Scotland, all arrivals will be required to quarantine in a hotel, at a similar cost. In addition, many countries have barred British citizens from entry or implemented strict restrictions, including the key holiday destinations of France, Italy, Spain and Portugal.

Whilst it has not been determined how long these measures will be in place, they are likely to have a significant impact on the willingness and ability of Britons to travel abroad. A newly published Mintel report shows that domestic holiday sales this summer are expected to reach a 10-year high and that the value of the UK summer domestic holiday market is set to increase an estimated 22% compared to 2019. It is also likely that we will see another late staycation season extending well into the autumn as pent-up demand for travel becomes released. The 'open air' hospitality offered by holiday parks is likely to be particularly popular with travellers in search of Covid-safe holidays. Stand-alone, self-catering accommodation with its own outdoor space, such as that provided at holiday parks, will prove very attractive to those looking to book a holiday and it is thought that this is the first type of accommodation which will be permitted to re-open.

Holiday Rental Bookings

The international holiday market is certainly feeling the impact of the uncertainty over foreign travel. Package holiday operator TUI has reported a 44% decline in bookings for the coming summer, versus the 2019 summer season. Brittany Ferries has reported that new bookings for summer 2021 are already 50% down on pre-Covid years, and those who have booked in advance are starting to cancel. Airbnb has revealed that domestic searches for British destinations for this summer more than tripled in early February, compared to the first few weeks of January.

As a result, a UK 'staycation' boom is expected, and there is likely to be a shortage of holiday accommodation in the UK during peak periods. In the last week of January, bookings for properties across Awaze's websites, which include Darwin's holiday booking partner Hoseasons, were 50 per cent up week-on-week for holidays in the summer months. Compared with the same week in 2020, before the pandemic had reached the UK, reservations had increased 148 per cent. Awaze has recently created 75 new jobs at its Manchester headquarters to help support the growth of the business and deal with increasing demand.

At the Darwin Escapes holiday parks, we are currently accepting holiday rental bookings for the Easter period onwards and January was a record period for bookings, with a holiday rental reservation being taken every 3 minutes during one week. The strong demand we are experiencing means 92% of Darwin Escapes breaks for 2021 are being sold above our brochure price and we are achieving rental rates which are, on average, 30% above 2020's average weekly rate. Currently, recorded bookings revenue for 2021 is 120% of what was achieved at this point in 2019.

Location seems to be at the forefront of guests minds with holiday makers shunning city breaks for coastal and country locations. This has been particularly noticeable in the South West, which is seeing a 46% increase in bookings. Mullion Cove, in Cornwall, is achieving rental prices for the peak season which are on average 39% above our brochure price and occupancy is already at 56%. Piran Meadows, also in Cornwall, is achieving rental rates 32% above brochure prices and is already 44% occupied.

Hot tub units continue to drive rate and occupancy and for 2021 are selling at a rate which is on average 31% higher than a non-hot tub unit. Hot tub units are 48% more occupied than non-hot tub units, allowing us to achieve rentals at over £4,500 per week in the peak periods. Pet units are also extremely popular and are selling at a rate that is on average 29% higher and these units are 37% more occupied than non-pet units.

Holiday Home Sales

The outlook for holiday home sales is also buoyant, influenced by both the Covid pandemic and Brexit. The restrictions on international travel are making a UK holiday home a more attractive option for many, whilst the increase in working from home and remote working means that more people are now looking to acquire a second property or holiday home, which can provide them with more space, access to the outdoors and countryside and a change of scene. The demographic for second home buyers is also changing, with buyers getting younger.

This has been particularly evidenced by the increase in Londoners buying second homes outside the capital. The number of London residents purchasing property elsewhere in Britain more than quadrupled in 2020 compared with 2019, according to estate agents Knight Frank. London-based buyers dominated the second homes market, accounting for 35% of all sales outside the capital, nearly triple the 13% share in 2019.

Britain's withdrawal from the EU has brought in restrictions on home ownership in EU countries for British citizens, along with limitations on the amount of time they can spend in the EU without a visa – a maximum of 90-days out of every 180 in an EU or Schengen zone country. Those looking to buy in Europe are likely to need a bigger deposit to get a mortgage, as lending to those outside the EU is likely to be deemed more risky, and there could be changes to taxes on capital gains and rent which will have a negative impact. In Spain, for example, non-resident EU homeowners who let holiday homes can deduct their costs from their tax bill and pay 19% on the rest. Non-EU citizens must pay 24% and cannot deduct costs and it is probable that Britons will fall under the latter system.

A recent survey by Mintel of people who have been on a camping or caravanning holiday in the past three years found that 21% of respondents were interested in buying a static caravan or lodge, including almost a third of people who have rented a static caravan or lodge on holiday in the past three years.

For the financial year to 30 September 2020, we were close to achieving our budget for holiday home sales, despite the holiday parks being closed for more than 3 months and we have continued to complete holiday home sales during this latest lockdown. Net profits on holiday home sales for the period 1 October 2020 – 1 February 2021 were just 27% below those achieved for the same period last year, which was before the pandemic, even though the holiday parks were closed for much of this time.

Since the beginning of January, we have been averaging around 150 incoming sales leads a week at parks across the portfolio. Follow-up sales meetings are being held via video link with viewings of the caravans, lodges and on-site facilities on Facetime. Given that January is generally a quiet time, these numbers are very positive, and where sales are completing, they are doing so at the full asking price. Our Sales Director is anticipating an increase in sales margin this year due to the strong demand.

The biggest threat to holiday home sales in 2021 is likely to be a lack of supply from manufacturers, rather than a lack of demand. Production has been hit by difficulties in procuring materials, having to alter production processes to ensure safe Covid working practices and due to absences caused by sickness and self-isolation. Increased demand is also impacting supply. Most manufacturers are now quoting February 2022 for delivery of new models, but our sales team were quick to secure build slots for the summer and autumn to ensure that we will have a sufficient supply. We currently have good levels of new and used available stock on all parks and are awaiting new deliveries from orders placed last year.

Long Term Outlook

Whilst all of the factors outlined above are likely to lead to increased demand for holiday rentals and holiday home sales in the short term, we are expecting the trend to continue into the longer-term as well. Pre-Covid, the market was continuing to grow, with Mintel reporting that some 41% of consumers took a camping or caravanning holiday in the three years to October 2020. This was a 2% increase from Mintel's previous research in October 2018 and came in spite of the disruption caused by COVID-19 in 2020. Mintel is forecasting that the value of the UK caravan and camping market, including holiday parks, will rise to £2.855 billion by 2025, an increase of 14.6% from 2019's level of £2.491 billion.[2]

The travel restrictions of 2020 saw our holiday parks attract many first-time customers, "first-in-a-whilers" and new socio-economic groups – both for holiday rentals and holiday home ownership. These new customers, who may not have considered staying at a holiday park previously, will help drive the sector over the next few years. The 18–24 year old market is showing a 217% increase in holiday bookings, and they now make up 10% of all bookers, and the over 65's is now up to 15% of the market share, as this first to vaccine group has a high confidence of returning to normality. Many of these new or refreshed experiences of holidaying in the UK will see these guests return in subsequent years, creating a halo effect on UK travel for many years to come.

Whilst international holidays are likely to return to being the 'main' holiday for many, the "holiday snacking" we have seen in recent years, where people take multiple short breaks in addition to a longer one or week holiday, is set to grow further. Many of these new customers, will now be adding UK holiday park breaks to their annual holiday plans for the first time.

The holiday park industry is also likely to benefit from growing interest in physical and mental wellbeing, and in particular the positive effects that time spent outdoors, particularly in proximity to nature, can have on both physical and mental health. This is likely to be accelerated by the experience of COVID-19, when many people have spent more time outdoors than they might have done previously due to the closure of gyms, leisure facilities and shops, along with restrictions on indoor household mixing.

Many people have also reported feeling a greater appreciation of the natural world in recent months. This was particularly true during the initial lockdown when pollution levels in urban areas fell, albeit temporarily, which led to clearer skies and an increase of bird and wildlife in many places. Issues relating to clean air and urban pollution are set to grow in importance in the coming years, particularly as the UK works towards its net-zero emissions target by 2050. The holiday park industry will be able to promote an active, outdoor, 'fresh air' message and position itself at the heart of this effort.

The economic impact of the Covid pandemic has been severe, and traditionally during recessions consumers have reduced their spending on 'big ticket' discretionary items such as holidays. However, following the previous recession in 2008/09 there was a 21% upsurge in the number of domestic trips, including a 25% increase in static caravan holidays. The market was able to benefit from a 'double-bounce' as many of those who usually holiday abroad instead took UK staycations, whilst many 'traded down' to lower-cost holidays. The value of the domestic market increased by 16% at this time and this precedent bodes well for holiday parks at this time. With unemployment rising and increased job insecurity, it is likely that there will be another shift towards budget holidays for some, whilst there will be pent-up demand from more financially-secure consumers who have saved money on discretionary purchases such as holidays during the pandemic.

Confidence in the long-term outlook for both the UK holiday park market and UK tourism in general is also evidenced by American private equity firm Blackstone's plan to buy a majority stake in Bourne Leisure. Bourne Leisure is the owner of Haven Holidays, the second largest holiday park operator in the UK, and also owns the Butlins holiday resort chain and Warner Leisure Hotels. The £3 billion deal emphasises the attractiveness of businesses, such as holiday parks, that generate strong cash flows.

The aftermath of the pandemic and the end of the government's financial support mechanisms, such as the furlough scheme and VAT reduction, may leave many operators facing financial challenges which are likely to throw up opportunities for the Fund to acquire additional sites that might otherwise not have come to the market. The holiday park sector has grown in value thanks to investments in accommodation and facilities by the larger operators with strong financial backing, including Darwin. With finances depleted, individual and small group operators are unlikely to be able to keep up with the changes in the market, leading to an acceleration of the trend towards these operators being acquired by larger groups. We have already been approached about acquiring a number of different sites which would strengthen the portfolio further and allow us to capitalise more on the post-Covid growth in the market.

As at 16 February 2021

1. Source: Statista.com
2. Source: Mintel Camping and Caravanning UK Report, January 2021