

LEVERAGING RECREATION DEMAND GROWTH IN REAL ESTATE INVESTMENTS

Recreational consumption in Europe is growing faster than any other consumption category. Within the hospitality sector an increasing supply-demand gap has allowed inflation to be relatively easily transferred to end users. This edition of Living Thoughts aims to illustrate how real estate investors can leverage these favorable fundamentals, with appealing risk adjusted returns achievable through different combinations of operational profits and property returns.

RECREATIONAL CONSUMPTION IS THE FASTEST GROWING IN EUROPE

Within the decade ending in 2022, the consumption categories that recorded the strongest growth in European households' expenditure were related to recreational experiences rather than consumption of goods.

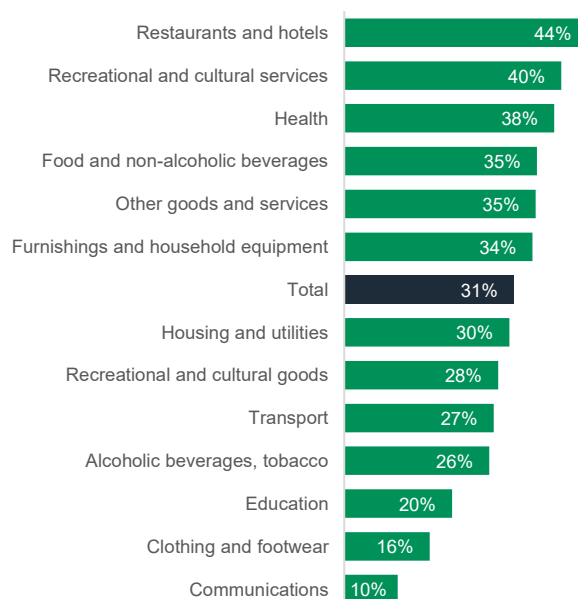
Clothing expenditures grew at a slow pace, while restaurant and hotels spending were the fastest growing categories. Similarly, growth of recreational and cultural services significantly outpaced recreational and cultural goods growth.

This outcome is outstanding considering that the reference year, 2022, was still affected by some pandemic negative effects on recreational activities.

This means that the trend of households' consumption preferences increasingly moving from goods to experiences was already in place before of the pandemic. However, experiencing periods of lockdown strengthened further the quest of consumers for social experiences, travelling and personal wellness. Therefore, we expect this outcome to be further reinforced once the full recovery from the pandemic will be visible in the data.

FIGURE 1: FINAL CONSUMPTION EXPENDITURE OF HOUSEHOLDS BY CONSUMPTION PURPOSE

European Union; % difference between 2022 and 2012 consumption



Source: Eurostat, October 2024

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RECREATION GROWTH DRIVERS

Firstly, there are some changing social behaviours supporting recreational experiences' growth: the increasing awareness for physical and mental health, the desire for a break from the hectic pace of modern life, the physical social interaction to counterbalance the increasing digitalisation.

Though, there are also supporting demographic and economic factors. An ageing population means there is an increasing number of retired people in Europe with the higher availability of time (and often wealth). Furthermore, free movement of people in Europe, despite being in place from more than one generation, is still a factor: intra-Europe flows is still the main contributor for tourism growth.

HOSPITALITY SUPPLY-DEMAND GAP

While demand trends are clearly measurable, supply side is less so. A proxy of the whole recreation sector is the hospitality sector, whose data shows that demand growth is largely outpacing supply growth.

Nights spent in European accommodations (ranging from hotels to short stays accommodations and camping) in the last decade grew by more than 25%, while bed places availability grew by less than 10%.¹

Within the whole sector there will be winners and losers, but the broader picture clearly shows an increasing supply - demand gap. This made possible to transfer to the end users the high inflation recorded recently, differently from other sectors.

THE REAL ESTATE INVESTORS POINT OF VIEW

Key findings

- Several sectors to be explored within the recreational space with appealing risk adjusted returns
- Higher possibility than in other sectors to combine operational and property performance

How could real estate investors leverage this favorable fundamentals in the recreational space?

The easiest route is by investing in hotels with a focus on leisure destinations. Therefore, tourist-led countries such as France, Italy and Spain could be preferred by investors and there are early evidences of this on recent transactional activity.

Though, there are other sectors that are growing fast and are increasingly targeted by real estate investors. Some of them are within the hospitality space such as resorts, camping, hostels. Others are pure leisure facilities such as spa, gyms, concerts venues or similar. Liquidity is limited in these sectors and consequently entry yields are relatively high. An increase of liquidity may trigger a structural decrease of yields. This and the strong fundamentals make the risk-adjusted returns appealing.

Beyond the macro environment, the management performance of the assets is key also for the real estate partners, but at least the sector can leverage a mature set of operator agreements compared to other property types.

For example, management contract and variable rent agreements are common within the hospitality operators. These structures allow real estate investors to benefit from increasing operational EBITDA, while moving up the risk-return curve.

Also, many operators need real estate investors on their side to feed their growth and are available to co-invest in order to align the interests of the operating company and the property company. Such partnership allow real estate investors to penetrate new sectors hand in hand with specialised operators.

¹ Source: Eurostat, October 2024

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