

South Texas Parks LLC

2006 - 2007

South Texas Season in Review

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Trends

- More migration from California, Arizona and Florida
- Arrival of Younger customers
- Seasons spanning early and later seasons
- Demand for Higher Quality Experience
- Shorter overall stays, more of them
- Higher Rents for shorter stays
- Increased demand for Luxury lots
- More summer business
- Customers have increasing awareness of location advantages

Some RV parks in the most southern part of Texas have been in operation for as long as 75 years. Some have been updated nicely, others not so well. More than ever before management must administer great friendly service, because it's just not practical to fix functional obsolescence. On top of maintaining normal wear and tear, upgrades cut into the owner's cash flow. Visitors are migrating from the cold northern states. The primary reason Winter Texans started coming was for friendly people/friends, great weather, cheap food, and reasonably inexpensive accommodations

The rent levels are not conducive to enable management to fix everything like new. We have learned that the best thing to do is accentuate the positive "just be as friendly and genuinely helpful as economically possible" and that is enough to overcome tenant concerns or wishes for upgraded amenities. Better quality workmanship is important. It's amazing how that works, when it works. As rent levels increase more improvements can be budgeted. Strategic positioning as you repair and replace can make future upgrades more economical, like painting the San Francisco Bridge, the job is never finished.

Every summer into early fall, license plates on many of the cars are from Florida and Arizona, and even Canada. Many newcomers and repeat travelers come to see if they can buy a more permanent residence. They start as renters, and then become buyers of existing or new units in the parks. Their mission is to: "Survey the Landscape".

Early on in 2006, fuel prices were at a higher level and just as the first cold spell came to south and central Texas, we saw fuel prices retreat to lower levels. This was a relief and the season started with positive anticipation and did prove to be a good year, but it was not without the concern that fuel prices would affect occupancies. Some of the "Brand Name Operators" offered effective low early bird specials to snag the cost conscious new visitors.

Does the price of gas affect our market? Yes it does, the notation must also identify that the affect is greater on middle and lower disposable income travelers.

The good news is that most are trying to get to us as a destination and therefore the trend seems to be they meander less and come straight to their destination. This is the advantage of being the "Destination".

The season seemed to start a bit later than usual and took till December to reach the normal business that we often see in November.

South Texas is experiencing younger customers; some markets are seeing longer stays. Studies show that "upstream parks" in the southern tip of Texas have been experiencing the extended visit for many years.

The longer visit means three days extended to five days. Our shorter visit means, five months to three months.

Winter Texans will slowly start to arrive between September and November and the parks will reach full or near full occupancy between the days after Christmas and about January 7th. The norm has been the market extends into Mid April.

Generally spirits were higher this year than in the previous season. The activities in the parks were fairly well organized and set up. Basic activities in each park are already in place and the usual dances and parties were organized prior to the end of last season. Activity Directors are usually volunteers or elected from a committee of volunteers. They set up and arrange the larger holiday functions such as Christmas, New Years and sometimes many other functions. St. Patrick Day, Sock Hops and Talent Shows are among those. As the visitors transition to be "younger" we see a growing need to substitute the volunteer activity directors with paid activity employees that will design programs to suit the needs of all age groups.

Each year the summer on property crew diligently prepares for the winter guests, a challenge is having all show-up at once in a group and getting them settled. A prepared manager can handle this quite smoothly. But careful consideration needs to be in place to welcome the new visitors.

As advertising increases the number of "New to the Area Tenants", they need more orientation. The need to deploy target advertising, grows as your present tenant base gets older, and the "Word of Mouth" refer ability becomes less. Get the book "Teaching your Cats to Bark", Read what we are practicing and how we are continually seeking to adapt. Marketing is an ever changing challenge.

Many of the proactive tools we use cannot be tested fully until managers have had real-time experience. Our software offers a vast array of attributes that are unique to each property; the software must be configured to provide solutions unique to each property. For example, special reports that show the lots available, (from smaller to larger), serve to help manage the inventory and not allocate big sites first to the smaller RV's. This is especially important to an older property with variations in site configurations. The new software STP implemented this season has many capabilities that will be highly useful in the upcoming season.

During the 2006/2007 season, STP undertook many projects to increase visibility of park operations and allow us to stay current with the demands of the customer while increasing gross income, profitability and asset value of our managed parks. These include:

- Improved utilization of Reservation Software
- More secure internet connections and advanced wireless capabilities
- Daily utility usage monitoring
- Daily swimming pool and spa testing, to avoid liability and reduce chemical usage
- More accurate electric readings to ensure compliance with new billing standards established by the Public Utility Commission (PUC) and to recapture more of the electrical billing for park owners
- More efficient electricity/power management (on and off season)

Electrical billing.

Is it in the rent? or do customers pay it on top of the rent? I urge all parks (new and old) to install meters at all sites. Changing the electrical billing procedure will avoid escalating losses as electric billings increase in the future.

Other Local Observations

- Land values are increasing
- Demand for upscale RV sites, services & amenities is increasing
- Salaried "activity directors" are becoming more necessary
- Rental units are in high demand.
- Electricity, water, and sewer costs are rising
- More permanent units are needed in some parks
- Tenants are drawn by shopping opportunities & new Outlet Malls
- Tenants expect credit card machines and check direct deposit
- New RV's units are requiring more electrical power
- Canadian visitors are increasing due to U.S. vs. Canadian Exchange Rate changes

Thinking Ahead - what are we working toward

- Implement strategies to attract more summer visitors
- Strive to get better trained managers, to control costs and avoid contractors overcharging us when we are under time pressure
- Pre-Post-Season specials. Plans to improve our early and late seasons, i.e. (Shoulder Months)
- Baby Boomers - Here are the trends they bring
- More power demand for the RV's
- Demand for higher speed & wireless internet connections
- Less willing to volunteer but willing to pay for personal services, shorter stays but more of them, more toys, motorcycles, cars, and golf carts, fancy cameras for nature watching
- Desire for workout facilities, nearby shopping, fishing trips, margarita afternoons, nature trails, water sports, golf. Does that sound familiar? Yes, it does.

Although many parks are not completely equipped for these newcomers, there are plenty of tenants that are delighted to be there. As tenants grow older, they will also realize that the value for their dollar is better in Texas than any other place in the nation.

Good News

- Retail land sales are causing the number of parks to decrease; supply vs. demand then increases park value.
- We saw several parks close their doors this year, and more will follow, as they are converted to "Changed Use".
- As land values and development costs increase, existing parks are valued below replacement cost and are not the highest and best use, this could prove to serve the "land hold" Buyer .

Linking Parks together

- South Texas Parks LLC is doing some extraordinary things.
- The reason to be affiliated with STP is increasing as we see the benefits of collaborative analysis of multiple properties and the power of "networking a chain of parks".
- This becomes more powerful as we link a 'summer seasonal operation to a winter operation". Many parks in Texas don't get off season business because people just don't know how great they are on a year-round basis.
- Sending tenants to other parks along common routes, coming and going, is very exciting.
- We are carefully designing systems to keep tenants here as long as possible, and then get them to and from our Upstream Partners.

Ideas

- Selling old equipment in a timely manner - in season a \$1,000 golf cart costs \$1,500 (all winter Texans want an old golf cart) - off season a \$2,000 cart can be purchased for \$1,500
- Some investors are letting us take advantage of the seasonal mark ups and mark downs, thus allowing us to have better equipment (ask if you want more detail on this).
- Testing and replacing faulty electric sub meters - we are finding that 25% to 40% of the sub meters are running slow (even stopping); we bill tenants off monthly readings. The reading errors alone predicate constant retraining of onsite staff. Our electric recapture business is showing promise and yielding multi-million \$ cost savings and increased park values. **(Please ask for more info)**

Reporting, Staffing and Capitol Projects

- We are redesigning our accounting procedures and reports.
- Soon we will rollout a different banking system that will give us the ability to offer you credit lines for upgrading facilities and reduced employee payroll costs.
- We are re-assessing permanent staff and seasonal workers and payroll loads on the properties.
- Managers are being provided more efficient onsite check-in and check-out processing so they can concentrate on the customer.
- We are stepping up efforts to help managers understand the opportunities and pitfalls of inventory management.
- Our new reservation software shows the availability of rentals that may have gone unnoticed before. We are requiring the occupancy to be noted on our daily reports, and emphasizing the importance of increasing "camper nights".

STP Professional Staff Development

- Added a Comptroller to identify and track costs and improve income attributes through cost reduction and income improvement
- Added a Regional Computer Software Coordinator/Trainer to implement and standardize the processes involved with daily tasks and reports
- Added an Executive Director to monitor operations, increase site revenue and maintain high service levels
- Established a Director of Information and Technology Position emphasizing Recapture of Electric Costs, WiFi Equipment/Development and Design of "Safe and Secure" Systems.
- Hired "Regional Facilitators" to keep the on-site projects on schedule and within budget
- We are improving Q/A systems and continually monitoring tenant experiences from first contact through check out, using techniques such as mystery shoppers, tenant surveys and other advanced measures
- We are emphasizing Professional Web Site Management with a goal of increasing traffic and further enhancing our professional reputation

Very South Texas Real Estate Trends

- The market is "red hot" and the local population is growing.
- Forbes, Money Magazine, Wall Street and Success and Investment Magazines and periodicals all have featured our area in the last year. The local population is expected to double in six to eight years; the average age (excluding winter Texans) is 33 years old.
- RV lots that can be purchased are coming on the market at \$100,000 + in some areas. This gives them a "deeded" 50 x 100 lot with power, waste, water, concrete and a "Casita" style little side house.
- Basic Condo type lots are in the \$35,000 to \$45,000 range, but development costs for RV or MH Lots are rapidly increasing

Is South Texas like the rest of the country? Emphatically "No" - consider the following:

- South Texas is very different from Northern Texas towns or the rest of the United States and therefore is like an island on its own path.
- Other than being a great place to play or retire, the import/export trade with Mexico is growing at a fantastic pace and highways are being expanded far north of Austin and Dallas to accommodate increased truck traffic.
- Local Hispanics and Mexico Nationals are fun to work with and are enjoying the advantages of the US.
- Established Brands are bringing confidence to our area. These include Wal-Mart, Loews, Rudy's BBQ (to name a few) plus all the Large and Boutique stores and restaurants are in the valley.
- Campgrounds of America, KOA purchased a very nice RV Park on South Padre Island, Texas built on leased land. They raised the short term/high season rent above \$1,000 per month.
- Equity Life Styles, a publicly traded Chicago Based Real Estate Investment Trust, partnered with Western Horizon Resort Properties on a limited basis. This will bring the northern traveler that would have stopped in San Antonio or Rockport Texas further south.
- These trends will prompt several things. People that follow "Brands" will finally venture to South Texas and find out how really fun it can be. STP will get a chance to welcome them into our parks.
- The areas on the path to, Stunning South Padre Island are changing.
- On South Padre Island, new "high dollar" condos and hotels are booming (like a recent project named "The Peninsula"). These pushing the existing residents and workers off to nearby smaller towns.
- Move over, Cancun Mexico SPI is beautiful. The Island has seen 50% appreciation in the last 18 months in some of the condos and land (sorry we missed it too!) It's too hectic anyway and the RVer's prefer to stay in Harlingen, McAllen and Mission. It's less humid and not as corrosive to the RV's.
- The real estate values will be affected as nearby towns are the only alternative to these who work on "the Island" at restaurants and hotels.
- Banks, restaurants, hotels are coming out of the ground at a fast pace, so are nice neighborhoods with affordable brick houses for the local population. Main arteries to and from the island and trade centers and bridges to Mexico are expanding.
- Harlingen to Brownsville areas are becoming "Bedroom" communities.
- Going west across the Valley, New Simon Malls, new visitor's facilities, convention facilities and multicultural events centers are in the making right now.
- Good clean neighborhoods, nice retail stores, great highways and extensive infrastructure abound.
- New bridges are under construction to Mexico from south of Donna, Texas through mid Valley and a new Mission, Texas West Valley. These will increase tourism and impact export trade and have a huge impact on those areas near those crossings.
- The inevitable "raise in the minimum wage" will be the next addition to fuel the economy as the unskilled worker force will gain substantial buying power from this incremental change. I think all of STP is above minimum wage.
- So the parks are positioned well for future appreciation (with some cost challenges), and the newer tenants are on their way.

How is our Supply and Demand?

- Just as the apartment developers identify the differences in the local economy for a certain class of housing. The same can hold true for this product type.
- The lower quality communities, (we don't have any of those), are very over built, the mid-range communities are somewhat over built. The high end market for RV and Recreational Properties are "way under built". Demand is trending upward due to our new retiring population.

- The bulk of people will take the Mid-Range alternative but there still are not enough Higher Quality Properties. The market is there for upgrading the quality of all facilities and will continue for some time as awareness of the advantages of flexibility are understood more by the RV buying public.

As an RVer, you can go cheap or you can go 1st class.

You can park it if you don't want to guzzle the gas.

You still look fabulous.

And, you don't have to buy the condo in Fort Lauderdale, Florida and worry about wildly fluctuating real estate prices.

All of us at South Texas Parks appreciate our Clients, Customers and Friends. We are expanding and working our "Upstream Markets" to attract more customers in a cooperative effort for both.

We appreciate your patience as we continually improve our operations. Our expanding talents and skills are an investment we are making for you. The information and education we are able to glean from operations, gives our parks the competitive edge to succeed, improve operations, expand profitability and increase asset value.