



Industry Update & Forecast

August 2023

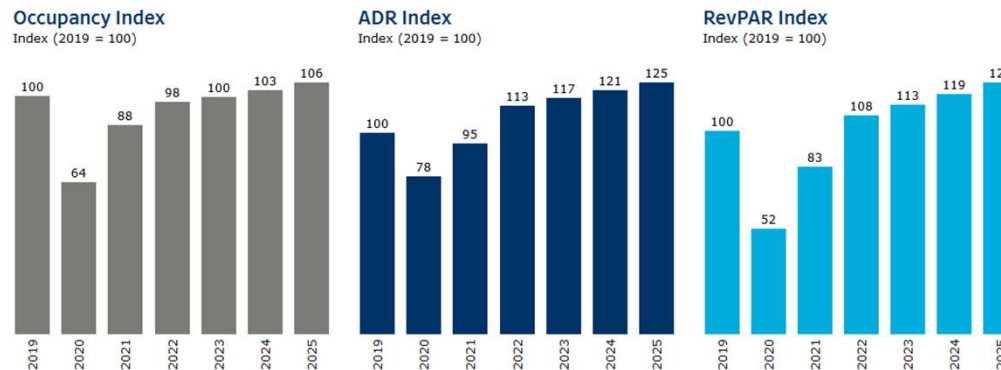
SMARInsights

National Travel Indicators & Forecasts

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U.S. Hotel Forecast

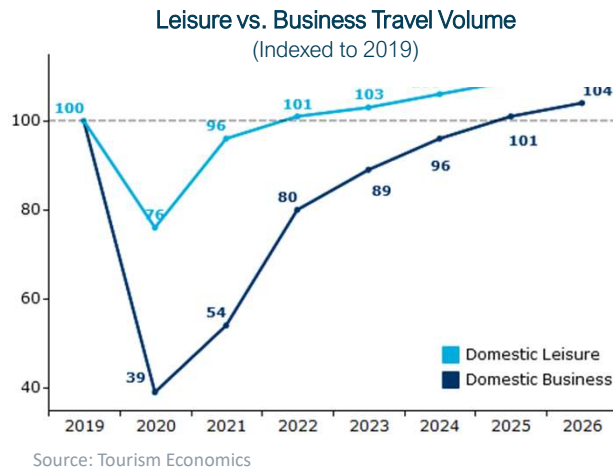
- Current U.S. hotel forecasts for 2024 anticipate demand to be 3% higher than the current year, with average daily rates 3.1% higher, for a year-over-year increase in RevPAR of 4.6%. Tourism Economics' mid-year forecast update anticipated growth will slow but demand will continue to increase given the return of group business and international travel.
- Although the current year's ADR is expected to be 17% higher than 2019, real ADR, which adjusts for inflation, is expected to be 2% lower than 2019.
- Given 2023 will see the return of occupancy back to pre-pandemic levels, the current forecast from STR and Tourism Economics for 2024 anticipates 3% more demand than 2019 and average daily rates 21% higher, resulting in RevPAR 19% higher than 2019.



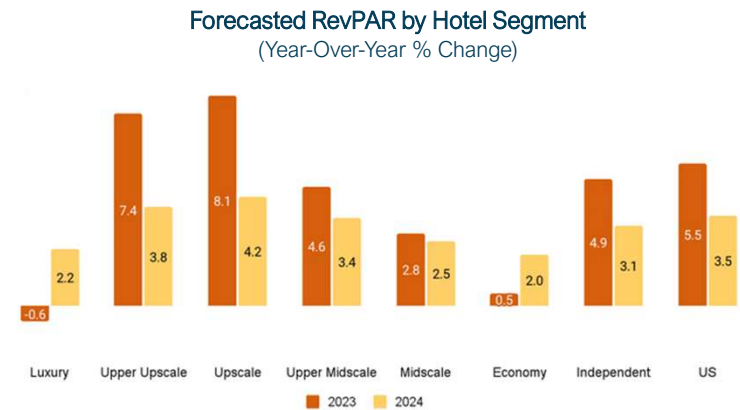
Source: Tourism Economics & U.S. Travel Association

Travel Segments

- Although domestic leisure volume recovered to pre-pandemic levels in 2022, business travel continued to lag 20% below 2019. Forecast data from the U.S. Travel Association and Tourism Economics anticipates that domestic leisure volume is expected to be 6% higher than pre-pandemic levels, with domestic business volume just 4% ahead of 2019.



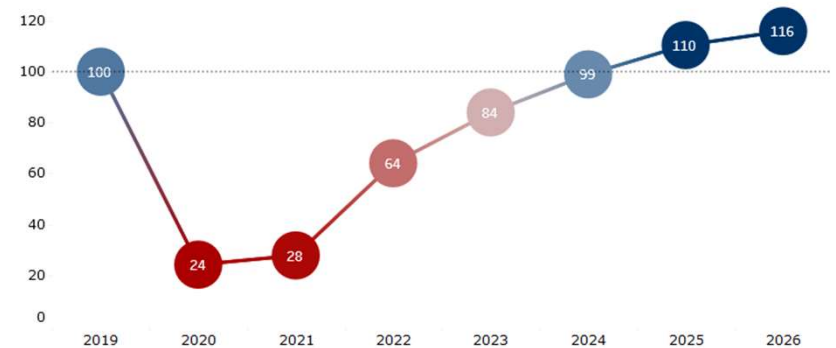
- Forecasts have been revised based on economic pressures facing consumers. With the Fed continuing to raise interest rates and rising prices, consumers continue to say that costs are impacting their decision to travel. PWC forecasts RevPAR to increase 3.5% overall in 2024, but more modest increases in lower end segments are anticipated, an indication that leisure travel will continue to dominate.



International

- International travel has picked up considerably in 2023, but overseas arrivals for the year are anticipated to be 16% off pre-pandemic levels. California continues to be one of the states most impacted by the lack of international visitation. In the most recent reporting month, overseas arrivals to the state were just 68% of the same period in 2019.
- Contributing to the depressed international visitation is the visa wait time from some of the state's top international markets. The U.S. Travel Association reports that as of last month, wait times exceed one year in five of the country's top inbound markets requiring visas. Though efforts by the State Department have seen improvements in a few markets (India, for example has fallen by more than half), some most important to California – including China and Mexico – have seen increases in wait times the last six months. There is some data that indicates that for China, many of the early travelers already have a visa, so this will be muted as far as travel to California in 2024.
- Even with problematic visa wait times, Tourism Economics forecasts that international travel is anticipated to nearly return to pre-pandemic levels in 2024.

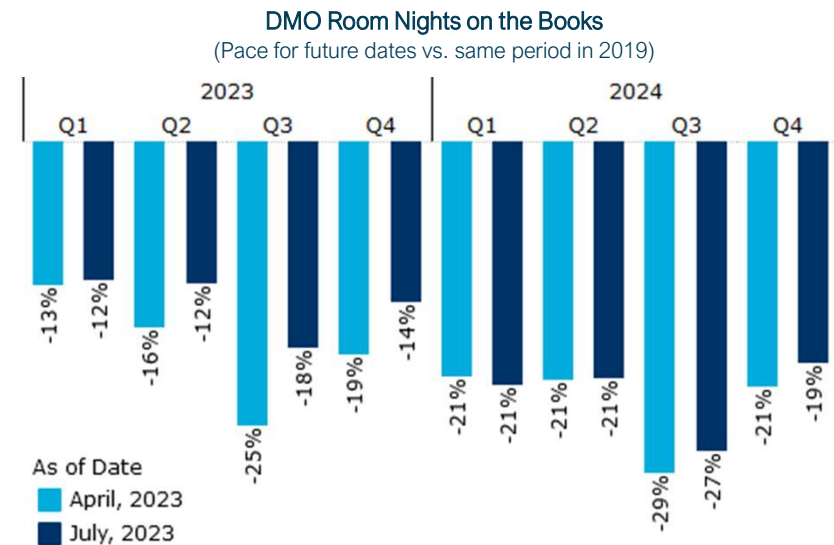
International Visitation Forecast
(Indexed to 2019)



Source: Tourism Economics & U.S. Travel Association

Meetings & Events

- The 2023 Global Meetings and Events Forecast from American Express shows that in-person meetings are happening “more rapidly and in greater volume than expected; however, the numbers are expected to stabilize for 2024.”
- But the meetings and events segment is recovering much more slowly than leisure travel, with the U.S. Travel Association and Simpleview reporting that current DMO group room nights on the books for 2024 remain more than 20% below the same period in 2019.
- Northstar Meetings Group and Cvent’s Meetings Industry PULSE Survey in June 2023 showed that event inventory continued to be limited as events postponed for COVID are still in the pipeline. A quarter of planners report events postponed due to the pandemic are yet to be produced.



Source: Simpleview & U.S. Travel Association

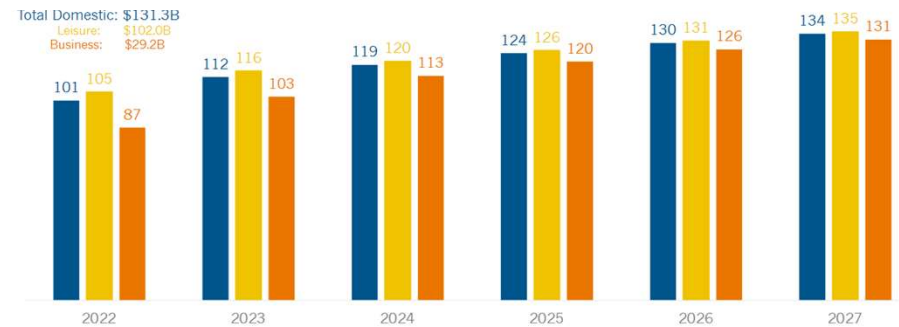
California Travel Indicators & Forecasts

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California's Domestic Forecast

- The U.S. Travel Association and Tourism Economics estimate that travel spending in California in 2023 has been 10% higher than in 2022, more than double the national average of 4.7%. However, the state still lags 2019 spending by 4% when the U.S. average year-to-date is 3.7% higher than pre-pandemic.
- Year-to-date occupancy for 2023 is up 1% and ADR up 5%, but it has been an uneven calendar year with January seeing double-digit increases in occupancy and ADR. Although other winter and spring months were stable, June occupancy was down 3% from the previous year, with average daily rates also down 2% from 2022. Consumer demand for travel remains high, but the price of travel remains a barrier. Softening occupancy and rates in June could be reflective of consumer pushback on rising prices.
- Visit California's 2023 forecast for domestic spending in the state is anticipated to be 12% higher than 2019, with business spending 3% above pre-pandemic levels. For 2024, the forecast anticipates domestic leisure spending to be 4% higher than 2023 (20% higher than 2019) and domestic business travel to be 10% higher than the current year (13% higher than 2019).

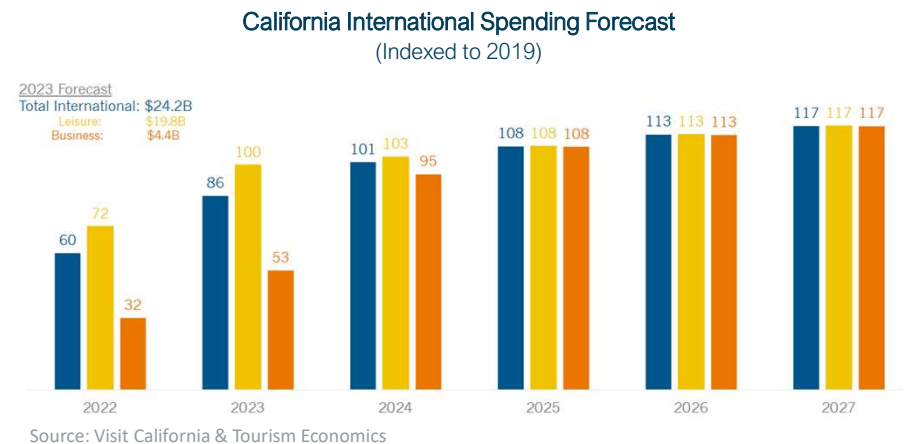
California Domestic Spending Forecast
(Indexed to 2019)



Source: Visit California & Tourism Economics

California's International Forecast

- Visit California's international forecast for 2024 anticipates spending above pre-pandemic levels for the first time, with international leisure spending 3% above 2019. International business spending is anticipated to have a dramatic uptick, with a 42% year-over-year increase. However, this is still expected to be 5% below 2019.
- At the same time, it is important to understand that the challenge for California is largely China. China travel to California remains at only 37% of 2019, and although it is projected to double in 2024 that still leaves it at only 76% compared to 2019.
- On the other hand, other markets are recovered and above 2019 levels:
 - Canada: at 118% and projected for 119% in 2024
 - UK: at 102% and projected for 106% in 2024
 - Mexico: at 97% and projected for 107% in 2024
- Although air service to California from international markets remains 12% below 2019 overall, this is more than double the service from a year ago. California is seeing seat/flights exceed 2019 levels in many markets, with China again being a major drag on the overall performance. The return of international spending to pre-pandemic levels overall points to air service being restored from most of the state's most important markets. Of the state's 14 largest international markets, visitor spending in 2024 is expected to be at or above 2019 level in 10 of those markets.



California Meetings & Events

- Since Visit California was established in 1998, it had exclusively focused on driving leisure travel. However post-COVID, the state's DMO committed \$4.5 million to a platform focused solely on professional meetings and events (PME).
- Research on the reach of the PME efforts by SMARInsights shows that California is the most popular choice for domestic planners for both past and future meetings.
- While the state's image is strong across the board, the areas of strongest differentiation are for a favorable year-round climate, commitment to sustainability, and health and safety protocols.
- The attributes where California is strong, and that are key motivators for planners, are a location that is appealing to all attendees, health and safety protocols, and technologically savvy. It is recommended that these be the focus of PME communications.



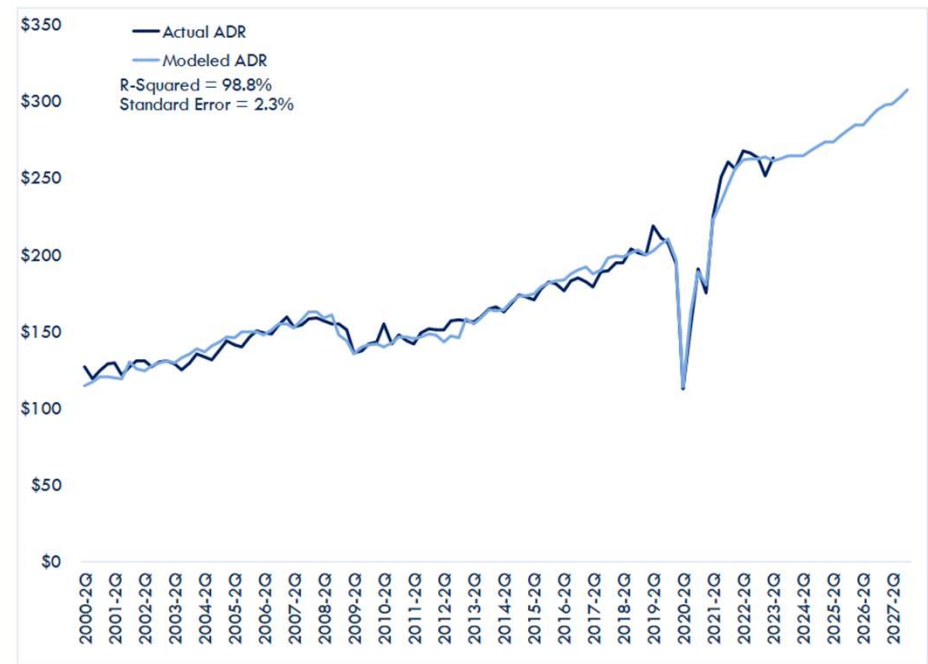
Monterey Travel Indicators & Forecasts



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Monterey's Forecasted ADR

- 2023 Visitor Profile research found Monterey's visitors spent an average of \$2,000 per trip, with a lodging spend of \$278 per day. Given this accounted for 2022 trips, this was the peak of the county's post-COVID Average Daily Rate. Although ADR dipped in 2023, forecasts for Monterey by Lodging Analytics Research & Consulting (LARC) anticipate continued increases in ADR with only seasonal dips in the coming four years. LARC forecasts that by 2027, ADR will be 44% higher than in 2019.



Source: Lodging Analytics Research & Consulting & Costar

Monterey's Economic Drivers

- Forecasts for Monterey are more modest than the U.S. overall as well as California given anticipated underperformance in the coming years in Retail Sales, Population Growth, and Consumer Price Index – the primary drivers of LARC's forecast models.

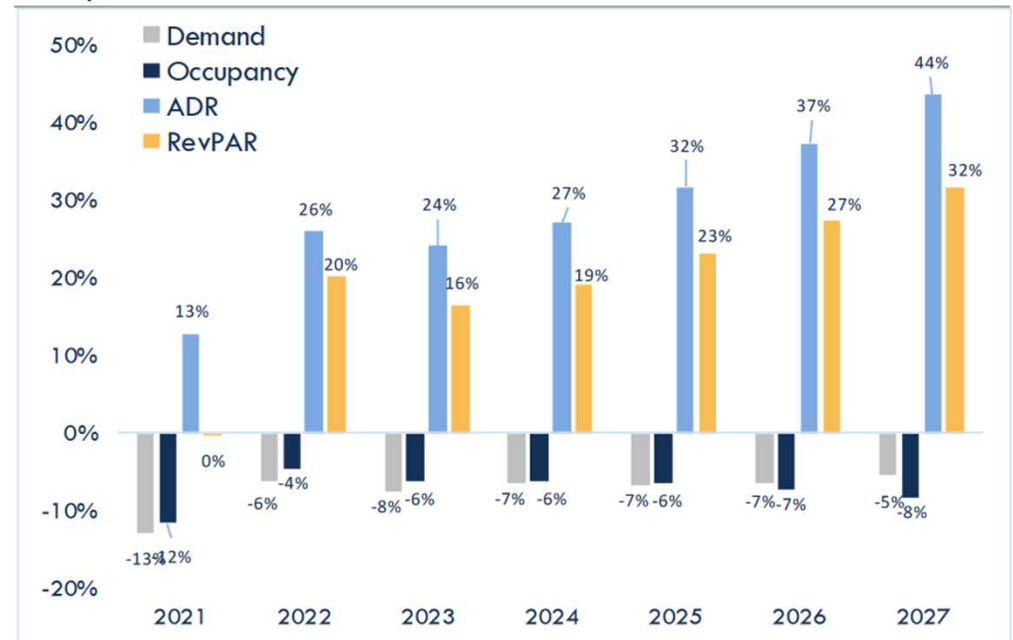
Monterey's Anticipated Performance on Major Economics Drivers (vs. U.S. Growth)

	Retail Sales	Population	Consumer Price Index
2023	0.5%	-0.2%	-0.2%
2024	-0.3%	-0.3%	-0.3%
2025	-0.1%	-0.3%	-0.2%
2026	-0.1%	-0.3%	0.0%
2027	-0.1%	-0.3%	0.2%
5-Year CAGR	0.0%	-0.3%	-0.1%

Source: Lodging Analytics Research & Consulting & Costar

- With slower demand recovery but strong ADR, RevPAR for 2024 is forecasted to be 19% higher than 2019. However, demand is not anticipated to recover to pre-COVID levels until after 2027.

Monterey Hotel Forecast
(% Change Against 2019)



Source: Lodging Analytics Research & Consulting & Costar

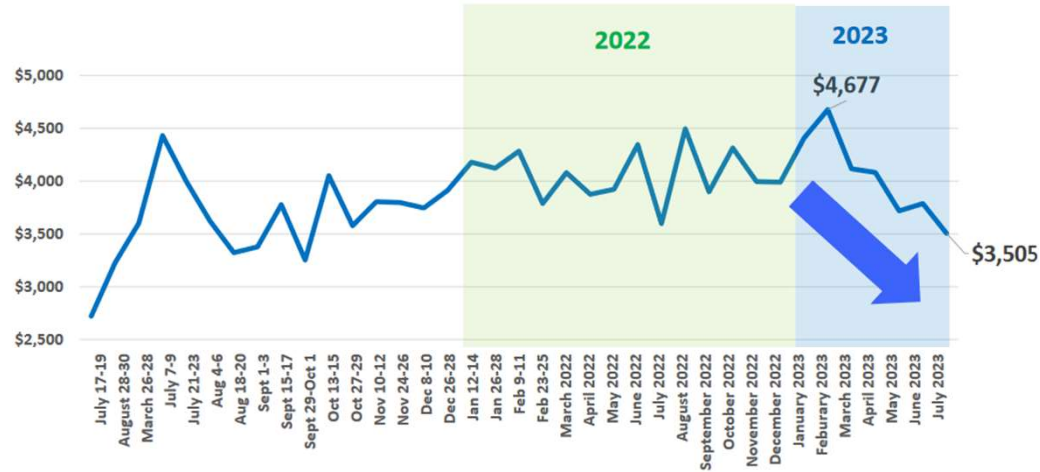
Consumer Sentiment & Opportunities

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Travel Budgets

- Despite declining inflation rates, domestic consumers remain concerned about the price of travel. In the August 2023 State of the American Traveler, more travelers now say it is a bad time to spend on leisure travel (36%) than a good time (29%). With this, travel budgets for the next 12 months have been declining. Travel budgets for the next 12 months for domestic consumers have fallen by 25% since the high in the beginning of 2023 and are at the lowest level since October 2021.

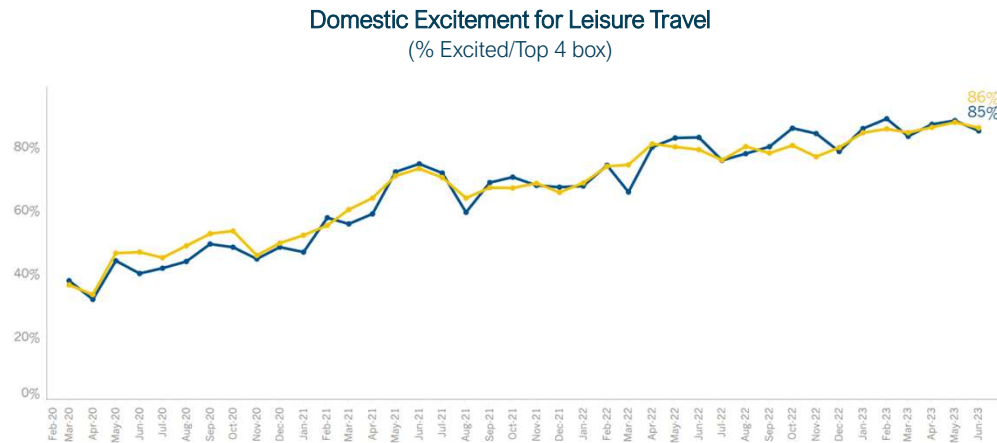
Domestic Travel Budget for the next 12 Months



Source: Destination Analysts

Domestic Sentiment

- Lower travel budgets have seen day trips rise at a higher rate than overnight trips. A year ago, the percentage of Americans reporting taking leisure day and overnight trips was about the same (overnight even outpacing day trips 39% to 36%). Now 45% of domestic travelers report taking an overnight leisure trip in the last month, compared to 54% taking day trips.
- While domestic consumers are changing behavior based on financial conditions, there remains excitement to travel. More than 8 in 10 U.S. consumers – and California residents – say they are excited about leisure travel in the next 12 months. The figures are down slightly from earlier in the year but are still near record highs.



Source: Visit California & Destination Analysts

Opportunities

- **The Boomer Market:** When Millennials overtook Boomers as the largest generation, most marketers turned their attention to this key audience. This certainly happened in travel. Millennials, and now Gen Z, have become the “must have” audience for most tourism marketers. While the Millennial audience is important, Boomers represent a key opportunity for travel. This audience has built wealth and has extensive savings. As they are retiring, they also have the time to travel. Finally, they have the ability to travel at non-peak times.
- **Luxury Travel:** An interesting trend in this segment is “splurge” travel. While luxury travel has traditionally been limited to a high income/high net worth audience, there is an opportunity among a different type of luxury traveler. Among Millennials and Gen Z audience, there is a willingness to spend big on trips – and splurge for a luxury experience. For this audience, their typical trip may be more of a budget experience – but they will splurge for a desired experience or to celebrate key occasions. Honeymoons are a good example, but increasingly there is an audience for other types of targeted luxury experiences.
- **Blended Travel:** Skift Research reports in its State of Travel 2023 that 48% of U.S. business travelers have extended their business trip for leisure purposes. Global spending for travelers combining business and leisure is expected to reach \$360 billion by 2027. Blended trips offer hotels not only the opportunity for additional room nights, but also for them to explore hybrid hospitality by offering co-working spaces. By offering lobbies, meeting spaces and even rooms to more than just transient travelers, Colliers International estimates hotels could increase their turnover by up to 20%
- **AI Adoption:** Artificial intelligence system ChatGPT reached one million users in just five days after its launch. Skift Research anticipates four primary uses in the travel industry: technology development, customer support, reputation management, and advertising optimization. Although 81% of travel industry professionals believe the integration of AI technology will benefit their organization, adoption is slow, with just 19% prioritizing development and launch of these tools. There are concerns about the reliability of these tools with reports of platforms “hallucinating” information.

Opportunities

- **Meeting Attendance Returns:** In the 2023 State of the Meetings Industry, Knowland reports that attendees have returned to meetings and events, with events generating 80% or more of 2019 levels. With the return of attendees, planners are turning to larger event spaces. There is a concern of staffing shortages impacting the service at meeting venues. Event organizers say their biggest obstacle to the return of pre-COVID meeting attendance is the increased cost of planning and executing events.
- **Short-Term Rental Pushback:** Although the short-term rental market brings in an estimated \$67 billion in the U.S., or 18.6% of the accommodation sector, according to Skift Research, consumers are becoming less enamored with alternative lodging. Hotels continue to score better for reliability, customer service, and safety.
- **Travel Motivators:** In the 2023 State of the American Traveler from Destination Analysts, food and cuisine is the passion or hobby with the highest interest, with 54% of domestic consumers who have “extremely high interest” or “high interest” in the product. This aligns with dining as the top trip activity in the Monterey Visitor Profile across all segments.
- **Travel & Sustainability:** Research out of Australia (University of Queensland) has shown that “even people with high pro-environment values forgive themselves for not behaving in environmentally sustainable ways when on vacation.” The result is that efforts to educate travelers and tell them about the impact of their decisions often doesn’t influence their travel behavior. The same research has shown that the key is to alter infrastructure and design programs that make it easy for consumer to behave in sustainable ways. Successful options – those that worked and did not negatively impact customer satisfaction - have included: 1) making the plates at the buffet smaller reduced food waste, 2) offering recycled paper napkins rather than cloth, 3) creating “game” options where guests collect stamps for environmental behavior and are rewarded at the end of their stay. By implementing the right changes, hotels can be more sustainable, save money, and maintain high customer satisfaction.