Bungalow Park Memorandum to Dick Benz.

8-27-1984

Harrison Price Company

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August 27, 1984

Mr. Richard Benz
Arvida Corp.
5550 Glades Road
Boca Raton, Florida 33432

CONFIDENTIAL

Dear Dick:

Enclosed herewith is a brochure describing a couple of large existing "bungalow parks" that are operated by Vendorado, a subsidiary of Vendex International, a private dutch company with sales volume in excess of $3.5 billion, of which approximately 40 percent is in the United States. We have been doing some project work with them in the Netherlands and, in the course of conversation, they have expressed interest in doing a joint venture or some other type of venture with the Disney organization in Orlando.

As discussed in Florida last week, we think this type of project is applicable to the central Florida market generally and to the Walt Disney World complex in particular. It would probably be worthwhile for you and/or other members of DDC management to see one or two of Vendorado's projects in operation as well as those operated by others, notably Sporthuis Centrum. We don't have a copy of Sporthuis Centrum's brochure--Bill Ketchum sent the last one to Mike Bagnall some time ago but he will try to secure a few of them while in Holland later this week.

On the subject of our meeting on Friday, we think it was constructive and is undoubtedly the beginning of some great things. I asked Bill Ketchum to to recapitulate our part of the presentation with slightly more emphasis on the market and a more structured format. His memorandum is attached and summarized as follows:

1. Admissions to The Magic Kingdom have declined every year subsequent to 1978 despite significant capital investment.

2. Epcot Center has not reversed the trend at The Magic Kingdom and may have exacerbated it. Moreover, Epcot has not generated significantly new visitation to Walt Disney World although aggregate admissions to the gated attractions increased by slightly over 10 million in 1983 and will probably be some 8.34 million above the pre-Epcot period in 1984. Virtually all of the increase has come as a result of longer visitor length of stay.
3. One noticeable difference between the visitors to Epcot and the Magic Kingdom and the tourist market is that the Walt Disney World visitor is significantly more affluent, particularly the visitor who is staying in hotels and other accommodations on the property. It appears likely that Walt Disney World is, for one reason or another, not capturing a significant portion of its available market--those with lower incomes.

4. Also, the composition of visitors to Walt Disney World in 1983 did not change significantly compared to 1982 except that there were a few more people in the 50 and over age groups and a decline of 250,000 in the 18-to-24 age group. There were significant differences in the visitor profile between Epcot and The Magic Kingdom.

5. A possible reason for the lack of middle income visitors is that Walt Disney World may be perceived by those who are not coming as being too expensive. This is different than price resistance from those who are coming to the attraction and it is a more difficult problem to resolve.

6. The development of an inexpensive (not cheap) resort facility on the Disney property may be one way to create a profitable business that is complementary to the needs of the gated attractions in that it serves a market that is presently not responding to the product offering. We believe that this is an important product because if the present Walt Disney World market is not expanded, the attraction's attendance will probably continue to decline because it will be depending on an very high penetration rate of a relatively small share of the total available market, one that will have already visited the park several times and have little sense of urgency or motivation to do so again.

7. The impact of any new venture on the gated attractions should be incorporated into any ROI calculations.

8. One strategy of any new investment should be to protect and enhance the existing asset base by increasing its profitability.
9. Although not discussed at length, it is our belief that it is unlikely that a major new gated attraction will be viable at Walt Disney World and that capital resources should probably be committed to further developing The Magic Kingdom and Epcot Center inline with items 7 and 8, above.

I will chat with you after you have received it and the brochure materials on the Vendex International bungalows.

Very best,

Harrison A. Price
President

Enclosures (2)
As we discussed, I think it worthwhile to recapitulate our part of the presentation at the meeting last Friday with slightly more emphasis on the market and a more structured format. A summary follows:

1. Attendance at The Magic Kingdom has declined every year subsequent to 1978 as shown in the text table below:

<table>
<thead>
<tr>
<th>Year</th>
<th>The Magic Kingdom</th>
<th>Epcot Center</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1977</td>
<td>13,000</td>
<td>---</td>
<td>13,000</td>
</tr>
<tr>
<td>1978</td>
<td>14,071</td>
<td>---</td>
<td>14,071</td>
</tr>
<tr>
<td>1979</td>
<td>13,792</td>
<td>---</td>
<td>13,792</td>
</tr>
<tr>
<td>1980</td>
<td>13,783</td>
<td>---</td>
<td>13,783</td>
</tr>
<tr>
<td>1981</td>
<td>13,221</td>
<td>---</td>
<td>13,221</td>
</tr>
<tr>
<td>1982</td>
<td>12,560</td>
<td>---</td>
<td>12,560</td>
</tr>
<tr>
<td>1983</td>
<td>11,438</td>
<td>11,274</td>
<td>22,712</td>
</tr>
<tr>
<td>1984(^1)</td>
<td>10,800(^1)</td>
<td>10,100(^1)</td>
<td>20,900(^1)</td>
</tr>
</tbody>
</table>

While there are many reasons for the decline, it is a fact that the total number of tourists to Florida has been substantially stable or has grown somewhat over the period.

\(^1\) Estimated by Harrison Price Company.
2. Based on research conducted by Walt Disney World (WDW), it is evident that Epcot Center has not significantly increased the number of people visiting WDW nor has it apparently brought many new visitors into the market. It has, however, succeeded in increasing admissions by significantly increasing the average length of stay. Based on research conducted by WDW, the total number of visitors to the two major gated attractions has increased by some 900,000, from 7.8 million visitors in 1982 to 8.7 million visitors in 1983 while the number of admissions increased by some 10.2 million. This is the result of the average length of stay increasing from an estimated 1.61 days in fiscal 1982 to 2.61 days in fiscal 1983. During this two year period, the ratio of resident to tourist admissions remained constant, with tourists accounting for 78 percent of admissions.

In 1982, the last year before Epcot Center opened, the typical Florida resident visitor to The Magic Kingdom had an average length of stay of about 1.2 days compared to 1.8 days for the out-of-state tourist. If it is assumed that the Florida resident component of visitors maintained an average length of stay of about 1.2 to 1.3 days, then most, if not all, of the increased length of stay was in the tourist component of the market and all of the increase in the number of visitors was in the Florida resident segment and the tourist component actually declined in terms of visitors. Given the decline in attendance expected this season, it is likely that the Florida resident component has returned to its pre-Epcot Center levels and the tourist market has not returned in the same numbers as before or their average length of stay has diminished somewhat. The important point is that, unless this trend, and it is a trend, is reversed and the visitor base broadened, WDW's attendance will either continue to decline or it will require untenantably high penetration rates of a relatively small portion of the total available market to continue to generate attendance levels sufficient to provide reasonable returns on capital.

3. WDW's problem is not necessarily the absolute size of the market. In very round numbers, Florida draws on the order of 40 million out-of-state tourists. About one-half of them or 20 million tourists have central Florida as their primary destination. On the order of 9 million or 45 percent of those spend more than one day in Orlando and use local overnight accommodations. Of the 9 million who stay in the area, 6 to 7 million visit WDW and 8 to 9 million visit commercial tourist attractions. In other words, WDW is only capturing 6 or 7 million of the State's total out-of-state visitor market, about 1/3 of the total central Florida tourist market, and on the order of 70 percent of the Orlando area tourist population. If the numbers are looked at over time, the number of people visiting tourist attractions generally, and WDW in particular, has not changed.
significantly since the late 1970s. The question is Why? Virtually every attraction in the market has invested heavily in physical plant, entertainment capacity, and, except for WDW which is a case unto itself, in paid advertising and yet the market, if it is defined as people who attend commercial attractions, has not changed substantially since the mid to late 1970s.

4. One possible reason, in the case of WDW, may be found in the demographics of the visitors it attracts. In fiscal 1983, the median income of visitors to The Magic Kingdom and Epcot Center was $35,360 and $36,138, respectively. This compares to a median disposable household income of $20,000 for the state of Florida and an estimated $25,000 to $27,000 for visitors to the state. In other words, the median household income of visitors to WDW was nearly 80 percent higher than that of Florida resident and 50 percent higher than that of the tourist population. The reasons for this are not known but the problem is distinct from, for example Disneyland where for the same period, the reported median household income of visitors was $31,000 (based on Magic Kingdom Club data) or about ten to 15 percent more than its resident market (which comprises more than 45 percent of total Disneyland attendance) and about 5 to 10 percent higher than the income figures for the tourist market.

5. One possible reason for this may be the perception that WDW is very expensive. Prohibitively so. If this is the case, the solution is probably to be found in paid advertising and other related marketing programs.

6. A second possibility is that destination resort accommodations which cater to middle-income families are not available in the area. Admittedly, a considerable number of Day's Inns, Holiday Inns, Quality Inns and other "moderately" priced accommodations operate in the area but few, if any of them, can be construed as resort accommodations except in the broadest sense of the term--they are accommodations located in a resort area.

The perception of exclusivity of the on-site hotel properties and other accommodations is reinforced by the fact that, as Dick Nunis pointed out, the median household income of hotel guests is in excess of $50,000 or more than 35 percent higher than the typical visitor to the two gated attractions, more than twice the median income of Florida residents, and close to double the figure for tourists generally. It may not be the most upscale market in Florida but it certainly isn't a mass market product.

7. It seems that much of the upscale market is being served by the present offering and that while the development of new hotels properties at WDW may well be profitable, it seems unlikely that they will bring the magnitude of incremental
visitors to the property that is needed to significantly broaden the market base and perceptibly increase attendance at The Magic Kingdom and Epcot Center. The upper end of the market appears to be served by the hotels at WDW and the neighboring hotels such as Grand Cypress and developing better hotels at WDW would probably just shift the people from "their" hotels to "our" hotels—a desirable objective but probably not one that will generate significant new business for the gated attractions.

8. On the other hand, if a product that is perceived as a less expensive but attractive offering can be developed as part of WDW, and be recognized as such, we believe it could be marketed in such a way as to generate new visitors to WDW without detracting from the success of the existing and planned hotels. In other words, the lower end of the market may be more important because it could represent new visitors and help to protect the existing asset base. In addition to generating a profit itself it could generate substantial revenue for the gated attractions.

The bungalow park experience in Europe, and Holland in particular, offers an example of such a product that, if properly adapted to Florida could attract a lower income consumer to WDW (the typical two teacher household, policemen, bank clerks, etc.—not necessarily the "beer drinker" but simply people who make a little less money).

A typical, large scale bungalow park in Europe might have the following amenities, depending on its geographic location and local preferences and conditions:

- 1,000 to 2,000 1- and 2-bedroom bungalows and apartments with kitchens, living rooms, bathrooms, and patios.
- Covered central sports facility including swimming pool, wave pool, play pools, sauna, gymnasium, billiards, etc.
- Tennis
- Golf
- Hiking
- Equestrian activities
- Swimming
- Athletic facilities
- Fast food restaurant
- Full service restaurant
- Convenience store
- Other limited shopping
- Other as appropriate

We believe that the market probably exists to support 2,500 such units which would be developed in one or two units with five or six different clusters each. If properly marketed to specifically pre-identified target groups, annual occu-
HARRISON PRICE COMPANY

Pancy rates in excess of 95 percent could be sustained consistently. If it is assumed that the average party will consist of four people who stay an average of one week, that each party's rental rate includes a three day ticket to The Magic Kingdom and Epcot Center for each individual, the resultant admissions is 1.482 million per year or 494,000 new visitors to Walt Disney. Assuming average revenues of $600.00 per week per occupied bungalow, the bungalow park would generate some $74.1 million per year plus incremental revenue of $34.1 million at the gated attractions at a per capita revenue of $23.00 per visit or a total annual revenue of $108.2 million. Based on a conservatively estimated cost of $65,000 per unit, the total investment is estimated at $162.5 million (the same facility in Europe would cost about $45,000 per unit or a total of $112.5 million).

8. The impact of any new venture on the gated attractions should be incorporated into any ROI calculations.

9. One strategy of any new investment should be to protect and enhance the existing asset base by increasing its profitability.

10. Although not discussed at length, it is our belief that it is unlikely that a major new gated attraction will be viable at WDW and that capital resources should probably be committed to further developing The Magic Kingdom and Epcot Center inline with items 7 and 8, above.