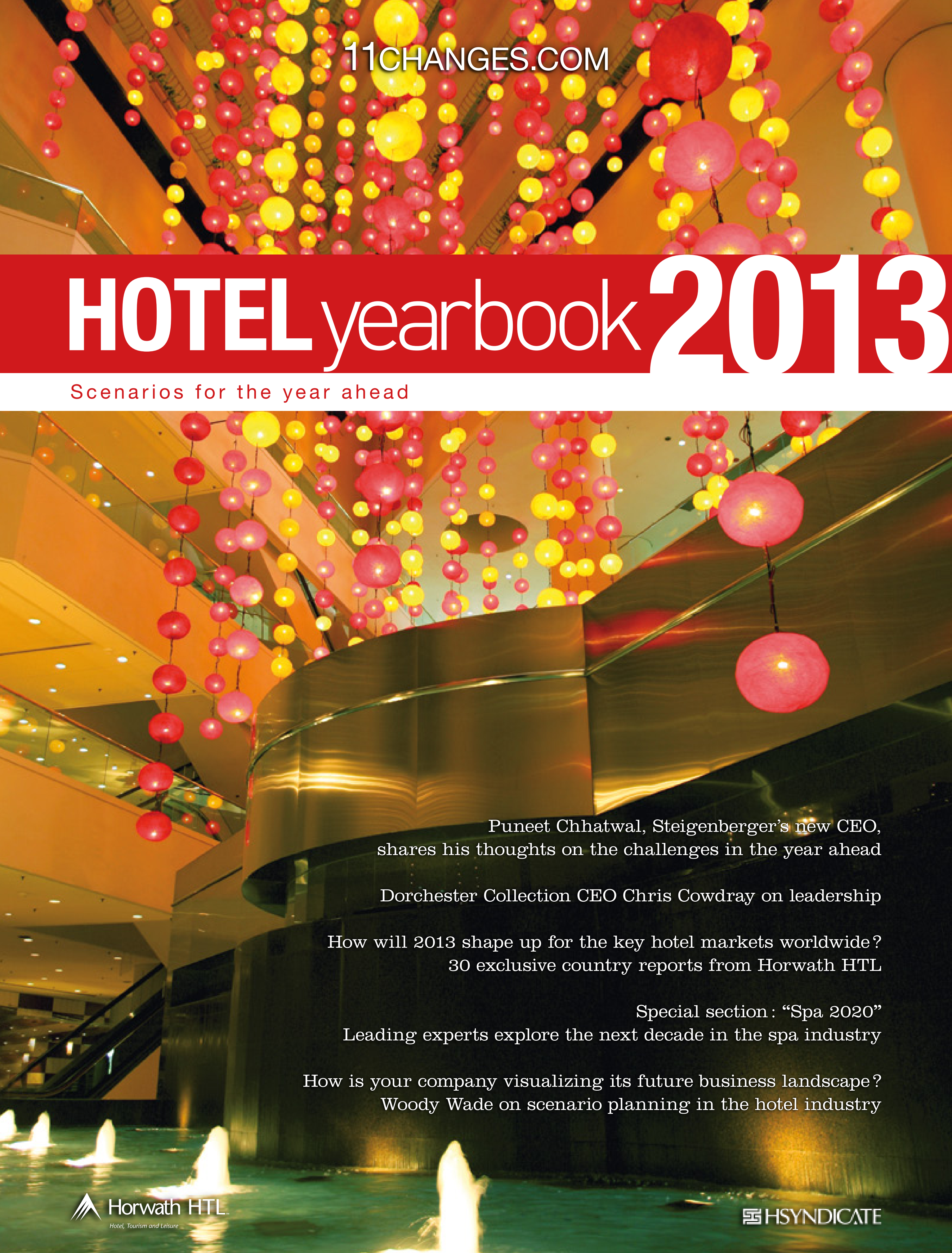

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HOTEL yearbook 2013

Scenarios for the year ahead

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Horwath HTL
Hotel, Tourism and Leisure

HSYNDICATE

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Horwath HTL are the world’s largest consulting organisation specialised in the hospitality industry, with 50 offices in 39 countries. They are recognised as the pre-eminent specialist in Hotels, Tourism and Leisure, providing solutions through a combination of international experience and expert local knowledge.

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With an exclusive focus on global hospitality and tourism, Hsyndicate.org (the Hospitality Syndicate) provides electronic news publication, syndication and distribution on behalf of some 750 organizations in the hospitality vertical. Hsyndicate helps its members to reach highly targeted audience-segments in the exploding new-media landscape within hospitality. With the central idea ‘ONE Industry, ONE Network’, Hsyndicate merges historically fragmented industry intelligence into a single online information and knowledge resource serving the information-needs of targeted audience-groups throughout the hospitality, travel & tourism industries… serving professionals relying on Hsyndicate’s specific and context-relevant intelligence delivered to them when they need it and how they need it.

On the upswing?

OUR REGIONAL OUTLOOK CONTINUES WITH A LOOK AT KEY MARKETS IN THE WESTERN HEMISPHERE. **HORWATH HTL** HAS PROVIDED AN IN-DEPTH LOOK AT THE PROSPECTS FOR 2013 IN THE USA, BRAZIL AND THE CARIBBEAN.

USA

SITUATION REPORT

As the world's largest economy, much of what happens in the United States is felt worldwide. This is why there is great concern both in the US and elsewhere over the expanding size of this country's national debt, which has now topped US$ 16 trillion and is currently expected to climb higher. Given the recent election results, it appears that much of the gridlock experienced in Washington will continue. The looming "fiscal cliff", so often discussed these days, does not appear to be going away but rather becoming a reality if Congress does not act before the end of 2012 to avert a potential double-dip recession. Genuine concerns remain on the part of most economists that action needs to be taken quickly to cut the deficit spending and/or increase revenues, or the country could indeed experience a second recession, which may in fact be more severe than the last.

While the national debt situation appears to be dire, there does appear to be some positives in the economy. Current annual real GDP – the overall output of good and services produced by labor and property in the USA – increased at an annual rate of 2 % as of the third quarter of 2012, according to the Commerce Department's Bureau of Economic Analysis. This represents an increase over the annual estimate in the third quarter of 2011, which was 1.6 %. Also the national unemployment rate which had been hovering close to 9 % for much of the past 3 years is currently just below 8 %. While a positive sign, it is still nowhere near the 4 to 5 % the country needs for a return to a healthy economy.

All in all, given the rather poor economic environment prevalent throughout the USA, 2012 has not been all that bad of a year for the lodging industry. Hotels may still end up outperforming other forms of real estate investments including office, retail and industrial sectors. Increases to the standard lodging metrics of occupancy, ADR and RevPAR for the year can be attributed in large part to increased business travel. Certain regions and/or states have been enjoying better than average business due to better than expected economic conditions experienced in these areas. These include states like North Dakota, South Dakota and Oklahoma, which are developing newly discovered energy sources, and the Midwestern section of the country which has seen a reemergence of its manufacturing sector.

Any growth in rooms demand registers as significant due to the fact that there are minimal hospitality developments in the supply pipeline. Regardless of demand growth, the relatively low increases to supply will aid owners and operators in driving up ADRs at their properties, which have been severely depressed since the beginning of the economic downturn in 2009.

While there have been some gains in hotel transactions, they have not been substantial and are nowhere near pre-recession levels. Buyers and sellers have come together somewhat, at least to a point where there have been more sellers willing to place their properties on the market. Investors continue to seek upscale hotels as well as select service properties with major brand affiliations located in primary markets. Financing for these projects remains available at what could be considered attractive terms by historical comparison. Loans can presently be obtained with 10 year terms, amortized over 20-25 year periods with interest rates in the 5 % range. Loan-to-value ratios are in the 70 to 75 % range which requires a rather sizeable equity investment. Smaller transactions of under $10 million are still being financed by the Small Business Administration, also at generally acceptable terms.

OUTLOOK FOR 2013

Supply will remain a non-issue for 2013 as very few projects have come to fruition in the past year and projects on the "drawing board" are substantially less than a year ago. Assuming another recession can be avoided, occupancy is expected to improve, albeit at a slower pace than in 2012, resulting in a projected increase of less than 0.5 %. Due to the low growth of supply, ADRs are expected to strengthen in 2013 by less than 5 %, leading to an estimated RevPAR growth of approximately 5 %. The majority of this RevPAR growth is expected to occur in the primary cities, with only minimal growth in secondary and tertiary markets.

Mark S. Beadle, CHA and Joel W. Hiser

Courtesy Richmond International

BRAZIL

SITUATION REPORT

Macroeconomic projections for Brazil and other countries in the Region seemed optimistic at the beginning of 2012. However, these expectations were not reached throughout the first semester. The national GDP growth was modest : 0.8 % for the first and 0.5 % for the second semester.

However, the limited growth of the economy did not hit investment in the hotel and tourism sector. The resources arranged by the federal banks for the tourism industry presented a 13.3 % increase during the first semester of 2012 in relation to 2011. Financial institutions spent a total of R$ 2.02 billion to fund retrofit, modernization and implantation of tourism projects.

Moreover, Foreign Direct Investment in the country (FDI) continues to grow significantly. In 2011, a total of US$ 75.95 billion was invested in Brazil by foreign companies, accounting for 2.7 % of the country's GDP.

BRAZIL – FDI IN 2000/2011 (US$ BILLIONS)

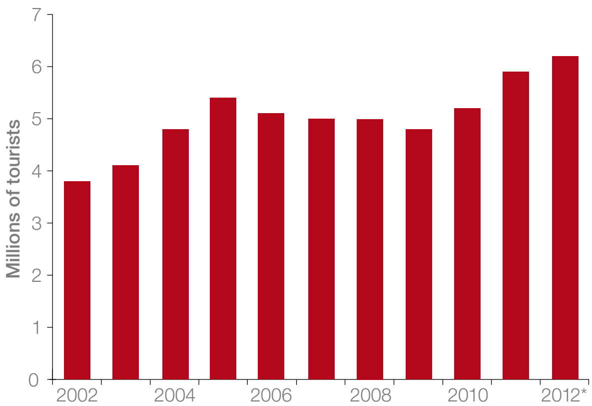
Source : Brazil Central Bank

International tourism demand continued to grow steadily in 2011, and it is expected that Brazil will reach a total of 6.2 million international tourists by the end of 2012. Despite the fact that international tourism demand shows a constant growth over the last years (except for 2009), Brazil's tourism and hotel industry relies mainly on the domestic market. As for the cities,

On the upswing? cont.

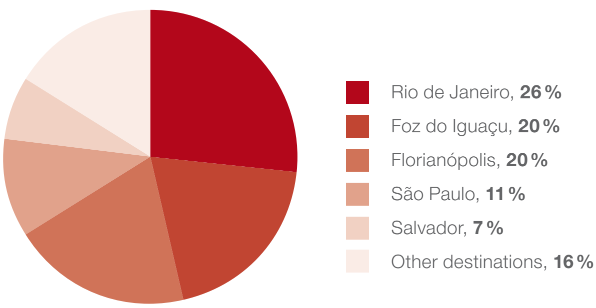
Rio de Janeiro remains the top international tourism destination, while São Paulo attracts more than 50 % of the international tourists in the business and MICE segments.

INTERNATIONAL TOURIST ARRIVALS TO BRAZIL

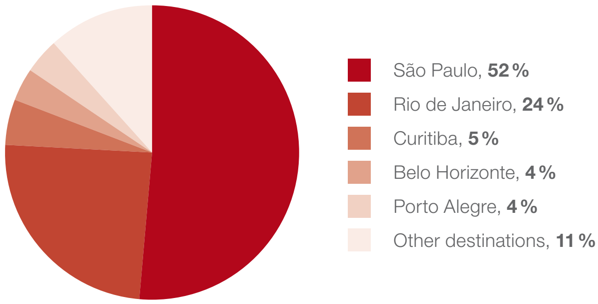


* Forecast

INTERNATIONAL TOURISM
MAIN LEISURE DESTINATIONS 2011



INTERNATIONAL TOURISM
MAIN BUSINESS AND MICE DESTINATIONS 2011

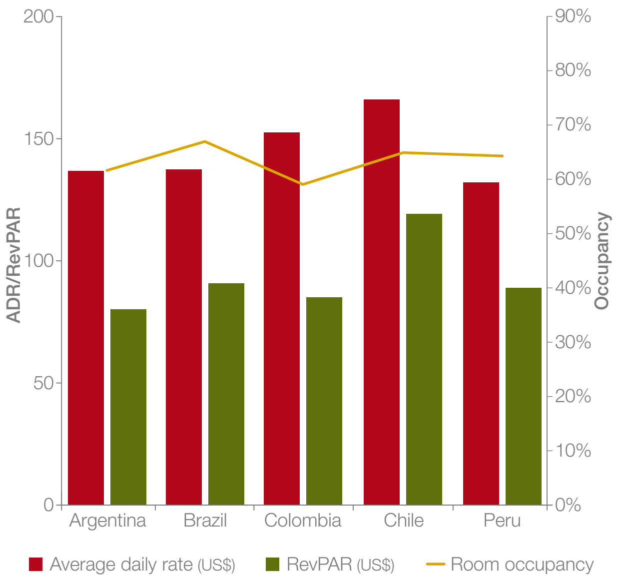


Source: Brazil Ministry of Tourism / INFRAERO

On the upswing? cont.

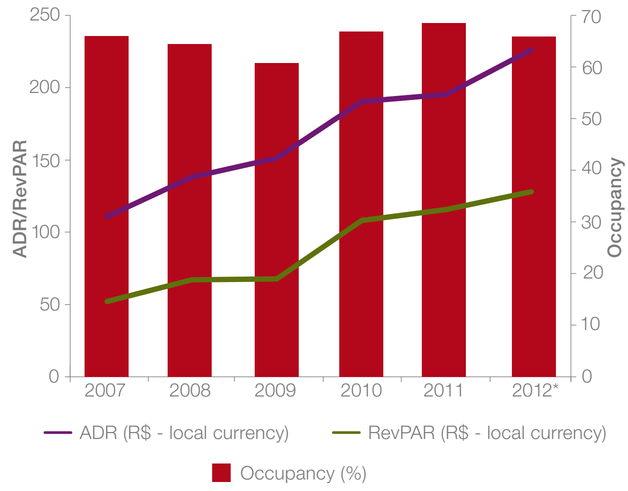
The hotel sector is experiencing a good period, maintaining an adequate level of occupancy rates (around 65 %) and an escalating ADR, resulting in a firm growth of RevPAR over the last years.

OCCUPANCY RATE, ADR AND REVPAR – MAIN SOUTH AMERICAN MARKETS – YTD (YEAR TO DATE – AUGUST 2012)



Source: STR Reserach

OCCUPANCY RATE, ADR AND REVPAR – BRAZIL – 2007-2012 YTD (YEAR TO DATE – JUNE 2012)



Source: STR Research / FOHB (Brazilian Hotel Operators Forum)

Occupancy rates are showing a slight slowdown (-2.6 %) compared to 2011, though the 2012 numbers could grow, considering that the second half of the year tends to present higher occupancy rates in most of the markets. However, the significant increase of ADR during the first half of 2012 (over 12 % when compared with 2011, and 17.6 % when compared to the first half of 2011) represents an increase of almost 7 % in RevPAR compared to last year and 13.6 % in relation to the same period (January-June) in 2011.

In general terms, the hotel market in Brazil is going through a growing and consolidation phase that comprises diverse processes including:

- The increasing participation of foreign capital/investors in the hotel industry. Major players, mainly from the United States and Europe, are starting to establish alliances and business platforms with local partners (developers, hotel chains, real estate companies, etc.) to enter into the hotel industry through the development of portfolios oriented to urban midscale and budget hotels.
- Development of international hotel chains. Seeking opportunities in major capital and primary cities to develop upscale and luxury brands that are still not present in Brazil, and in secondary and tertiary cities to develop their budget and/or limited services brands. Secondary and tertiary markets also might result in interesting options to develop the

On the upswing? cont.

hotel chain portfolio of brands through franchise agreements.

- **Expansion of Brazilian hotel chains.** Considering the relevance of the domestic market, local hotel chains have achieved significant growth, understanding the needs of Brazilian guests and being flexible and fast in developing long-term and territorially-based partnerships with local developers and real estate companies.
- **Management and commercialization professionalization.** Though there is a long way to go in this aspect, the development of the international and national hotel chains is "pushing" the market (including the independent hotels) to standardize processes and establish professional parameters to deal with sales, reservations, management and other operational issues.
- **Real estate business as a funding option.** Despite some credit lines offered by federal banks and the incipient entrance of capital funds in the market, many hotel properties in Brazil are developed through the condo-hotel finance structuring. This means that hotels compete with other real estate products in the market, such as offices, residences or retail, and become part of mixed use projects including two or more real estate products.

OUTLOOK FOR 2013

The Brazilian economy is expected to grow at higher rates over the next year. Within this growth, investment and development of the hotel sector will continue their consolidation process regarding the arrival of new products and brands to the markets and an increasing volume of international and domestic tourism demand.

Occupancy rates should maintain an adequate level, considering the growth of the market and the projected addition of rooms in most of the primary, secondary and even tertiary cities. As for ADR and RevPAR, the market demand and the upcoming major sports events (FIFA World Cup 2014 and Rio de Janeiro Olympics in 2016) will keep pushing the rates. The incidence of these events will be higher in primary and capital cities, whereas the general growth of regional and local economies will have a larger impact in secondary (500,000 to 2,000,000 inhabitants) and tertiary cities (200,000 to 500,000 inhabitants).

Taking into consideration the main segments of the hotel demand, we could expect the following:

- **Business.** This will remain as the most important segment for hotel demand in most of the primary (excluding Rio de Janeiro) and secondary cities, considering Brazil's economic growth, infrastructure development and other general aspects that will continue boosting lodging demand.
- **MICE.** This is expected to be the most dynamic segment of the demand. Along with the increasing number of international events hosted in the country, Brazil has a significant domestic market that generates an important influx of guests in some cities that have developed adequate infrastructure and transport connectivity.

COUNTRY RANKING – HOSTING OF INTERNATIONAL CONVENTIONS AND EVENTS – 2011

Ranking	Country	No. of events	Ranking	Country	No. of events
1	United States	759	11	Canada	255
2	Germany	577	12	Switzerland	240
3	Spain	463	13	Japan	233
4	United Kingdom	434	14	Portugal	228
5	France	428	15	Korean Republic	207
6	Italy	363	16	Australia	204
7	Brazil	304	17	Sweden	195
8	China	302	18	Argentina	186
9	Netherlands	291	19	Belgium	179
10	Austria	267	20	Mexico	175

Source: ICCA - International Congress & Convention Association

- **Leisure.** Even though the increase of international tourists could impact this segment, tourism demand linked to leisure will remain mainly domestic. On the other hand, though the local currency (the Brazilian Real) has experienced significant depreciation over the last year, some destinations still remain

On the upswing? cont.

expensive both for the foreign and the domestic tourist, resulting in other leisure destinations possibly looking more attractive.

Mariano Carrizo

THE CARIBBEAN

SITUATION REPORT

By the end of 2012, we estimate that tourist arrivals to the Caribbean will be around 25 million, a growth rate of 5 % on the previous year, as Caribbean tourist arrivals until the end of September 2012 have increased by 5.11 % compared to the same period last year. This is encouraging news for the region as it approaches its high season of December-April, when the majority of tourists come to the Caribbean to escape the cold winters of North America and Europe.

For 2012, we estimate that the Caribbean will hold a tourist arrivals market share of 2.3 % and annual tourism receipts of US$ 24.2 billion, both higher than for other significantly larger regions around the globe (i.e. Central America, North Africa, Oceania and South Asia , as defined by the UNWTO), demonstrating the strength of the Caribbean as a worldwide tourist destination that has achieved consistent market shares of between 2-3 % for the previous 30 years. This high market share is important for the region as it holds the highest tourism contribution to GDP than any other region around the world, with an estimated total contribution to GDP of 13.9 % (US$ 47.1 billion) for 2012 and a total contribution to employment of around 2 million jobs, representing 13 % of the working population. Additionally, the Caribbean is currently the 6th highest region in the world for receipts per tourist arrival, which signifies a clear indication of the sustainability of the tourism industry of the region and the spending power of its visitors.

For 2012, the real GDP growth rate is expected to rise to 2.8 %, a slight increase on the previous year's growth rate of 2.7 % and a clear sign that the economy of the region is

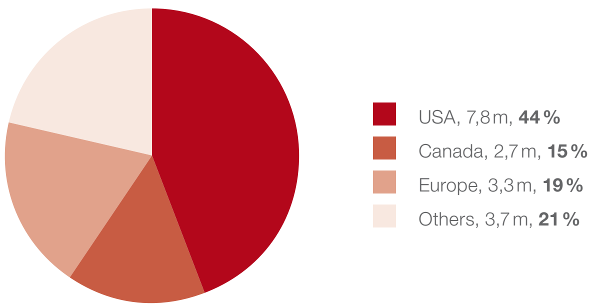
On the upswing? cont.

performing better – while there are still some improvements to be made, considering that the growth rate in 2010 was 3.4 %.

Estimated tourism arrivals for 2012, based on early indications, show that the most visited tourist destinations in the Caribbean will be the Dominican Republic (4.6 m visitors), Cuba (2.9 m visitors), Jamaica (2.0m visitors), Puerto Rico (1.6 m visitors) and Bahamas (1.4 m visitors). These five countries will represent around 68 % of the tourist arrivals to a region of 33 countries and four European languages.

For the main market sources of tourist arrivals to the Caribbean, we estimate by the end of 2012, the USA will provide 44 % of all stopover arrivals. Europe will be the next largest contributor of Caribbean arrivals, providing 19 %, with Canada just behind with 15 %. This demonstrates how much influence the North American market has on the Caribbean tourism industry as it consistently provides around 60 % of all arrivals to the region each year.

PROJECTED CARIBBEAN MAIN MARKET TOURIST ARRIVALS 2012



The major destinations participating in the hotel room supply in the Caribbean include the Dominican Republic with over 64,000 rooms, Cuba 46,000, Jamaica 32,000, Bahamas 15,000 and Puerto Rico with 14,000 rooms. Based on our analysis, we also estimate an average hotel occupancy of 66 % for 2012 for the Caribbean, representing an average increase of 3 % on the previous year. The main hotel average occupancies, as of September 2012, were Puerto Rico (76 %), Dominican Republic (73 %), Bahamas (73 %), Cuba (56 %) and US Virgin Islands (53 %).

THE OUTLOOK FOR 2013

The outlook for the Caribbean for next year is a cautiously promising one with continuing opportunities for new tourism developments. One example of continued growth in the region is the development of the Baha Mar Resort & Casino in the Bahamas partnered by the Bank of China, which is constructing the region's largest casino and spa, as well as 2,250 rooms spread over four internationally branded hotels to be opened in late 2014. This Caribbean landmark is estimated to cost US$ 3.5 billion and bring such a boost to the nation's economy that its GDP could increase by 10 %.

The majority of the new hotel developments in the Caribbean are falling into the luxury, upper upscale category, indicating the high investment levels of the Caribbean tourism industry and the confidence of the developers and promoters in the region.

However, there are some warning signs for the year ahead, as the whole Caribbean is vulnerable to the developing Eurozone crisis, and Caribbean governments are tackling fiscal deficits and mounting debt through further austerity measures. On the positive side, Foreign Direct Investment (FDI) from regions that suffered less from the economic crisis – such as China, Canada and Latin America – is expected to increase, and as long as oil prices remain relatively steady and the US economy continues to recover, tourist arrivals from the main market of the US are likely to improve into 2013.

The outlook for the Caribbean hotel and tourism industry shows a picture of continuing strength and increasing investments and opportunities for the near future.

Sotero Peralta ■

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