Hotel Invest

Brazilian Hotel Market Overview

Rio de Janeiro • São Paulo • Salvador • Curitiba • Porto Alegre • Belo Horizonte

2011 - 2012

Presentation

Welcome to the 4th edition of the Brazilian Hotel Market Overview, an annual publication by HotelInvest that presents and analyses the sector performance in Brazil's main markets.

It is with great pleasure that, once again, we have the opportunity to study and document the evolution of the Brazilian hospitality industry. Through this initiative, we sought to understand and present the facts that have influenced the hospitality market in Brazil, anticipating challenges and identifying opportunities. We hope that our contribution may become a useful tool for managers and investors in structuring their strategies.

In 2012 we continue following the performance of the traditionally monitored markets: São Paulo, Rio de Janeiro, Salvador, Curitiba and Porto Alegre. This edition of the Overview, however, also includes some innovations:

- Addition of hospitality market in Belo Horizonte, in partnership with ABIH Minas Gerais;
- Addition of Economy hotels category in São Paulo;
- Reclassification of hotels in Rio, Salvador, Curitiba and Porto Alegre by hotel category;
- Disclosure of occupancy rates and average daily rates of samples from each category in each city.

We are certain that these innovations will ensure that this publication becomes an extremely relevant, useful and reliable source for all those who work in or analyze the sector.

Finally, we would like to remind you that the annual editions of the Brazilian Hotel Market Overview are complemented by previous quarterlies, published in the HotelInvest digital newsletter. To receive these or any other HotelInvest publications, please visit our website (www.hotelinvest.com.br) or send an email to hotelinvest@hotelinvest.com.br.

For information, queries, comments or suggestions, contact Cristiano Vasques: cvasques@hotelinvest.com.br / (55 11) 3093-2743.

Our sample

The extensive Overview database has been built using HotelInvest internal records and data provided by a number of partners. We would like to thank all those who contributed to this publication and would like to invite new hotel operators and associations to share their performance data in future editions.

The information here presented has been produced based on the commercial performance of 28,625 rooms and includes the main ventures from each category and each city. With this in mind, we are sure that the evolution indicators are an excellent reflection of the state of play in each market.

Our annual comparisons always use the same sample base for each historic series, except when new hotels are opened or there are significant changes within the sector. Our wide sample design is statistically significant and consists of:

Sample / Total Supply

Market	Economy	Midscale	Upscale
São Paulo	2,264 / 10,287	6,505 / 16,582	2,336 / 2,336
Rio de Janeiro	-	2,416 / 6,228	1,808 / 2,875
Salvador	2,591 / 3,670	2,711 / 2,828	-
Curitiba	1,209 / 3,984	1,677 / 2,558	-
Porto Alegre	478 / 2,043	1,418 / 2,210	-
Belo Horizonte	1,056 / 2,603	2,156 / 2,616	-

2011 Retrospective

2011 was a year marked by a number of international crises, which affected the world's largest economies. The consequences were serious and the effects were also felt in emerging economies. Brazil did not escape unscathed and had to endure instability and uncertainty. The timeline of events gives a clear picture of the scope and serious nature of the facts:

• At the beginning of the year, the uprisings in North Africa and the Middle East (the Arab Spring) led to the downfall of a number of regional dictatorships and brought concern over oil prices;
• Also in the two first months, a series of disasters – earthquake, tsunami and nuclear accident – seriously impacted the Japanese economy;
• At the end of the first quarter, a serious political crisis at the US Congress called into question the US Government's ability to honor its payments, due to discussions on the country's debt ceiling;
• The second quarter, however, saw the other side of the Atlantic experiencing turmoil with the European debt crisis - particularly in Greece – and the delay of both Germany and France in designing a solution which could be seen as effective by national governments and by financial markets.

Amid these adverse external conditions, Brazil had to deal with the hangover from the strong growth experienced in 2010: high and accelerating inflation. In response, the new government carried out intense fiscal adjustments in the shape of budget cuts to the tune of BRL 50 billion, and increased the Selic (the Brazilian Central Bank overnight rate) from 10.75% (December 2010) to 12.5% (August 2011).

The strong economic slow-down was already clear halfway through the year. In August, Copom (Monetary Policy Committee), concerned about the deteriorating external situation and in an attempt to avoid recession of the Brazilian economy, reversed the Selic's trajectory. From then on, the cuts were quick and deep: in March 2012 the basic target rate was already at 9.75% p.a.

Despite the unfavorable economic context, hospitality maintained its strong growth in 2011 and Revenue Per Available Room (RevPAR) increased 12.2% (in real terms). In contrast to 2010, when price expansion was accompanied by a great increase in demand, the revenue increase was basically driven by the increase in average room rates (12.0%). The occupancy during the historic seasonal peak allowed strong real increases in rates, at levels last seen since at beginning of market monitoring by HotelInvest.

This was not maintained consistently throughout the year. The evolution, monitored in previous quarters of the Overview (compared to the same period of the previous year), indicated expansion of occupancy during the first quarter followed by a slight drop. In addition to seasonality, which limits the absorption of guests, there may have been some effects resulting from international instability and the economic slow-down on demands for hospitality.

The hospitality industry did not become worried and prices maintained a constant trajectory of growth throughout the quarters. The increase in hotel turnover, together with relatively stable costs resulted in greater profit margins for owners and investors, leading to an increase in value of hospitality real estate. Hotel Maxinvest Investment Fund, for example, which focuses on hotels in the metropolitan region of São Paulo, saw an increase of 20.1% in the market value of its shares.

2012 Perspectives

The development of the main events in 2011 signaled the beginning of a long, slow process of recovery for the global markets starting as of 2012. The positive direction of USA's main economic indicators and the control of the Greek debt crisis hint towards a less turbulent scenario. There are still difficulties relating to budget adjustments in Europe, and China's success in changing its source of growth by reducing its reliance on exports and strengthening its internal market.

If recovery is achieved, which appears to be the main bet on the markets, however, there will be space on the international agenda for job creation policies and demand increase, stimulating new investments and businesses.

These perspectives should quell financial market fears, particularly in Brazil, normalizing credit and restoring the faith of both consumers and investors. This, together with Selic's lower rate and the prospect of its further reduction (it should reach 9% mid-way through 2012) should stimulate credit and consumption, which would have a positive impact on demands for goods and services in Brazil. According to the Brazilian Central Bank's "Boletim Focus", the prospects for 2012 are of moderate expansion of GDP (+3.3%), controlled inflation (5.3%), strong direct foreign investment (US$ 50 billion) and relatively stable exchange rates (BRL 1.75/USD at year end).

This scenario allows a glimpse of an open horizon for the Brazilian hospitality industry. Occupancy rates may suffer fluctuations, related to the agenda of large-scale events and openings of new hotels in various cities. However, occupancy in seasonal peaks means that demand pressures will continue and allow new rounds of price increases above inflation, as was seen at the end of 2011. Occupancy rates in the Midscale and Upscale categories, which had been lower in comparison to the Economy category, all reached historic high levels last year. Considering this, we should see more accentuated increases in room rates, widening the gap between their prices and those of economy hotels, and recovering value levels which are more conducive to the difference between the products.

From the supply point of view, the number of developments planned or underway has grown. The year of 2011 clearly marked a change in the intention of new hotel development by investors and incorporators. Project valuation requests and contacts between business people and operators, indicators that clearly anticipate the volume of investments forecast for the next few years, have markedly increased. Projects are being considered across the whole country, from small towns to state capitals, from the north of the country to the south.

Incorporators in particular have come back to study and launch hotel ventures in the real estate market. Under this subject, it is important to highlight the recently launched Manual de Melhores Práticas para Hotéis de Investidores Pulverizados [Manual of Hotel Best-Practice for Investors]. It is a document that consolidates recommendations on how to structure hospitality ventures in a professional manner. It was developed at the Núcleo Imobiliário-Turístico e Hoteleiro do Secovi/SP [Tourist and Hospitality Real Estate Center at Secovi/SP], and had the support of some of the most relevant professionals in the sector and the main players in hospitality. Its existence, without doubt, is a decisive step towards greater professionalism and transparency in hospitality investments.

Although there are challenges and risks in the short-term, HotelInvest understands that the country is experiencing a clear period of growth, which should have an impact on the economic structure of Brazil.

This snapshot of the country presents endless opportunities. All of them leading to the expansion and modernization of the hospitality industry in Brazil. Happy investing!

Rio de Janeiro

The hospitality market in Rio de Janeiro[1] began 2011 with a positive outlook, supported by the heating-up of the economy and the high occupancy of hotels. The dynamism of the naval, petrochemical and transport sectors; the World Cup in 2014 and Olympics Games in 2016; the revitalization of Porto Maravilha; and pacification and urbanization of deteriorated areas of the city, all pointed to a good year for the hospitality industry in Rio. On the other hand, the re-opening of the old hotel Le Méridien, acquired by Windsor Hotels, left the market uneasy thanks to the addition of its 545 rooms to the sector.

The year's results were very positive. In the sample analyzed, there was positive variation in supply (16.8%) due to the opening of Windsor Atlantica, and a significant increase in demand (18.6%), a combination that resulted in a slight increase in occupancy (1.5%). Exceeding expectations, average daily rates were readjusted well above inflation (10.9%[2]). The effects of currency devaluation which has been affecting the market over previous years was reversed mainly due to rate readjustments motivated by the elevated occupancy rates. As a consequence, an increase of 12.6% was observed in RevPAR.

The aggregate revenue of the market reflects the distinct realities of each of the hotel categories analyzed. With the opening of the Windsor Atlantica Hotel, Upscale hotels (those with average daily rates between BRL 440 and BRL 650) faced a great variation in supply (43.2%), alongside a proportionally comparable evolution in demand (41.3%), which caused occupancy to suffer only a slight drop (-1.3%). The average daily rate was readjusted by 5.5%, resulting in a 4.1% increase in RevPAR.

The Midscale category (in which the average daily rate fluctuates between BRL 250 and BRL 440) saw a more expressive average daily rate increase (7.7%). Despite an increase of 2.9% in supply, due to the opening of the Novotel Santos Dumont in 2010, the increase of 7.2% in demand meant that the average occupancy of this category increased 4.2%. RevPAR expanded by 12.2%.

The expressive increase in the Upscale markets demand after the opening of the Windsor Atlantica Hotel is an important sign that the economy is heating-up in the city of Rio de Janeiro. It is safe to say that part of the new demand that was taken in by this new venture is a consequence of new business that has been taking place in the city over the last few years. But most of this 16.8% increase in demand seen in the city consists of what is considered as latent demand, i.e. people who are interested in visiting Rio de Janeiro and staying in a hotel of this category but, due to lack of availability during the period in which they wish to travel, end up cancelling their visit to the city.

The growth prospects for the market over the next few years are maintained due to the favorable economic prognosis and the hosting of the sporting events mentioned above. Despite the uncertainties relating to the evolution of exchange rates, increases in average daily rates may intensify, motivated by the increased occupancy rate in the city. In relation to the increase in supply, new projects are being launched in the city, particularly in Barra da Tijuca. Even so, opportunities such as the renovation of Hotel Glória which should be concluded in 2013, and of Hotel Nacional, should appear shortly downtown and in south of the city, motivated by municipal incentives, revitalization projects of deteriorated areas and the improvement of the Brazilian hospitality market itself.

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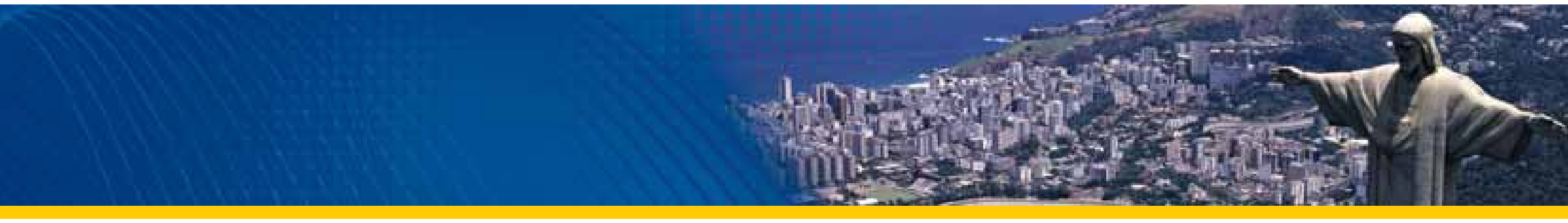
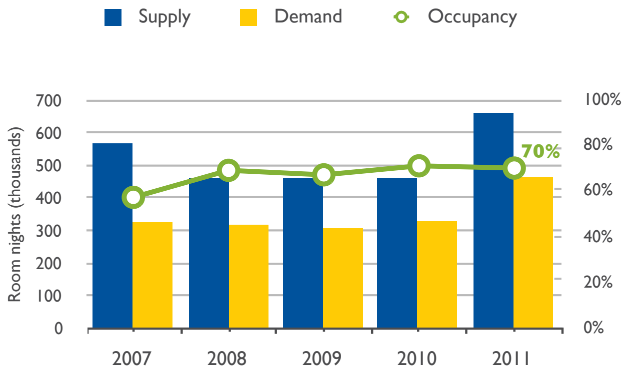
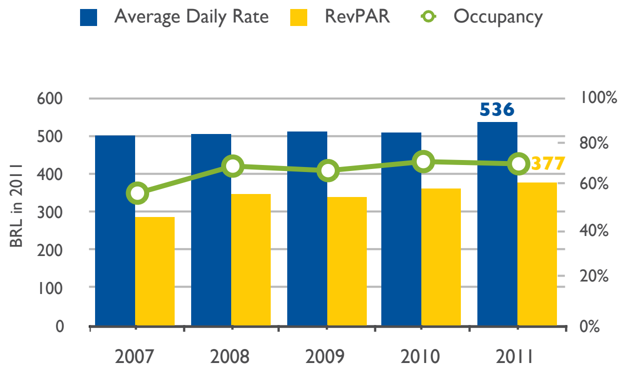
[1] *This study used a sample of hotels representing 4,224 rooms, or 22.3% of the total supply in Rio de Janeiro (18,957 rooms). In the Upscale category, the sample contains 1,808 rooms (62.9% of the category total) and in the Midscale category, 2,416 rooms (31% of the category total). Motels, hostels, pensions, residences that offer primarily monthly services contracts and flats which are out of the hotel pool were not considered.*

[2] *Average Daily Rate and RevPAR variations are analyzed in real terms, having price levels been discounted by Brazilian consumer price index (IPCA).*

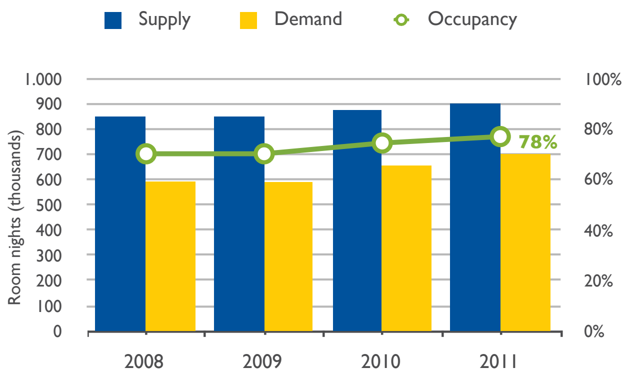


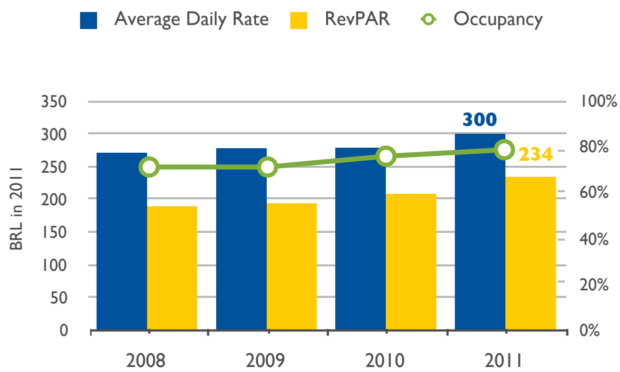
UPSCALE CATEGORY





MIDSCALE CATEGORY





São Paulo

In 2011, it was expected that the hospitality market in São Paulo[1] would continue on the road to recovery of average daily room rates, having presented rather elevated occupancy rates in 2010.

An analysis of the accumulated performance during the year points to exactly that. Despite the small increase in supply (0.6%), with the opening of the Higienópolis Hotel & Suites and Slaviero Slim Congonhas, the projected scenario became reality. Demand increased slightly (0.9%) and resulted in an increase in occupancy rates (0.2%). Accelerating the historic elevation of average daily rates, the hospitality market in São Paulo witnessed the greatest room rates increase of the whole period analyzed (14.9%[2]), resulting in a 15.2% higher RevPAR in 2011.

The Upscale category (in which the average daily rates fluctuate between BRL 340 and BRL 450) continued on its path to performance recovery. Having exceeded 70% occupancy in 2010, this index hovered around the same level, shrinking 0.3%. The average daily rate, however, increased by 16.4% - the second greatest readjustment identified in a category, amongst all the cities analyzed. As a result, RevPAR grew by 16%.

The Midscale and Upper-Midscale categories (in with the average daily rates fluctuates between BRL 160 and BRL 340) presented an evolution as intense as the one that occurred in the higher category. Occupancy grew a mere 1.3% and still experienced difficulties in capturing weekend demands; however the average daily room rate increased 14.5%. As a consequence, RevPAR rose 16%.

The Economy category in São Paulo, analyzed for the first time in the Brazilian Hotel Market Overview, showed a rather significant evolution, though less intense than in other categories. Occupancy rates continue at elevated levels (above 80% since 2010), despite having fallen 1.5%. In contrast, the category also took advantage of the market strength, increasing room rates by 12.8%, which led to an increase of 11.2% in RevPAR.

The evolution of the market in São Paulo over the last 5 years represents typical behavior for the hospitality industry. Currently, whilst all categories are showing high occupancy rates, increases in room rates are occurring across the board. The Upscale market feels comfortable enough to carry out sharper increases, having only a few luxury hotels to limit room rates. Consequently, the Midscale market has greater leeway to increase room rates, which only in a third moment would eventually come to affect the Economy category.

As of 2012, despite the uncertainties from the end of 2011, the market recovery should continue after the economic situation stabilizes. The occupancy rate should keep fluctuating with little variation, whilst room rates continue to rise. Slowly, with the cooling-down of the real estate market and the recovery of the hospitality industry, new hotel projects are becoming, even in the face of increasing land prices. Just as with the Ca'd'Oro hotel, sold in July 2011, it is hoped that new hotel projects will be launched over the next few years, but it will be difficult for them to produce an effect similar to what occurred at the beginning of the 2000s.

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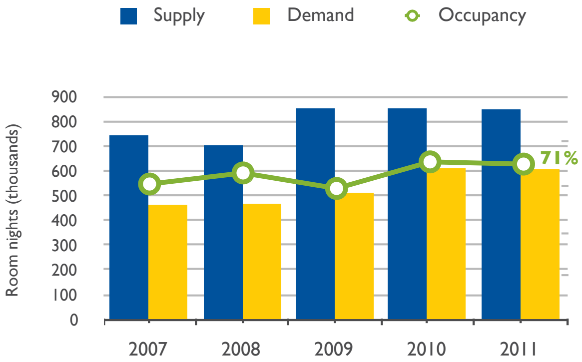
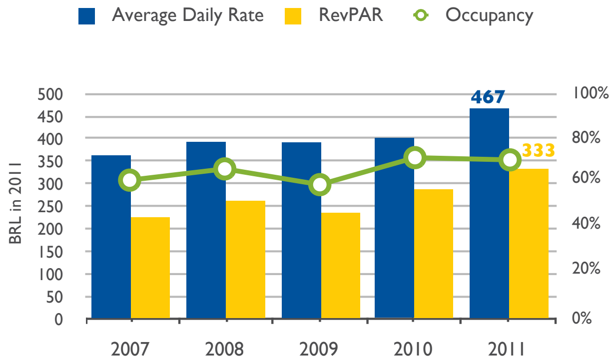
[1] *This study used a sample of hotels representing 11,105 rooms, or 31.0% of the total supply in São Paulo (35,864 rooms). In the Upscale category, the sample contains 2,336 rooms (100% of the category total) and in Midscale and Upper-Midscale, 6,505 rooms (39.2% of the category total) and in the Budget category, 2,264 rooms (22% of the category total). Motels, hostels, pensions, residences that offer primarily monthly services contracts and flats which are out of the hotel pool were not considered.*

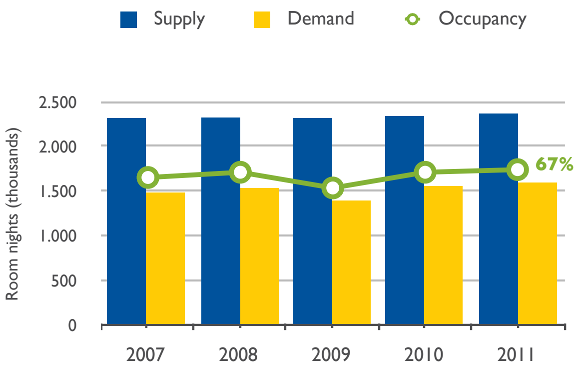
[2] *Average Daily Rate and RevPAR variations are analyzed in real terms, having price levels been discounted by Brazilian consumer price index (IPCA).*

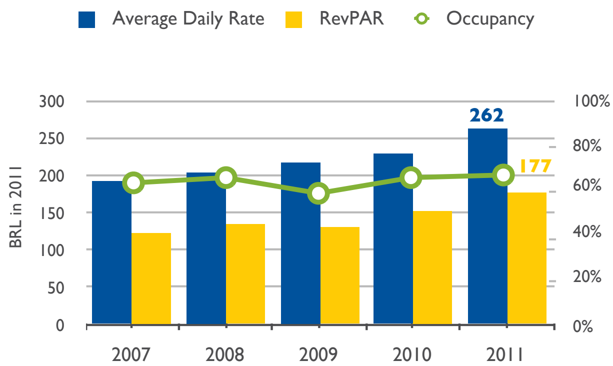
UPSCALE CATEGORY



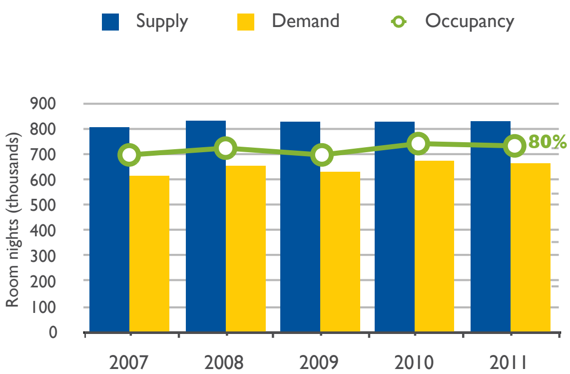


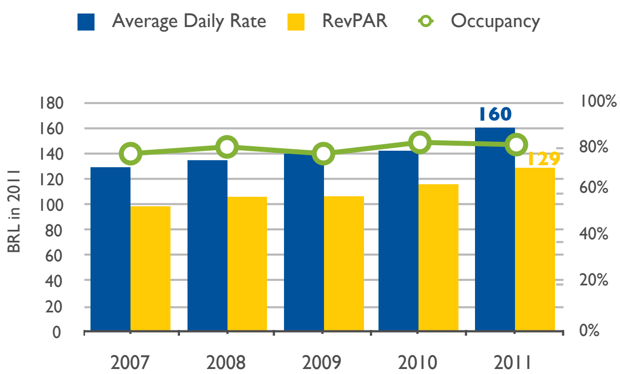
MIDSCALE CATEGORY





ECONOMY CATEGORY





Salvador

Although the factors which typically affect the hospitality industry in Salvador1 continue pressuring the evolution of demand (exchange rate pressure and competition with cruise ships and resorts), negatively affecting mainly the leisure and events segments, the year of 2011 began with a positive outlook concerning demand growth – at least to the extent that it will accompany the opening of new hotels.

In fact, the year began extremely well for the market in Salvador, as it witnessed a growth of almost 8% in demand during the first quarter. The second semester, however, was not as positive, partly due to the crisis in Europe, and also due to a quieter events calendar in the city, resulting in lower demand during the period, particularly in the months of September and December.

During the year as a whole, demand increased 2.1%, a lower variation than both the national GDP growth and the supply increase in the city (4.4%), due to the opening of the Caesar Business, Salvador Business Flat and Matiz Salvador hotels. As a result, occupancy fell 2.2%. The average daily rate2, however, increased 2.8%, which is still far lower than other urban markets in Brazil, but nevertheless, an improvement on the 2010 figure, which fell almost 4%. As a result, RevPAR remained relatively stable (0.5%).

In the Midscale market (in which the average daily rate is above BRL 170), supply (in room nights) grew (5,0%), as a result of the opening of the Caesar Business hotel in April and Matiz Salvador at the end of December. As demand in this category grew more quickly (6.5%) than the supply, occupancy increased 1.4%. Even so, despite the increased occupancy, intense competition from cruise ships and resorts and the lack of large-scale events held in the city this year meant that the average daily rate in this category remained practically stable (-0.1%). RevPAR grew 1.3%.

In the Economy category (in which the average daily rates fluctuates between BRL 130 and BRL 170), the 3.6% increase in supply due to the opening of the Salvador Business Flat in August, was accompanied by a 3.1% reduction in demand, resulting in a 6.4% decrease in occupancy. In contrast, this category carried out greater room rate adjustments than the Midscale (5.5%), easing the impact of the fall in occupancy. As a result, the RevPAR shrank by only 1.3%.

For the next few years, the outlook is still positive for growth in demand, particularly due to the confirmation of some large-scale events that were held in the city in 2011. Competition from resorts and cruise ships, and exchange rate issues should continue causing difficulties to the performance of the hospitality industry in the city, particularly in the leisure and events segments. However, the positive outlook of the Brazilian and the international economies may stimulate growth in the city.

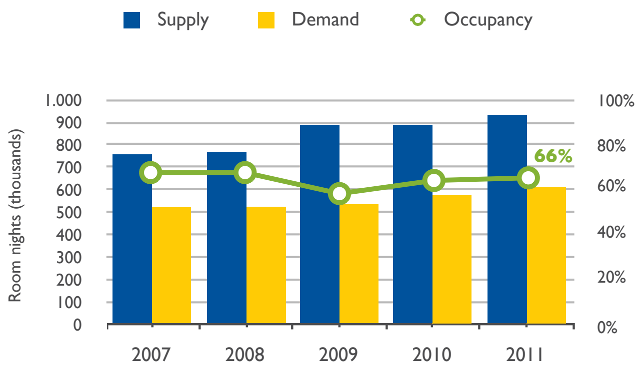
Prospects of growth in supply continue to be high in the city, despite some projects under study having been showing signs of weakening. Over the next few years, over 1,800 rooms are expected to be added to the competitive market.

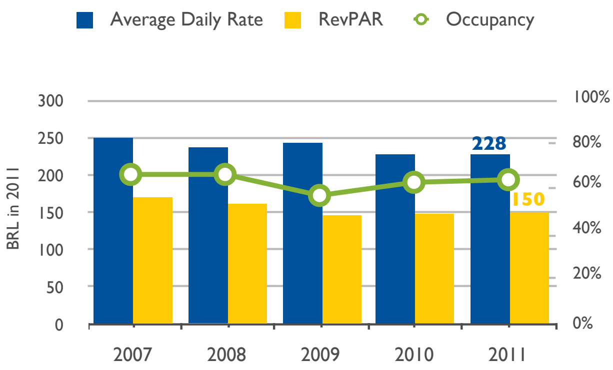
The risk of an excessive increase in supply in Salvador is only inferior to that of that of Belo Horizonte, amongst the markets monitored by this study. However, due to its history of weak growth in demand and average daily rate in the city, this market should still be monitored with caution. New economic and industrial development projects in the region (such as the Bahia Regasification Terminal, and the work on infrastructure being carried out for the 2014 World Cup) may help to improve the scenario, but it is still necessary to analyze the progress of these implementation, so as to identify when their effects shall be felt in terms of hotel demand.

[1] *This study used a sample of hotels representing 5,302 rooms, or 73.3% of the total supply in Salvador (7,229 rooms). In the Midscale category, the sample contains 2,711 rooms (95.9% of the category total) and in the Budget category, 2,591 rooms (70.6% of the category total). Motels, hostels, pensions, residences that offer primarily monthly services contracts and flats which are out of the hotel pool were not considered.*

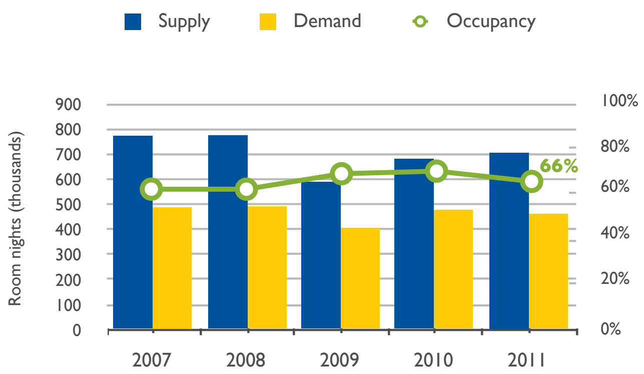
[2] *Average Daily Rate and RevPAR variations are analyzed in real terms, having price levels been discounted by Brazilian consumer price index (IPCA).*

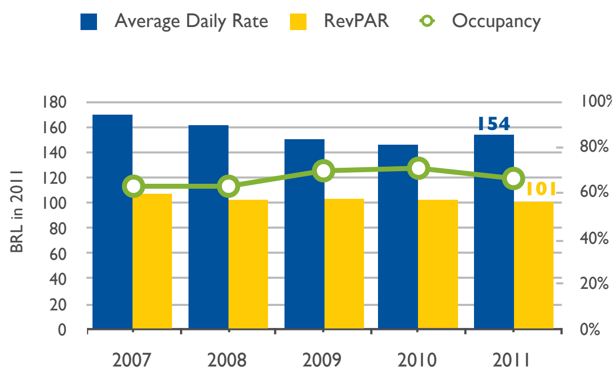
MIDSCALE CATEGORY





ECONOMY CATEGORY





Curitiba

Hotels of Curitiba expected the performance in 2011 to be as good as the previous year; however, there was fear of a decline in the city occupancy level after its closure of the main convention center.

Analyzing the market behavior in 2011, hotels[1] maintained their good performance, particularly regarding rate increases. The opening of a new Economy category hotel at the beginning of the 2nd semester resulted in a 4% supply increase. The Estação Convention Center continued to operate, although with reduced capacity, limiting the number of venues in Curitiba in which corporate events can be held, especially medium sized ones. If on one hand there was a decrease in the volume of market demand generated by events, on the other, the corporate segment gained more dynamism. Thus, the market aggregate demand grew 6.5%, a pace slower than that of 2010, resulting in an also more modest occupancy increase (2.4%). In contrast, average daily rates[2] soared to a year-end increase of 13.1%, which led to a large increase of RevPAR (15.8%).

The aggregated performance reflects distinct analysis in each category:

In the Midscale undertakings (those with average daily rates between BRL 170 and BRL 270), supply practically did not change (-0.2%) and demand rose 5.2%. Due to this, occupancy, which had grown significantly in 2010, kept to its rising trend although with a more discrete evolution (5.4%). With occupancy near 70%, the average daily rate experienced an increase of 11.4%. Thus, RevPAR increased 17.4% in relation to 2010.

In the Economy category (in which the average daily rate is below R$ 170), there was a positive change in supply (11.5%) due to the opening of Ibis Curitiba Shopping in August. Demand rose significantly (8.4%), although it did not follow the supply evolution, resulting in an occupancy retraction (-2.8%). Nevertheless, hotels of this category obtained the largest increase of average daily rates (17.8%) among those analyzed by the Panorama, even surpassing the increase of the previous year. As a result, there was an accelerated increase of RevPAR (14.6%).

In 2012 there is still room for increases in both occupancy and average daily rates. Although average daily rates in Curitiba are still lagging in comparison to the other cities analyzed in the study, the city marker has presented an important and continuous recovery process. It is estimated that the acceleration trend of rates is to be maintained in both categories.

Thanks to the average daily rates recovery and the RevPAR growth of both sectors, the city is likely to become more attractive to the construction of new undertakings. The opening of a new undertaking named Bristol Portal do Iguaçu is scheduled to happen in the first semester of 2012. Therefore, there is no risk of new hotel supply excess.

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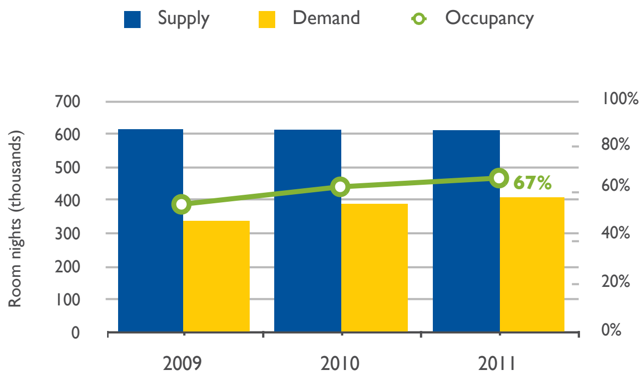
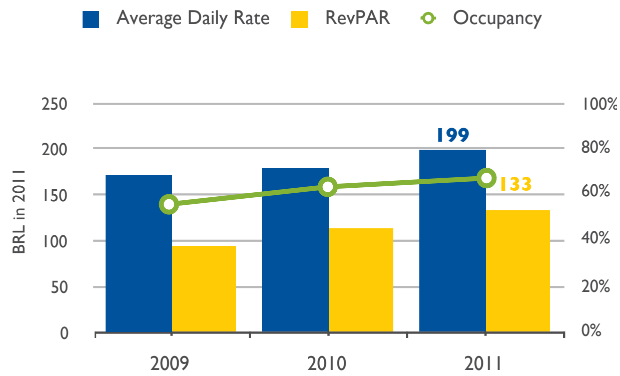
1 *For this study, a hotel sample was followed up, totaling 2,886 rooms, representing 39.1% of the total supply in Curitiba (7,381 rooms). In the Midscale, 1,677 rooms (65.6% of the entire category), and in the Economy category, 1,209 rooms (30.3%). Motels, hostels, pensions, residences that offer primarily monthly services contracts and flats which are out of the hotel pool were not considered.*

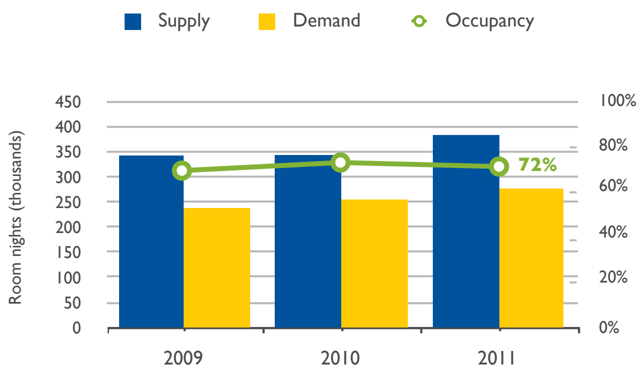
2 *Average Daily Rate and RevPAR variations are analyzed in real terms, having price levels been discounted by Brazilian consumer price index (IPCA).*

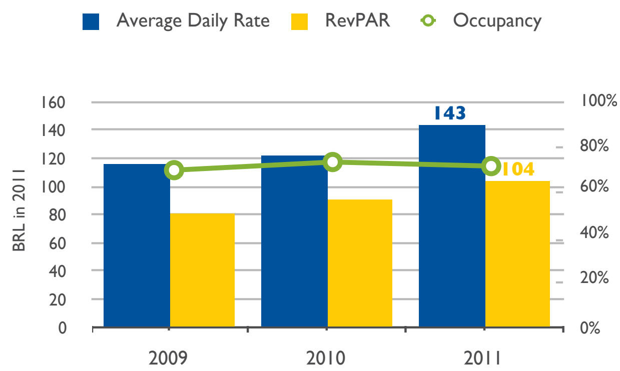
MIDSCALE CATEGORY





ECONOMY CATEGORY





Porto Alegre

The Porto Alegre hotel market1 was expected to maintain demand growth in 2011, generating a positive evolution of its occupancy rate (since there was no strong supply increase) and significant rate increases.

Throughout the year, expectations were partially met. Business demand continued strong, although the conventions and events demand shrank, possibly due to high rates and difficulty in finding available rooms in the capital. Such as Salvador, the city of Porto Alegre has been losing events to close municipalities, such as Canoas and Novo Hamburgo, and others in the Serra Gaúcha region, South of Brazil. Nevertheless, demand still showed an increase, although at a slower pace (5.6%). Supply suffered a similar increase in a similar level (5.0%), causing the occupancy level to remain practically stable (+0.6%). Some occupancy peaks in the city, due mainly to the concentration of large events between September and November, provided good average daily rate increases2 (6.5%), which accelerated compared to the previous year. These occupancy and average daily rate increases resulted in a good RevPAR growth (7.2%).

Midscale market (in which the average daily rate fluctuates between BRL 190 and BRL 270) has suffered the most due to the impact of the decrease of events held in Porto Alegre. In addition to that, the opening of Ibis Moinhos de Vento may have favored the migration of a portion of the demand of Midscale hotels to the Economy category. As a consequence, occupancy suffered a slight decrease (-1.2%). However, hotels managed to take advantage of high demand periods to adjust their rates. This allowed rapid average daily rates growth (8.7%), resulting in RevPAR 7.4% higher than that of 2010.

The performance of the Economy category (in which the average daily rate fluctuates below R$190) was better than expected, especially concerning the evolution of occupancy and demand. As the new Ibis unit opening occurred only in the second semester of 2010, the growth of rooms supply of the sample analyzed in that year was discrete. In 2011, however, due to Ibis becoming fully functional as of the beginning of the year, supply increase was slightly more expressive (23.0%). As a consequence, the demand grew significantly (28.1%), which suggests that a large portion of people previously not accommodated in these hotels, managed to be served. With a large growth of occupation and the average daily rate (4.1% and 6.7%, respectively), RevPAR expanded 11.1%.

Expectations concerning the next few years are fairly positive. Supply shall increase considerably: an undertaking has already started its operations at the beginning of 2012 (Novotel Airport) and another two shall be available to the market by the second semester of 2013 (Master and Ibis Budget). In spite of the small number of events in the city and the fact that 2012 is an election year, hotel demand shall probably continue to expand. It is expected that the infrastructure investments for the 2014 World Cup (such as the extension of the airport runway, the duplication of BR-116 and the revitalization of the Cais Mauá) will commence shortly and will be rushed as the event draws near. The average daily rate, however, shall accelerate due to the existent demand pressure, especially in periods when events are concomitantly held.

In the Midscale category, occupancy may be slightly impacted due to these new hotels, although, it is expected that rates will still rise. The Economy category, on the other hand, will probably benefit from both the good economic prospects of the country and the proximity of the World Cup, which will mean, on one side, more discrete increases in occupancy (since the seasonal limit is near) and, on the other, significant average daily rate increases.

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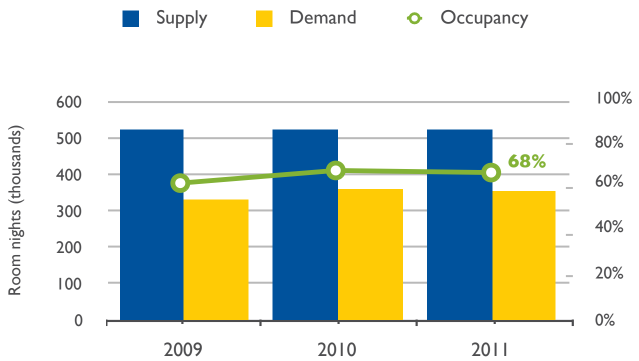
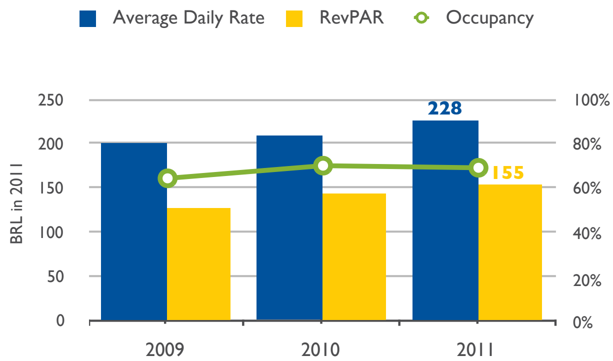
[1] *For this study, a sample of hotels was followed up, totaling 1,896 rooms, which representing 37.6% of the total supply in Porto Alegre (5,039 rooms). In the Midscale, the sample contains 1,418 rooms (64.2% of the category total) and in the Economy, 478 rooms (23.4% of the category total). Motels, hostels, pensions, residences that offer primarily monthly services contracts and flats which are out of the hotel pool were not considered.*

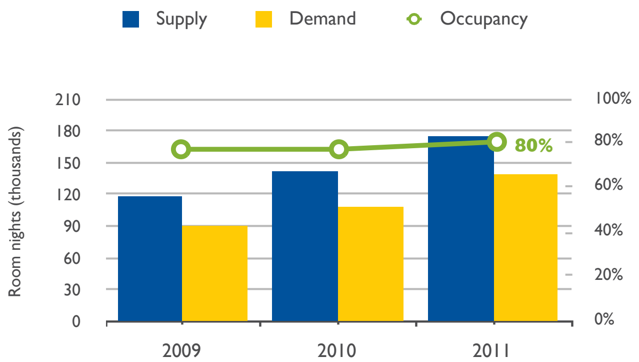
[2] *Average Daily Rate and RevPAR variations are analyzed in real terms, having price levels been discounted by Brazilian consumer price index (IPCA).*

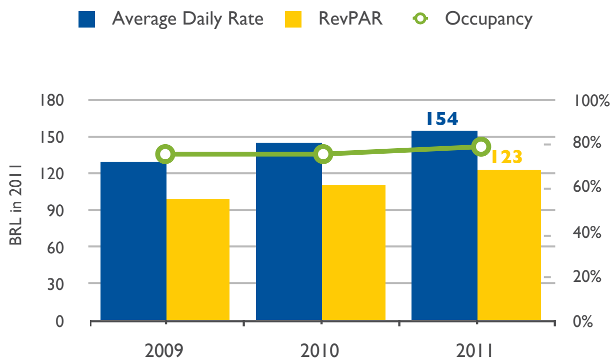
MIDSCALE CATEGORY





ECONOMY CATEGORY





Belo Horizonte

As of this edition of the Brazilian Hotel Panorama, we initiate the follow up of another important hotel market in the Southeast region: Belo Horizonte[1].

The capital of Minas Gerais has today 2.4 million inhabitants[2] and is responsible for the fifth largest GDP in Brazil[3], constituting the main trade and services area of the state. Its territory is known for its numerous green areas such as squares and parks. Belo Horizonte is accessible via the airports of Pampulha and Confins. In 2011, the first one registered a flow of 793,305 passengers[4], a number 5.0% superior to that of the previous year. In its turn, the International Airport of Confins, the main airport of the State, has had a more significant passenger flow evolution, having received in 2010 a total of 9.53 million people, a register 24% superior to the flow of 2010. Belo Horizonte is the headquarters of its own metropolitan region, where different industries are concentrated, such as steel, automobile, electronics, mining and construction. For this reason the city is primarily known as a destination for business and events, segments which represent over 90% of the local accommodation demand.

After the 2009 crisis, which impacted significantly the hotel market of Belo Horizonte, the two following years showed a good recovery. In 2011, the hotel aggregate performance of Belo Horizonte[5] was very positive. Eleven major conferences and events, both national and international, in addition to the corporate public, resulted in an increase of both demand (1.8%) and average daily rates[6] (4.8%), in comparison to the previous year. Due to the opening of a hotel of the economic category in the Savassi region in the second semester of 2011, the increase of supply (2.9%) was larger than that of demand, and thus, occupancy suffered a slight decrease (-1.1%). As a result, RevPAR increased in 3.7%.

With no additional supply to the Midscale market (in which the average daily rate fluctuates between BRL 195 and BRL 260), both demand and occupancy rate remained at the same level as the previous year, having suffered only a slight retraction (-0.5%). The Revenue Manager figure in undertakings of this category has become evermore relevant, especially in periods of high occupancy in the city due to large events. Thus, the average daily rate rose 5.4% and, subsequently, RevPAR suffered an increase of 4.8% compared to 2010.

In the Economy category (in which the average daily rate is below BRL 195), occupancy faced retraction (-2.6%), as a result of a larger expansion of supply than that of demand (10.3% and 7.4%, respectively). In spite of this, the average daily rate grew (4.5%), following the increases of average daily rates charged by Midscale hotels closely. As a result, RevPAR rose 1.8%.

In the short term, the perspectives of the hotel market in Belo Horizonte demand caution whilst in the medium term, they are worrisome. In addition to the factors that may affect negatively the demand evolution in most markets analyzed in this study (number of holidays in weekdays and municipal elections in 2012), there are three other worrying reasons in the capital of Minas Gerais: the reduction of the number of large conferences and events (up until now only three were confirmed to take place between October and December); the loss of competitiveness by the steel industry (an important local hotel demand generator) to China; and the excessive hotel supply increase by the end of 2014.

Due to incentives from the City Hall for the development of new undertakings, approximately 35 new hotels projects are currently ongoing. If all of these become fully operational, the number of rooms in the city will have doubled by March

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[1] *Special thanks to ABIH-MG, which made the market monitoring of Belo Horizonte possible.*

[2] *Ipeadata, 2010.*

[3] *Ipeadata, 2009.*

[4] *Infraero, 2012.*

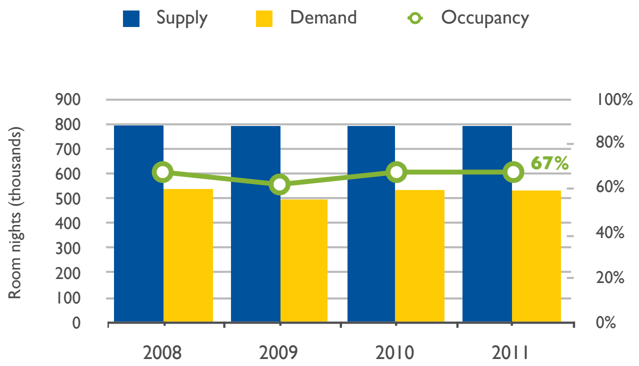
[5] *For this study a sample of hotels was followed up, totaling 3,212 rooms, which represents 50.4% of the total supply of Belo Horizonte (6,377 rooms). In the Midscale, the sample contains 2,156 rooms (82.4% of the category total) and in the Economy, 1,056 rooms (42.1% of the category total). Motels, hostels, pensions, residences that offer primarily monthly services contracts and flats which are out of the hotel pool were not considered.*

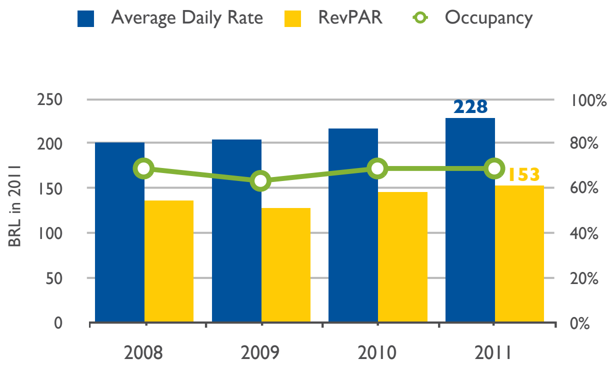
[6] *Average Daily Rate and RevPAR variations are analyzed in real terms, having price levels been discounted by Brazilian consumer price index (IPCA).*

2014, which is the deadline established by the City Hall for the inauguration of these projects. With an excessive increase of supply, the hotel market in Belo Horizonte shall probably face a new crisis, one characterized by low occupancy. Hotel managers and investors ought to be aware of their importance in avoiding fare wars, since average daily rate discounts will only reduce the revenue of the undertakings even further, and will not be capable of generating a larger volume of demand for accommodations in the market of Belo Horizonte.

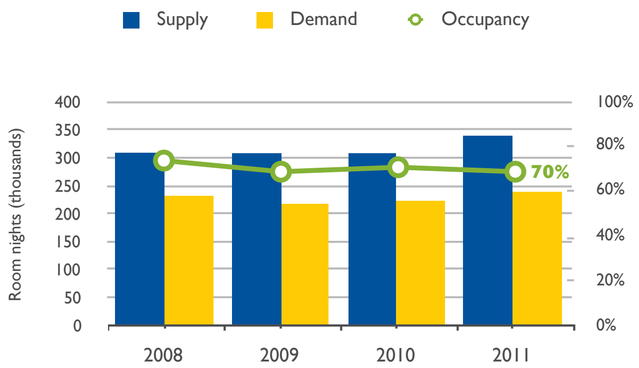
An important recommendation, in face of such a scenario, would be the viability of a large fairs, conferences and conventions center in the city. A structure such as this could induce demand to the city, partially relieving the problems that may arise due to the probable excessive supply of rooms in the next few years.

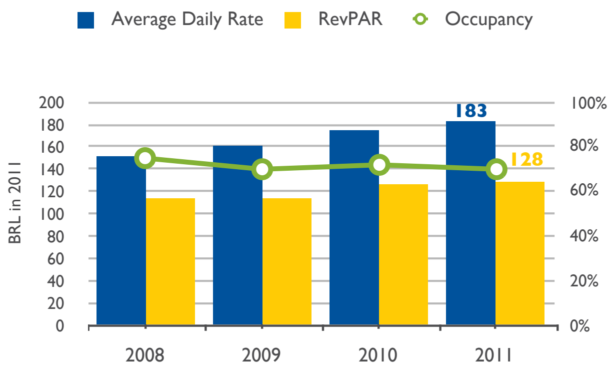
MIDSCALE CATEGORY





ECONOMY CATEGORY





About HotelInvest

HotelInvest was founded in 1999 by Diogo Canteras, a professional with over 20 years of experience in the development of hotel undertakings. It is a reference in hotel investment advisory in Brazil, operating through three business areas:

• Hotel Investment Advisory;
• Hotel Asset Management;
• Hotel Investment Funds.

The Hotel Investment Advisory is responsible for the elaboration of market studies, feasibility analysis for new undertakings, economic-financial evaluations and the structuring of new businesses.

HotelInvest was a pioneer in the Hotel Asset Management activity in the country. This area focuses in overseeing and maximizing the profitability of hotel investments. Currently it has 14 hotel undertakings as clients in Brazil, distributed in over 3,500 investors with assets worth more than BRL 500 million.

In addition, the company has structured, along with Ourinvest Bank, the Maxinvest Hotel Real Estate Investment Funds, which currently disposes of BRL 175 million worth of assets. In 2011, the Hotel Maxinvest Funds was classified as the second most profitable investment funds in the country, achieving a return of 47%, according to Valor Econômico newspaper.

Throughout its history, HotelInvest has been addressing the most important developers, investors and operators active in the country. In order to do so, the company prides itself in creating and maintaining a team of professionals with a solid academic background, recognized by their technical and market expertise.

HotelInvest professionals have an approach oriented to creating a lasting relationship with their clients. This working style allied to the technical quality of the team, its market expertise, and commitment to results guarantees a high level of satisfaction and retention of a select group of national and international clients.

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