HVS

May 2014

TRENDS AND OPPORTUNITIES BRAZIL

2013 | 2014

Rio de Janeiro | Sao Paulo | Salvador | Curitiba | Porto Alegre | Belo Horizonte

Diogo Canteras, FRICS - Senior Partner
Cristiano Vasques, MRICS - Managing Director
Pedro Cypriano - Manager
Karen Mariano - Analyst
Vinicius Moreti - Analyst
Rebecca Ribeiro - Assistant

In association with:

Hotel Invest






www.hvs.com

HVS South America
Av. Brigadeiro Faria Lima, 1912, 20 J |CEP 01451-907, São Paulo-SP, Brazil

Presentation

Brazilian Hotel Market Overview is an annual publication by HVS (represented in South America by HotelInvest) that aims at giving new and reliable information about the main Brazilian hotel markets to potential investors and other people interested in the industry. The latest performance data are analyzed, besides short-term perspectives, of the six main Brazilian hotel markets: Rio de Janeiro, São Paulo, Salvador, Curitiba, Porto Alegre and Belo Horizonte.

Along with the Overview, HVS also offers to the market quarterly analyses of the hotels in the country. In order to be updated about the current performance and other strategic information about hotel investments in Brazil, access our website: www.hvs.com.

Information, doubts, comments or suggestions? Get in contact with Cristiano Vasques: cvasques@hvs.com or (11) 3093-2743.

Our Database

The large database of the Overview is built on internal HVS South America and HotelInvest registers, along with data from several industry partners. We thank all of that have contributed to this publication and we invite new hotels, operators and associations to share their performance data in future editions.

All the statistical information contained in the Overview is generated on the actual performance of the 27,967 hotel rooms in our database, and thereby represent an accurate reflection of hospitality segments in each of the metropolitan areas researched.

Our annual comparisons maintain an identical, historic, sample base, except when there are new hotel openings or meaningful changes in the segment sample. Each individual market sample is statistically meaningful and is presented in context of each respective market.

Retrospective 2013

The year 2013 turned out to be worthy the superstitious implications of its final two digits. Significant events reminded analysts that prudence is often essential and that at certain times there are fundamental reasons to be pessimistic.

In spite of the discrete but constant recovery of the American and European economies, some of the so called emerging economies have lost their charm in the assessment of international financial markets. Discounting the large, public demonstrations, which were at times violent, uncertainty in relation to the easing of the American monetary policy caused the fall of the stock prices, the devaluation of the exchange rates and created misgivings as to the fiscal solidity of various countries which were previously seen as promising.

Brazil, which maintains ample monetary reserves and a relatively stable, fiscal situation, offers excellent opportunities for those who believe in the recovery of the economy, such as:

- Concessions for privatization in exchange for investments in infrastructure;
- Reduction of loan defaults and decrease in the levels of unemployment;
- Resumption of public auctions for pre-salt petroleum allotments;
- Investments in infrastructure for the 2014 World Cup and the 2016 Olympic Games.

However the country was affected by the adverse international scenario. After a long period of strong growth (4.5% per year between 2004 and 2010), the country has suffered through mediocre growth for the third consecutive year (2.0% annual average between 2011 and 2013).

Some of the arguments that demonstrate clear limitations for a durable and balanced expansion of the Brazilian economy are:

- High and resilient inflation;
- Sharp increase in prime rate by the Central Bank;
- Massive and violent demonstrations in June 2013;
- Deterioration of the balance of payments, especially in current transactions;
- Sharp devaluation of the Brazilian Real (exchange rate);
- Growth of the fiscal deficit with the possibility of credit-rating agencies downgrading Brazil's position.

The result of the negative media was a quick about-face with regard to expectations for the country. Fund rasing became more difficult as foreign investments dried up.

The hotel industry, heavily dependent on the country's economy, did not remain unscathed. For the second consecutive year, HotelInvest indicators exhibited this negative tendency. In 2013, hotel occupancy suffered another slump (falling 3.0% to 65%), and the average daily rates decelerated abruptly (falling 0.5% versus 7.7% growth in 2012). As a result, revenue per available room (RevPAR) fell 3.5%.

In 2012, even with decline of average occupancy, an increase in the average daily rate was sufficient to result in the real growth of RevPAR. However, in 2013, signaled the first decline in hospitality revenue in recent times. Coupled with a sharp rise in operating costs, especially payroll, many properties saw their profits shrivel up. In some cases, hotel assets lost value on the market.

Even considering the adverse economic scenario, in some of the analyzed metropolitan areas, part of the responsibility for the fall in average occupancy must be attributed to the abnormal increases in room supply.

Perspectives 2014

It is likely that 2014 will be an emotional year for Brazilians. In addition to their passion for soccer - heightened by the fact that the World Cup will be held in the country, the political climate will be boiling as a result of upcoming presidential and congressional elections.

There certainly will be heavy, political pressure on local governments, not only by the opposition parties but also by the population. The revolt by the ruling party's coalition partners in congress and the anti-World Cup demonstrations indicate the level of turbulence that awaits the country during the year.

Many analysts feel that the country needs an ambitious and aggressive agenda for the treatment of reforms, the expansion of infrastructure, the elimination of bureaucracy, and the reduction of taxes. This is the kind of agenda that deals with diverse, often conflicting interests. In a year of general elections, chances that the federal government will carry out such an agenda are practically nonexistent. In light of this, it seems logical to believe that significant changes of direction or political emphases will have to shelved until 2015.

The projections at the beginning of March 2014, published in the Boletim Focus, indicated that the expectations for the growth of the GNP would be around 1.7% for this year, which would result in an average annual growth of less than 2% during Mrs. Rousseff's presidency.

Without any major changes on the political-economic front, the market seems to believe that this will be a year of mediocre growth. For the hospitality industry, this perspective leads our analysts to believe in the following possibilities:

Short terms

- Hotel demand will maintain levels similar to those of 2013;
- Limited impact of the World Cup on the overall hospitality industry (spikes on specific days and in specific cities);
- Additional rooms supply in some cities with the possibility of the decline of average occupancy in these locales;
- Rooms inventory relatively stable in other cities, leading to steady average occupancies or possibly small increases;
- Hotels should avoid price wars and concentrate on controlling costs.

Mid and long terms

- The evolution of the Brazilian institutions and macro economy seems to be evident. Adjustments will be made over time and should result in the return to reasonable growth;
- The growth and modernization of the hotel inventory are inevitable. There will be better hotels in all markets and segments, including small and medium sized metropolitan areas;
- After the impact of overbuilding in many cities, the resumption of the expansion of the economy, and with it room demand, will result in the recuperation of former levels of average occupancy, average daily rates and profitability;
- The hospitality industry will evolve professionally, becoming more profit oriented, both on operational and investments standpoints.

Rio de Janeiro

The perspectives for the Rio de Janeiro[1] hospitality market were upbeat in 2013. Besides a healthy corporate demand, it was expected that the events scheduled for the year would propel Rio's overall performance. With an increasing demand and few new properties, the occupancy of hotels located in the central and southern regions should attain high seasonal occupancies, which would allow the average daily rate to continue its ascending trajectory.

In 2013, the room supply[2] increased 5.2%, resulting from the opening of a hotel in Botafogo. Room demand increased 3.6%, but overall occupancy declined (1.5%) while the average daily rate[3] grew very little (0.6%), resulting in a slight decline in the RevPAR's (-0.9%).

The Rio de Janeiro Upscale segment sample (average daily rates above BRL 560.00) had a slight negative variation (0.9%). Room demand declined (3.4%), resulting in a lower occupancy (2.5%). On the other hand, average daily rates increased 6.2%, which caused RevPAR to grow 3.5%. In spite of the demand decline shown by the sample, the same did not happen in the whole market. Due to the opening of Miramar by Windsor, which has been through a general retrofit process, part of the sample's demand of the Upscale segment migrated to this hotel.

The Midscale segment sample (average daily rates between BRL 260.00 and BRL 500.00) demonstrated a decline in occupancy of 1.1%, despite the growth of demand of 8.6%. The inauguration of a hotel in Botofogo increased the room supply 9.9%, which caused the fall in the segment's average occupancy. The average daily rate fell 2.0%, which drove the RevPAR down (3.1%). RevPAR's decline was a consequence of the high rack rates charged during Rio+20 (in 2012), which were higher than the ones applied during the FIFA Confederations Cup and the World Youth Day (both in 2013).

Despite the lack of confidence in relation to the national economy, Rio de Janeiro's hotel market demonstrated an increase in demand in 2013. The driving forces behind this growth are the strong corporate segment (driven by the Porto Maravilha redevelopment, by the real estate market and the Oil & Gas industry), the meeting/events segment (FIFA Confederations Cup, World Youth Day and Rock in Rio) and the natural attractiveness of the city to both domestic and international leisure segments. In addition, after the inauguration of the hotel in Botafogo, the city was able to absorb a latent demand that previously was unable to stay in the city because of lack of availability.

In short term, it is expected that the accommodated demand will continue grow in a restrained manner because the occupancy is achieving its seasonal peak. Nonetheless, the heated local economy and proximity to major sporting events will continue drive the demand growth in Rio. As there are no new hotel openings planned for the central and southern regions in 2014, it is possible that the average daily rates will continue to increase significantly. On the other hand, the Barra da Tijuca region will observe more than 2,000 rooms opening in 2014. Thus, it will represent a different dynamic as compared to the rest of the city, with a marginal impact on the markets of the central and southern regions of Rio.

	Supply	Demand	Occupancy	ADR	RevPAR
2013	↑	↑	↓	↑	↓
2014p	–	↑	–	↑	↑

– Stable ↓ Decrease ↑ Increase

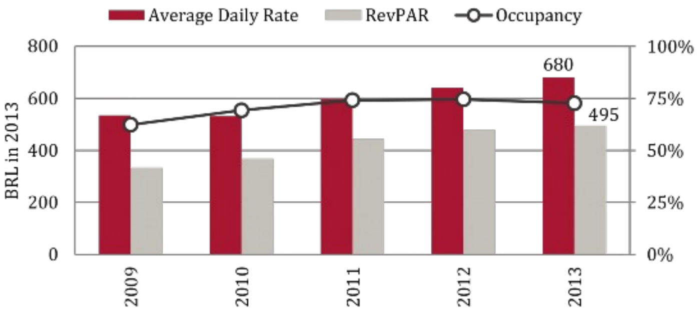
Source: HVS | HotelInvest.

[1]This study used a sample of hotels totaling 4,406 rooms, representing 21.6% of Rio de Janeiro's total supply (20,440 rooms). In the Upscale category the sample contains 1,776 rooms (60.9% of the category's total) and Midscale category 2,630 rooms (33.0%). Motels, hostels, pensions, residences that offer primarily monthly services contracts and flats which are out of the hotel pool were not considered.

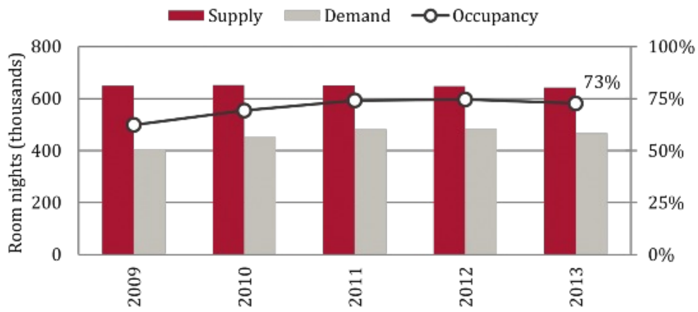
[2]Considering the total number of rooms in Rio de Janeiro's market, the new hotel supply represents a 1.3% increase in the analyzed period. This new supply was included in the current sample.

[3]The daily rate and RevPAR variations are analyzed in real terms, having price levels been discounted by Brazilian consumer price index (IPCA).

Upscale category

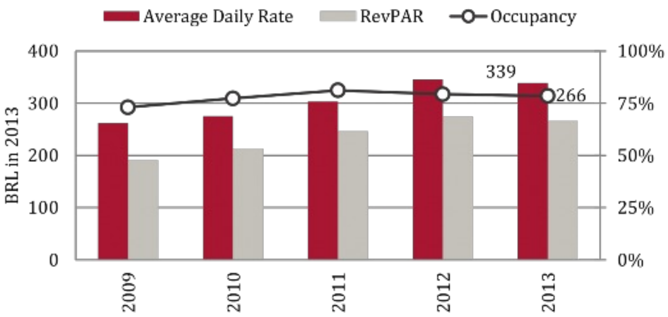


Source: HVS | HotelInvest.

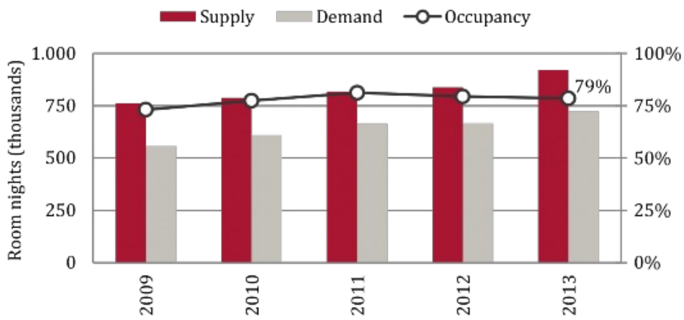


Source: HVS | HotelInvest.

Midscale category



Source: HVS | HotelInvest.



Source: HVS | HotelInvest.

São Paulo

In 2013, São Paulo[1] hoteliers expected that the occupancy would at least recover the losses suffered in 2012, but increases in the average daily rate[2] would be smaller than the previous years. Over the year, room rates increased slightly (0.3), but on the other hand, occupancy levels continued to declined (2.9%), resulting in a drop in RevPAR (2.6%). The sample room supply[3] grew minimally (0.7%), while demand decreased 2.3%. There was an opening of an Economy hotel in August 2013 in the Barra Funda neighborhood, although not part of the statistical sample.

Room supply in the Upscale segment of the market (average daily rates above BRL 580.00) grew 0.7%, a result of the Hilton Hotel renovation that added rooms to the inventory. However, demand fell (1.5%) and, consequently, room occupancy (-2.2%). The average daily rate increased (2.0%), and RevPAR was for all intensive purposes stable (-0.3%).

The Midscale and Upper Midscale categories in São Paulo (average daily rates between BRL 265.00 and BRL 450.00) demonstrated a stable demand (-0.4%), while the supply increased 1.0%. Therefore, the segment occupancy suffered a minor decline (1.4%), and the room rates fell (2.4%), reducing the difference between rate structures of the Midscale/Upper Midscale and the Economy categories. Finally, RevPAR also declined (3.8%).

São Paulo's Economy segment (average daily rates below BRL 265.00) endured the largest decline in rooms demand, falling 7.1% from the year before. The plunge in demand, together with the stable room supply (-0.2%), created a decline in room occupancy of 6.9%. Average room rates, on the other hand, presented a 2.0% increase, but was not enough to leverage the RevPAR, which declined 5.1%.

As São Paulo is the headquarters to many multinational companies, the city is highly sensitive to the international economic scenario. Moreover, the slow growth of Brazilian economy has also reflected on the hotels' performances in the city. Once the hotel sales performances lagged behind 2012 expectations, the hotel professionals lacked the confidence to make a major rate readjustments in 2013. Therefore, results were smaller than those from the previous year.

For 2014, it is expected that demand will remain at previous levels. While the World Cup should bring in additional demand, this demand will only substitute demand from meetings and events that have been temporarily supplanted. The average daily rate should increase above inflation levels, driven by premium room rates during the World Cup. No new hotel property is scheduled to be opened this year, although a new project has been announced and will enter the development pipeline.

	Supply	Demand	Occupancy	ADR	RevPAR
2013	▬	↓	↓	▬	↓
2014p	▬	▬	▬	↑	↑

▬ Stable ↓ Decrease ↑ Increase

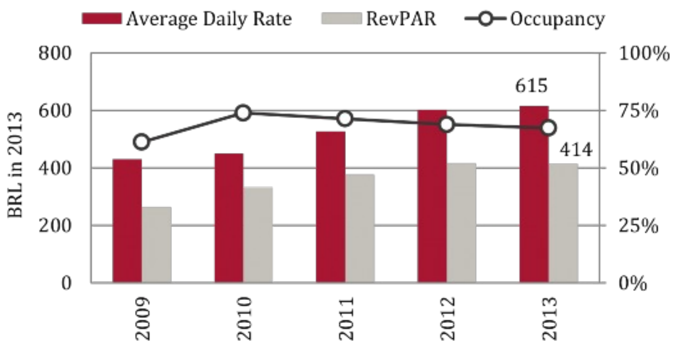
Source: HVS | HotelInvest.

[1]*This study used a sample of hotels totaling 9,776 rooms, representing 26.8% of São Paulo's total supply (36,535 rooms). In the Upscale category the sample contains 2,122 rooms (100% of the category's total), Midscale and Upper-Midscale category 5,618 rooms (29.5%) and Economy category, 2,036 rooms (18.8%). Motels, hostels, pensions, residences that offer primarily monthly services contracts and flats, which are out of the hotel pool, were not considered.*

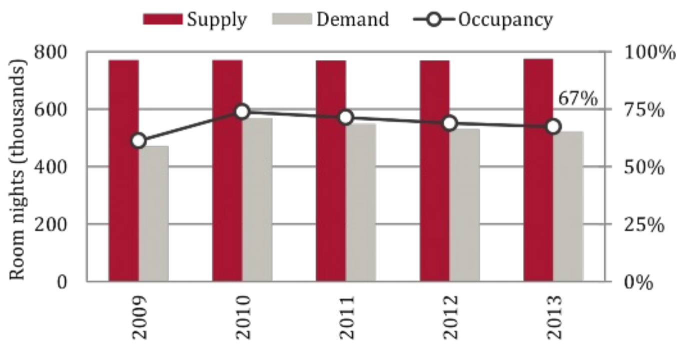
[2]*The daily rate and RevPAR variations are analyzed in real terms, having price levels been discounted by Brazilian consumer price index (IPCA).*

[3]*Considering the total number of rooms in São Paulo's hotel market, the new room supply represents a 0.6% increase in the analyzed period. Part of this new supply was not included in the current sample.*

Upscale category

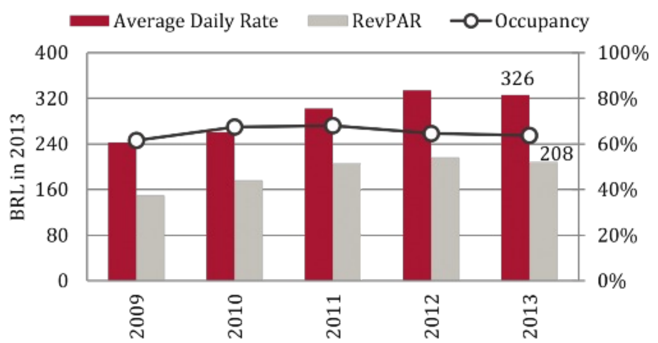


Source: HVS | HotelInvest.

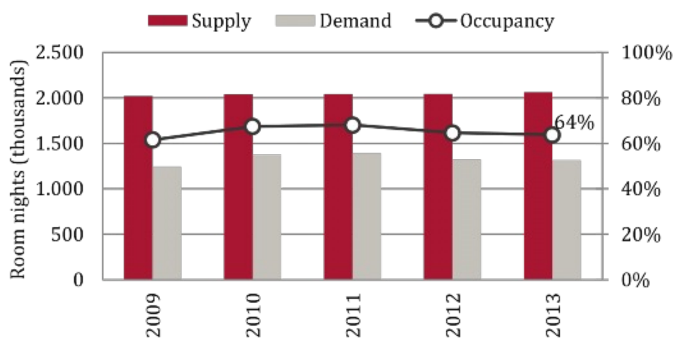


Source: HVS | HotelInvest.

Midscale category

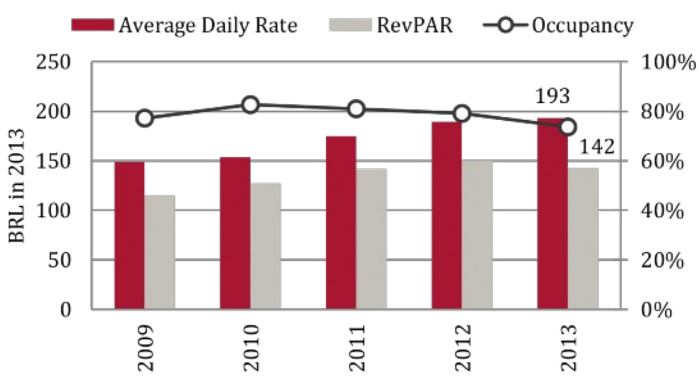


Source: HVS | HotelInvest.

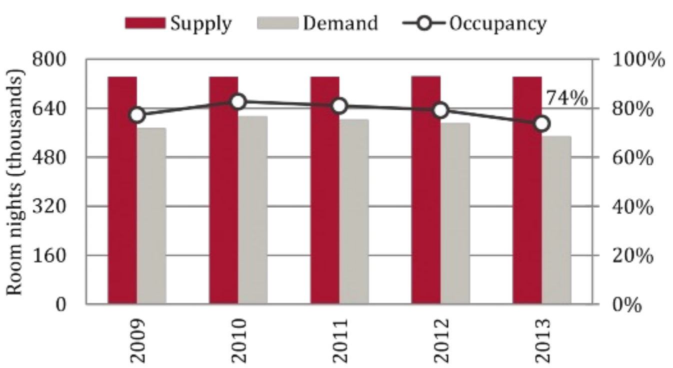


Source: HVS | HotelInvest.

Economy category



Source: HVS | HotelInvest.



Source: HVS | HotelInvest.

Salvador

At the beginning of 2013, Salvador's[1] hospitality industry perspectives were bleak. Three new hotels were slated to open (adding 750 rooms), and there were no indications that demand would follow the supply increase. In light of this scenario, even when considering the economic effects of the Confederation Cup, an improvement in occupancy levels and average daily rates was highly unlikely.

By the end of 2013, the results confirmed the initial expectations. The demand for accommodation in the capital of Bahia registered a 6.5% growth, the best result among the capitals analyzed in the Trends and Opportunities Brazil. On the other hand, the room supply[2] increase was even greater (14%) and resulted in a decline in overall occupancy (6.5%). An increase of the competition among the hotels caused room rates[2] to slump, losing approximately 1.9% of their value during the year. As a result, RevPAR registered an expressive decline (8.3%). However, the overall decline was not even greater because of the FIFA event.

In the Midscale category (average daily rates above BRL 200.00), the rooms supply increased in 23.4% due to the openings of Sheraton da Bahia (retrofit of Grande Hotel da Bahia) and Novotel Hangar Aeroporto hotels. In addition, it is important to mention that the hotels, inaugurated during the second semester of the previous year, had a bigger impact on the market in 2013, because it was their first complete year of operation (InterCity Premium, Sotero by Nobile and Mercure Boulevard). Even with these new openings, the Midscale market in Salvador registered a growth in demand (17.8%) by initiating a policy of aggressive rates and absorbing a meaningful slice of demand previously considered a part of the Economy category. Other factors which contributed to this phenomena was the increase of the induced demand: the Confederations Cup and the demand driven by new hotels with their known brands and own event facilities. However, with supply evolving faster than the demand, a 4.5% occupancy decline can be observed. The average daily rate also registered a slide (4.6%), and consequently, RevPAR in this market segment also was negative (8.9%).

The Economy category (average daily rates below BRL 200.00) registered a minimal 0.7% supply increase with the opening of Ibis Hangar Aeroporto, but was complicated by a 7.9% decrease in demand. The aforementioned rate decreases in the Midscale hospitality segment demonstrate a tendency for hotel clients to migrate upward to hotels with more services. Currently, the difference in room rates between the Economy and Midscale categories is only 27%, while in 2011 it was 35%. The result was an 8.6% decline in occupancy in the Economy hotel segment with average room rates falling 2.1% as properties tried to combat the loss of demand. The global result for RevPAR was a plunge of 10.5%.

In 2014, perspectives for the hospitality industry in Salvador are still unfavorable. In light of future openings, there is still an expressive volume of rooms in the development stage. Therefore, increased competition in the city, driven by excessive increases in room supply, will continue. Concurrently, problems related to urban mobility and local infrastructure, low competitiveness of the local convention center and new hotel competition from cities in the greater metropolitan region (Lauro de Freitas) will continue to cause headaches for the hospitality industry. The World Cup should help somewhat by generating positive results during the month long event, in that the city will host traditional teams such as Spain, Germany, Portugal and France. However, viewing the year as a whole, final results tend not to be encouraging.

	Supply	Demand	Occupancy	ADR	RevPAR
2013	↑	↑	↓	↓	↓
2014p	↑	↑	↓	↓	↓

▬ Stable ↓ Decrease ↑ Increase

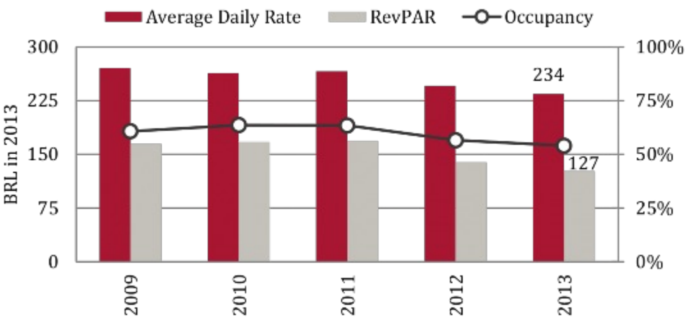
Source: HVS | HotelInvest.

[1]This study used a sample of hotels totaling 5,403 rooms, representing 60.8% of Rio de Janeiro's total supply (8,887 rooms). In the Midscale category the sample contains 3,342 rooms (82.1% of the category's total) and Economy category 2,061 rooms (52.1%). Motels, hostels, pensions, residences that offer primarily monthly services contracts and flats which are out of the hotel pool were not considered.

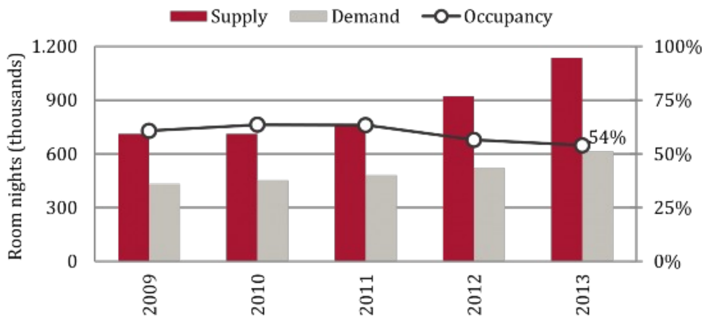
[2]Considering the total number of rooms in Salvador's hotels market, the new supply represents a 9.4% increase over the previous year. Part of this new supply was not included in the current sample.

[3]The daily rate and RevPAR variations are analyzed in real terms, having price levels been discounted by Brazilian consumer price index (IPCA).

Midscale category

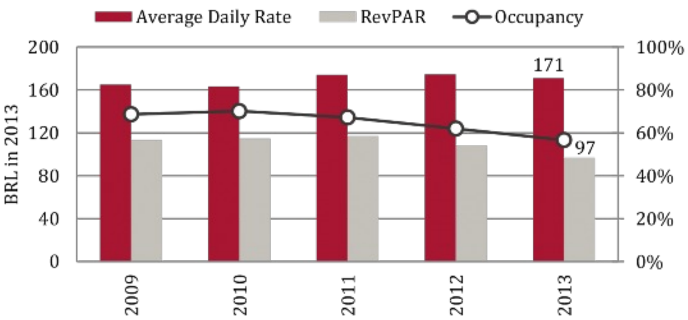


Source: HVS | HotelInvest.

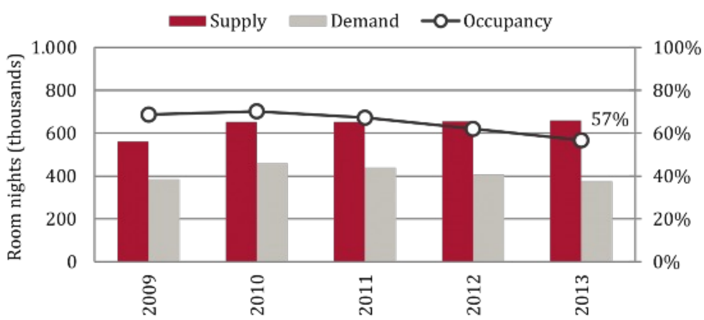


Source: HVS | HotelInvest.

Economy category



Source: HVS | HotelInvest.



Source: HVS | HotelInvest.

Curitiba

It was expected that in 2013 the hospitality industry in Curitiba[1] would present a restrained performance as compared to 2012, with small increases in the average daily rate and room demand. As there were no new hotels opening in 2013, a RevPAR increase was expected to be superior to those in other capitals analyzed by HVS.

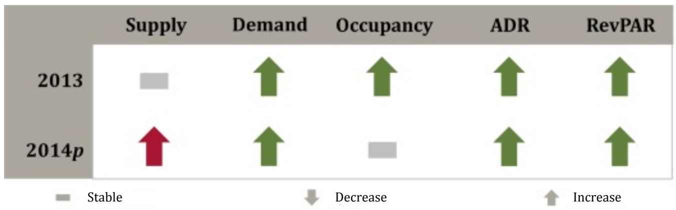
In fact, the sample supply base remained practically stable (-0.6%), while the demand grew 1.6%, and as a result the occupancy increased (2.3%). Therefore, it was possible to increase the average daily rate[2] (2.8%), and the variation of the RevPAR was positive (5.2%).

The Midscale market (average daily rates between BRL 200.00 and BRL 360.00) witnessed a very slight decrease in supply (0.3%), while demand grew moderately (1.6%), which led to an increase in occupancy (2.0%). This scenario helped the average daily rate grow (4.3%), which in turn boosted RevPAR by 6.4%, an increase superior than that of the previous year.

The Economy category (average daily rates below BRL 175.00), similarly, presented a demand increase (1.6%) and a supply decrease (1.2%). The occupancy grew (2.9%), but the average daily rate did not follow demand growth (-1.1%), which led to a modest RevPAR variation (+1.8%). Curitiba Economy hotels adopted a conservative room rate policy, in contrast to the Midscale segment.

As with several urban destinations in Brazil, Curitiba has suffered from the downturns of the international and domestic economies, which has resulted in a decrease in the accommodated demand during certain seasons. In the final months of 2013, new events (principally conferences and the Cirque du Soleil) took place in Curitiba stimulating new demand that helped make the difference for the hospitality industry in the city. In general, the cooling down of national economy has reduced demand pressure in Curitiba and slowed rate increases.

For 2014, it is expected that Curitiba hotels will demonstrate a restrained performance. The local corporate demand has yet to show the tendency towards recovery. On the other hand, the World Cup should reduce the corporate demand during the event, without a comparable substitution by other guests. The city is not going to host any top matches, making it difficult to attract leisure tourists or even professionals involved in the event. In addition, there is also the opening of two Slaviero Slim hotels. The sectors best prospects reside in the resumption of the growth of demand and the continued good performance by the events market.

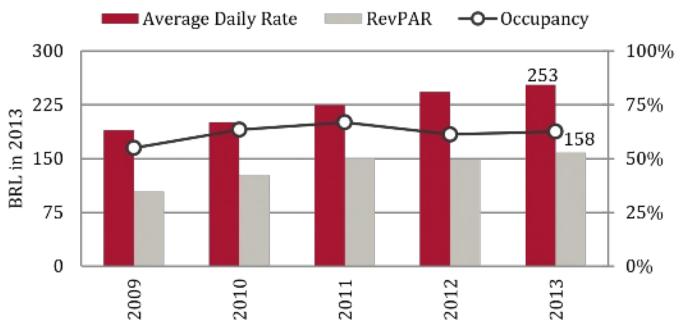


Source: HVS | HotelInvest.

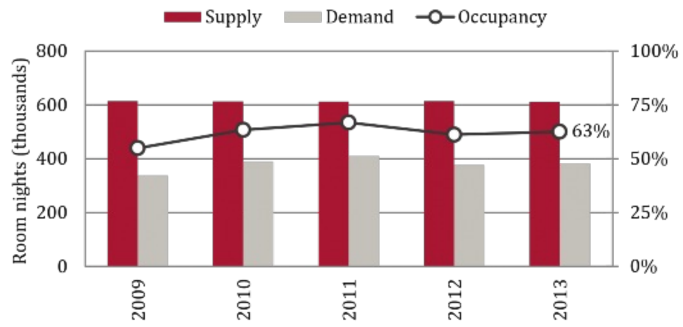
[1]*This study used a sample of hotels totaling 2,789 rooms, representing 32.0% of Curitiba's total supply (8,715 rooms). In the Midscale category the sample was 1,804 rooms (64.7% of the category's total) and Economy category 985 rooms (20.0%). Motels, hostels, pensions, residences that offer primarily monthly services contracts and flats which are out of the hotel pool were not considered.*

[2]*Average room rate and RevPAR variations are analyzed in real terms, discounted by Brazilian consumer price index (IPCA).*

Midscale category

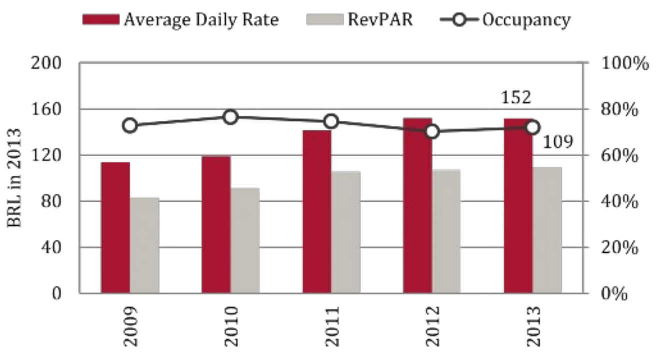


Source: HVS | HotelInvest.

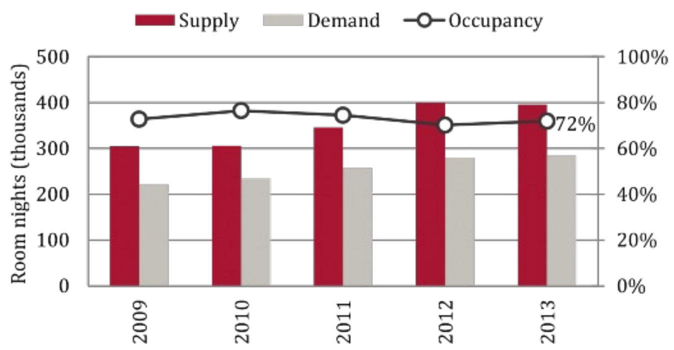


Source: HVS | HotelInvest.

Economy category



Source: HVS | HotelInvest.



Source: HVS | HotelInvest.

Porto Alegre

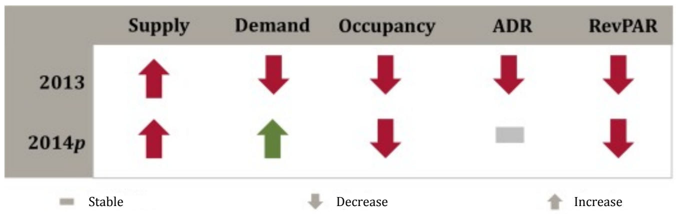
The expectations of Porto Alegre's[1] hospitality industry for 2013 were timid. The prevailing belief was that the hotels would forego major daily rate increases, due to the opening of new hotels during the year. Even so, it was expected that the demand would continue to increase, reacting to a possible recovery of the national economy.

Final results for the year did not meet initial expectations, mostly because the anticipated recovery of the national economy never happened. Of the cities analyzed in the Overview, the capital of Rio Grande do Sul demonstrated the greatest decline in RevPAR[2] (9.3%), as a result of the decline of the average daily rate (4.0%) and in occupancy (5.5%). The sample supply[3] varied little from the previous year (-0.3%), although a new midscale hotel, not included in the sample, was opened in the second semester of 2013. Demand decreased 5.7% due to the lack of events that took place in the city, decreasing of the corporate demand and a newly opened hotel. Part of this downward trend is a reflection of the excellent results of the previous year, a spike in demand caused by a number of big onetime events. In 2013, the hospitality market reverted back its normal, previous 2012 position and began feeling the market recession that other cities were already facing since our previous edition.

Midscale hotels in Porto Alegre (average daily rates between BRL 210.00 and BRL 320.00) suffered from the effects of the inauguration of a hotel in the 4th quarter of 2012, which impacted more intensely on the segment's performance in 2013. The occupancy dropped (5.3%), as a result of the decline in demand (5.5%) and the alteration of room supply (-0.3%), (Mercure Beverly Hills left the supply sample as it was transformed into a residential building). The average daily rates plummeted 5.3%, thereby causing the largest reduction of RevPAR of all analyzed markets (10.3%).

The Economy category (average daily rates below BRL 210.00) achieved better results than Midscale hotels, but still below the results of 2012. Room supply demonstrated a slight variation (-0.3%), and room demand suffered a heavy decline (6.4%), causing a decrease in occupancy (6.2%). The average daily rate increased 1.8%, as compared to the previous year, reducing the distance to the Midscale market rates structure once again. Still, the increase in the average daily rate was not enough to create a positive RevPAR, which fell 4.5%.

For the city of Porto Alegre, demand perspectives seem to good in 2014, drive by World Cup games and a number of events scheduled to take place in the city. Industry executives also believe that rooms rates should keep up with inflation. On the other hand, the opening of new hotels continues to worry local hoteliers. Six new hotels will be inaugurated in 2014, totaling 978 rooms, which will probably constirct both hotel occupancy and room rate structure.



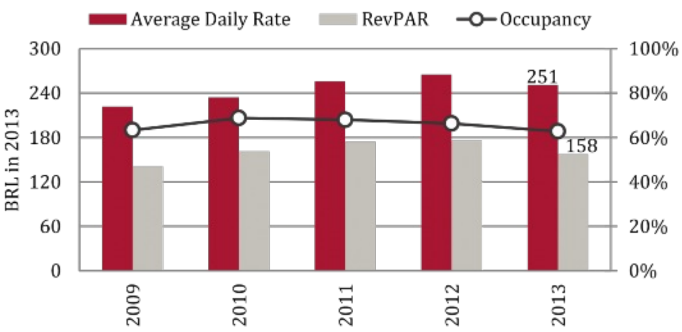
Source: HVS | HotelInvest.

[1]This study used a sample of hotels totaling 1,915 rooms, representing 31.7% of Porto Alegre's total supply (6,033 rooms). In the Midscale category the sample was 1,532 rooms (66.9% of the category's total) and Economy category 383 rooms (13.9%). Motels, hostels, pensions, residences that offer primarily monthly services contracts and flats which are out of the hotel pool were not considered.

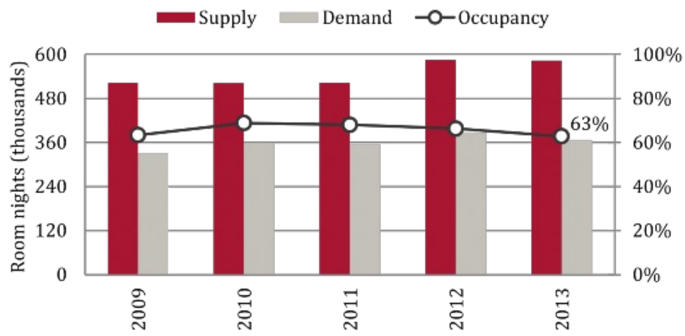
[2]Average room rate and RevPAR variations are analyzed in real terms, discounted by Brazilian consumer price index (IPCA).

[3]Considering the total number of rooms in Porto Alegre's market, the new hotel supply represents a 2.5% increase in the analyzed period. Part of this new supply was not included in the current sample.

Midscale category

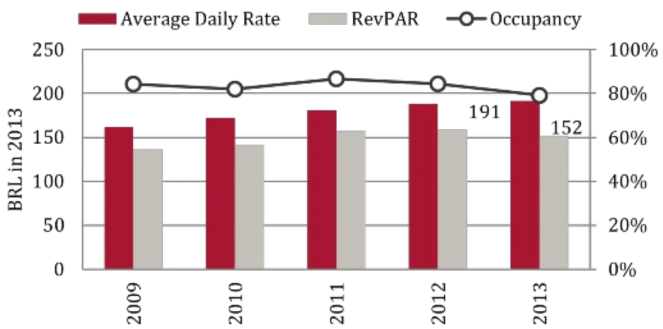


Source: HVS | HotelInvest.

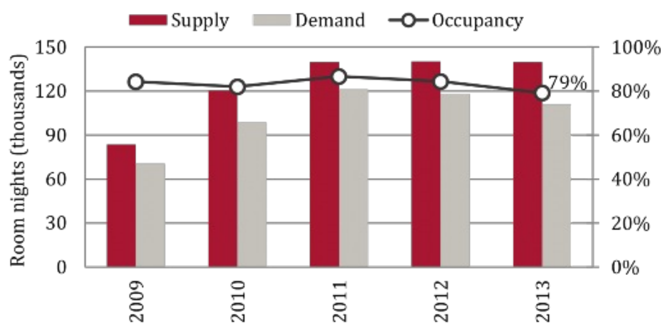


Source: HVS | HotelInvest.

Economy category



Source: HVS | HotelInvest.



Source: HVS | HotelInvest.

HVS

Belo Horizonte

At the beginning of 2013, there was a lingering caution within the Belo Horizonte[1] hospitality industry in relation to the possibility of continued decreases in annual occupancy, partially a result of business travel cost cutting on a national level and partly due to projected hotel openings, most developed through municipal incentives linked to 2014 World Cup. Seen as a test for 2014, the 2013 FIFA Confederations Cup also induced some demand.

In the first quarter of 2013, hotels in Belo Horizonte presented a modest performance; however in the following months, there was an increase of demand for accommodations in the capital of Minas Gerais. The Confederations Cup, a test for the World Cup in June, had a positive impact on the performance of local hotels. In terms of the whole year, demand rose 2.9%. Nevertheless, room supply[2] expanded at a rate of 5.1%, which resulted in a decline of average occupancy (-2.1%), as well as the average daily rate[3] (-4.7%). Thereby, RevPAR registered a negative variation (-6.7%).

In the Midscale category (average daily rates between BRL 210.00 and BRL 290.00), the number of available rooms grew 3.2% due to the opening of San Diego Suites Pampulha hotel. Even with the national and local economy cooling off, there was a slight increase (0.8%) in Midscale demand. As a result, the occupancy rate decreased (2.3%), which forced hotels to lower their rates (-4.8%). RevPAR was less than that of 2012 by 7.1%.

The Economy market (average daily rates below BRL 210.00) registered an substantial demand increase (6.5%), although smaller than that of 2012. It is possible that this increase might have been a result of the migration of guests originally from the Midscale segment to the Economy category, a result of travel cost-cutting. Yet, the supply increase was even higher (8.4%) with the opening of Ibis Afonso Pena and Ibis Budget Afonso Pena hotels, negatively impacting the market occupancy (-1.8%). As a result, the average daily rate of the category dropped (3.4%), interrupting the growth of the last four years. Consequently, RevPAR registered a 5.1% decrease.

For this year, the market is concerned by the opening of new hotels. Just in 2014, 33 new hotels are expected to be opened, adding some 5,714 rooms to the supply inventory (though some constructions are delayed). In relation to this scenario, hotel performance should be impacted in all regions of the city, and hoteliers must be creative to capture more guests. With the exception of the privatization of the operation of Confins International Airport, there are no meaningful private nor public investments that may generate additional demand for lodging industry in the city during the next few years to compensate the spike in rooms supply. An alternative would be to generate new demand by capturing new events; however, the expansion of ExpoMinas and the construction of another new convention center is still uncertain. On a positive side, Belo Horizonte should benefit from 2014 World Cup by hosting games with teams with large fan bases, such as Argentina and England. Additionally, the metropolitan region will be the headquarters for the national teams of Argentina, Chile and Uruguay (this last one in Sete Lagoas), which should bring an expressive flow of tourists to the region. Overall, Belo Horizonte will probably suffer a decline in occupancy and average daily rate in 2014.

	Supply	Demand	Occupancy	ADR	RevPAR
2013	↑	↑	↓	↓	↓
2014p	↑	↑	↓	↓	↓

– Stable ↓ Decrease ↑ Increase

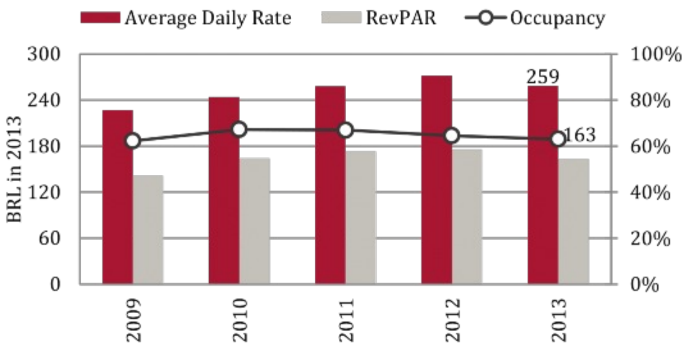
Source: HVS | HotelInvest.

[1] This study used a hotels sample totaling 3,678 rooms, representing 48.5% of the total supply (7,588 rooms). In the Midscale category, the sample was 2,288 rooms (73.0% of the category), and Economy category 1,390 rooms (46.7%). Motels, hostels, pensions, residences that offer monthly services contracts and hotel rooms not in the hotel rental pool were not considered.

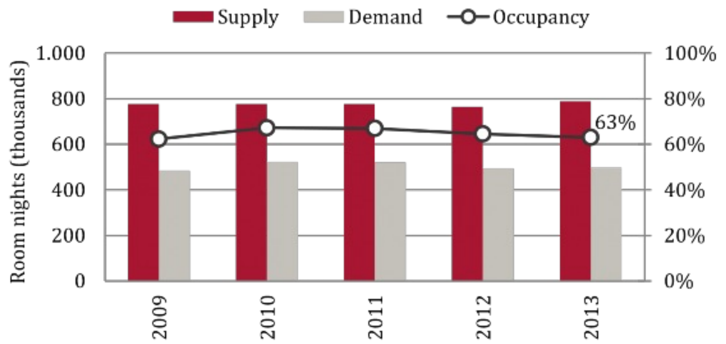
[2] Considering the total number of rooms in Belo Horizonte market, the new room supply represents a 9.7% increase during the analyzed period. Part of this new supply was not included in the current sample.

[3] Average room rate and RevPAR variations are analyzed in real terms, discounted by Brazilian consumer price index (IPCA).

Midscale category

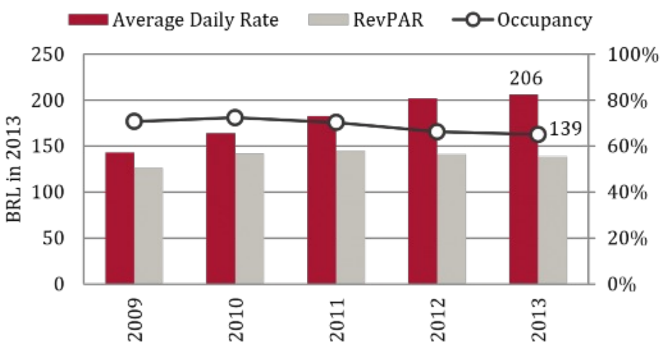


Source: HVS | HotelInvest.

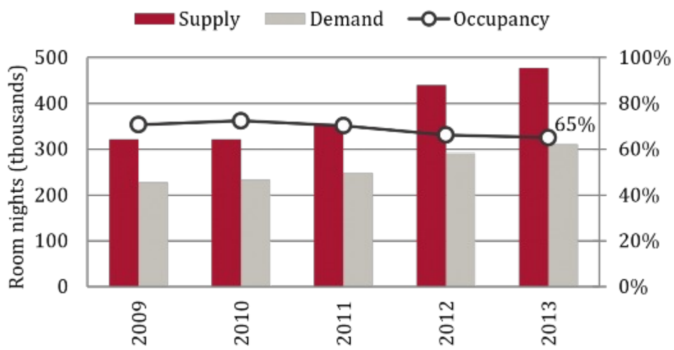


Source: HVS | HotelInvest.

Economy category



Source: HVS | HotelInvest.



Source: HVS | HotelInvest.

HVS

About HVS

HVS is the world's leading consulting and services organization focused on the hotel, mixed-use, shared ownership, gaming, and leisure industries. Established in 1980, the company performs 4500+ assignments each year for hotel and real estate owners, operators, and developers worldwide. HVS principals are regarded as the leading experts in their respective regions of the globe. Through a network of more than 30 offices and 450 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry.

Superior Results through Unrivalled Hospitality Intelligence. *Everywhere.*

About HotelInvest

Founded in 1999 by Diogo Canteras, **HotelInvest** is a reference in hotel investment advisory in Brazil. The company operates in three business sectors: Hotel Investment Consultancy, Hotel Asset Management and Hotel Investment Fund. The consultancy division of the company provides varied services ranging from economic feasibility studies, to advisory on new business development projects. Additionally, HotelInvest is amongst the first to operate in the Hotel Asset Management field in Brazil, focused on overseeing and maximizing the profitability of hotel investments. The company, together with Ourinvest Bank, also created the Hotel Maxinvest Real Estate Investment Fund, one of the most profitable investment funds in the country.

Intelligence on Hotel Investments

Authors

Diogo Canteras, FRICS - Senior Partner
dcanteras@hvs.com or (+55 11) 3093-2743
Canteras is an engineer by qualification, having received a degree from Universidade de São Paulo, with specialization in Business Management from Fundação Getúlio Vargas (FGV). He has worked in the field of hotel development with several companies, in addition to teaching Hotel and Tourism Projects Development at FGV for eight years. Canteras took HVS to Brazil in 1999. In 2007, he structured and implemented the Maxinvest Hotel Fund.

Cristiano Vasques, MRICS - Managing Director
cvasques@hvs.com or (+55 11) 3093-2743
Vasques joined HVS in 2001 as a consultant and market analyst. He has in-depth knowledge of the tourism, hospitality and related-real estate market in Brazil, including financial and corporate strategies for projects and businesses. Vasques worked for four years in tourism projects for HVS, coordinating the elaboration of regional tourism development plans. He also conducted valuations in addition to market and feasibility studies for almost 200 hotels and resorts.

Pedro Cypriano - Manager
pcypriano@hvs.com or (+55 11) 3093-2785

Karen Mariano - Analyst
kmariano@hvs.com or (+55 11) 3093-2768

Vinicius Moreti - Analyst
vmoreti@hvs.com or (+55 11) 3093-2749

Rebecca Ribeiro - Assistant
rribeiro@hvs.com or (+55 11) 3093-2782