HVS

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TRENDS AND OPPORTUNITIES BRAZIL

2014 | 2015

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

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Introduction

Welcome to the 7th edition of the Brazil: Trends and Opportunities, an annual publication by HVS/HotelInvest that focuses on presenting and analyzing hospitality industry performances in the primary markets in Brazil. Every year we digest the latest, reliable market information and present the challenges and opportunities facing the Brazilian hospitality industry.

In the end, it is our opinion that a well informed and transparent market is a solid and professional one. In this edition, we will analyze the situations that affected the hospitality market in 2014, including the World Cup, the stagnation of the national economy, and the presidential elections.

Finally, we invite you to follow the Trends and Opportunities quarterly market analyses, published in our on-line newsletter Boletim HotelInvest. In order to be kept up-to-date on the current industry performances and other strategic information in Brazil and around the world, visit our sites on the internet (www.hotelinvest.com.br and www.hvs.com) or send us an e-mail to hotelinvest@hotelinvest.com.br.

Information, doubts, comments or suggestions? Contact Cristiano Vasques: cvasques@hvs.com or (+ 55 11) 3093-2743.

Our Database

The large database of Trends and Opportunities is built on internal HotelInvest and HVS registers, along with data from several industry partners, as STR Global – main reference in hospitality performance data in the world. We thank all 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 Trends and Opportunities is generated by the actual commercial performance of the 34,239 hotel rooms in our database, and thereby, represents an accurate reflection of hospitality segments in each of the researched metropolitan areas. We are certain that the selected indicators are a true reflection of the hospitality activity in each market.

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.

2014 in Retrospect

A Festival of Emotions

In the last edition of Brazil: Trends and Opportunities, we asserted that the perspectives for 2014 were uncertain, and that only one thing was certain: there would be lots of excitement. On this point, we hit the jackpot. It is hard to believe all that has occurred.

The World Cup came and went without any major problems, but its impact on tourism and hospitality in Brazil was fleeting, and its legacy was a little frustrating. Beyond the renovation of a few airports and modernization of part of the hospitality infrastructure, probably the most lasting milestone of the Cup was the 7 x 1 that Brazil suffered at the hands of Germany.

The presidential elections were everything but dull. Beginning with the shocking death of candidate Eduardo Campos, continuing through the emergence and decline of Marina Silva, and ending with Dilma Rousseff's narrow victory by over Aécio Neves in a run-off election, the presidential dispute seems like a script for a Hollywood film.

Operation Lava Jato dominated all the Brazilian and international newscasts, exposing, live and in color, the entrails of the national political system. And what we learned was not pleasant!
If that was not enough, we suffered through the worst drought in the last decades: the lack of water, the threat of rationing and the risk of energy blackouts. It definitely has been a festival of emotions.

From an economic point of view, the news was as discouraging as the Brazilian national team's performance. Similarly, or ironically, the initial prognosis turned into hard realities:

- Initial forecasts of GNP growth between 1.5% and 2% turned into zero growth;
- Inflation reached the ceiling of the stated goals, even somewhat tempered by fiscal subsidies;
- Petrobrás investment plans postponed or cancelled;
- The exchange rate closed the year at almost R$ 2.70 to the dollar;
- Heavy deficits in public debt, even though partially financed by direct foreign investment.

The complicated political-economic situation effected the hospitality market in a limited fashion. In many cities, higher prices during the World Cup helped elevate the annual average daily rates. Openings of new hotels, on the other hand, were responsible for the decrease in room occupancy in half the cities that participated in this year's Trends and Opportunities.

Year-end results showed that five out of six cities increased RevPAR. Salvador, still suffering from low levels of occupancy (57%), but on the road to recovery, registered an excellent increase of 6.8%. In the other of the metropolitan areas, the evolution of RevPAR was far more timid (between 1% and 4%). The exception to the norm was Belo Horizonte, where an avalanche of new rooms resulted in an alarming drop of 18%!

Given the excitement, however, it seems fair to say that these results should be commemorated.

Prospects for 2015

A Turbulent Crossing

The beginning of President Dilma Rousseff's second term of office was extremely eventful. The year opened with colossal political turmoil in Brasilia as a result of an economy in total disarray, members of congress under criminal investigation related to the Operation Lava-Jato, and anti-government protests throughout the country.

From an economic point-of-view, the victory in the general elections freed the government to put public finance reform into first gear. "More revenues and fewer expenses" is the slogan of the new Minister of the Economy, Joaquim Levy. Translating, his goal is a 1.2% surplus in 2015, to be reached by increasing in taxes, cutting back benefits, relocating government resources, revising expenses and instituting realistic taxes.

Joaquim Levy may become the light at the end of the tunnel for those (clear-sighted) who insist on the urgency of adjustments to the economy. However, an enormous skepticism weighs in the air, tied to the Peoples Party's and even the Presidency's willingness to back the enactment of the necessary measures.

The political deterioration has clearly deepened after the disclosure of the "Janot List" and has vaulted economic adjustments into the spotlight. Politically weakened and with her political base at war with the executive branch, the President began 2015 confronting a series of setbacks. Offering an economic package without political backing and having authorized of a series of measures leading to negative fiscal impacts, Dilma has become a hostage of a hostile Congress. This is very bad for the economy of the country.

Even with the devaluation of the real, Brazilian industrial production and services are still not competitive and have yet to react to international competition. As the leading economies (USA, China and Europe) have not yet demonstrated consistent signs of total recuperation, a scenario of low priced commodities seems to be solidifying. In light of the present international economic environment, the prospects are not favorable for the short-term recuperation of the country's balance of payments.

This political-economic interpretation has caused a deterioration in the futures indicators. The latest Boletim Focus from March 2015 indicated a deterioration of the annual inflation prognostications (8%, much higher than the ceiling of the national target), the GNP (a decline of almost 1%), the Selic (prime rate - an increase to 13% by the end of the year) and the exchange rate (stabilizing around R$ 3.15).

The outlook for 2016, however, is a little more encouraging, provided that all the economic adjustments are carried out and result in the projected benefits. The year should bring a decline in inflation, tentative growth in the economy and a reduction in the prime rate.

HotelInvest - HVS believes the Brazilian hospitality industry will suffer a turbulent journey in 2015, but is moving towards tranquil waters in the near future. Faced with this scenario, we foresee and recommend the following:

- Very little growth or even a decline of demand in the principal Brazilian markets;
- A positive effect, but with limited impact, on leisure demand, as a result of the elevated value of the dollar;
- A continuing increase of room supply in specific markets (specially Belo Horizonte and Rio de Janeiro) with a potential for the deterioration of occupancy rates;
- With the overall deceleration of real estate sales and the involvement of the CVM in the regulation of the condo-hotel market, there is a possibility for the reduction of new condo-hotel offerings;
- Less leeway to increase room tariffs and an eventual drop in the real value of room rates.

The challenges have been identified. The one who knows how to steer through these treacherous seas, will reap the fruit of a bountiful harvest in the coming years.

Rio de Janeiro

Besides the recently increase in supply, Rio de Janeiro is, and will keep on being the city with the highest hospitality performance in the country.

In the beginning of 2014, the outlook for the Rio de Janeiro hospitality industry was positive, in spite of the change in the national economic scenario and uncertainties associated with the coming elections. It was expected that the demand for rooms would continue strong, primarily because of heavy investments in oil industry and upcoming sporting events, including the World Cup 2014. The increase in rooms supply was a concern, but it would not impact the hotels in the city center and southern area, as most of the hotel inaugurations were located in Barra da Tijuca.

The hotel sample in question grew 9.2% from the previous year, as a result of the opening of the Ibis and Mercure Barra. The increase in demand was less accentuated, growing 4.7%, resulting in a drop in occupancy of 4.1%. In spite of this, the average room prices rose at a good rate (+5.7%), resulting in a small increase of RevPAR (+1.4%). Even with the decline in business travel, the hospitality market in Rio de Janeiro showed an overall increase in demand, derived from events associated with the World Cup. Rio de Janeiro hosted seven soccer matches including the championship game and was the headquarters for the organizing committee, as well as was the media center for the event.

The luxury segment of Rio de Janeiro hospitality market did not gain any new hotels in 2014. Rooms demand fell by 1.8%, which resulted in a decrease in occupancy (-1.8%). On the other hand, during the World Cup, hotels in the luxury segment benefited from expressive room rate increases. In 2014, average daily rates increased 12.9%, while RevPAR rose 10.9%.

Hotels in the Economy and Midscale segment (room rates between R$ 250 and R$ 580) suffered through a decline in occupancy (-5.9%), a result of the addition of new properties into rooms inventory. Along with the previously mentioned hotels, Midas Rio Convention, Promenade Link Stay, and Vila Galé were also inaugurated, leading to an increase in rooms supply of 15.4%. At the same time, demand evolved at a slower rate (+8.6%). Hotel operators were able to raise room rates slightly (1.6%), but not enough to avoid a drop in RevPAR (-4.3%). When evaluating room rates over the year, one can observe that the overall rate increase was primarily a result of rate adjustments during the period of the World Cup.

For 2015, one can expect a loss of rooms demand from the business and corporate events segments of the market, primarily from the decline of activities associated with the oil industry, a sector which heavily participates in the local economy. There also should be new hotel openings in 2015, adding some 16 new properties with 3,997 new rooms. Of this total, 70% of the rooms are concentrated on Barra da Tijuca. This expressive increase in rooms supply, coupled with an unfavorable direction of the economy, should cause a major drop in occupancy and stimulate greater competition among hotel operators that will lead to a probable shrinkage of average daily rates. Pre-Olympic events (beginning in the second semester) and the devaluation of the real (with a possible positive impact on internal leisure travel) might help generate additional demand for the hospitality market in Rio de Janeiro.

	Supply	Demand	Occupancy	ADR	RevPAR
2014	↑	↑	↓	↑	↑
2015*p*	↑	↑	↓	↓	↓

– Stable ↓ Decrease ↑ Increase

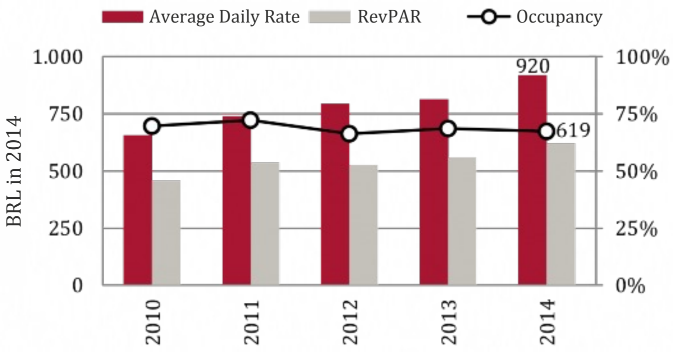
Source: HVS | HotelInvest.

[1] *This study used a sample of hotels totaling 4,406 rooms, representing 22.4% of Rio de Janeiro's total supply (21,270 rooms). In the Luxury category the sample contains 1,705 rooms (46.1% of the category's total) and the Economy and Midscale categories are represented by 3,053 rooms (17.4%). Motels, hostels, pensions, residences that offer primarily monthly services contracts and flats which are out of the hotel pool were not considered.*

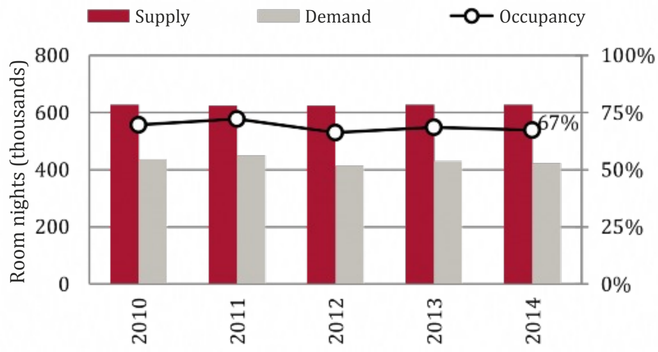
[2] *Considering the total number of rooms in Rio de Janeiro's market, the new hotel supply represents a 1.8% increase in the analyzed period. This new supply was included in the current sample.*

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

Luxury category

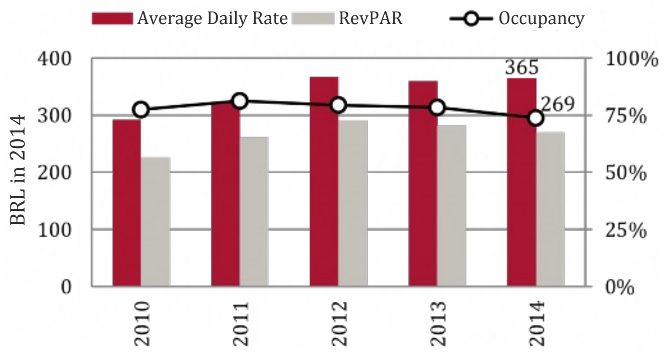


Source: STR Global | HVS | HotelInvest.



Source: STR Global | HVS | HotelInvest.

Economy and Midscale category



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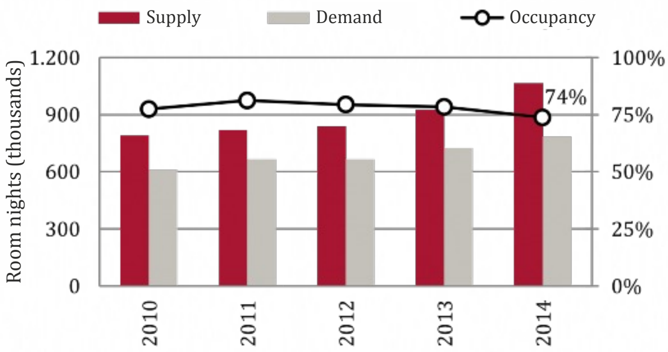


Source: HVS | HotelInvest.

São Paulo

Main hospitality market in Brazil shows the lower pipeline of all markets. Luxury and Upscale hotels' performance have been deserving attention in the last years.

The outlook for the hospitality market in São Paulo for 2014 indicated a state of uncertainty, coupled with the low economic growth, clear expectations with reference to the performance of local hotels during the World Cup, and the presidential elections. As the largest local economy in the country and the headquarters for many multinational companies, the capital of the State of São Paulo had been suffering from a decline in corporate demand for the last two years. During the World Cup, hotel operators expected a loss of guests from the business segment, but felt it would be offset by a marked increase in room rates .

The World Cup did, in fact, have a negative effect on the business segment of the city, which evaporated during the period of the games. São Paulo failed in its bid to be the FIFA media headquarters, losing a major parcel of room nights generated by the media teams. In terms of the entire year, the consolidated room rate profited from a small readjustment (+1.9%), benefitted by large rate increases in the luxury hotel segment during the World Cup. Occupancy rates remained stable (+0.7%) during the year, which lead to a small increase in RevPAR of 2.6%. Rooms supply experienced a small oscillation (+0.7%), while demand grew 1.4%.

The rooms supply in the Upscale and Luxury market (room rates above R$ 650) remained constant throughout the year (+0.1%). Rooms demand grew 2.7%; and as a consequence, occupancy rose 2.5%. During the World Cup, hotels in this segment were able to capture a large segment of tourists, enabling them to register an expressive increase in average daily rates (+7.6%), superior to that observed in other segments. RevPAR for this segment shot up 10.3% for the year.

Hotels in the Midscale and Upper-midscale segment (room rates between R$ 270 and R$ 480) exhibited the smallest growth of demand (+1.3%) in the city. Rooms supply grew slightly (+1.3%), a result of the addition of rooms to the hospitality pool. Occupancy in the segment remained stable, but room rates practiced by hotels in this market fell (-0.3%), leading to a smaller RevPAR (-0.3%) than experienced in 2013.

The Economy and Budget segment in São Paulo (room rates below R$ 270) also demonstrated an increase in the demand for rooms (+1.0%), interrupting a two year tendency for the decline of room sales. As there were no new rooms added to the segment inventory, hotel occupancy evolved positively (+1.0%). During the World Cup, hotels of the Economy segment registered the worst performance of the categories in question. Considering the entire year, the segment suffered a reduction in ADR and RevPAR (-3.6% and -2.7%, respectively).

The outlook for 2015 is that rooms demand will remain steady, because of the diminishing growth of the national economy and as a result of the impact of national holidays on the business week. Room rates should increase with or slightly below inflationary levels, largely due to tougher corporate negotiations. In terms of rooms supply, there are no new hotel openings scheduled for the year.

	Supply	Demand	Occupancy	ADR	RevPAR
2014	▬	⬆	▬	⬆	⬆
2015*p*	▬	⬆	⬆	⬇	▬

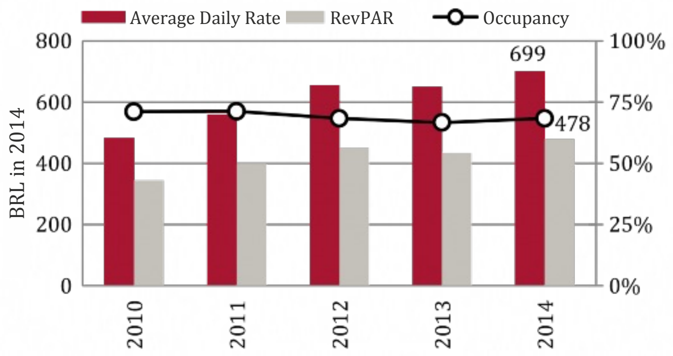
▬ Stable ⬇ Decrease ⬆ Increase

Source: HVS | HotelInvest.

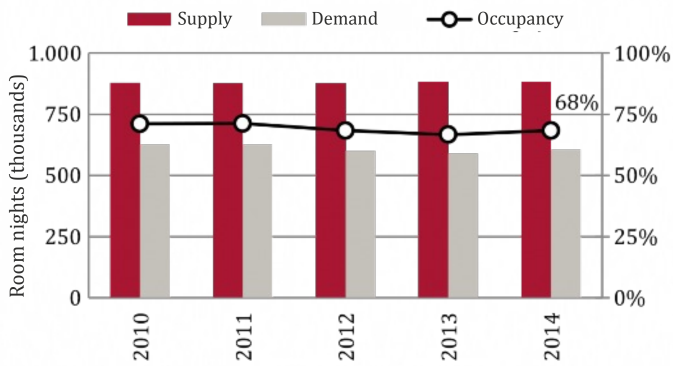
[1] This study used a sample of hotels totaling 13,720 rooms, representing 37.8% of São Paulo's total supply (36,252 rooms). In the Upscale and Luxury category, the sample contains 2,414 rooms (100% of the segment's total), Midscale and Upper-midscale category 7,786 rooms (41.0%) and Economy and Budget category, 3,520 rooms (24.0%). 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).

Upscale and Luxury category

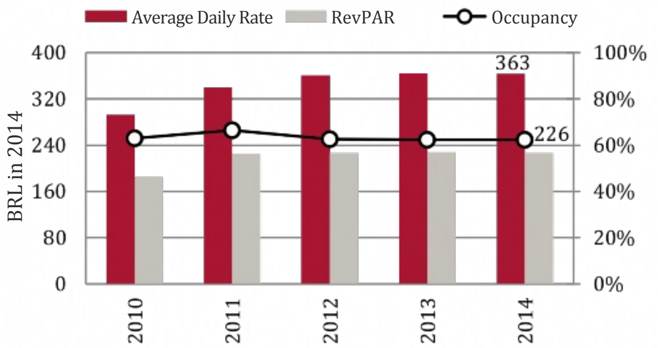


Source: STR Global



Source: STR Global

Midscale and Upper-midscale category



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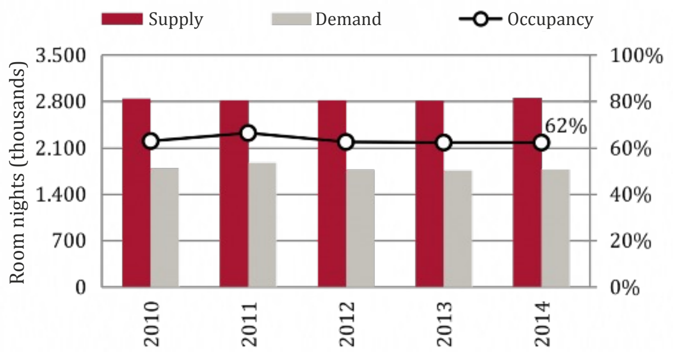
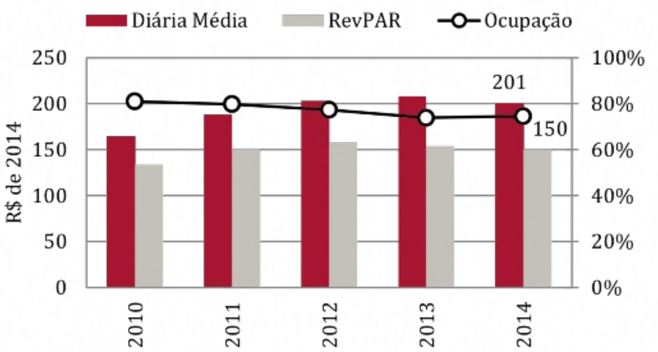


Source: HVS | HotelInvest.

Economy and Budget category



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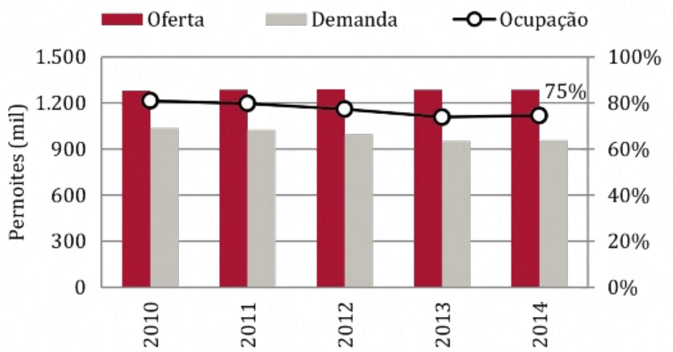


Source: HVS | HotelInvest.

Salvador

The city is in the end of a supply increase cycle. In the medium-term, the perspectives show increases in occupancy and in average daily rate.

The initial outlook for 2014 exhibited unfavorable conditions for the hospitality market in Salvador, especially in view of new hotels openings and the downward tendencies of the national economy. By year end, the year's results were positive. Room demand in the hotel sample registered a 13.3% increase over the previous year, the best result of all the metropolitan areas analyzed in Brazil: Trends and Opportunities. On the supply side, room's inventory grew 9.9%, which blunted overall occupancy for the year, limiting it to an increase of 3.1%. As a consequence of high room rates during the World Cup and the afore mentioned demand surplus, hotel operators were able to increase their average daily rates approximately 3.5%. This resulted in an increase in RevPAR of 6.8%.

In the Midscale and Upper-midscale segment (room rates above R$ 200), the rooms inventory grew 7.7%, reflecting the first complete year of operation of the Sheraton Bahia (a retrofit of the former Grande Hotel da Bahia) and the opening of the Novotel Hangar Aeroporto. The year also marked the inauguration of Catussaba Suítes Hotel; however, this property did not participate in our property sample. The demand for rooms, in turn, demonstrated an increase superior to that of rooms supply (+12.1%), boosted largely by the World Cup. With demand outpacing supply, hotel occupancy grew at a 4.1% rate. The ADR evolved positively (+5.4%), also a result of the World Cup during which room rates were approximately 60% higher than in the same period the previous year. The year-end outcome for the segment was an expressive increase in RevPAR of 9.7%.

Rooms supply, in the Economy segment (room rates below R$ 200), expanded at a 13.5% rate, due to the inclusion of the Ibis Hangar, inaugurated in November 2013 but completing its first year of operation in 2014. Like the Midscale and Upper-midscale segment, rooms demand increased 15.3%. With the growth of demand superior to that of supply, hotel occupancy increased 1.6%. Having registered an occupancy similar to that of 2013 and not being able to readjust room rates as did other hospitality segments during the World Cup, the average daily rate of the Economy segment remained, for the most part, constant (+0,2%), resulting in an increase of RevPAR of just 1.8%.

The outlook for 2015 is not favorable, as a number of hotels are scheduled to open in the metropolitan region of Salvador, operational costs should increase significantly, and the macroeconomic scenario is bleak, not to mention, a totally uncompetitive events sector. On the surface, one can expect a number of major challenges and an eventual weakening of the hospitality results in the capital city. For leisure tourism, the perspectives tend toward the positive, essentially due to the devaluation of the real and the possible redirection of international tourism within the country.

	Supply	Demand	Occupancy	ADR	RevPAR
2014	↑	↑	↑	↑	↑
2015*p*	↑	↑	↑	↓	↓

▬ Stable ↓ Decrease ↑ Increase

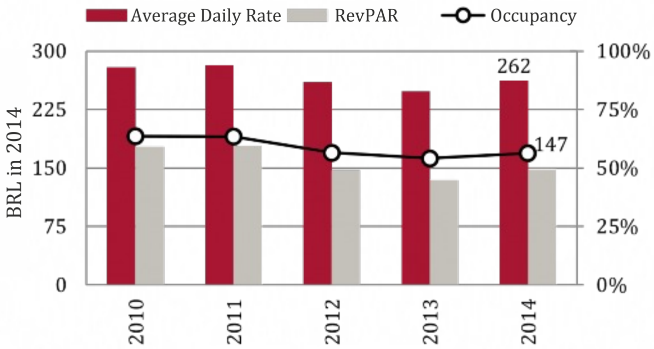
Source: HVS | HotelInvest.

[1] This study used a sample of hotels totaling 5,403 rooms, representing 60.2% of Salvador's total supply (8,973 rooms). In the Midscale and Upper-midscale category the sample contains 3,342 rooms (78.5% of the category's total) and the Economy category is represented by 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.

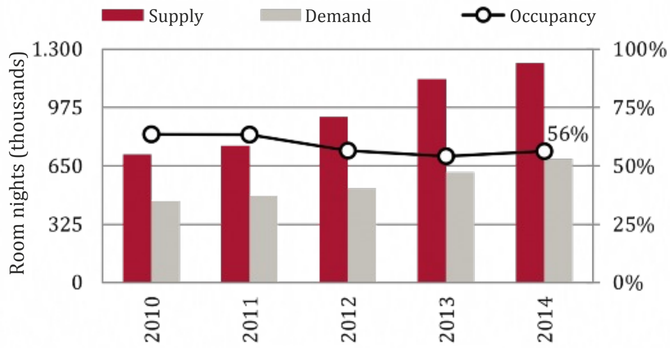
[2] Considering the total number of rooms in Salvador market, the new room supply represents a 1,0% increase during the period in question. This new supply is included in the current sample.

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

Midscale and Upper-midscale category

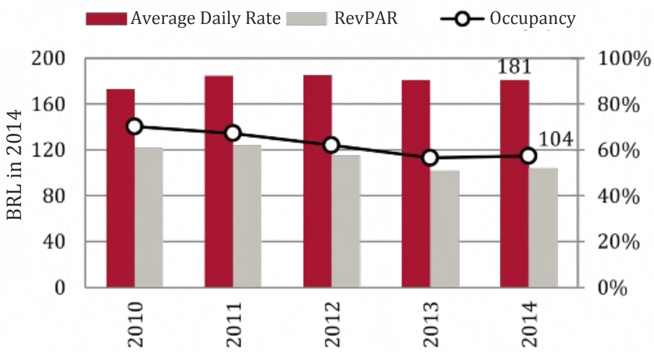


Source: HVS | HotelInvest.



Source: HVS | HotelInvest.

Economy category



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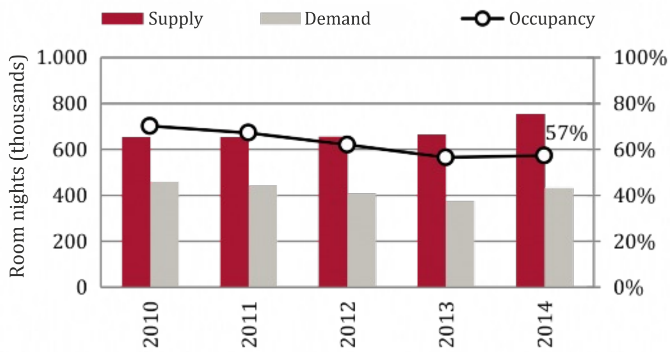


Source: HVS | HotelInvest.

Curitiba

Slight supply evolution and inducted demand due to events points to a performance improvement in 2015.

In the previous edition of Trends and Opportunities, it was hoped that the hospitality market in Curitiba would be able to produce a modest performance in 2014, characterized by stable occupancy and strong increases in average daily rates (ADR) and RevPAR. These expectations were based on specific factors, including a steady macroeconomic environment, a slow increase in rooms supply, and an increase in room rates during the World Cup. In fact, data from the hotels participating in the market sample confirm these expectations. Rooms supply grew a meager 1.3%, and demand remained, for the most part, at the same level as the previous year (+0.8%). This resulted in an occupancy rate that mirrored 2013 (-0.6%). The average daily rate and RevPAR varied positively, 2.0% and 1.4% respectively.

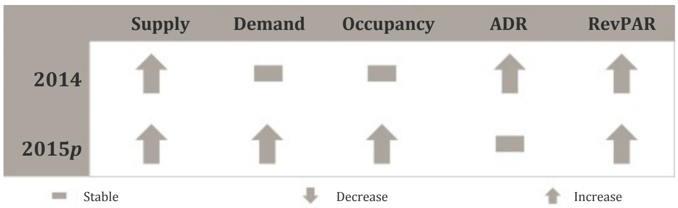
The Upper-midscale and Midscale segment (room rates between R$ 200 and R$ 400) remained constant (-0.1%). Even with the conversion of the Deville Rayon into an office building in December 2014, the increase of rooms in other hotels compensated for the loss of the hotel, but the effects should be felt with greater intensity in the present year. Segment demand fell slightly (-1,3%), as did average occupancy (-1.2%). On the other hand, ADR increased during the year (+3.3%), resulting in a higher RevPAR (+2.0%).

The hotels in the Economy and Budget categories (with room rates below R$ 200) demonstrated an increase in demand (+3.8%), totally in sync with the growth in supply (+3.8%). This resulted in an unvarying average occupancy. Both the ADR and RevPAR showed slight increases over the previous year (+1.0%).

The small increase in average daily rate in 2014 was a reflex of the expressive room rate increases during the World Cup - approximately 60% greater than the rest of the year. In a period without big events, the migration of Midscale guests to the economic segment - a result of cost cutting by local companies - increased competition in the hospitality industry and blocked the possibility of rate increases, especially in the more luxurious hotels.

For 2015, the national economic indicators do not paint a rosy picture. On the other hand, there are a number of large events scheduled to be held in Curitiba that should generate additional hospitality demand. The city is promoting weekend events, such as shows and leisure activities, trying to build upon a phenomena that occurred during the final trimester of 2014, when Cirque Du Soleil attracted large numbers of out of town spectators, benefiting the local hotel market.

In relation to new rooms supply, only one hotel, from the Slaviero chain, is scheduled to open. In general, even though the economic scenario is not very encouraging, there should not be much change in the local hospitality market in 2015.



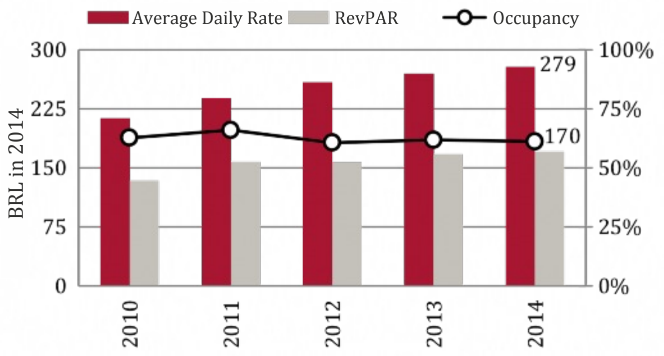
Fonte: HVS | HotelInvest.

[1] *This study used a sample of hotels totaling 2,800 rooms, representing 31.4% of Curitiba's total supply (8,924 rooms). In the Midscale and Upper-midscale categories the sample was 1, 696 rooms (62.8% of the total of the segment) and Economy and Budget categories is represented by 1,104 rooms (14.7%). Motels, hostels, pensions, residences that offer primarily monthly services contracts and flats which are out of the hotel pool were not considered.*

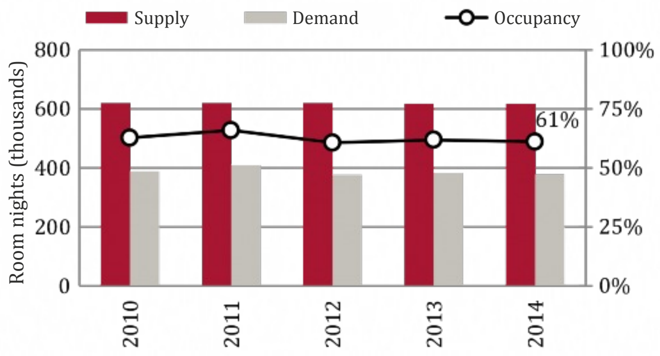
[2] *The addition of new rooms represents an increase of 1.4% to the total supply in the Curitiba market.*

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

Economy and Budget category

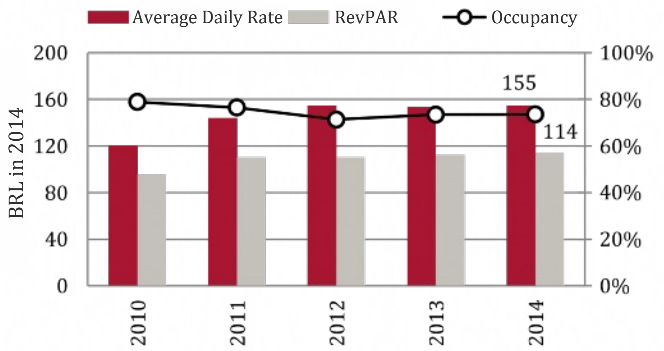


Source: HVS | HotelInvest.



Source: HVS | HotelInvest.

Midscale and Upper-midscale category



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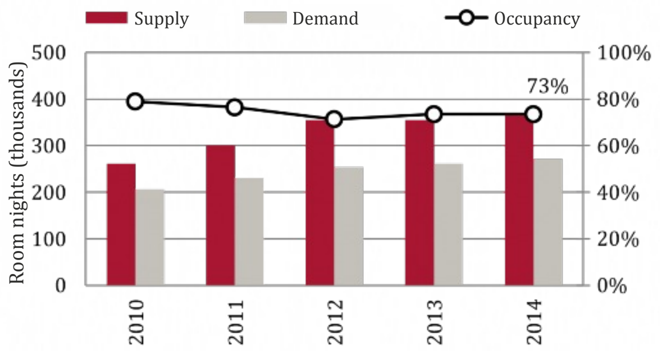


Source: HVS | HotelInvest.

Porto Alegre

Increase in supply forecast and low economic growth shall interrupt, at least for a while, potential recoveries in Porto Alegre's hospitality performance.

The previous edition of Brazil: Trends and Opportunities projected a year of average results for the hospitality industry of Porto Alegre. Six new hotels were slated to enter into operation, coupled with an increase in demand, a result of numerous events scheduled throughout the year. The year-end results were better than expected. The World Cup brought an increase in room rates higher than previously predicted, and two of the hotels under construction did not open. Consequently, the hotels participating in our sample finished the year with an increase in RevPAR of 3.3%, boosted by a large increase in average daily rates (+4.9%). Average occupancy was a little below 2013 levels (-1.6%) but that was because of the expected increase in rooms supply (+9.5%).

The hotels in the Porto Alegre Midscale segment (room rates between R$ 210 and R$ 320) demonstrated an above average performance. In spite of the increase in rooms supply (+7.7%), occupancy remained relatively constant (+1.3%), largely due to an increase in rooms demand (+9.1%). The average daily rate, benefited by the World Cup, closed the year with a 5.2% growth over the previous year, helping to increase RevPAR by 6.5%.

The Economy segment (room rates below R$ 210) was also impacted by an increase in rooms supply. With the opening of new hotels, the segment displayed a below average performance. Although rooms demand increased by 4.4%, it was inferior to the increase of rooms supply (14.7%), which resulted in a decrease in average occupancy (-8.9%). City wide ADR increases were smaller in the Economy category, growing just 3.1%, which was not sufficient to avoid a decline in RevPAR (-6.1%).

The picture for 2015 reveals a cautious scenario. New hotels are scheduled to open in Porto Alegre, operational costs will increase and the macroeconomic scenario is not favorable. Rooms demand should continue to increase, but at a lower rate. Therefore, increases in room rates will be difficult with hotels maintaining rate adjustments even with or below inflation.

	Supply	Demand	Occupancy	ADR	RevPAR
2014	↑	↑	↓	↑	↑
2015*p*	↑	↑	↓	↓	↓

▬ Stable ↓ Decrease ↑ Increase

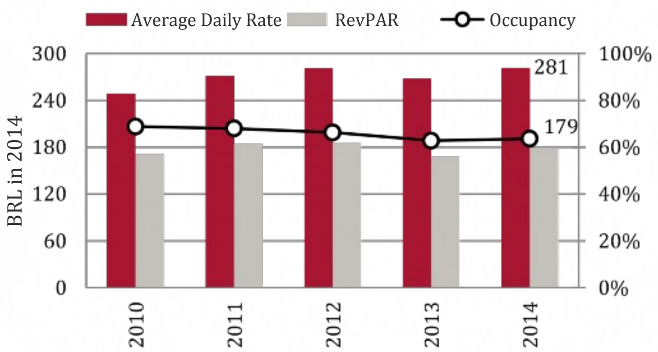
Source: HVS | HotelInvest.

[1] *This study used a sample of hotels totaling 2,800 rooms, representing 31.4% of Curitiba's total supply (8,924 rooms). In the Midscale and Upper-midscale categories the sample was 1, 696 rooms (62.8% of the total of the segment) and Economy and Budget categories is represented by 1,104 rooms (14.7%). Motels, hostels, pensions, residences that offer primarily monthly services contracts and flats which are out of the hotel pool were not considered.*

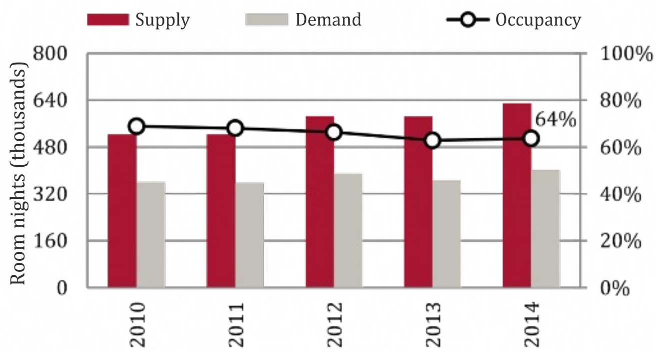
[2] *The addition of new rooms represents an increase of 1.4% to the total supply in the Curitiba market.*

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

Economy category

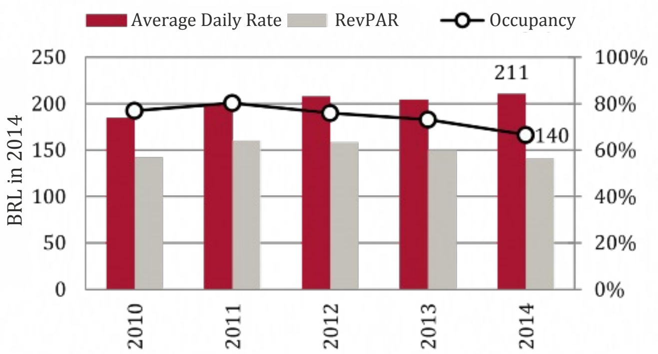


Source: HVS | HotelInvest.



Source: HVS | HotelInvest.

Midscale category



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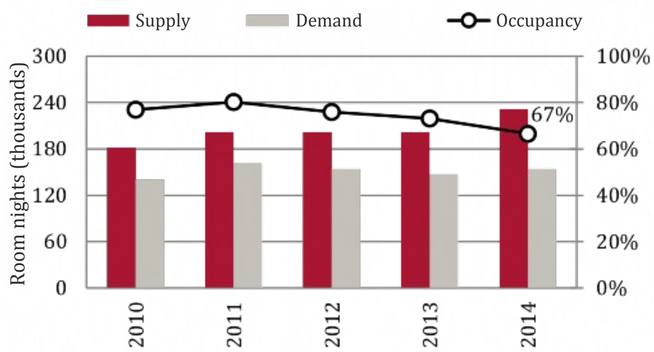


Source: HVS | HotelInvest.

Belo Horizonte

Perspective of decreases in occupancy and in average daily rate due to the oversupply crisis in the city.

Given the weak performance of the local and national economies and the elevated number of new hotels that were to be inaugurated during the year, the previous edition of Brazil: Trends and Opportunities did not envision a bright future of the city of Belo Horizonte. The World Cup was seen as an excellent opportunity for the hospitality sector, at least on the days when games were being played.

Confirming previous expectations, 2014 was a challenging year for hotel operators of the capital of Minas Gerais. Although there was an increase of demand (+7.0%) in the hospitality sample analyzed, the accompanying increase in rooms supply (+26.7%) resulted in overall decreases in average occupancy (-15.6%) and average daily rate (-2.9%). This, in turn, led to a decrease in RevPAR (-18.0%). During the World Cup and a number of other significant events held during the second semester, the hospitality sector performed well, however, not at a sufficient level to compensate for the low the occupancy and room rates suffered during the balance of the year.

In the Upper-midscale and Midscale segment (room rates between R$ 185 and R$ 370), demand fell 0.6%, during which the rooms supply rose 12.1%. This resulted in a sharp decline in average occupancy of 11.3%, but a small increase in average room rate helped soften the decline in RevPAR, which was still 9.3% less than registered in 2013.

In the Economy category (characterized by room rates below R$ 250), the segment suffered the largest decline in demand ever seen by Brazil: Trends and Opportunities (-29.2%). The outcome was a massive reduction in average occupancy (-21.8%) and a significant loss in average daily rate (-9.4%). These negative market variations are a consequence of the lack of synchronization between the growth of rooms supply and rooms demand in the metropolitan region, variations that reached 54.0% and 20.4%, respectively.

The perspectives for 2015 are not encouraging. An estimated 771 rooms are slated to open during the year, while rooms demand should not vary greatly, a result of the weak performance of the national economy and a decrease in new public and private investments. One possibility that generates optimism is the generation of new demand by attracting large, national events. However, to be successful, the city needs to reinforce its status as an important tourist destination, while, at the same time, create new venues in which to hold large conventions and trade fairs, factors that do not happen in a short period of time.

In summary, 2015 market results should be worse than in 2014, and with that, a decrease in revenues and an increase of operating expenses, especially payroll and public utilities. Economy hotels will feel a greater impact, caused by a major increase in supply and intense competition from hotels in the midscale category that will offer lower room rates and more services. It is important that local operators colaborate and exchange information to avoid disastrous reductions in the average daily rate and to foment a faster recuperation of the hospitality industry.

	Supply	Demand	Occupancy	ADR	RevPAR
2014	↑	↑	↓	↓	↓
2015*p*	↑	↑	↓	↓	↓

− Stable ↓ Decrease ↑ Increase

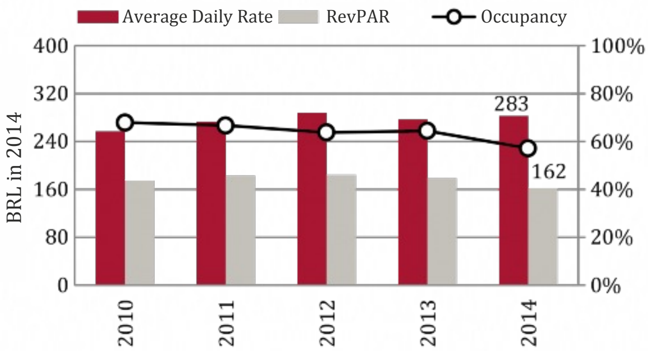
Source: HVS | HotelInvest.

[1] *This study used a hotels sample totaling 5,110 rooms, representing 45.9% of the total supply (11,136 rooms). In the Midscale category, the sample was 2,733 rooms (64.2% of the category), and Economy category is represented by 2,377 rooms (46.7%). Motels, hostels, pensions, residences that offer monthly services contracts and hotel rooms not in the hotel rental pool were not considered.*

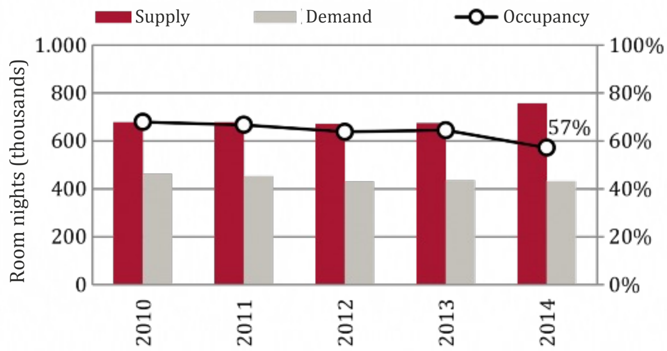
[2] *Considering the total number of rooms in Belo Horizonte market, the new room supply represents a 50.2% increase during the period in question. Part of this new supply was not included in the current sample.*

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

Economy category

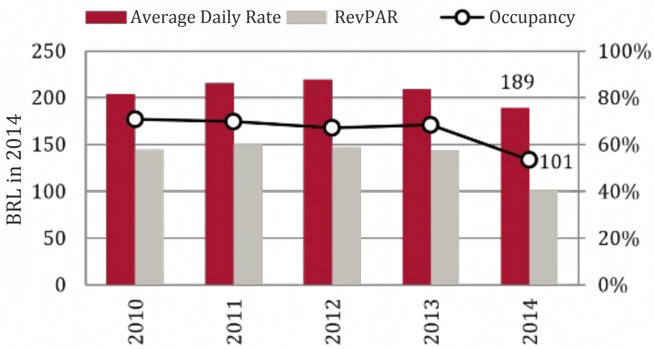


Source: HVS | HotelInvest.



Source: HVS | HotelInvest.

Midscale and Upper-midscale category



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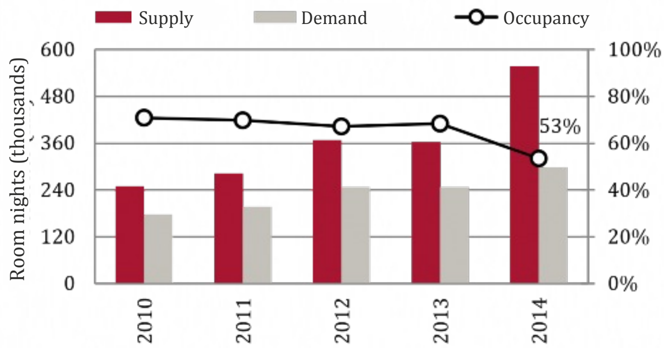

Source: HVS | HotelInvest.

HotelInvest

HotelInvest was founded in 1999 by Diogo Canteras and is a reference as an advisory service for hotel investment in South America. With a team of 20 consultants and experience in 14 countries, the company is active in three business areas: hotel investment consulting, hotel asset management and hotel investment funds. Having elaborated more than 700 studies in Brazil and other countries, the hotel consulting department offers a wide variety of services, from feasibility studies to the development of new business products. HotelInvest was the pioneer in the hotel asset management activity in the country, a division focused on the supervision and maximization of profits from hotel investments. At present, the company manages 27 contracts and represents 3,500 investors in condo-hotels. The HotelInvest, in association with Banco BTG Pactual, is responsible for the administration of the Fundo de Investimento Imobiliário FII Hotel Maxinvest (Maxinvest Real Estate Investment Fund), one of the most successful investment funds in Brazil with an internal rate of return of over 30% annually.

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