MARCH 2017

# TRENDS AND OPPORTUNITIES SOUTH AMERICA

## 2016 | 2017

Argentina |Chile |Colombia | Peru | Brazil

*Diogo Canteras, FRICS - Senior Partner*
*Cristiano Vasques, MRICS - Managing Director*
*Pedro Cypriano - Consulting Director*
*Fernanda L'Hopital - Associate Director*
*Vinícius Moreti - Analyst*
*Rebecca Ribeiro - Analyst*
*Dayane Araújo - Analyst*
*Matheus Sobrinho - Intern*

In partnership with:





**www.hvs.com**

**HVS South America**
**Avenida Brigadeiro Faria Lima, 1912, Cj.: 20J | 01451-907, São Paulo - SP, Brazil**

# Introduction

It is our great pleasure to present the third edition of the Trends and Opportunities South America, an annual publication by HVS/Hotel Invest (in partnership with *STR*) that illustrates and analyzes the sector's performance in some of the major markets in the region.

Every year we provide recent and reliable information in addition to telling you about the challenges and opportunities in South America's main hotel markets. We are convinced that an informed and transparent market is more solid and professional. Having said this, we believe that this publication will increasingly become a key tool for hoteliers, developers, and investors by supporting them to properly formulate their business and investment strategies.

If you wish to receive this publication and other news from HVS/Hotel Invest, please visit our websites (www.hvs.com and www.hotelinvest.com.br) and follow us on LinkedIn (HVS| HotelInvest).

For further information, questions, comments or suggestions, please contact Cristiano Vasques - São Paulo, (55 11) 3093-2743, *cvasques@hvs.com* - or Fernanda L'Hopital - Buenos Aires, (54 11) 5263-0402, *flhopital@hvs.com*.

**Our Sample**

The Report's broad database mostly comprises data from STR, supplemented by HVS/HotelInvest own records and data provided by third parties. We thank all those who have contributed to this publication and we invite new hotels, operators, and associations to share their data through STR for future editions, contacting Patricia Zulato: (55 47) 99201-7002, *pzulato@str.com.*

The information contained herein is based on the performance of 80,665 rooms using data on average daily rates in nominal value and national currencies, and includes the main hotels in each segment of each city. We are therefore certain that the trend indicators truly reflect what is happening in each market universe.

Our annual comparisons use the same sample base throughout the historical series, except when there are openings or significant segmentation changes. Our wide sample plane is statistically significant and is shortlisted below:

- **Buenos Aires:** 7,828 rooms (38% of the analyzed universe);
- **Santiago**: 8,186 rooms (57% of the analyzed universe);
- **Bogota**: 7,525 rooms (65% of the analyzed universe);
- **Lima**: 4,267 rooms (48% of the analyzed universe);
- **Rio de Janeiro**: 18,794 rooms (62% of the analyzed universe);
- **São Paulo**: 21,822 rooms (59% of the analyzed universe);
- **Salvador**: 2,434 rooms (27% of the analyzed universe);
- **Curitiba**: 3,088 rooms (32% of the analyzed universe);
- **Porto Alegre**: 2,234 rooms (32% of the analyzed universe);
- **Belo Horizonte**: 4,487 rooms (39% of the analyzed universe).

# 2016 Retrospective and 2017 Outlook

## Change of tack, good prospects for South America

2015 and 2016 were marked by low economic growth in South America. The international backdrop for this poor regional performance included the global economic slowdown and the drop in the price of commodities, which affected the raw-material exporting countries. In addition to these external events, there were some regional factors such as new presidents taking office, plus bad administrations, in some cases, and the inability to strengthen the institutional framework and fight against corruption. Although all the countries in the region, except for Peru and Paraguay, evidenced a slowdown, the regional recession is accounted for by the internal crises of Argentina, Brazil, and Venezuela. The good news is that a change of trend is expected in 2017. On the one hand, most of South American governments are shifting from the left to the right, with the implementation of reforms aimed at balancing the economy and improving the business climate, which should lead to greater economic growth. On the other hand, brighter prospects for the regional and global scenarios, higher raw material prices, and government investment plans should favor the South American economies. The United States withdrawing from the Pacific Alliance might encourage the creation and strengthening of regional blocs, with a positive impact on its members.

In **Argentina**, the first year of Macri's administration set a change in the country's economic direction. In 2016, despite the drop in GDP, major economic adjustments were implemented to start balancing the economy. Although there are pending reforms and challenges to be solved, positive signs have already appeared as well as an improvement in confidence levels and in the institutional and business climate. This together with a more favorable global and regional scenario will reset the country on the growth path in 2017.

In **Chile**, despite the drop in copper prices, Brazil's recession (a major business partner), and business discontent due to government reforms, the GDP went up by 1.7% in 2016, which shows the country's economic soundness. Economic activity is forecast to accelerate in 2017, encouraged by higher copper prices and more favorable prospects for China, the United States, and Brazil.

**Colombia** suffered from increased economic slowdown in 2016, mostly as a result of lower crude oil prices, accompanied by concerns about the country's fiscal deficit and a rise in inflation. However, toward the end of the year, Congress passed a tax reform bill aimed at increasing tax revenue and helping the country keep its credit rating amid a slump in oil revenue. This, in addition to progress over the peace agreement with FARC, prospects of crude oil and farm product exports picking up, an increase in industrial production, plus more investments in infrastructure, account for greater growth projections in 2017.

**Peru** was the star of the region. Although the country's presidential elections, whose winner was the pro-market candidate Pedro Pablo Kuczynski, prevented greater growth, Peru's economy showed an attractive 3.9% expansion in 2016. This was possible thanks to an increment in traditional exports and to the recovery of the manufacturing sector. The local economy is expected to expand even more in 2017.

In **Brazil**, high unemployment, credit restrictions, political unrest, and weak external demand caused the economy to drop again in 2016. The new government has implemented a series of reforms that are showing the first signs of economic stabilization. There are moderate growth prospects for 2017, and the economy is expected to accelerate in 2018.

# Opportunities and challenges for the hotel industry

## Economic upturn brings opportunities for the region

Even if the regional outlook was not too encouraging in 2016, the countries in question attained marked increases in the number of foreign tourist arrivals, with the exception of Argentina and Brazil that had a slight decrease due to their recession. In terms of hotel demand, all the cities analyzed here, except for the Brazilian ones, showed an uptrend, especially Bogota. Some markets were affected by hotel openings, particularly Rio de Janeiro, in addition to Curitiba and Belo Horizonte, which caused a drop in occupancy and, in most cases, in rates as well.

Although hotel supply will increase in some cities in 2017, the uptrend is expected to continue in line with the projected economic acceleration and the consolidation of destinations. This will contribute to a rapid reabsorption of supply and help several cities and segments keep attractive occupancy and average daily rate levels.

Having overcome uncertain times and with significantly lower risk, South America will grow again in 2017. This, in addition to the historical performance of the past 10 years, indicates good possibilities for the hotel industry in the region. Some of the current opportunities (many of which have been in place since the last edition of Outlook) are:

**Attracting foreign investors.** On account of the dollar appreciation and a bet on regional economic fundamentals;

**New developments in cities with attractive RevPAR levels and increasing demand.** The development of hotels in the economy and midscale segments is still at a budding stage in the region. Some markets also show opportunities in the upscale and luxury segments. In addition, leisure projects are stealing the limelight, especially for destinations with an expanding domestic market.

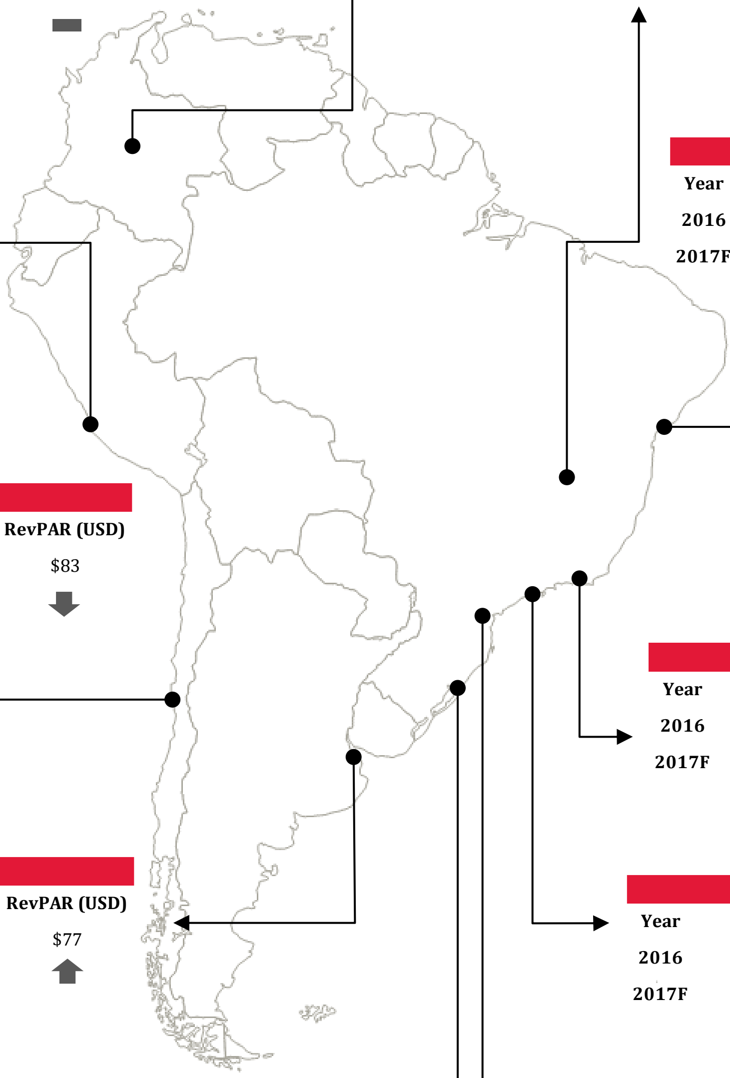
**Popularization of timeshare and fractional ownership, especially in Brazil.** While the business hotel segment shows a new drop in performance, the leisure market growth continues to be significant. New developments have become feasible in the country;

**Improvement of operating efficiency in hotels in operation.** In an increasingly competitive market and with better quality of supply, expanding revenue has become a challenge, especially in more economically vulnerable countries. In this context, seeking greater operating efficiency is critical to increasing profitability margins. Reviewing operating processes and recruiting the assistance of asset managers will help achieve better results;

**Structuring new funding options.** In Brazil, for instance, structuring a condo hotel is no longer an easy option. On the other hand, one of the greatest risks in the sector has considerably decreased - oversupply. Better qualified investors are more likely to arrive in Brazil;

**Chains have increased conversion efforts.** The participation of independent hotels predominates in the region. The challenge lies in finding properties meeting the brands' requirements.

# Market Overview



**Bogota**

| Year | OCC | ADR (USD) | RevPAR (USD) |
|---|---|---|---|
| 2016 | 57% | $95 | $54 |
| 2017F | ↑ | ↑ | ↑ |

**Belo Horizonte**

| Year | OCC | ADR (USD) | RevPAR (USD) |
|---|---|---|---|
| 2016 | 48% | $48 | $23 |
| 2017F | ▬ | ▬ | ▬ |

**Lima**

| Year | OCC | ADR (USD) | RevPAR (USD) |
|---|---|---|---|
| 2016 | 68% | $148 | $100 |
| 2017F | ▬ | ▬ | ▬ |

**Salvador**

| Year | OCC | ADR (USD) | RevPAR (USD) |
|---|---|---|---|
| 2016 | 50% | $59 | $29 |
| 2017F | ↓ | ▬ | ↓ |

**Santiago**

| Year | OCC | ADR (USD) | RevPAR (USD) |
|---|---|---|---|
| 2016 | 65% | $127 | $83 |
| 2017F | ↓ | ▬ | ↓ |

**Rio de Janeiro**

| Year | OCC | ADR (USD) | RevPAR (USD) |
|---|---|---|---|
| 2016 | 53% | $163 | $86 |
| 2017F | ↓ | ↓ | ↓ |

**Buenos Aires**

| Year | OCC | ADR (USD) | RevPAR (USD) |
|---|---|---|---|
| 2016 | 62% | $125 | $77 |
| 2017F | ↑ | ↑ | ↑ |

**Sao Paulo**

| Year | OCC | ADR (USD) | RevPAR (USD) |
|---|---|---|---|
| 2016 | 58% | $94 | $55 |
| 2017F | ▬ | ▬ | ▬ |

**Porto Alegre**

| Year | OCC | ADR (USD) | RevPAR (USD) |
|---|---|---|---|
| 2016 | 57% | $63 | $36 |
| 2017F | ▬ | ▬ | ▬ |

**Curitiba**

| Year | OCC | ADR (USD) | RevPAR (USD) |
|---|---|---|---|
| 2016 | 59% | $58 | $35 |
| 2017F | ↓ | ↓ | ↓ |

**Notes and Sources**

| | |
|---|---|
| ↑ | Perspective of Increase |
| ▬ | Perspective of Stability |
| ↓ | Perspective of Decrease |
| OCC | Occupancy |
| ADR | Average Daily Rate - nominal value |
| RevPAR | Revenue Per Available Room |
| F | Forecasts consider a stable exchange rate |

Data source: STR

# Argentina - Buenos Aires

## Change of trend. The first recovery signs already evident

NATIONAL ECONOMY

| Indicator | 2014 | 2015 | 2016 | 2017F |
|---|---|---|---|---|
| **GDP** (annual variation in %) | -2.5 | 2.5 | -2.4 | 3.0 |
| **Inflation** (annual variation in % - average of period) | 38.0 | 26.7 | 41.2 | 27.8 |
| **Exchange Rate** (ARS per USD - average of period) | 8.1 | 9.3 | 14.8 | 17.0 |
| **External Debt** (% GDP) | 25.8 | 26.6 | 33.8 | 33.0 |

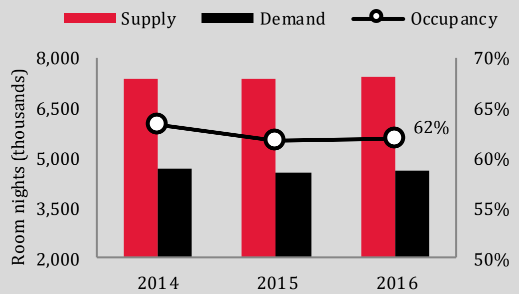
Source: LatinFocus Consensus Forecast – January 2017
F - Forecast

TOURISTIC MARKET

| Indicator | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|
| **Foreign Arrivals** (millions) | 5.2 | 5.9 | 5.7 | n/d |
| **International Tourism Receipts** (US$ millions) | 4.3 | 4.6 | 4.4 | n/d |
| **Foreign Arrivals at Ezeiza Airport and Jorge Newbery Airport** (millions) | 2.3 | 2.3 | 2.3 | 2.2 |

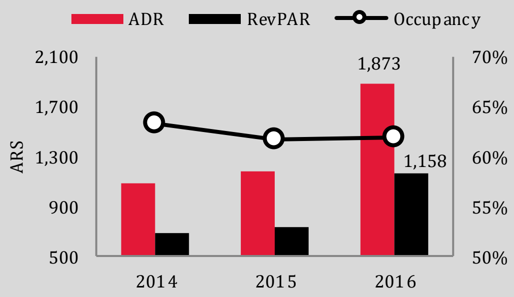
Source: OMT/INDEC

SUPPLY AND DEMAND EVOLUTION




Source: STR

HOSPITALITY MARKET PERFORMANCE




Source: STR

- **2016: A year of transition and of economic redirection.** During his first year in office, Macri's government implemented a series of adjustments and reforms aimed at reducing macroeconomic imbalances. Although, as expected, this had a negative impact on employment, inflation, and real wages, affecting consumption and investment, the foundations for Argentina's growth in 2017 were laid in 2016.

- **Change of trend and positive prospects for 2017.** Although the economy is undergoing a process of recovery and there are still some adjustments pending, it is possible to see positive signs. The combination of higher real wages, an improvement in business confidence, and increased regional growth is expected to contribute to set the country on the growth path in the short term.

- **Currency devaluation helped increase RevPAR and profitability in 2016.** Despite the recession and the fall in tourist arrivals in the first months of the year, demand rose at a moderate pace above supply, thus increasing occupancy. As a result of this change in occupancy trends and of a highly dollarized market, rates in US dollars remained nearly unchanged, which led to an increment in RevPAR of 58.5% in local currency. This had a favorable impact on hotel profitability, albeit lessened by an increment in operating costs due to inflation and the elimination of utility subsidies.

- **Stable supply and an improved economy bring opportunities for new developments.** With fewer hotels to be inaugurated, an improvement of economic prospects, and the actions implemented by the government to foster tourism (such as the refund of 21% VAT to foreigners), Buenos Aires should increase its occupancy and rate levels in 2017. There are new projects under analysis.

# Chile - Santiago

## Market absorbing new supply. Good demand prospects

### NATIONAL ECONOMY

| Indicator | 2014 | 2015 | 2016 | 2017F |
|---|---|---|---|---|
| **GDP** (annual variation in %) | 1.9 | 2.3 | 1.7 | 2.1 |
| **Inflation** (annual variation in % - average of period) | 4.4 | 4.4 | 3.8 | 3.0 |
| **Exchange Rate** (CLP per USD - average of period) | 571 | 655 | 676 | 677 |
| **External Debt** (% GDP) | 57.6 | 64.1 | 63.9 | 62.7 |

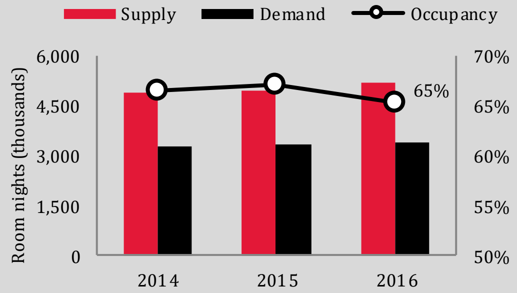
Source: LatinFocus Consensus Forecast – January 2017
F - Forecast

### TOURISTIC MARKET

| Indicator | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|
| **Foreign Arrivals** (millions) | 3.5 | 3.6 | 4.4 | n/d |
| **International Tourism Receipts** (US$ millions) | 2.1 | 2.2 | 2.4 | n/d |
| **Foreign Arrivals at Comodoro Arturo Merino Benítez Airport*** (thousands) | 925 | 925 | 1.039 | 1.199 |

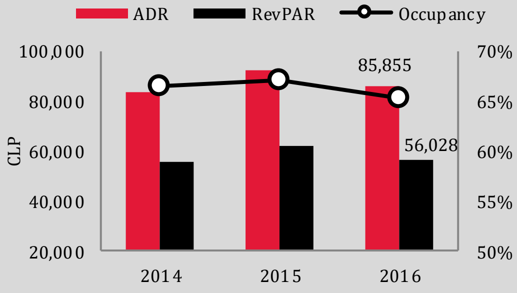
Source: Source: OMT/SERNATUR - * YTD August

### SUPPLY AND DEMAND EVOLUTION




Source: STR

### HOSPITALITY MARKET PERFORMANCE




Source: STR

- **Economic cooling-off in 2016.** In addition to a drop in copper prices, the labor and tax reforms implemented by the government and the business discontent with the administration have had an impact on the business climate and have slowed down investment in the country.

- **2017: Election year, slight growth acceleration.** Despite some uncertainty about the results of the forthcoming presidential elections in November, a slight upturn in the economy is expected in 2017, fueled by a moderate rise in copper prices and a more positive outlook both for Chile and the other countries in the region.

- **Strong increase in tourist arrivals in 2016.** Tourist arrivals in Chile increased by nearly 26% in 2016, especially on account of the marked growth of Argentine visitors living in neighboring provinces and traveling mostly on a shopping spree.

- **Supply growth exceeds demand growth in 2016.** Despite an increment in visitors and hotel demand in Santiago, the growth in supply led to a drop in occupancy.

- **7.1% drop in average rate in 2016.** The drop in the average rate in 2016 is accounted for by two main reasons; the 2015 Copa América that allowed for high rates during the year, and a drop in occupancy in 2016, which made the market more competitive thus hindering rate increases.

- **Positive demand prospects.** Foreign visitor arrivals are expected to grow at a higher rate than the economy. Although occupancy in Santiago will be affected by new openings in 2017, the city has showed a fast capacity to absorb supply, which will help keep attractive occupancy and average rate levels.

# Colombia - Bogota

## High demand growth indicates rapid supply absorption

### NATIONAL ECONOMY

| Indicator | 2014 | 2015 | 2016 | 2017F |
|---|---|---|---|---|
| **GDP** (annual variation in %) | 4.4 | 3.1 | 1.9 | 2.4 |
| **Inflation** (annual variation in % - average of period) | 2.9 | 5.0 | 7.5 | 4.5 |
| **Exchange Rate** (COP per USD - average of period) | 2,003 | 2,749 | 3,052 | 3,059 |
| **External Debt** (% GDP) | 26.8 | 37.9 | 38.2 | 38.2 |

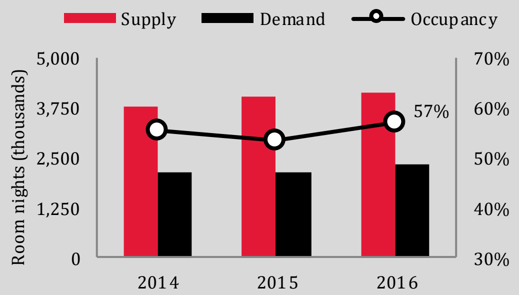
Source: LatinFocus Consensus Forecast – January 2017
F - Forecast

### TOURISTIC MARKET

| Indicator | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|
| **Foreign Arrivals** (millions) | 2.2 | 2.5 | 2.9 | n/d |
| **International Tourism Receipts** (US$ millions) | 3.6 | 3.8 | 4.2 | n/d |
| **Foreign Arrivals at El Dorado Airport*** (thousands) | 725 | 828 | 940 | 991 |

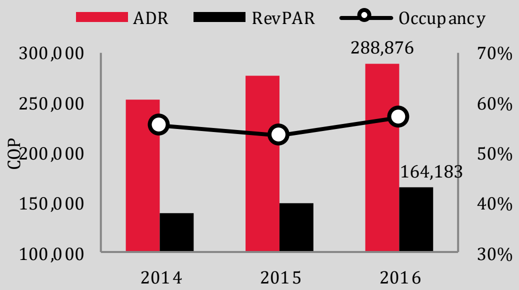
Source: Source: OMT/Mincit - * YTD October

### SUPPLY AND DEMAND EVOLUTION




Source: STR

### HOSPITALITY MARKET PERFORMANCE




Source: STR

- **Economic slowdown in 2016.** The cooling-off in economic activity in 2015 extended to 2016 as a result of a rise in inflation and currency devaluation. In December, Congress passed a tax reform bill aimed at increasing tax revenue and helping the country keep its credit rating amid a slump in oil revenue, thus guaranteeing macroeconomic stability and long-term growth.

- **Change of trend in 2017.** The increase in commodity prices, infrastructure investment, and industrial production will accelerate economic growth in 2017.

- **Strong growth of international tourism.** The continuous improvement of Colombia's international image, the signature of the peace agreement, the actions promoting the country as a travel destination, and a competitive exchange rate have contributed to a double-digit growth of international tourism.

- **Occupancy grew by 6.2% in 2016.** Just like international demand, domestic demand showed a very positive trend in 2016, so that the supply inaugurated during the year was rapidly absorbed, leading to a strong increment in occupancy.

- **Moderate rise in average rate.** In 2016, the average rate went up, albeit below inflation. Considering an average market occupancy under 60% and a slowdown in economic activity, hoteliers were left with little room to adjust rates.

- **A rosy horizon.** Although new openings are scheduled for the next months, the growth of demand is expected to exceed that of supply. The end of tax benefits for the construction of new hotels will slow down the pace for the development of new projects. In this scenario, performance prospects for the sector are positive.

# Peru - Lima

## Solid economic indicators and outstanding hotel performance

NATIONAL ECONOMY

| Indicator | 2014 | 2015 | 2016 | 2017F |
|---|---|---|---|---|
| **GDP** (annual variation in %) | 2.4 | 3.3 | 3.9 | 4.2 |
| **Inflation** (annual variation in % - average of period) | 3.3 | 3.6 | 3.6 | 3.9 |
| **Exchange Rate** (PEN per USD - average of period) | 2.8 | 3.2 | 3.4 | 3.4 |
| **External Debt** (% GDP) | 31.7 | 35.6 | 35.5 | 35.2 |

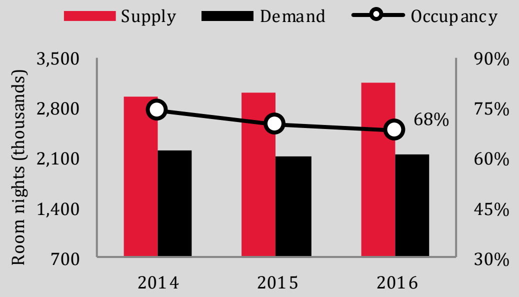
Source: LatinFocus Consensus Forecast – January 2017
F - Forecast

TOURISTIC MARKET

| Indicator | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|
| **Foreign Arrivals** (millions) | 3.1 | 3.2 | 3.4 | n/d |
| **International Tourism Receipts** (US$ millions) | 3.0 | 3.0 | 3.3 | n/d |
| **Foreign Arrivals at Jorge Chávez Airport** (millions) | 1.8 | 1.8 | 1.8 | 1.6 |

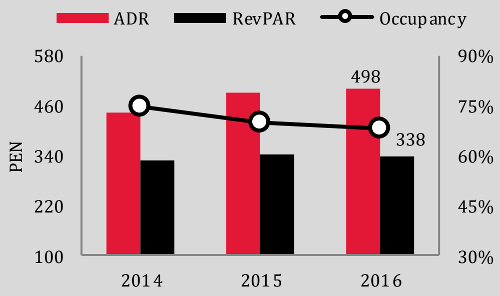
Source: Source: OMT/Mincetur - * 2016: YTD October

SUPPLY AND DEMAND EVOLUTION




Source: STR

HOSPITALITY MARKET PERFORMANCE




Source: STR

› **The region's greatest economic growth.** Although presidential elections put the economy on hold during the first half of 2016, Peru showed an acceleration and attractive growth in economic activity during that year, thus becoming the star of the region. The expansion of its iron and copper production capacity as a result of the commissioning of new mines, together with the recovery of the manufacturing sector and traditional exports were the major factors that accounted for such performance.

› **Expectations of economic acceleration in 2017.** The favorable image of the newly sworn-in president and the actions to be implemented, the improvement of foreign demand and the return to growing fixed investments indicate that the economy will expand in 2017.

› **The new influx of supply led to decreased occupancy.** Despite an increase in demand in 2016, growth was moderate as the first months were slack for hotels in Lima due to the presidential elections. The impact of the new supply inaugurated in 2016 and at the end of 2015 exceeded demand growth, which caused a drop in occupancy, still in attractive levels at 68%.

› **1.2% drop in RevPAR.** The fall in occupancy led to a more competitive market, with a 2% increment of the average rate in local currency and therefore a lower RevPAR below inflation.

› **Attractive performance and good economic prospects.** Despite the expected increase in supply until 2020/21, which could affect hotel performance in the short run, Lima has excellent growth prospects for the economy and tourism. Therefore, the new influx of supply is expected to be absorbed in the short run and the city should keep high occupancy and average rate levels.

# Brazil

## After adjustment period, expectations of growth resuming

NATIONAL ECONOMY

| Indicator | 2014 | 2015 | 2016 | 2017F |
|---|---|---|---|---|
| **GDP** (annual variation in %) | 0.5 | -3.8 | -3.4 | 0.6 |
| **Inflation** (annual variation in % - average of period) | 6.3 | 9.0 | 8.7 | 5.8 |
| **Exchange Rate** (BRL per USD - average of period) | 2.4 | 3.3 | 3.5 | 3.4 |
| **External Debt** (% GDP) | 14.4 | 18.6 | 18.9 | 18.0 |

Source: LatinFocus Consensus Forecast – January 2017
F - Forecast

TOURISTIC MARKET

| Indicator | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|
| **Foreign Arrivals** (millions) | 5.8 | 6.4 | 6.3 | n/d |
| **International Tourism Receipts** (US$ millions) | 6.4 | 6.8 | 5.8 | n/d |
| **Foreign Arrivals at Guarulhos Airport** (millions) | 12.5 | 13.5 | 13.6 | 13.4 |

Source: OMT/GruAirport

HOSPITALITY – COMPARATIVE TABLE

| | 2016 Data | | | 2016 over 2015 variation | | |
|---|---|---|---|---|---|---|
| **Indicator** | **OCC** | **ADR** | **RevPAR** | **OCC** | **ADR** | **RevPAR** |
| **Rio de Janeiro** | 53% | R$ 556 | R$ 293 | -12.8% | 22.3% | 6.6% |
| **São Paulo** | 58% | R$ 323 | R$ 188 | -3.6% | -5.4% | -8.9% |
| **Salvador** | 50% | R$ 205 | R$ 102 | -3.5% | -0.2% | -3.6% |
| **Curitiba** | 59% | R$ 201 | R$ 119 | -10.1% | -5.5% | -15.1% |
| **Porto Alegre** | 57% | R$ 217 | R$ 124 | -2.7% | -1.8% | -4.5% |
| **Belo Horizonte** | 48% | R$ 164 | R$ 79 | -0.3% | -6.7% | -7.0% |

Source: STR

- **Expectations of better macroeconomic indicators already in 2017.** *Focus* Bulletin forecasts a slight GDP growth, inflation at the center of the target, and interest rates around 9% YOY. Consumer and business confidence indexes have improved and a new cycle of economic growth is expected to begin.

- **Proposals under study might benefit domestic and international tourism.** Some of the main proposals include Visa exemption for some foreign nationals (from USA, Japan, Australia and Canada) and gambling legalization. The impact on tourism will not be right away; however, if approved, such actions can encourage new businesses in the country's tourism sector.

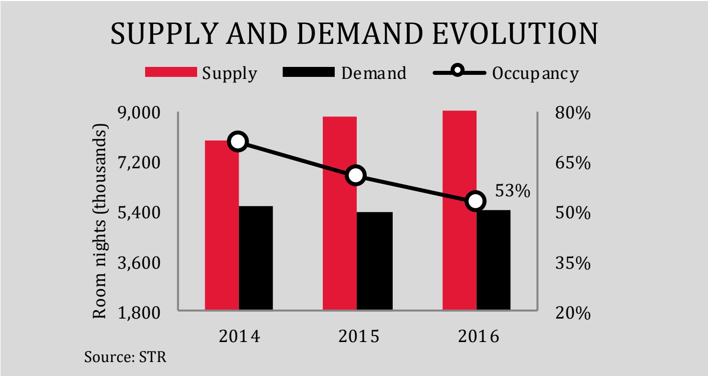
- **Olympic Games: A positive showcase for the country.** In the opinion of the media and the general public, the event was a success and created a positive image for Brazil. In a survey conducted during the Games, 90% of respondents answered they were willing to return to the country.

- **Regulating condo hotels will help improve hotel performance in the country.** The actions of the CVM (The Securities and Exchange Commission of Brazil) in the condo hotel market, together with the sector's lack of financing, will limit the arrival of new developments in the country. On the other hand, this situation will benefit projects with good financial prospects as, with more restrictions for the development of new projects, one of the major risks of the hotel business, i.e. oversupply, decreases in the hotel business, and the performance of hotels already in operation improves in the medium term.

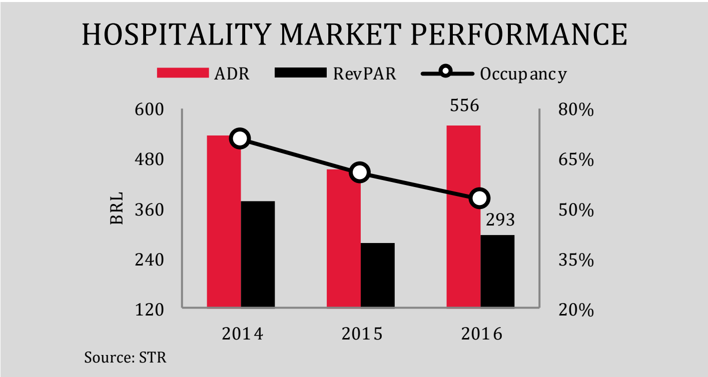
- **Fractional and timeshare: In spite of the crisis, the leisure segment keeps growing.** As already happened in mature markets, timeshare and fractional ownership options are stealing the limelight in the country. Several opportunities for new developments are under study in Brazil.

# Rio de Janeiro

## After the Olympic Games, Rio's hotel market faces challenging scenario




Source: STR




Source: STR

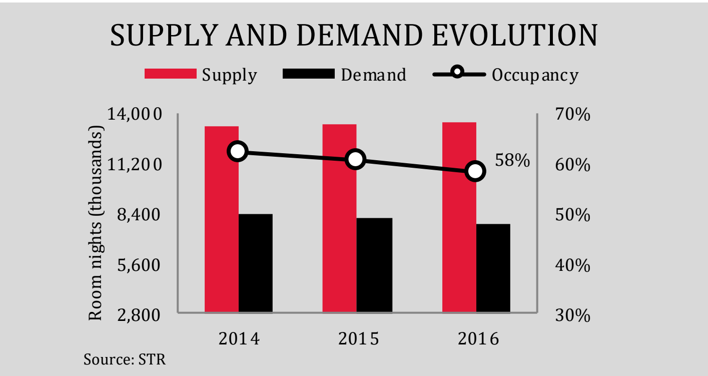
- **Olympic Games: A positive impact on average rate.** Apart from Brazil's positive image to the world, local hoteliers were able to charge high rates during the event, so that the average rate went up by 22% in the year.

- **Steep hikes in supply.** As a host city of the Olympic Games, hotel supply increased with over 10,000 rooms in 2016. Once the Games were over and with the country's crisis, performance levels dropped, with no indication of reaching its historic high before 2020.

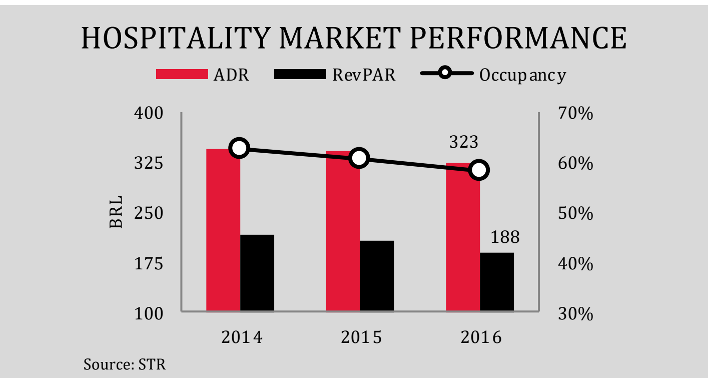
- **Events and leisure, performance recovery options.** With new hotels and event infrastructure, the induction of demand in the leisure and event segments may be an option to improve performance in the medium term. To this end, it is critical to develop public-private initiatives and focus on public security.

# São Paulo

## Without new supply, recovery will be faster than in other markets




Source: STR




Source: STR

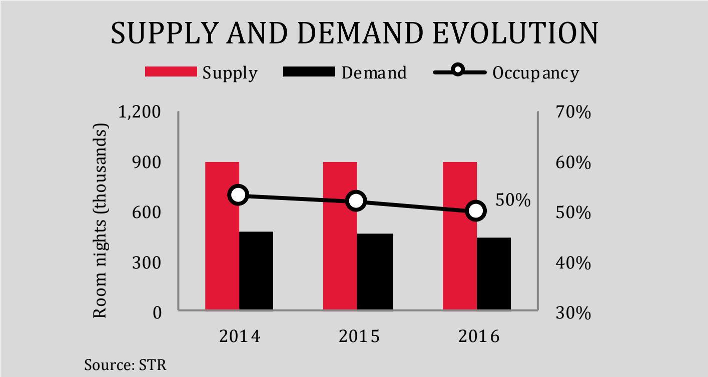
- **Asset valuation trend in the medium term.** Despite a drop in RevPAR in 2016, the return to a growth path and the restrictions to consolidate new projects will help recover asset value in the medium term.

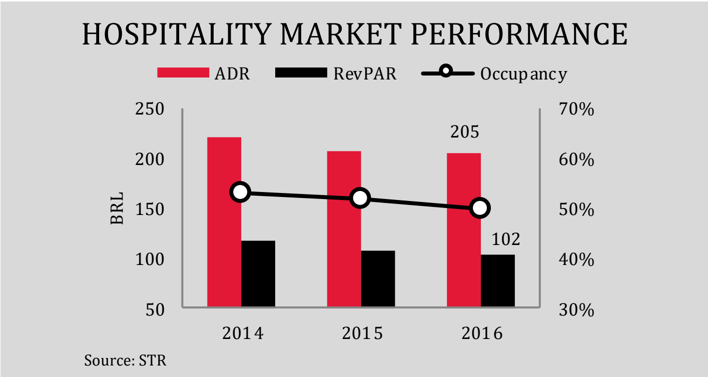
- **Larger leisure market share.** The greater number of shows and leisure activities in the city, together with the implementation of more attractive rates over weekends, has encouraged hotel occupancy, especially in the midscale market.

- **Sao Paulo boasts the best opportunities for new hotels in Brazil.** In the medium term, it is the destination with the fastest recovery potential, as there have been no new projects developed in recent years. Modern and well located projects with a strong brand may have good results.

# Salvador

## Another year of demand drop in the city



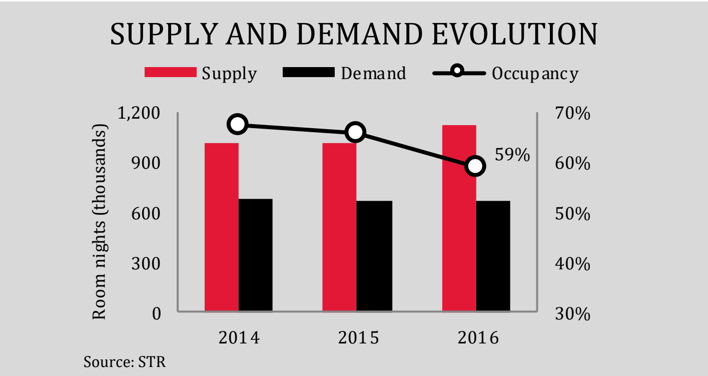

› **Convention Center collapse and closure of Pestana Bahía.** The city lost two major spaces for holding events. The Convention Center that was being refurbished collapsed and there is no information about its reconstruction. The Pestana Bahía hotel, featuring a convention Center, closed in February.

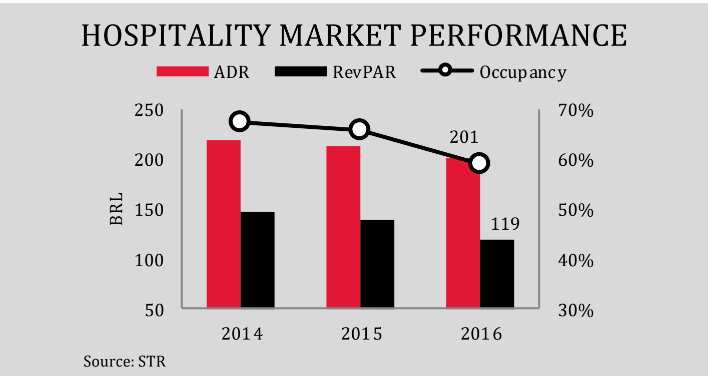
› **Improved city image thanks to investments in urban regeneration.** The public investments made in the Historic Center, the Rio Vermelho quarter, and along the entire seafront promenade in Salvador have turned the city into a more attractive place for its inhabitants and visitors.

› **New hotels.** Despite the recent economic shrinkage, the city will incorporate two new hotels in 2017 - Adagio Salvador (February) and Fera Palace Hotel (March), thus increasing competition in the sector.

# Curitiba

## In a year of crisis, hotels felt the opening of new projects



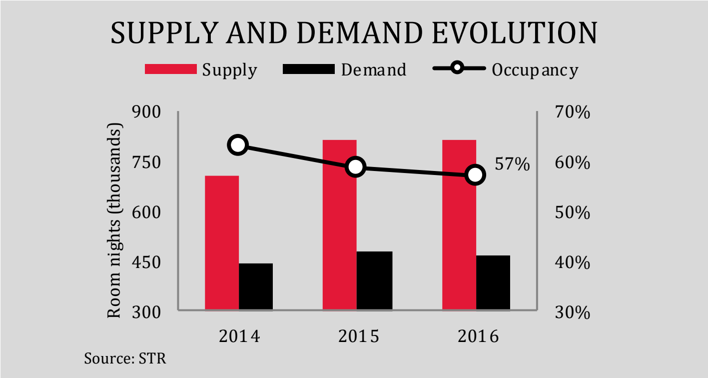



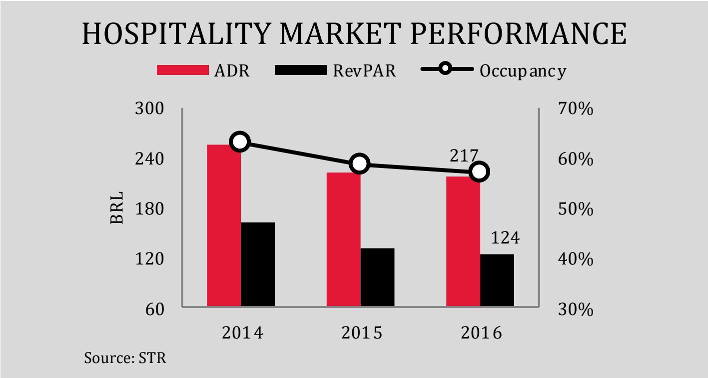

› **The crisis and the expansion of supply had an impact on the local hotel market.** After a few years of stable performance, the sample analyzed in Curitiba showed the sharpest fall in RevPAR compared to the other markets under study. This was mostly due to the economic crisis and a rise in supply in 2016.

› **Prospects of decreased performance in the short run.** With more inaugurations scheduled for 2017 and with demand growth dependent upon an improvement of the national economy, hotel competition will be fiercer. In order to mitigate these effects, local hoteliers should focus on rate strategies and cost control.

# Porto Alegre

## With low new supply expectations, hotels depend on economic upturn



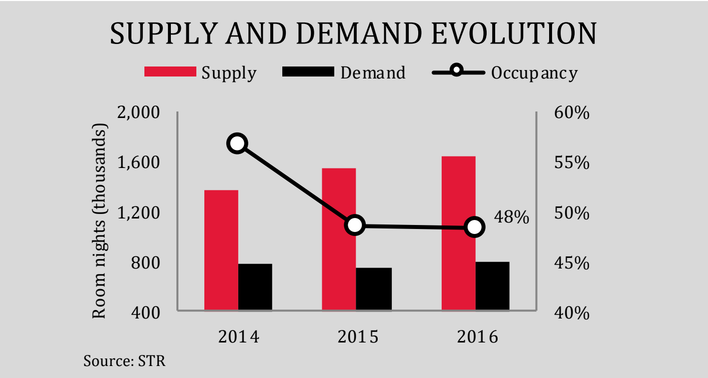



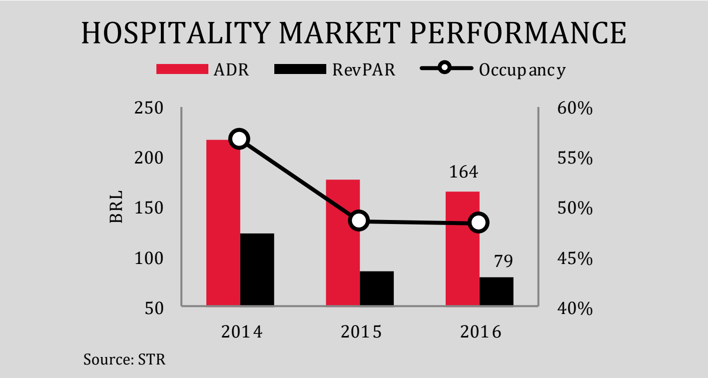

- **A new oversupply crisis is not an imminent risk for the city.** After the inauguration of new hotels in 2014 and 2015, there are no plans for a large number of new developments in Porto Alegre, at least in the short term. In 2017, only one hotel of the Intercity chain is scheduled to open.

- **The regional crisis increases the effects of the national economic recession.** The regional scenario is an additional problem in terms of demand. The Rio Grande do Sul state is undergoing a crisis, with problems in public utilities and fewer local investments. The lower capacity to attract local businesses may extend the performance recovery period for hotels in the *gaúcha* capital city.

# Belo Horizonte

## Supply stability horizon, with gradual recovery in upcoming years




- **Onset of supply stability.** After several years of significant increase in hotel supply, 2016 had fewer hotel rooms entering the market. The scenario indicates the beginning of stability given that there are few projects scheduled to open in the short term. Occupancy levels remained stable. However, with rates dropping due to strong competition, the RevPAR kept falling.

- **Belo Horizonte is not ranked among the country's major leisure travel destinations.** With the country's economy picking up and stable hotel supply, the sector's performance indexes tend to recover. However, there is a need for local investment in leisure and event venues to increase the city's attractiveness as a travel destination and thus accelerate the hotel segment recovery.

## About HVS

HVS, the world's leading consulting and services organization, focused on the hotel, mixed-use, shared ownership, gaming, and leisure industries celebrated its 35th anniversary last year. 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 40 offices and 350 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry.

**Superior Results through Unrivalled Hospitality Intelligence. *Everywhere*.**

## About 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 (which represents HVS in South America), having elaborated more than 700 studies in Brazil and other countries; hotel asset management, a division focused on the supervision and maximization of profits from hotel investments, which at present, manages 31 contracts and about 7,500 hotel rooms; and hotel investment funds; and the Investment Fund area, which 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 during five years with an internal rate of return of over 30% annually.

**Intelligence in Hotel Investments**

## About STR

STR offers clients — including hotel operators, proprietors, investors, destination administrators, local and national governments, Industry suppliers, counselors and sponsors — a standardized, world platform, a transparent, logical methodology, and a quality service all over the world. STR monitors hospitality supply and demand data and offers a valuable analysis of market activities, both for international and regional hotel groups and independent properties. With more than 55,000 hotels participating in our research of hotel performance, we are the primary source in the world for the historical tendencies of hospitality performance. We supply standardized and personalized information that will help understand past performance, market projections, and the dynamics of supply and demand in the hospitality sector.

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**HVS South America**
**Avenida Brigadeiro Faria Lima, 1912, Cj.: 20J | 01451-907, São Paulo - SP, Brazil**

# How can you improve your hotel's value and profitability

## *Hotel Asset Management*

Our analysis and strategic management service is aimed at maximizing the operating performance of hotel establishments. The asset manager follows up closely on the management of the hotel, analyzing each aspect to improve the investor's profitability, and values his assets on an ongoing basis through a series of activities:

- **Monthly analysis of financial statements,** comparing them against market practices and making recommendations to the operator.
- **Analysis of competitive market** and of hotel rate positioning.
- **Assistance in preparing budgets and operating goals,** in addition to following up on their evolution.
- **Mediation between owner and hotel operator** as a spokesperson for the investor with expertise in the hotel industry.
- **Preparation of asset follow-up reports,** including financial and market data as well as analysis of product quality and reinvestment needs.

Based on this approach, Hotel Invest informs investors about the evolution of their investments and offers elements for the decision making process.

## *Hotel Check-up*

*Hotel Check-up* was developed to analyze the key points of your business and check whether they are in line with expectations or whether there is room for improvement. These points comprise the major aspects of a hotel operation: market analysis, financial analysis, and quality of service. It is an actual and thorough hotel analysis to assess the health of your investment. Its main benefits are:

- **Maximize market efficiency and hotel operating efficiency** in order to make it more competitive and generate higher financial results.
- **Identify whether the potential of revenue generation and hotel costs are adequate** for the market in question.
- **Understand profit margins for each department** and check if there are inefficiencies in any given sector.
- **Obtain performance parameters and references** through sector benchmarking.

As a result, the investor and the management team will obtain an estimation of your hotel's financial potential, together with a set of recommendations and actions that will help improve your business profitability.

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## About the Authors

***Diogo Canteras, FRICS - Senior Partner***
*dcanteras@hvs.com, or (+55 11) 3093-2743*

During his 30 years in the hotel industry, Diogo has led more than 500 projects globally. He has worked as Director of Development in companies such as Caesar Park and Choice Atlantica Hotels. Diogo brought HVS to Brazil in 1999 and since 2013 represents the company in South America. In 2007 he structured and implemented the Hotel Maxinvest REIT, considered for years the most profitable real estate fund in Brazil, currently managed by Banco BTG-Pactual and HotelInvest. In addition to his role with HVS, he taught for 8 years at the main Brazilian usiness school – the Getúlio Vargas Foundation. He lectures extensively on hotel trends, being a frequent lecturer at major hotel schools and conferences in South America and is a member of numerous hotel industry committees such as HAMA - Hospitality Asset Managers Association. Diogo has the title of FRICS by the Royal Institution of Chartered Surveyors (RICS), the world´s biggest entity in qualifying real estate professionals. Diogo has an Engineering degree from the Polytechnic University of Sao Paulo (POLI-USP) and a post-graduate degree in Business Administration from the Getúlio Vargas Foundation (FGV).

***Cristiano Vasques, MRICS - Managing Director***
*cvasques@hvs.com, or (+55 11) 3093-2743*

Cristiano has more than 15 years of experience in the Hotel, Tourism, and Real-Estate industry, conducting and supervising more than 200 studies for hotels and resorts throughout South America, Trinidad & Tobago, Angola, and Portugal. He worked for four years on tourism projects for HVS, coordinating the elaboration of regional tourism development plans financed by the Inter-American Development Bank (IADB). He is a permanent columnist for Hotelnews magazine and he has also published several reports on the tourism-real estate market and co-written the Brazilian Hotel Market Overview (HotelInvest / HVS) as well as the 2015 Hospitality Scoreboard (in partnership with the Brazilian Hotel Operators Forum – FOHB). Cristiano has the title of MRICS by the Royal Institution of Chartered Surveyors (RICS), the world´s biggest entity in qualifying real estate professionals. Cristiano has a Production Engineering degree from the Polytechnic School of the University of Sao Paulo (POLI-USP) and a post-graduate degree in Tourism and Hospitality Management from the Getúlio Vargas Foundation (FGV) and has also completed a Real Estate-Hotel Finance course at Cornell University.

***Pedro Cypriano - Consulting Director***

*pcypriano@hvs.com, or (+55 11) 3093-2785*

Pedro Cypriano, Consulting Director of HVS Sao Paulo, has extensive knowledge of the Latin American hotel market, as well as relevant experience in projects in Europa, Asia, and Africa. Over the past 10 years, Cypriano has been involved in more than 250 projects in global hospitality and tourism consultancies, and distinguished research institutes. As an executive of HVS, Pedro has led development plans for hotel chains, brand & management selection and contract negotiations, structuration of mixed-use complexes, business plans for investment funds, as well as hundreds of market studies, valuation and feasibility analysis for hotels and resorts. He is the author of the book "Hotel Development in Brazil: market overview and perspectives", published by Senac, and guest panelist of leading universities. Pedro has a MBA from Insper Business School, a Master degree in Hotel Development from University of Alicante (Spain), a specialization in Finance from Saint Paul Business School and a Bachelor degree in Tourism from University of Sao Paulo (USP).

***Fernanda L'Hopital - Associate Director***

*flhopital@hvs.com, or (+54 11) 5263-0402*

Fernanda has in-depth knowledge of the tourism, hospitality and related-real estate markets in South America. During her career in the hotel industry she has conducted more than 200 studies and has gained plenty of experience in performing market research, feasibility studies, strategic planning, business plans, development plans, highest and best use studies, operator search, management and franchise contract negotiation, and valuations for hotels. Her regional experience is mainly built on her thorough work in countries like Colombia, Peru, Chile, Argentina, Ecuador, Uruguay, Bolivia and Paraguay where she has worked both on operating and developing hotels and other real estate projects. For more than 10 years in the hotel industry she has conducted projects for more than 80 clients including construction and development companies, hotel operators, investment funds, financial institutions, government agencies and many investors. Fernanda has a Bachelor degree in Economics from the Universidad de Buenos Aires and a Masters in Business Administration from Universidad del CEMA.

***Vinícius Moreti - Analyst***

*vmoreti@hvs.com, or (+55 11) 3093-2749*

With over eight years of experience in the Brazilian hospitality sector, he worked in the development function of Brazil's second largest hotel chain, Atlantica Hotels, and also on strategic projects for the Brazilian Hotel Operators Forum (FOHB). Since 2013, Vinicius has worked as a Hotel Investment Analyst at HVS South America, where he has participated in over 40 projects including studies of economic feasibility, valuation and processes of selection of hotel operators. Nowadays, he works as an Asset Manager of seven hotels in Rio de Janeiro and in Salvador. He has a Bachelor degree in Tourism from the University of São Paulo and made courses of Revenue Management (Senac-SP) and Hospitality Planning and Development (Secovi-SP).

***Rebecca Ribeiro - Analyst***

*rribeiro@hvs.com, or (+55 11) 3093-2782*

She is a professional with five years experience in the Brazilian tourism and hotel market. Prior to joining the team of HVS South America in early 2012, Rebecca has served as a consultant in a leading corporate travel agencies in Brazil, Franstur Kontik. Since then, has participated in approximately 50 projects, including studies of economic feasibility, valuation and market research. Having analyzed several markets and categories, such as budget or luxury hotels, and also resorts. Nowadays, she works as an Asset Manager of four hotels in Sao Paulo. She has a Bachelor degree in Tourism from the University of São Paulo.

***Dayane Araújo - Analyst***

*daraujo@hvs.com, or (+55 11) 3093-2751*

With experience in hotel operations, she worked for the Reservations and Revenue Management Department of the Estanplaza hotel chain, as well as in the reception of the Sauípe Park resort located in the Costa do Sauípe hotel complex. In 2012, she started working for HotelInvest in the Hotel Asset Management area, in charge of systematic performance analysis and monitoring of hotels situated in Sao Paulo city. At present, she works as an analyst and is in charge of managing the assets of the Maxinvest Hotel Real Estate Investment Fund whose current portfolio comprises over 300 hotel units distributed in more than 18 hotels. She holds a Bachelor degree in Hospitality from the Centro Universitario SENAC and has completed several courses in Revenue Management (SENAC-SP).

***Matheus Sobrinho - Intern***

*msobrinho@hotelinvest.com.br, or (+55 11) 3093-2782*

Tourism undergraduate at the University of Sao Paulo – USP, he started gaining industry experience with the Events and Hotel Services Assistant Course run by the IOCHPE Foundation and the Grand Hyatt Sao Paulo. He was junior trainee at the hotel in the Human Resources and Concierge areas. A year later, he was transferred to the financial department as assistant in accounts receivable, and soon afterwards as junior financial assistant in accounts payable. With the purpose of exploring the hotel operators market he completed a 6-month internship at Teresa Perez Tours. He subsequently traveled abroad to gain international experience working as a Guest Service Officer on the executive floor of the Grand Hyatt Dubai, where he stayed for 1 year and 3 months. At present, he is an intern at the Asset Management area of HotelInvest.