Hotel Invest

Brazilian Hotel Market Overview

2012 | 2013

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

Introduction

We have reached the 5th edition of the Brazilian Hotel Market Overview, HotelInvest´s annual analysis of the segment´s performance in the key markets of Brazil.

Each year we endeavor to report reliable and up-to-date information, and to comprehend and expose the challenges and opportunities facing the Brazilian hospitality market to the public. After all, we believe that a transparent and well-informed market is a solid and professional one.

This year we are also proud to give a big announcement: the exclusive partnership with **STR Global**. The world´s leading company in hospitality data collection and analysis has joined the Overview, contributing to it with additional information and by giving it, and the Brazilian market, greater international visibility.

As a result, we believe that the Overview is becoming a fundamental source of information for hoteliers, contractors and investors by aiding in the development of sound commercial and investment strategies.

Finally, we would like to invite you to follow the quarterly issues of the Overview, published in our **Boletim HotelInvest** newsletter. To receive these or any other HotelInvest publications, please visit our web page (www.hotelinvest.com.br) or contact us via email at hotelinvest@hotelinvest.com.br.

Information, questions, comments or suggestions?
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Our Sample

The Overview's extensive database is comprised of HotelInvest's internal records and data provided by a wide number of partners. We are grateful to all those who have contributed to this publication and would like to invite new hotel operators and associations to share their performance data in future editions.

The information here disclosed is derived from the commercial performance of 28,798 hotel rooms and is comprised of the main hotels in every segment and every city. We are therefore certain that the evolution indicators here presented are in accordance with what has been happening in each one of the analyzed markets.

Our annual comparisons are based on the same sample throughout the entire length of our historical series, with the exception of both newly inaugurated hotels and significant market segmentation changes. Our broad samples are statistically significant and will be presented in the description of each one of the following markets' analyses.

World Hospitality Scoreboard

From now on, the Brazilian Hotel Market Overview brings a great novelty: the World Hospitality Scoreboard. Fruit of our partnership with STR Global, you now can monitor the performance of hospitality markets in the world´s major cities, in addition to being able to compare them to those of the Brazilian markets. The data covers the level and the evolution of the occupancy, average daily rate and RevPAR in the main cities in all five continents. Enjoy your reading!

	Performance 2012			Change 2012/2011		
	Occupancy	Average Daily Rate	RevPAR	Occupancy	Average Daily Rate	RevPAR
Europe	***66.2%***	***USD 134***	***USD 89***	***0.1%***	***-4.0%***	***-4,0%***
Barcelona	71.4	149	107	1.3	-7.1	-5.9
London	80.6	221	178	-1.9	2.9	1.0
Madrid	63.9	112	71	-3.6	-9.8	-13.1
Milan	61.1	167	102	-3.2	-8.0	-10.9
Moscow	66.7	191	127	4.9	-1.5	3.4
Rome	66.4	189	126	-0.9	-7.0	-7.8
Warsaw	68.5	107	73	0.0	1.4	1.5
Zurich	71.1	244	173	-0.1	-11.2	-11.3

	Performance 2012			Change 2012/2011		
	Occupancy	Average Daily Rate	RevPAR	Occupancy	Average Daily Rate	RevPAR
Middle East / Africa	***60.3%***	***USD 162***	***USD 98***	***6.1%***	***-0.5%***	***5,6%***
Abu Dhabi	61.0	155	95	-5.6	-6.5	-11.7
Amman	65.0	153	99	15.1	5.1	2.9
Cairo	45.6	104	47	24.5	-8.6	13.7
Dubai	77.2	235	181	3.3	7.9	11.4
Muscat	59.6	220	131	14.3	-7.9	5.3
Nairobi	62.9	155	97	-8.2	3.0	-5.5

	Performance 2012			Change 2012/2011		
	Occupancy	Average Daily Rate	RevPAR	Occupancy	Average Daily Rate	RevPAR
Asia/Pacific	***68.3%***	***USD 129***	***USD 88***	***0.5%***	***0.9%***	***1,4%***
Auckland	75.2	111	84	-1.4	-12.2	-13.4
Bangkok	70.5	94	66	11.0	4.4	15.8
Beijing	70.8	100	71	1.5	6.7	8.3
Hong Kong	85.0	237	201	-0.6	5.1	4.5
Mumbai	62.4	149	93	-2.1	-14.9	-16.7
Phuket	72.6	126	92	4.0	6.4	10.6
Tokyo	82.5	181	150	10.4	8.5	19.8

	Performance 2012			Change 2012/2011		
	Occupancy	Average Daily Rate	RevPAR	Occupancy	Average Daily Rate	RevPAR
Americas	***61.5%***	***USD 109***	***USD 67***	***2.4%***	***3.8%***	***6,3%***
Buenos Aires	61.5	147	91	-7.6	-1.3	-8.8
Panamá	48.5	119	58	-15.9	-10.1	-24.4
Santiago	72.4	176	127	1.3	11.3	12.7
Mexico City*	63.3	125	79	1.4	4.2	5.7
New York*	83.7	252	211	3.1	2.9	6.1
Vancouver*	66.6	138	92	0.6	-3.2	-2.6
Washington*	67.5	144	97	0.3	-0.7	-0.5

Source: STR Global / *STR

STR GLOBAL

STR Global compiles hospitality market data and prepares market performance analyses for the biggest hotel chains and brands in numerous countries around the world. The STAR product line stands out amongst their services by allowing a comparison of any given hotel's performance to that of any group of selected competitors', shedding light on the effectiveness of Marketing & Sales and Revenue Management strategies. STR's daily benchmarking mechanism helps hotel administrators identify occupancy levels and trends during specific periods so that sales strategies can be adjusted accordingly, allowing, for instance, for the implementation of minimum stay policies or daily rate discounts in times of low occupancy.

2012 Retrospective

The hazards that arouse from the 2012 attempts to re-establish both fiscal balance and economic growth indicate that the adjustment phase in the global economy will be long and arduous, burdened with many risks.

Economic recovery and job growth in the United States continue to evolve at an erratic pace and did not encourage investors and companies who are still fearful about the lack of a solution for the American fiscal problem. The European Central Bank's loans to the countries in financial difficulties have helped to stem panic in Europe, but political impasses and the continent's discouraging situation are still evident. Under these circumstances, global demand has remained underperforming and has affected the performance of Chinese exports and, consequently, the country's economic growth.

Surrounded by the negative and risky global environment, Brazil faced another year of disappointing economic growth. The government reacted to this challenging scenario with a number of initiatives such as:

- Successive reductions of the annual reference interest rate, Selic, to 7.25%;
- Reduction of taxes on industrialized products (IPI) in various sectors;
- Increase in credit supply by state banks;
- Payroll tax relief;
- Reduction of electricity costs;
- A package of infrastructure concessions.

However, unlike in 2009 when the government policies were successful in stimulating a repressed demand, the results of the new initiatives on the economy were quite limited.

In fact, although employment rates are high, there seems to be little room left for consumption in family earnings. The heated-up labor market has restrained company earnings and, as a result, growth prospects for the country. Brazilian productivity, measured as the average production per employee, fell in 2012, contrary to that of the main emerging economies.

The main consequence of this is that the result of investing, which would allow for productivity and profit growth, has become dubious since returns on investments are widely seen as being unsatisfying.

The current economic situation has affected the hospitality industry through decreasing room occupancies and rising operational costs. The decrease in the former, which affected each city differently, is a consequence of the increase in room supply allied to the overall contraction in demand, whilst the latter is mainly the result of the higher payroll costs which, in its turn, is a consequence of labor market pressures.

In spite of facing an overall decline (4.1%), occupancy levels remained very good and allowed for an overall 8% average daily rate readjustment in the year. As a consequence, the overall increase in RevPAR (3.5%) was sufficient to compensate the increase in operational costs and to guarantee a minimal increase in hotel operating profits.

In addition, the decrease in the Selic rate strengthened the demand for hotel assets and other investment options. Together, the decline of the reference rate and the increase in income resulted in the appreciation of hotel assets.

2013 Perspectives

Investors and managers must keep a cautious eye on the challenges that surround both economic and market scenarios. Most analysts from the main financial institutions feel that GDP growth in 2013 will be between 3.0% and 3.5%, which certainly enables the hospitality demand to recover. Risk perception, however, remains very high and market behavior should continue quite volatile.

The challenges that concern the Brazilian Hospitality Industry in 2013 are significant. In order to ensure that strategic decisions - in the commercial, financial and investment areas - are made in a sound manner, we recommend that the following factors be taken into account:

• **International Economy:** the most favorable scenario would be the one in which signs of recovery in employment, consumption, production and exports prove to be consistent and geographically well distributed. From a fiscal point of view, the United States and Europe should reach political agreements that would enable them to balance their budgets and improve their debt- financing perspectives;

• **Brazilian Economy:** a clear recovery in investments - particularly in the infrastructure concession auctions - is necessary to maintain a positive outlook for productivity and profitability. If the government is successful in conducting a series of policies in this direction while keeping inflation under control, the impact on production and on hospitality demand will be positive;

• **New Room Supply:** in many Brazilian cities, new hotel developments are now being inaugurated. In many cases, the amount of new rooms supplied will be substantial and can impact the local market negatively, especially if demand does not recover;

• **Labour Market:** due to the heated-up labor market, the high turnover rate of personnel should continue. Employee replacements will surely remain a challenge and will add inflationary pressure to hotel payrolls.

Short term risks are still present in terms of supply, demand and operating costs. In some markets, it will be time to deal with serious problems created by the negative combination of these factors. In others, it will be the case that careful evaluation is required to verify weather new investment opportunities are worth the risk. More than ever, a strategic analysis of the market will become crucial to insure that decisions may be taken considering the risks conscientiously.

Rio de Janeiro

The performance forecasts for Rio de Janeiro's Hospitality Industry[1] were positive in 2012. The occupancy rate was believed to remain at high levels while the average daily rate should maintain its robust growth. In spite of this, restlessness arising from potential new hotel openings and from the uncertainties of the international economy was existent.

In accordance with expectations, the Rio had good operating results to report in 2012. While our sample's room supply increased 3.2% as a result of the opening of two new properties, room night demand rose 4.4%. This 1.2% increase in occupancy, along with the 9.7%[2] increase in average daily rates, resulted in a RevPAR expansion of nearly 11.0% - the largest growth in any of the cities analyzed.

Rio de Janeiro's Upscale segment (comprised of hotels with average daily rates larger than BRL 520.00) reported stable rooms supply variation (-0.1%), and increase in demand (3.3%) which resulted in a 3.4% occupancy rate hike. The average daily rates rose 8.8% and RevPAR, in relation to that of the previous year, soared 12.5% - the largest increase in the markets analyzed.

Midscale hotels (comprised of hotels whose rates vary between BRL 250.00 and BRL 490.00) suffered a decline in occupancy (1.9%). Ibis Copacabana's and Windsor Copa's openings resulted in a 7.8% supply increase that was greater than that of demand (5.8%). Nevertheless, the average daily rate increased 12.6%, which drove RevPAR up 10.5%.

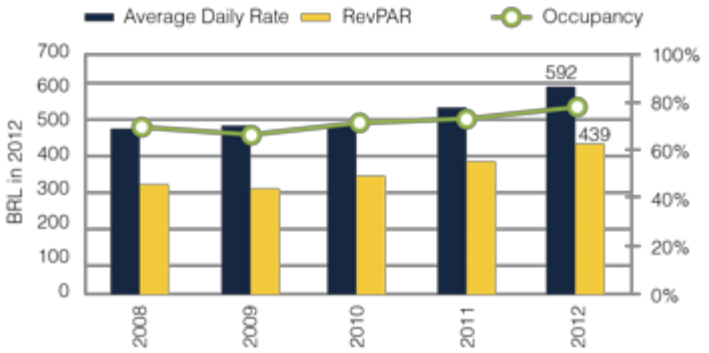
In spite of the unstable international economic environment and its underlying implications for Brazil, the variation in hospitality demand in Rio de Janeiro in 2012 was positive. This was possible largely due to a heated local economy resulting from the inherent dynamism of the petrochemical, naval and transport industries; the 2014 World Cup and the 2016 Olympic Games; the revitalization of the Porto Maravilha and other older areas of the city; and Barra da Tijuca's continuous business-driven growth. Demand also increased due to the openings in Copacabana that allowed tourists who were until then unable to find available rooms.

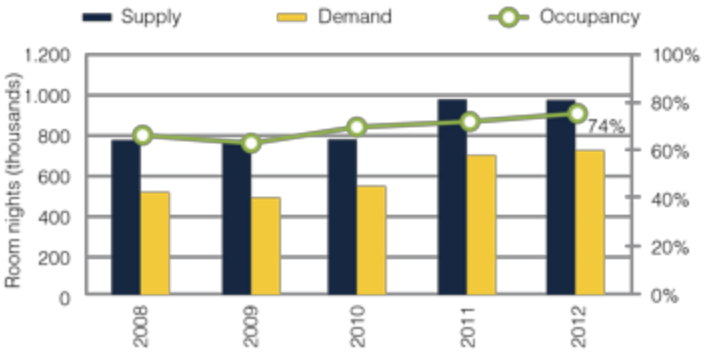
In the short run, even higher average daily rates are expected due to high demand for accommodations and to the coming of to the major sporting events. In the long term, however, Rio de Janeiro should exhibit distinct regional performances. The expected room supply growth in Barra da Tijuca (approximately 3,700 new rooms during the next few years) could disrupt the supply/demand balance in the region, causing a decline in both occupancy and average daily rates. The central and southern regions should feel this effect only marginally.

[1]This study used a sample of hotels representing 4,869 rooms, or 25.3% of the total room supply in Rio de Janeiro (19,271). In the Upscale category, the sample contains 2,659 rooms (92.5% of the category´s total), and in the Midscale category, 2,210 rooms (33.8%). Motels, hostels, pensions, residences that offer primarily monthly services contracts and flats which are out of the hotel pool were not considered.

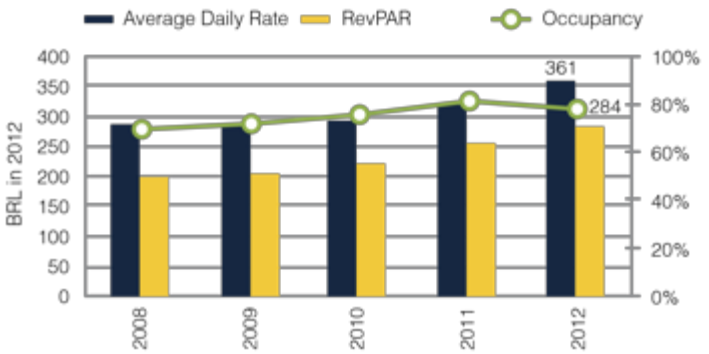
[2]The average daily rates and RevPAR variations are analyzed in real terms, having price levels been discounted by Brazilian consumer price index (IPCA).

Upscale Category





Midscale Category



São Paulo

In 2012, market expectations concerning São Paulo[1] were that of recovery, in a context of rising average daily rates and stable occupancy rates.

Partially fulfilling these expectations, the Paulista capital was responsible for the largest increase in average daily rates[2] (11.5%) amongst all the cities included in this study. On the other hand, São Paulo suffered greatly from the deceleration of the Brazilian economy and registered the largest decline in room nights demand (4.6%) among the major cities. This result, combined with a stable rooms supply (-0.2%), resulted in a 4.5% average occupancy drop and a 6.5% increase in RevPAR.

The city's Upscale market (comprised of hotels whose average daily rates are larger than BRL 480.00) had good results to show in 2012. With a stable room supply, the segment's hospitality demand and occupancy declined in the same proportion (3.5%). Hotels in this segment, however, exhibited the largest increase in average daily rates amongst all the markets analyzed in the study (14.4%), which drove RevPAR up by 10.3%.

The Midscale and Upper-Midscale segments (those hotels whose average daily rates are in between BRL 240.00 and BRL 420.00) also had good results to show. Although the occupancy rate shrank 5.7% due to both stagnant supply (-0.4%) and shriveling demand (6.1%). Average daily rates rose 10.6%, which contributed to a 4.3% RevPAR increase.

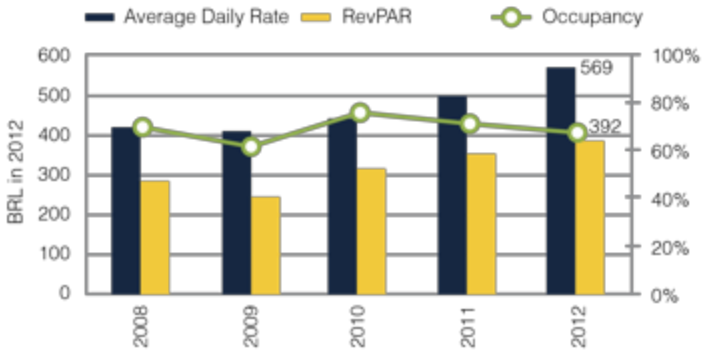
São Paulo's Economy segment (comprised of hotels whose average daily rates are under BRL 240.00) evolved moderately. The occupancy decline (2.5%), which resulted from a 2.2% fall in demand and a relatively stable supply variation (+0,3%), was counterbalanced by an increase in room rates of 8.3% and resulted in a 5.6% RevPAR growth over the previous year.

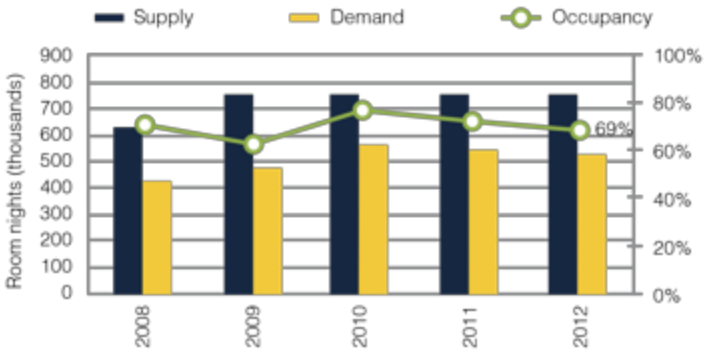
For most hoteliers in São Paulo, 2011 was an exceptional year that, unfortunately, triggered overly optimistic prognostics for 2012. Due to Brazil's economic deceleration, however, the volume of business and travelling fell. Even with lesser-than-expected occupancy rate, the city's hotels were able to generate revenues superior to that of the previous year, a direct result of increases in daily rates.

For 2013, the general belief is that the economy will grow as business activity reverts to its growth trend. Even so, hospitality forecast point to more timid results: occupancy should begin to recover earlier losses, while average daily rates should increase at a slower pace than that of the previous years. This recovery scenario will continue to favor the feasibility of new hospitality properties. Moreover, real estate developers are prone to diversify their portfolios as a result of declining sales of residential and commercial buildings. In 2012, two hotels, the Ibis Styles Barra Funda and the Ibis Budget Frei Caneca, with inauguration due to 2015 and 2016 respectively, were announced to the market. As there are not many new properties slated for operation in the next three years, however, São Paulo should keep presenting good occupancy and average daily rates in the coming years.

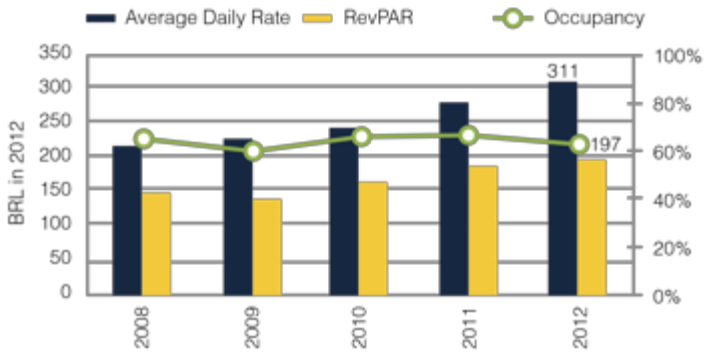
[1]This study used a sample of hotels representing 10,541 rooms, or 29.4% of the total room supply in São Paulo (35,854). In the Upscale category, the sample contains 2,106 rooms (100% of the category's total), and in the Midscale and Upper-Midscale, 6,252 rooms (32.9%), and in the Economy category, 2,183 (21.2% of the category´s total). Motels, hostels, pensions, residences that offer primarily monthly services contracts and flats which are out of the hotel pool were not considered.
[2]The average daily rates and RevPAR variations are analyzed in real terms, having price levels been discounted by Brazilian consumer price index (IPCA).

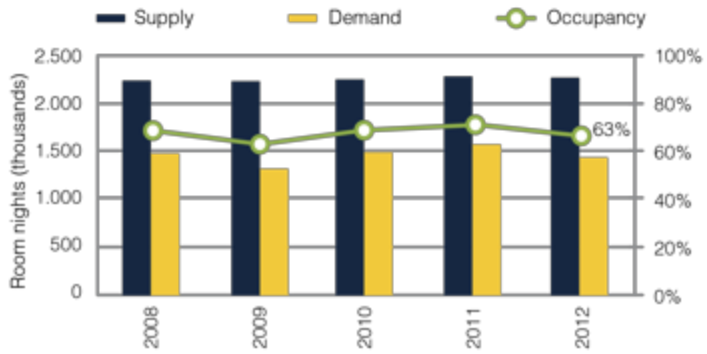
Upscale Category



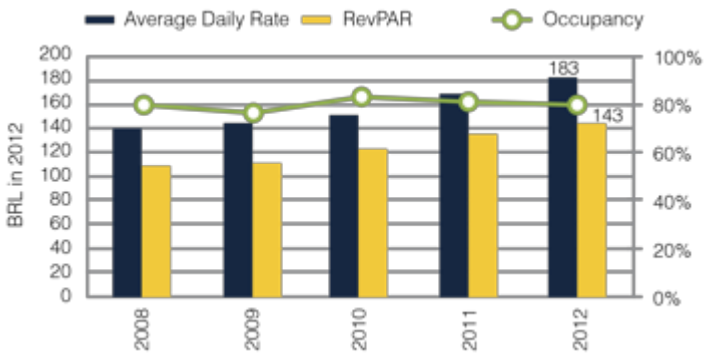


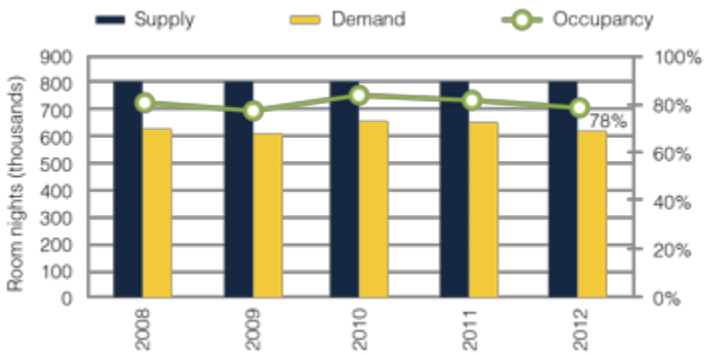
Midscale Category





Economy Category





Salvador

At the beginning of 2012, Salvador's hospitality industry[1] perspectives were still uncertain. While some factors such as exchange rate and competition from cruise lines and resorts remained unaltered, the entrance of new hotels in the market has affected the occupancy rate albeit the increase in hospitality demand. In this scenario, increases in average daily rates, however small, were highly unlikely.

Suffering from a saturated rooms supply, the hospitality market deteriorated more than expected, deeply affected by the international economic crisis. In 2012, room demand varied little (+0.3%), while room supply increased over 10.1%, causing an 8.9% drop in occupancy rates[2]. The city's long history of stagnant daily rates along with the increased competition from new hotel properties resulted in 3.6% drop in average daily rates . This created the worst RevPAR decrease amongst all the analyzed cities (12.2%).

In the Midscale market (comprised of hotels whose average daily rates vary in between BRL 200.00 and BRL 280.00), the rooms supply increased[3] 17.2%, as a result of the inauguration of the Mercure Boulevard and the Intercity Premium Salvador. Included in the supply group are the hotels Matiz and Caesar Business, which open the year before but only enjoyed their first full year of operation in 2012. In spite of a 6.2% demand increase, overall occupancy fell 9.4%. The average room rate also suffered a reduction (7.0%), causing RevPAR to shrink a massive 15.7%, well below levels of the years before.

The Economy segment (comprised of hotels whose average daily rates are under BRL 190.00) suffered only from a loss of demand. While room supply remained stable (+0.3%), the amount of room nights sold by the hotels in this segment was 7.6% less than the previous year. This resulted in a 7.9% decline in occupancy. The average daily rate remained unaltered (+0.2%), relegating the decrease in RevPAR to be similar to that of occupancy (-7.7%).

The differences in the evolutions of demand, occupancy and room rates between the two segments can be explained by increased competition. The entrance of new hotels into the Midscale segment provoked a price war. Since Economy hotels did not follow suit, guests migrated upward as Midscale prices closed on the Economy rates.

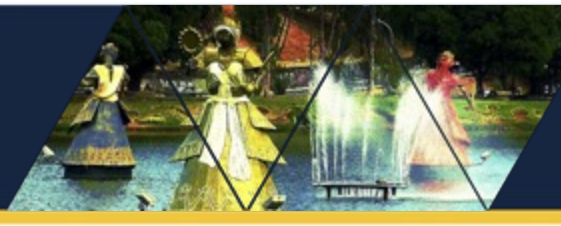
During the following years, perspectives for the hospitality industry will remain unfavorable in Salvador. Increased competition, motivated by the excessive increase in rooms supply, should continue to be the key factor of the industry. Still under development, there are 1,600 new rooms to be inaugurated in the coming years. On top of this, there are rumors of new hospitality property developments that could further inflate the list of future openings. In spite of the fact that demand could recover in 2013, due to better forecasts for Brazil this year, the growth of rooms supply should decrease the market performances through the next years.

Salvador market must be continually scrutinized, as the market imbalances should persist for a long time. Drops in occupancy and room rates will continue for a number of years in all segments, and the challenge will be to identify new demand generators and improve the operating efficiency of the hotels, until the moment that this scenario reverts itself.

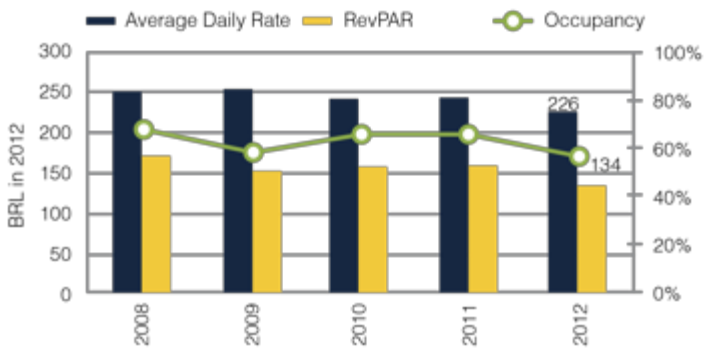
[1]This study used a sample of hotels representing 5,214 rooms, or 65.4% of the total room supply in Salvador (7,975). In the Midscale category, the sample contains 3,348 rooms (93.1% of the category's total), and in the Economy category, 1,866 rooms (51.2%). Motels, hostels, pensions, residences that offer primarily monthly services contracts and flats which are out of the hotel pool were not considered.

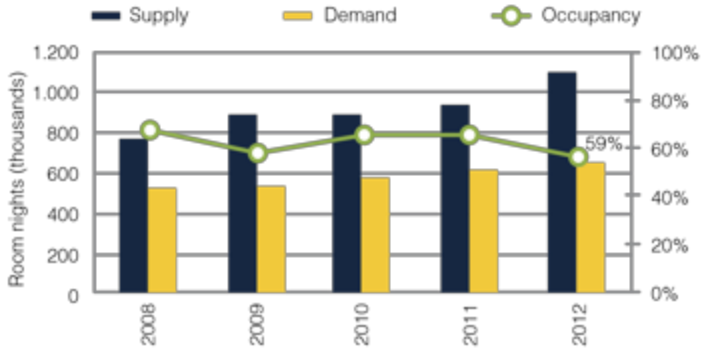
[2]The average daily rates and RevPAR variations are analyzed in real terms, having price levels been discounted by Brazilian consumer price index (IPCA).

[3]Considering the total of rooms in the hospitality market in Salvador, the new supply of rooms represents an increase of 13.0% for the period. Part of this new supply was not included in the base room sample.

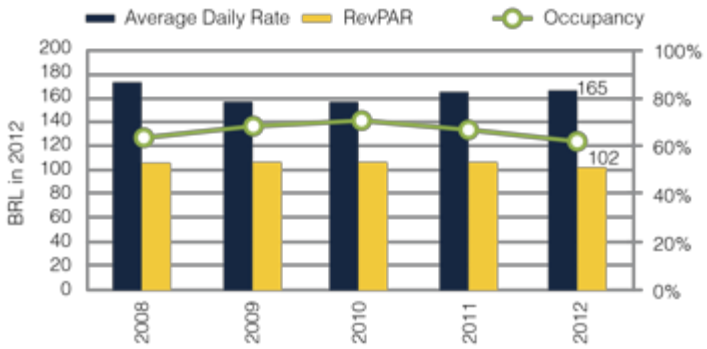


Midscale Category





Economy Category



Curitiba

The hospitality industry in Curitiba was expecting that the average daily rate's recovery would continue in 2012. This scenario, along with rising occupancy, would ensure that the city become more attractive for the development of new hotel properties.

As opposed to market behavior in 2011, hotel[1] performance in 2012 was well below the expected results. While room supply increased 5.8%, demand slightly fell (-0.5%) and, as a result, occupancy faced a -6.0% variation. Even so, Curitiba hoteliers raised their average daily rates[2] by 4.5%, which, however, was not enough to secure RevPAR (-1.8%).

The Midscale market (comprising hotels whose average daily rates vary in between BRL 190.00 and BRL 350.00) witnessed a very slight increase in supply (0.3%). Demand, on the other hand, heavily contracted (7.5%), partly due to guest migration to Economy hotels. The result was an occupancy decline of 7.8%. In turn, average daily rates increased 7.0%, which led to a slight decline in RevPAR (1.4%)

The hotels in the Economy segment of the market (comprised of hotels whose average daily rates under BRL 190.00) enjoyed a significant increase as in demand (10.7%), as in supply[3] (15.4%) with the inauguration of the Ibis Curitiba Shopping in 2011. These two factors caused the segment occupancy to fall 4.1%. This, however, was offset by a 4.0% increase in average daily rates which resulted in a 0.3% RevPAR decrease over the previous year.

International economic crisis had significant impact on the hospitality market in Curitiba. Part of the segment's business and events clientele canceled their trips to the city and another fraction of the remaining demand, one more sensible to process, migrated to Economy hotels. On the other hand, the expressive increase in demand for Economy hotels can be attributed to latent demand at certain times of the year which was absorbed by the new Ibis Curitiba Shopping. In addition, the closing of some areas of the Estação Convention Center did not impact the market so heavily, as most of the events were hosted by other event centers in the city.

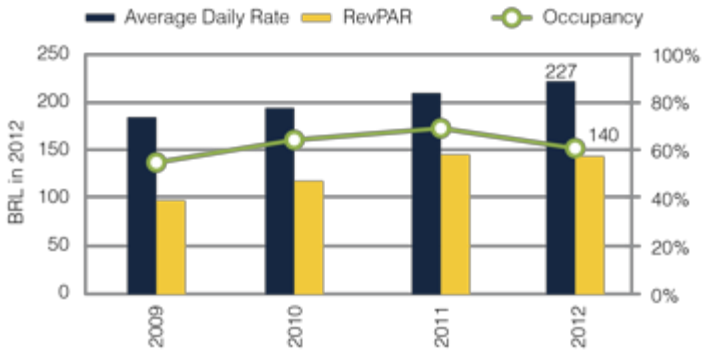
It is expected that Curitiba hotels in 2013 will display a somewhat restrained performance: average daily rates will probably increase little, while hoteliers await a business recovery that may increase occupancy rates. In terms of supply increases, a few new hotels are expected to open as of 2014. Until then, there is time for robust growth in both average daily rates and RevPAR.

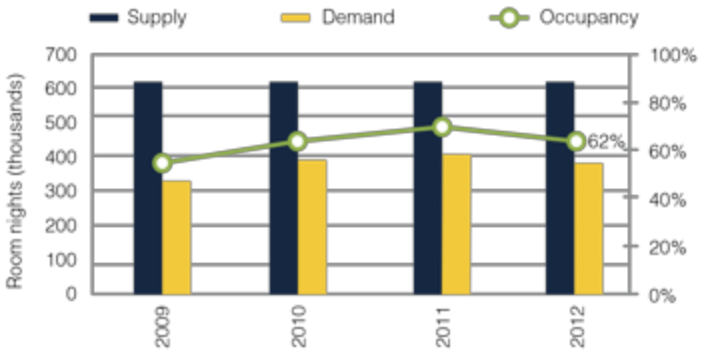
[1]This study used a sample of hotels representing 2,804 rooms, or 37.3% of the total room supply in Curitiba (7,517). In the Midscale category, the sample contains 1,677 rooms (65.6% of the category's total), and in the Economy category, 1,127 rooms (27.4%). Motels, hostels, pensions, residences that offer primarily monthly services contracts and flats which are out of the hotel pool were not considered.

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

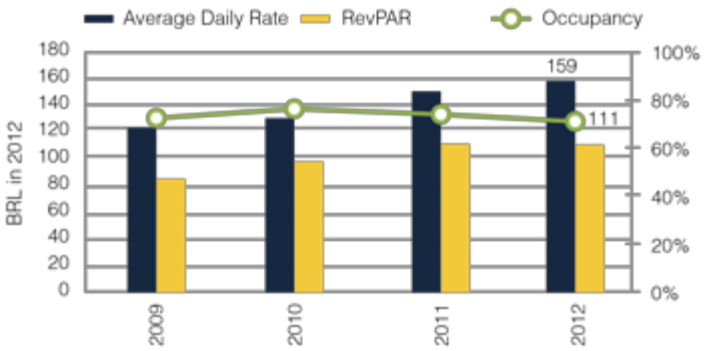
[3]Considering the total of rooms in the hospitality market in Curitiba, the new supply of rooms represents an increase of 5.4% for the period. Part of this new supply was not included in the base room sample.

Midscale Category





Economy Category



Porto Alegre

The hotel market in Porto Alegre[1] was optimistic about 2012, although not without caution. Part of this caution was based on the projected inauguration of three new properties during the second semester that could impact occupancy negatively in the short term. Even so, there was hope that demand would continue its ascending trajectory, which would allow for increases in room rates.

The year's results were positive. Compared to other cities analyzed in the Overview, Porto Alegre was the only region that exhibited a robust increase in room demand (7.4%), driven primarily by the results of the final quarter, when a number of large events impacted the groups and leisure segments. Only two hotels were opened in 2012[2], one of which (from the Midscale segment) is contemplated in our sample. Therefore, even though rooms supply increased significantly (9.0%), occupancy suffered only a slight decline (1.5%). Average daily rates[3] increased at a 4.4% rate, slightly below the previous year's figure. As a result, RevPAR grew 2.9% in relation to 2011.

Once again, the scarcity of major events during a large part of the year reflected heavily on the performance of the Midscale segments (comprised of hotels whose rates vary between BRL 200.00 and BRL 300.00). Moreover, the increase in rooms supply (12.0%), which resulted from the inauguration of the Novotel, overlapped the demand increase (9.2%) and thus resulted in a drop in the segment´s occupancy (2.5%). It is possible that the positive growth of demand was a result of the inauguration of a new hotel from this segment at the beginning of the year, which would have been able to attract a previously unaccommodated demand. The Midscale segment registered positive growth in average daily rates (3.6%), although more restrained than that of previous year, and an increase in RevPAR of 1.0%.

In turn, the Economy segment (comprised of hotels whose average daily rates are under BRL 200.00) displayed a more stable composure, as room supply varied very little throughout the year (+0.3%). As a consequence, rooms demand and occupancy rates grew at similar levels (2.9% and 2.7%, respectively). Room rates, however, increased at a higher pace (5.5%) than those of the Midscale market, reducing the distance between the average room rates of both segments. Therefore, RevPAR rose 8.3% in relation to the previous year.

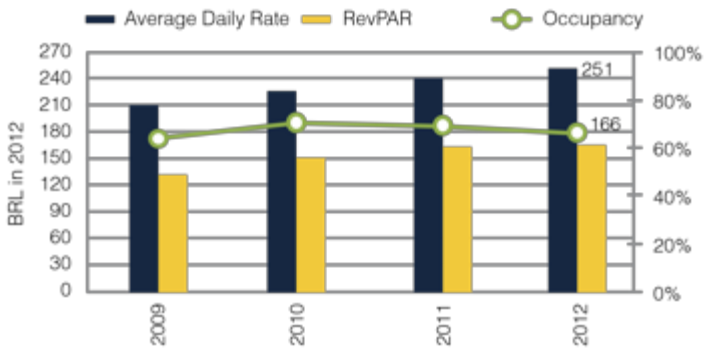
As of 2013, hoteliers in Porto Alegre are apprehensive about the market and will probably resort to timid average daily rate increases. On one hand, general expectation point to continued demand growth as the Brazilian economy recovers. The inauguration of the new Gremio soccer stadium (Arena do Gremio) will be highly welcomed as a demand generator, whether it is used for soccer games and shows or for events generated by the to-be annexed convention center. On the other hand, in 2013 Porto Alegre should face a new cycle of hotel openings that should last until 2016. Seven of these openings (totaling approximately 1,100 rooms) are expected to happen in 2013 and 2014 alone, most of which of the Economy segment.

[1]This study used a sample of hotels representing 2,062 rooms, or 40.9% of the total room supply in Porto Alegre (5,039). In the Midscale category, the sample contains 1,584 rooms (71.7% of the category's total), and in the Economy category, 478 rooms (23.4%). Motels, hostels, pensions, residences that offer primarily monthly services contracts and flats which are out of the hotel pool were not considered.

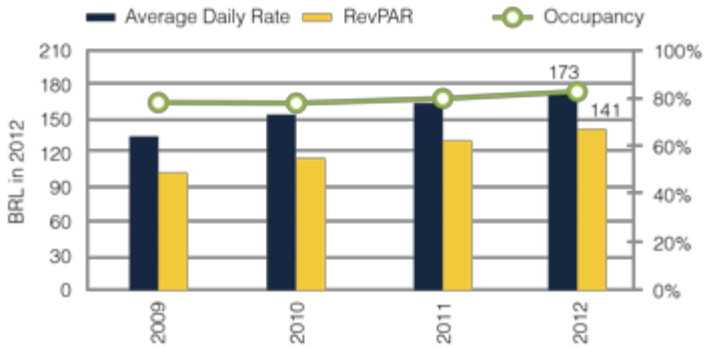
[2]Considering the total of rooms in the hospitality market in Porto Alegre, the new supply of rooms represents an increase of 10.0% for the period. Part of this new supply was not included in the base room sample.

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

Midscale Category



Economy Category



Belo Horizonte

At the beginning of 2012, the hospitality industry in Belo Horizonte was weary in face of the lack of promising perspectives of the city events calendar, a probable reduction in room night demand resulting from cost cutting by the local steel industry, and the entrance of new properties into the market, a reflex of municipal incentives to stimulate hotel development for the 2014 World Cup.

Hotels in the Minas Gerais capital[1] displayed a modest performance. This is even more evident when comparing the 2012 results those of 2011, an especially busy year due to a large number of events and congresses which resulted in generous profits for hotel investors. In 2012, Belo Horizonte's occupancy rate fell significantly by 4.2%, driven particularly by a 6.6% increase in room supply. An increase in demand of 2.1% was insufficient to convince hotel operators to maintain or raise room rates in the same proportion of the previous year. Therefore, the increase of room rates[2] slowed to 3.6%, and RevPAR remained practically unchanged (-0.7%).

The rooms supply of the Midscale segment (comprised of those hotels whose average daily rates are between BRL 210.00 and BRL 290.00) remained stable (-0.9%) through 2012, while room demand shrank 4.7%, a reflection of the deceleration of the national and local economies. As the segment's occupancy fell (3.8%), room rates rose less than in previous years (5.1%). Therefore, RevPAR rose only 1.2% above 2011 levels.

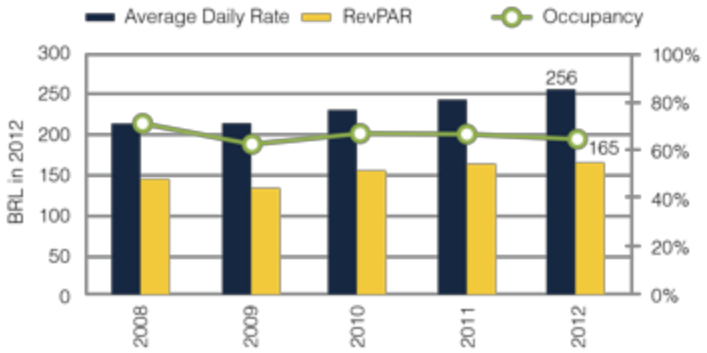
The Economy segment (comprised of those hotels whose room rates are under BRL 210.00) was the most severely impacted by the inauguration of new hotel properties. Even though demand enjoyed a sharp 17.3% increase, room supply grew at a higher rate (24.1%) causing the occupancy rate to fall 5.5%. This strong demand growth was probably helped by the new openings that induced room night demand not previously accommodated. The average daily rate grew 3.6% as the occupancy rate presented a downward trend throughout the year, RevPAR expanded by 2.1%.

Local hotel operators seem troubled when considering the future. Not only will the room supply grow sharply, room demand has not displayed any signs of growth that may counterbalance it. Approximately ten properties, most of which of the Economy segment, should open in 2013. The rest of these, that account for 4,200 new rooms, are forecast to open in 2015. The difference between the average daily rates of the Midscale and Economy segments will probably become increasingly smaller, once the effects of the supply growth is felt by the whole market. Three of the FIFA Football Confederation´s Cup matches which will happen in July 2013 will be hosted in Belo Horizonte and will, therefore, work as a rehearsal for the city's hoteliers to prepare for next year's FIFA Football World Cup.

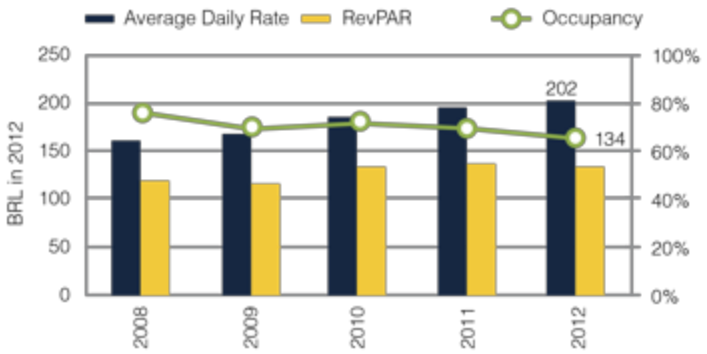
[1]This study used a sample of hotels representing 3,308 rooms, or 51.7% of the total room supply in Belo Horizonte (6,397). In the Midscale category, the sample contains 2,156 rooms (82.4% of the category's total), and in the Economy category, 1,152 rooms (43.9%). Motels, hostels, pensions, residences that offer primarily monthly services contracts and flats which are out of the hotel pool were not considered.

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

Midscale Category



Economy Category



About HotelInvest

HotelInvest was founded in 1999 and is a reference in hotel investment advisory services in Brazil. The company's business is divided into three areas: Hotel Investment consulting, Hotel Asset Management and Hotel Investment Funds.

The Hotel Consulting department is responsible for the elaboration and analysis of market studies, hotel evaluations, feasibility studies and repositioning studies for existing hotels.

HotelInvest was a pioneer in the country in the Hotel Asset Management activity, a department focused on the supervision and maximization of profits from hotel investments. At present, the area manages over BRL 1.2 billion in assets, distributed among 14 hotel properties in the country and their 2,000 investors. In 2012, seven new Hotel Asset Management contracts were signed for properties that will open in 2015.

The company also manages the Fundo de Investimento Imobiliário Hotel Maxinvest (Maxinvest Real Estate Investment Fund) in partnership with BTG Pactual. Since 2007, the fund's equity is approximately BRL 190 million with an annual internal rate of return of over 30%.

During its history, HotelInvest has attended the main developers, investors and hotel operators in the country. In doing so, we are proud of the development and retaining of our staff, a group comprised of professionals with solid academic backgrounds, recognized for their profound understanding of the hospitality industry and tourism real estate market.

The HotelInvest staff is encouraged to nourish long standing relationships with our clients. This style of work, allied to the team's technicality, their profound knowledge of the market and their commitment to results, lead to a high satisfaction level and retention of a select group of national and international clients.

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