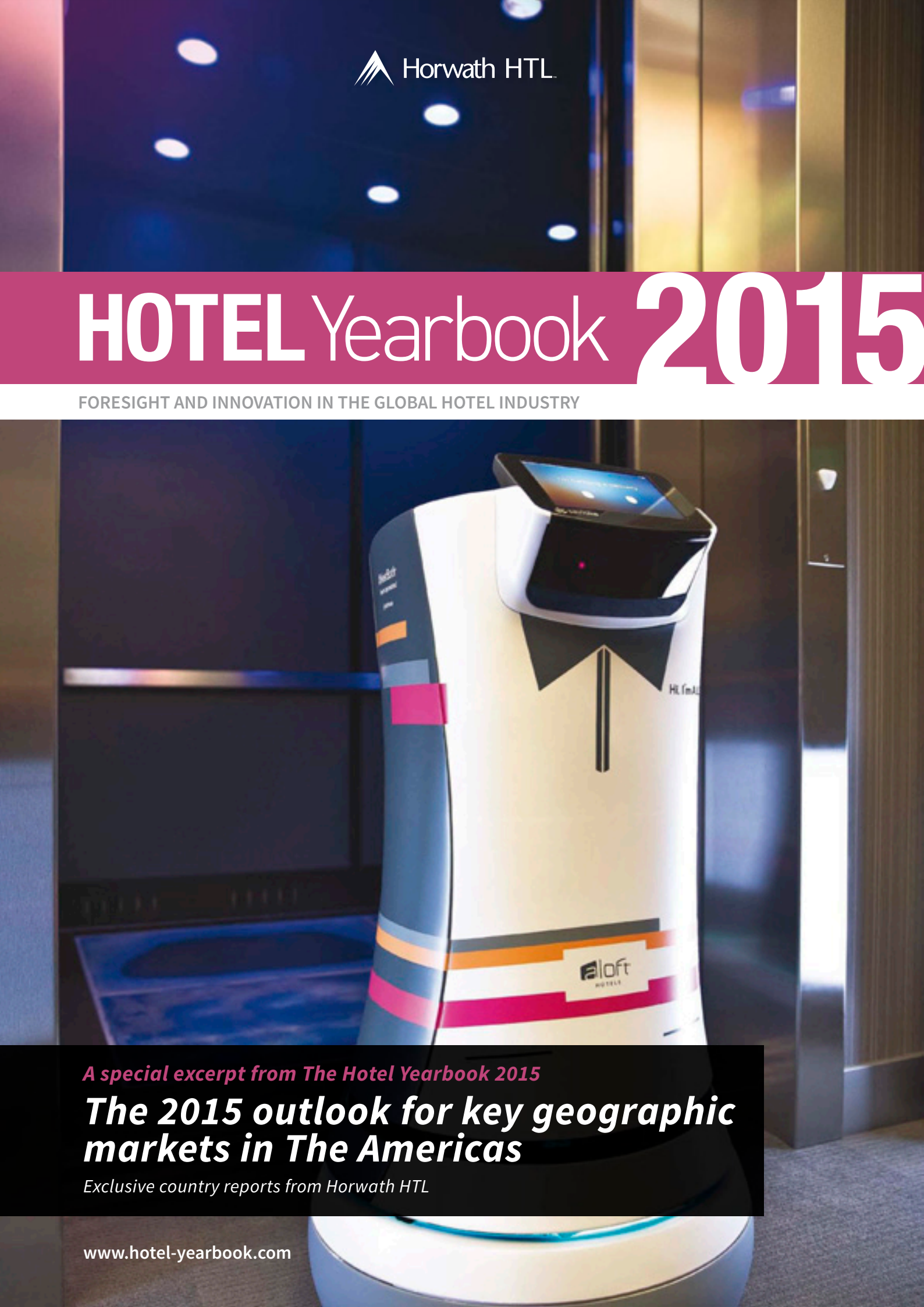
Horwath HTL

HOTEL Yearbook 2015

FORESIGHT AND INNOVATION IN THE GLOBAL HOTEL INDUSTRY



A special excerpt from The Hotel Yearbook 2015

The 2015 outlook for key geographic markets in The Americas

Exclusive country reports from Horwath HTL

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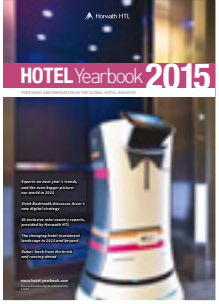

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2015 COUNTRY REPORT

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Sergio Giorgetti *is currently a Fieldwork Director at the Argentina's office of Horwath HTL. He has led the fieldwork done in several projects in Argentina, Brazil, Chile, Ecuador, Mexico and Colombia, and has also participated in the development of strategies to define competitive mixed-use projects attractive to the market in terms of product, finance and economic performance.*

ARGENTINA

by ***Sergio Giorgetti***

2014 SNAPSHOT

- Argentina has approximately 14,000 lodging facilities and 640,000 hotels and other types of lodging facilities.
- The country's hotel demand was boosted, on the one hand, by a better performance of incoming tourism. During the first half of 2014, 1,171,000 tourists arrived in the country, representing 16.7% growth over the first half of 2013. On the other hand, domestic travel, leveraged by the promotion of domestic tourism (e.g. long weekends due to various holidays), has also had a positive impact on the demand for lodging facilities oriented mainly to leisure tourism.
- Since 2003, incoming tourism has mainly originated in Argentina's neighboring countries, currently accounting for a 68.9% share of the total. Chile holds the same position as Brazil, as a tourist source country, although Brazil generates a much higher average daily spend per tourist.
- Incoming tourism in Argentina is growing more slowly than in the rest of Latin America, mostly due to Brazil's economic slowdown.
- The country is the No. 2 South American destination, superseded by Brazil.
- 2014 continued to offer a complex hotel offering scenario when lookin at the corporate segment. This was due to persistent macroeconomic distortions, which affected the hotel offer by reducing both demand (economic retraction) and operating margins (high inflation rates).
- From the point of view of earnings, distortions resulting from multiple exchange rates had an impact on the foreign exchange earnings generated from tourism, with no significant changes for both incoming tourism and hotel offering.
- According to the information published periodically by STR Americas, the average occupation rate (AOR) in Argentina increased by 1% compared to the same period in 2013 (January-September). The average rate (ADR) has increased by 43.1% for the same period in local currency (pesos), but was reduced by -6.3% in dollars. Again, this distortion arises from the strong devaluation suffered by the local currency in Argentina at the beginning of the year.

BUSINESS SCENARIOS FOR 2015 AND BEYOND

The lack of clear guidelines and the expectations arising from a possible government change after next year's presidential elections are partially holding back investment decisions, including those linked to the real estate, tourism and hotel industries.

However, expectations over the medium to long term are positive, and based on the permanent growth of the domestic tourism market. This level of domestic tourism, which is no longer dependent on the holiday periods, is having a positive impact, as it improves the diversification of destinations. It is expected that in 2015, the number of local tourists traveling within the country will continue to increase.

Furthermore, MICE demand (Meeting, Incentives, Conferences and Exhibitions) is also introducingh prospects for sustained growth. Argentina ranked 17th in ICCA's last ranking (International Congress and Convention Association), based on more than 220 international events held in the country. With this trend to support it, and the positioning of various cities within Argentina as destinations boasting the proper infrastructure for event tourism (e.g. Buenos Aires, Córdoba, Mendoza, and San Juan, among others) – and subject to low costs in dollar terms – this segment could be emphasized in the short and medium terms.

BRAZIL

by ***Mariano Carrizo***

2014 SNAPSHOT

- The Brazilian economy is projected to present extremely limited growth (less than 1%) after a first poor semester (+0.5% growth). Inflation is also another issue that the government is seeking to control, with changes in the National Economy management team following President Dilma Rousseff's re-election in October 2014. The 2013 inflation rate reached over 5.9% p.a., while 2014 YTD (as of October 2014) it was 4.4%.

- Despite the poor performance of the national economy, the tourism sector presented limited, but still, sustained growth. The 2014 FIFA World Cup had a direct impact on the tourism and hotel demand dynamics, mostly during the trimester that included the month before, during and after the event (May, June and July).

- As expected, the World Cup had a positive impact in most of the host cities, driving high occupancy rates and ADRs during match days. However, the impact in each city was different regarding the profile of each destination (business, leisure or MICE). The destinations that present a higher incidence of leisure tourism made the most of the synergy generated by the high international and the domestic tourist inflows, and the possibility to access highly valued tourist attractions (mostly sun and beach destinations).

- On the other hand, for cities with a touristic tradition more oriented to the business segment, the impact was limited. Moreover, in smaller cities where hotel demand is generated by people travelling for work (and which were not host cities), the impact was practically nonexistent.

- This is reflected in the national AOR (Average Occupancy Rate) which maintained similar levels during the period of the World Cup (June-July) compared to the same period in 2013.

- As recorded by STR, the AOR for the year up to October 2014 showed a slight drop-off (-0.7%) compared to the same period in 2013, and a slight growth in ADR in USD terms (+1.1%). Again, was the case for many other countries in the region, the local currency depreciation had a negative impact on ADR growth expressed in USD. The ADR for Brazil in the above-mentioned period and in LCU grew over +8.3%.

- The second half of 2014 is expected to improve the overall performance of the year, mostly in business and MICE destinations after a lighter first semester.

- The hotel sector is also facing a new stage in terms of development and market conditions.

- In market terms, new supply is entering into the market after a high number of projects developed in the recent pipeline. New brands are being introduced, mainly in the economy and lower midscale segments, and the already existing ones are being expanded fast. International brands such as the Ibis family, Mercure, Adagio (Accor), Tulip Inn (managed by the local company BHG) and Holiday Inn Express (IHG) are some good example of international brands facing great expansion in Brazil through different models (franchise, management, local partners, etc.)

- Also the national hotel chains have assumed a leadership role, developing and expanding brands created especially to compete within the lower tier of the market: Go Inn (Atlântica Hotels), Soft Inn (BHG), Bristol Easy (Alliá Hotels) and Travel Inn (Travel Inn Hotels) are also good examples of Brazilian hotel industry development. Also new players and partnerships such as Zii Hotels (a management company created by a Brazilian fund to develop a hotel chain that is developing different projects and has already bought a local small hotel chain to gain start-up volume) and InterCity + YOO (InterCity, one of the largest Brazilian hotel chains, will develop the yoo2 hotel brand within Brazil) are transforming the landscape for brands and management companies.

- In development terms, as the Brazilian branded market gains volume and competitiveness, new development strategies are seen (institutional investors entering into the market, buying small chains for start-up processes), and a new set of transactional market opportunities is starting to arise (mostly in the two gateway cities, Rio de Janeiro and São Paulo).

Mariano Carrizo is head of Horwath HTL's Brazil office. He has led market research studies in Brazil, Argentina, Uruguay, Chile, Peru and Colombia, focusing on the development of strategies to define competitive mixed-use projects that could be interesting for the market in terms of product, finance attractiveness and economic performance.

BUSINESS SCENARIOS FOR 2015 AND BEYOND

After its re-election, the National Government set a new group of economic goals, including fiscal, exchange and investment policies.

Brazil has developed solid macroeconomic variables over the last years and if the necessary corrections and improvement in national policies are applied as projected, the negative recession scenario faced throughout 2014 might be overcome.

For the tourism industry, 2015 will also be a changeling year that will be able to confirm if the sustained growth presented over the last few years can be confirmed. Specifically for the hotel industry, the upcoming year will present the chance to see how the market reacts to the new supply developed and in soft opening stage in many cities around Brazil.

Additionally the next year(s) represent a challenge for the development of the hotel industry. There is still a long way to go in development terms, and in many different aspects:

- geography (small and medium-sized cities that still do not have an adequate branded hotel supply),
- product (niche markets, modern and functional, inserted in mixed use projects, etc.),
- market (international exposure through the World Cup and necessity to improve and develop tourism and leisure complexes in destinations), and
- policies (government's strategic planning for tourism, joint ventures at different levels: local, regional, and national).

CANADA

by *Peter Gaudet*

2014 SNAPSHOT

- Canada's diversified economy, broad resource base, and stable banking environment allowed the country to take the lead among the G7, with an average economic growth rate of 1.0% between 2008 and 2011. Since 2012, Canada remains among the top three G7 performers, with anticipated economic growth of 2.2% and 2.4%, respectively, in 2014 and 2015.

- Canada has the world's eleventh largest economy, the third largest proven reserves of oil, and is the fourth largest producer of natural gas.

- Moody's ranks Canada's banking system one of the best in the world for financial strength. For several years now, the World Economic Forum has rated Canada's banking system as one of the world's safest.

- The Global Competitiveness Report 2013-2014, prepared by the World Economic Forum, ranks Canada 14th in global competitiveness. The report states that Canada continues to benefit from highly efficient markets (goods, labor and financial markets are ranked 17th, 7th and 12th, respectively), well functioning and transparent institutions (14th), and excellent infrastructure (12th),

- According to the 2014 Foreign Direct Investment Confidence Index published by A.T. Kearny, Canada ranks 3rd in the world as a preferred destination for foreign direct investment (less than two one hundredths of a decimal point behind China), and also has the third strongest investor outlook among the 25 countries ranked.

- Canada's economy is on track to expand at the second-fastest pace among G7 countries in 2014. The IMF is forecasting Canada's economy will grow by 2.2%, down marginally from its April forecast of 2.3%. It held its 2015 outlook for Canada steady at 2.4%. Despite this trim, Canada's economy will be outpaced this year among the G7 nations only by Britain, at 3.2%. In 2015, according to the forecast, both Britain and the United States will outstrip Canada, at 2.7% and 3%, respectively.

- Vancouver is rated first among North American cities in the 2014 Mercer Quality of Living rankings, followed by Ottawa, Toronto and Montreal in second, third and fourth places, respectively. On a global basis, Vancouver clinches fifth place, followed by Ottawa in 14th, then Toronto (15th) and Montreal (23rd).

- The Economist Intelligence Unit considers Canada the best country within the G7 in which to do business, for the coming five year-period.

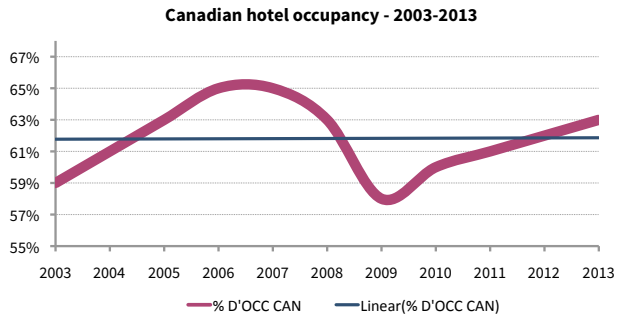
- The Canadian economy has expanded steadily since the 2009 recession, and the country now has the lowest net debt-to-GDP ratio in the G7, and is anticipating a return to budget surplus as of 2014-2015.

- In 2012 Canada's tourism industry was worth $26.4 billion and employed more than 600,000 people.

- With an estimated 16.3 million international tourist arrivals, Canada ranked 16th in the world in 2012.

- Canada hosted an estimated 16.6 million international overnight visitors in 2013, up 1.5% over 2012.

- American tourists represented 72.4% of all travel to Canada, while tourists originating from key overseas markets represented 16.8% of all tourist arrivals.



***Peter Gaudet**, Senior Associate, has been consulting within the Canadian hospitality industry for more than 20 years, having completed a wide variety of tourism related mandates ranging from market studies for hotels, health clubs, banquet halls, spas and convention centers, to asset valuation and appraisals of hotel properties, and interim asset management. He has been involved in numerous studies for a wide range of clients within the lodging, restaurant and leisure related industries, throughout Canada, Mexico, Costa Rica, France, and French Polynesia.*

HOTEL INDUSTRY PERFORMANCE

- The Canadian hotel industry performance peaked in 2006 and 2007, reaching an estimated 65% occupancy nationwide.
- In part as a result of the 2009 recession, occupancy reached an all-time low estimated at 58%.
- The strength of the Canadian marketplace and an improvement in the North American economy have allowed hoteliers to increase their occupancy levels annually resulting in an occupancy of 63% by year-end 2013, just two points shy of the previous high.
- With hotel projects at an all-time low between 2009 and 2011, the marketplace is just beginning to see a resurgence, and this as a result of strong demand growth in recent years.
- As a result of very limited supply growth and strong increases in demand, the Canadian marketplace is expected to match the previous high occupancy of 2006 and 2007 by year-end 2014, and this with a estimated 3.5% growth in average daily rate ($138).
- The cities of Toronto, Montreal, Vancouver, Ottawa and Calgary are among the top performing major destinations in the country.

HOTEL TRANSACTIONS

- According to Colliers International, hotel transactions in Canada peaked in 2006 in terms of number of transactions (131 hotels sold – excluding strategic sales) and in 2012, at close to $1.2 billion, in total volume of transactions. At year-end 2013, Canada registered approximately 110 trades with a total volume of $1.13 billion, whereas of the third quarter of 2014, the country has registered an estimated 91 transactions worth $826 million.

BUSINESS SCENARIOS FOR 2015 AND BEYOND

Both hotel development and acquisition remain attractive investment vehicles, with most markets within the country performing well. As such, development activity is active across the country, with an estimated 45 hotel projects representing close to 7,400 new rooms planned between 2014 and 2019. There is a particular emphasis in the natural resource markets of western Canada, with the greater Calgary area alone having 22 hotel projects (3,460 rooms).

The limited, select-service, and extended-stay products will remain the primary development drivers, with such hotel chains as Marriott International, InterContinental Hotels Group, Starwood Hotels & Resorts, Hilton Worldwide, and Canadian based Delta Hotels, the primary brands driving the growth nationwide.

	OCCUPANCY			AVERAGE DAILY RATE		
TOP FIVE CITIES:	2012	2013	2014F*	2012	2013	2014F*
Toronto	67%	69%	72%	$137	$139	$146
Montreal	64%	66%	69%	$135	$139	$147
Vancouver	67%	68%	71%	$138	$141	$148
Ottawa	70%	69%	70%	$140	$138	$143
Calgary	71%	73%	70%	$156	$162	$166
CANADA	**62%**	**63%**	**65%**	**$130**	**$133**	**$138**

**: Forecast. | Source: Smith Travel Research Inc.*

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CHILE

by Sergio Giorgetti

2014 SNAPSHOT

- Chile has approximately 5,500 lodging facilities and 200,000 hotels and other types of lodging facilities.
- Foreign exchange earnings, including expenses incurred by visitors plus earnings from international transportation, amounted to US$ 1.321 billion for the first half of 2014, which resulted in a downturn of -2.4%, in comparison with the same period in the previous year.
- The three main tourist source markets were Argentina, Bolivia and Brazil, which represented 58.5% of the total arrivals. The average stay for tourists was 9.4 nights and their daily average expenses were US$ 69.
- A total amount of US$ 158 million was allocated for tourism projects and others, with the former representing the category with the biggest amount of investment. Within this category, the lodging segment continued to lead tourism investments, amounting to 55.4% of the total in June 2014, followed by the real estate group for tourism purposes, which amounted to 42.1% of the total. The remaining 2.6% was distributed among casinos and other tourism projects, which include convention centers, parks and roads.
- Real estate tourism investment is concentrated in Valparaíso and the Metropolitan region, which represented 34.9% and 29.1% of the total, respectively, as at June 2014.
- Through August 2014, over 2.375 million arrivals of foreign tourists were registered, representing a 0.6% accumulated increase compared to the same period in the previous year. This performance derives mainly from the recovery of markets from Europe, Peru and USA. On the other hand, a decrease was registered in the arrival of tourists from Argentina (-4.6%), the main tourist source market towards Chile, as well as arrivals from Brazil (-0.9%).
- In accordance with the rest of the countries in the region, Chile has suffered a slight decline in hotel occupation rates (-3.1%) in the period between January and September, 2014, in comparison with the same period in 2013.
- Daily room rates in dollars have also shrunk (-3.2%), mainly due to local currency devaluation in most countries of the region (average rates in local currency grew by 11.4% for the same period) and more commercial competitiveness, subject to the entrance of new hotels to the market, from both national and international hotel chains.

BUSINESS SCENARIOS FOR 2015 AND BEYOND

For 2015, investment of US$ 121 million is expected in the lodging segment.

Hilton intends to carry out various developments, and aims to have five hotels within the country in 2015. One of the locations chosen for expansion purposes is Iquique, with a Garden Inn of 150 rooms. Hilton will be in charge of the transaction, with a local partner providing the land. Meanwhile, the international chain plans to launch a hotel of 200 rooms marketed under Hilton or Double Tree brands, in Santiago de Chile. Copiapó and Antofagasta are other regions in which Chile's most active international hotel chain is interested.

There are also other hotel chains analyzing investments or entering into agreements with local partners in order to develop their brands in the country, like Wyndham, Marriot, Hyatt, NH Hoteles and Accor, among others.

As regards the number of tourists expected for 2015, it is considered that the depreciation of the peso chileno will boost both incoming tourism, due to exchange rates, and domestic tourism, due to expensive trips abroad.

Maria José Gutiérrez is the International Director in Horwath HTL LatAm and Managing Director in Horwath HTL from Mexico and Colombia. She specializes in ski resorts, residential tourism, thermal tourism, hotels and resorts conceptualization, golf courses, marinas and tourism standards and quality. Recently, she created the Colombian Tourism Thermal Project for the country's government; in addition, she conducted a research study of the potential hotel development in the eight most important cities in the country.

COLOMBIA

by *Maria José Gutiérrez*

2014 SNAPSHOT

- During the first five months of 2014, 1,126,500 arrivals from non-resident travelers were registered, that is to say 7.8% more than for the same period in 2013. Those tourists mainly came from the United States, followed by the European Union. Mercosur member countries are the third source of foreign travelers to Colombia.

- For the first quarter of 2014, the Colombian economy grew by 6.4%, with the construction industry leading the way. The commercial, hotel and restaurant segment grew by 5.6% with the hotel, restaurant, and bar sub-segment growing by 4.5% compared to the same period in 2013.

- Hotel occupancy was placed at 58.1%, that is to say 1.7% below the amount registered during the same period (January-September) in 2013.

- As a share of total direct foreign investment flow, the commercial, hotel and restaurant segment decreased from 14% during the first quarter of 2013 to 5.9% during the first quarter of 2014.

- During the first five months of 2014, the amount of building area approved for hotel purposes grew by 24.3% growth over the same period in 2013. Bolívar, Bogotá and Antioquia are the departments with the greatest approved areas.

- Some of the factors that are boosting the growth of the hotel offer in Colombia include:
  - the improvements in safety indicators,
  - legal and political stability,
  - economic growth,
  - young workforce,
  - an increase in the number of foreign visitors (mainly business travelers), and above all:
  - the 30 years' income tax exemption for lodging services rendered in new, renovated, or enlarged hotels, before December 31st, 2017.

- These benefits have also generated, in some markets, a prospective oversupply scenario, subject to hotel infrastructure, which developed more quickly than the ability to absorb the demand. Such a scenario was not only evidenced in the shrinkage of occupancy rates, but also in the average room rates that have shown almost no local currency variations during the last year (+0.1%) and that have presented a sharp drop in dollar terms (-4%).

BUSINESS SCENARIOS FOR 2015 AND BEYOND

2014 represented the fifth consecutive year of growth for the tourism segment, and this trend is expected to continue in 2015.

Thanks to joint work with different tourism members and the government, it was possible to place the destination as one of the most attractive countries for hotel investment in Latin America. One of the key elements that made a hotel boom possible in Colombia is the 30 years' income tax exemption.

It is estimated that some RevPAR shrinkage scenarios will be evidenced in the short term, subject to the biggest quantity and quality of the available hotel offer.

In 2015, it is expected that 12 hotels will be launched, among which it is possible to highlight lodging facilities from the Hilton, Best Western, Wyndham, NH Hoteles and Accor hotel chains.

On the other hand, it is important to mention the significant increase of tourism demand, initiated several years ago in the country, highlighting corporate tourism as one of the main drivers of this growth. As a consequence, Colombia will be the venue for a number of events in 2015, including the Worldwide Tourism Organization General Meeting.

***Sotero Peralta**, Executive Director of Horwath HTL, Dominican Republic, has over 30 years consulting practice experience, working in the planning and development of tourism and related real estate projects in the Caribbean and Central America. He was responsible for the coordination and publication of the annual Worldwide Hotel Industry Study*

DOMINICAN REPUBLIC

*by **Sotero Peralta***

2014 SNAPSHOT

- The Dominican Republic recorded an increase of tourist arrivals of over 10%, the highest of the last decade.
- With over 6% projected GDP growth rate for 2014, the Dominican Republic remains the fastest growing economy among the Caribbean countries and the second fastest in Latin America. The contribution of tourism to GDP is estimated to be 15%.
- Total income generated from hotels, bars and restaurants is around US$ 6 billion, an increase of over 11.5%. The tourism sector also accounts for about 30% of the country's total foreign currency inflow.
- The average hotel occupancy rate went up from 74.6% in 2013 to 78.6% in 2014. The biggest tourism region, Punta Cana, recorded an increase from 82.1% to 86.1%, as well as other important regions such as Bayahibe/La Romana (6.9%), Santo Domingo (9%), Boca Chica/Juan Dolio (5.3%), and Puerto Plata (3.1%).
- US visitors accounted for over 40% of total foreign visitors, and the number of arrivals from the USA increased by an estimated 12.5% in 2014. Europe accounted for around 22% and Canada for over 15% of total visitors during the same period.
- Concurrently with the extensive renovation of the UNESCO World Heritage Colonial Zone and new cruise ship terminals in the capital, Santo Domingo, three new branded hotels recently opened. Embassy All Suites by Hilton opened a 150-room property, JW Marriott opened a 121-room suites hotel, and the renovated and rebranded 255-room Sheraton recently opened its doors as well. An Intercontinental Hotel is currently under construction with opening programmed for 2015.

BUSINESS SCENARIOS FOR 2015 AND BEYOND

The Dominican Republic's hotel room supply comprises around 70,000 hotel rooms, which represents more than 20% of the total Caribbean hotel room supply. The country enjoys a favorable and overall investment-friendly climate. Major hotel construction projects were recently inaugurated or are underway, especially in the capital, Santo Domingo, and in Punta Cana, La Romana, and Bayahibe. With the extension of existing incentive tax laws for tourism projects, the government is aiming to attract further investment and facilitate further tourism development in different regions of the country, which are currently underdeveloped tourism regions.

The highest concentration of hotel guests is still in the FIT segment, accounting for 93.5% of all guests, notwithstanding there are increasing numbers of luxury hotels specializing in MICE and groups. Hotel projects in construction and planning stages are explicitly emphasizing the MICE, group segment and business travelers.

With 52% of total passenger arrivals, the International Punta Cana Airport welcomed by far the highest number of visitors in 2014, an increase of nearly 14% compared to 2013. Las Americas Airport near the capital Santo Domingo follows, with 27% of the country's total air arrivals, representing an increase of nearly 4%. The country's government is aware of the crucial importance of availability of direct flights and airway traffic and is adjusting the country's airport capacities to adapt to the increasing arrival numbers. With the inauguration of a new terminal on November 1, 2014, the International Punta Cana Airport facilities offer two independent terminals and the most complete airport infrastructure in the Caribbean.

In 2015, the USA will remain the most important market source for the Dominican Republic, notwithstanding the fact that arrivals from Russia as an emerging outbound market for the Dominican Republic continue to grow. Additionally, growth in arrivals from Central American and Caribbean countries is being recorded, while the highest arrival increases are currently from South America.

ECUADOR

by *Maria José Gutiérrez*

2014 SNAPSHOT

- Tourism represents 5.3% of the Gross Domestic Product (GDP) of the country.
- Foreign tourist arrivals have grown constantly since 2009. In the period from January to October, 2014, an increase of 14.2% was registered, in comparison with the same period last year. The biggest percentage of tourists comes from Colombia, the USA and Peru.
- Main tourist destinations are Quito, Guayaquil, Cuenca and Manta.
- Foreign exchange income from tourism had an increase of 22% (US$ 711 million) in the first half of 2014. By the end of the year, it is expected to reach US$ 1.5 billion.
- Hotel occupancy was 69.2% during the January-September period, which represented a 3.2% drop when compared to the same period in 2013.
- Tourism is regarded as one of the key industries to develop the economy of the country. Various policies and investments aim to sustain the growth of tourism in Ecuador. The government projects investing more than US$ 600 million in the next four years to improve the country's tourism infrastructure and services.
- Private investment in the hotel and tourism sector accounted for more than US$ 200 million in 2014. Some of the most relevant projects are: Karibao (US$ 80 million), Las Olas (US$ 50 million), Best Western Sail Plaza Manta (US$ 20 million), Montecristo Golf Club & Villas (US$ 20 million), and Wyndham Gran Condor (US$ 17 million), among others.
- According to different projections, private tourist entrepreneurs plan to invest more than US$ 2.16 billion in hotel infrastructure in the 2014-2020 period.

BUSINESS SCENARIOS FOR 2015 AND BEYOND

Ecuador projects to reach a 20% increase in the total number of foreign tourists visiting the country between 2014 and 2015. These projections are based on the improvement in air connections (more flights and frequencies) and the launch of new marketing initiatives such as the campaign "All you need is Ecuador".

In addition to this, the campaign "Viaja Primero Ecuador" (Travel First to Ecuador) aims to increase domestic tourism. Ecuador is exploring and working on some specific tourism segments, such as adventure and nature tourism.

The country foresees a favorable outlook for investment in the tourism sector and improving conditions for investment in the short term; major hotel chains such as Accor, Hilton, Wyndham, and Intercontinental estimate to allocate US$ 700 million in tourist projects in Quito and Guayaquil over the next two years.

Maria José Gutiérrez *is the International Director in Horwath HTL LatAm and Managing Director in Horwath HTL from Mexico and Colombia. She specializes in ski resorts, residential tourism, thermal tourism, hotels and resorts conceptualization, golf courses, marinas and tourism standards and quality. Recently, she created the Colombian Tourism Thermal Project for the country's government; in addition, she conducted a research study of the potential hotel development in the eight most important cities in the country.*

MEXICO

by ***Maria José Gutiérrez***

2014 SNAPSHOT

- The accumulated average hotel occupancy percentage as of October 2014 is 58.4%, which represents an improvement of +5.6%, over the same period in 2013.
- Local-currency ADR increased by 2.7%, as opposed to ADR in US$ terms, which dropped by -05% compared to 2013.
- The regions which served as Mexico's main sources of tourists in 2014 were North America – United States and Canada – followed by Europe and Latin America. In Latin America, the countries with the greatest tourist flow into Mexico were Colombia, Brazil and Argentina.
- The number of foreign tourists entering Mexico exceeded 16.8 million for the first seven months of 2014, which represents a new historic high.
- Foreign exchange income generated by foreign visitors to Mexico during the first eight months of 2014 also registered a historic high, reaching US$ 11.131 billion.
- The average spending from foreign visitors increased by 14.5% during the January-July period in 2014.
- Tourism generated almost 9% of the GDP in Mexico, and ranks third in generating foreign currency receipts, after oil and remittances. In addition, it provides direct employment for 2.5 million people.
- The luxury segment was considered as the market niche dominating confirmed hotel investments in Mexico in the medium term. The locations experiencing a major boost were Coatzacoalcos, Ciudad del Carmen, Villahermosa, Reynosa and Matamoros.

BUSINESS SCENARIOS FOR 2015 AND BEYOND

In 2014, expectations for the tourism segment were exceeded, mainly as a result of an enhancement in the North American economy, which represents the main tourist source market for Mexico.

As regards future hotel investment, 65% of the offer is estimated to be located in intermediate cities and the Federal District, and the remaining 35% in three different beach destinations: Riviera Maya, Riviera Nayarita and Los Cabos.

Among several projects for the next few years, the IHG development plan stands out. It aims to reach a total of 23 hotels between 2014 and 2015, 9 of which will be marketed under the Holiday Inn Express brand.

Between 2014 and 2016, the Hilton Worldwide Hotels & Resorts plans to launch 20 hotels in Mexico, which will be located in cities in the Gulf of Mexico and Bajío regions, due to the growth in both the automotive and energy industries located there.

On the other hand, Grupo Posadas plans to launch 21 "One" hotels, between 2014 and 2016.

Starwood has also confirmed its intention to enlarge its presence in Mexico, through the opening of Aloft Guadalajara, making a total of 26 hotels. The hotel group also communicated the opening of The Westin Cozumel, their eighth hotel in the country under this flag; the 156-room hotel will be launched during the summer of 2016. With this hotel, Starwood increases their projects list in Mexico to seven hotels, representing a 30% increase of their total presence in the country.

Maria José Gutiérrez *is the International Director in Horwath HTL LatAm and Managing Director in Horwath HTL from Mexico and Colombia. She specializes in ski resorts, residential tourism, thermal tourism, hotels and resorts conceptualization, golf courses, marinas and tourism standards and quality. Recently, she created the Colombian Tourism Thermal Project for the country's government; in addition, she conducted a research study of the potential hotel development in the eight most important cities in the country.*

PANAMA

by ***Maria José Gutiérrez***

2014 SNAPSHOT

- Arrivals of foreign visitors have grown steadily since 2012. More than 2 million visitors were expected in the country by the end of 2014. An increase of 2.4% was observed during the first half of 2014 over 2013. The highest percentage of tourists comes from the USA, Colombia and Venezuela.
- Tourism is considered as the first source of foreign exchange income in 2013. An increase of 6.7% during the first half of 2014 was recorded over the previous year.
- The offering of available rooms keeps growing. It grew by 2.7% from January to June 2014. The provinces with larger hotel offering are Panama and Chiquiri.
- Occupancy rates have registered a negative trend during the last three years. In the first half of 2014, OCC of 57.2% was registered, 3.6% less than previous year.
- Investment in the lodging sector amounted to US$ 102.8 million, which represents more than twice (114%) the amount during the same period in the previous year.
- The Tourism Gross Domestic Product (TGDP) has historically provided between 8% and 10% of the country's total GDP. The GDP from the hotel and restaurant sector decreased by 1.4%, during the first half of 2014, in comparison with the same period in the previous year.
- There are investment opportunities in several sectors of tourism such as business, international events, adventure, medical and eco-tourism.

BUSINESS SCENARIOS FOR 2015 AND BEYOND

In order to increase tourist arrivals and economic benefits, the Tourism Authority of Panama (ATP in Spanish) intends to consolidate the US and South American market, as part of a strategy for 2015, taking into account the estimates in the economic growth of those source markets. In addition to this, the ATP seeks to develop domestic tourism through the promotion of packages and competitive products, therefore optimal results are projected.

Better projections for hotel occupancy are expected, because of the series of strategies that the Tourism Authority of Panama and tourism associations of the country are conducting, to promote convention and congress tourism; shopping tourism through incentives; promotion of tourist places at the national level; counter the proliferation of illegal lodges; and reinforcement of the security system for tourists.

Sergio Giorgetti *is currently a Fieldwork Director at the Argentina's office of Horwath HTL. He has led the fieldwork done in several projects in Argentina, Brazil, Chile, Ecuador, Mexico and Colombia, and has also participated in the development of strategies to define competitive mixed-use projects attractive to the market in terms of product, finance and economic performance.*

PERU

by ***Sergio Giorgetti***

2014 SNAPSHOT

- Peru´s lodging offer as of 2014 is composed of 17,095 facilities, both classified and not classified, which add up to a total of 228,500 rooms and 397,500 available hotel rooms. They are mainly located in the cities of Lima, Cuzco and Arequipa and they are mostly two and three stars hotels.
- Accumulated results as of September 2014 show that Peru received 1,338,000 foreign tourists, declining by 0.4% in comparison with the same period in 2013. Tourists came mainly from Chile and the USA.
- The average daily spending per tourist is of US$ 99 and the average length of stay 10 nights.
- During the January – August 2014 period, the hotels and restaurants sector grew 5.05% due to an increase of 1.22% in lodging activity.
- This sustained growth in the tourism sector during the last few years has ranked this activity in second place regarding the generation of foreign currency among non-traditional exports, only exceeded by agro exportation.
- This year´s second quarter presented a fall in the number of foreign tourists that visited the country, especially Latin American tourists, due to the 2014 World Cup in Brazil. This was expected to improve by the end of 2014, as a result of events that will take place in the country.

BUSINESS SCENARIOS FOR 2015 AND BEYOND

In order to boost investment, the creation of the Ventanilla Unica de Turismo has been established, which will simplify all processes related to the processes necessary to obtain licenses, permits and authorizations for the development of tourism enterprises. This will allow the development of projects and activities to proceed faster and at lower costs.

Peru is also trying to reinforce the image of the city of Lima as a corporate tourism destination. To that end, they will seek to improve the infrastructure of facilities, which will host some of the events confirmed to date, such as the Panamerican Games of 2019.

In connection with new projects, a hotel investment of around US$ 1.76 billion is expected, of which 40% will be directed to the central area of Peru, more specifically Lima and Huaraz, while the northern area will receive 32% of this investment and the southern area 28%.

Peru is also expected to present fast tourism growth by the year 2015, boosted by a higher flow of tourists, mainly coming from Bolivia, due to the economic growth that that country is experiencing, an increase in flight connections, and promotional activities.

UNITED STATES

2014 SNAPSHOT

- The US lodging industry was considered robust in 2014 and 2015 is expected to be as strong.
- The US lodging industry is anticipated to finish 2014 at approximately 64.5%.
- Significant recovery in demand has been experienced in 90% of the major markets.
- The average room rate was expected to increase in 2014 by approximately 4.5% and is expected to increase by approximately 5.5% in 2015.
- 2014 RevPAR increases are anticipated to approach 9%.
- The 2014 increase in rooms supply should be less than 1%.
- 2015 anticipated increases are 1 to 2% in occupancy, 5 to 6% in average room rate and approximately 6 to 7% in RevPAR.
- The growth in demand (in all sectors) is fueling the increase in annual occupancies.
- The growth in rooms supply continues to be less than 1.5%.
- Rooms supply growth is evident in all parts of the United States (both urban and suburban areas).

BUSINESS SCENARIOS FOR 2015 AND BEYOND

Atlanta

Metro Atlanta's lodging market has seen a strong 2014 thus far, its ADR, RevPAR and occupancy increases carried primarily by its suburban submarkets. The city's lodging industry has added 9,400 jobs over the past year, and has accommodated over 22 million annual visitors.

Midscale and upper midscale Atlanta properties have seen strong occupancy and demand growth, and both classes' room supply levels should begin rising to meet demand as most pipeline development lies in the mid-to-upper midscale range.

The city, overall, is expected to end 2014 with 5.5% ADR growth and 9.2% RevPAR growth, a fitting end to a strong year, which has included an 8.2% occupancy increase to date, a 3% ADR increase to date, and a strong 11.5% RevPAR increase to-date.

Submarkets - Metro Atlanta is broken into seven submarkets: Downtown, Midtown, Buckhead, Airport, Cobb Galleria, Chamblee/Norcross and Perimeter Center/Roswell.

The most significant occupancy, ADR and RevPAR growth is taking place in Atlanta's suburban markets thanks to their increasing walkability. Chamblee-Norcross is leading the way with 20% RevPAR growth, followed by Cobb Galleria with 17.6% RevPAR growth. The airport submarket should continue to grow as pipeline developments are in place following the recent introduction of the Choice Gateway properties.

Property Classes - Atlanta's overall growth in demand across all property classes is highlighted by particularly strong midscale and upper midscale segments, which have seen the highest occupancy rates of all property classes this year.

Pipeline - There are currently 2,247 rooms under construction in the Atlanta market, and over 9,000 in the planning or final planning stages. Of those rooms in construction or planning stages, nearly 4,000 are midscale. Atlanta's supply growth is expected to grow by 1% in 2015.

John Montgomery *is the Managing Director of the Horwath HTL office in the Rocky Mountain Region (based in Denver, Colorado). He has been involved with hundreds of hotel and conference-oriented projects in over 25 states in the last ten years.*
This country report was prepared by John Montgomery (Denver and Dallas), with the collaboration of Paul Breslin (Horwath HTL – Atlanta) and Ted Mandigo (Horwath HTL – Chicago).

by ***John Montgomery***

Conclusion - Atlanta is expected to end its strong 2014 on the upswing, hitting near 10% RevPAR growth and over 5% ADR growth. Its mid-and-upper midscale lodging properties, particularly in suburban markets, should continue to prove promising as the city becomes increasingly walkable.

Despite a strong 2014 and a healthy pipeline, numbers are expected to dip slightly in 2015, as both ADR and RevPAR growth should slow somewhat. Forecasts past 2015 anticipate a moderately strong 2016 followed by a strong 2017.

Chicago

The Chicago market is in the midst of a hotel building boom with over a 20% increase in room supply coming on line in the next three years based on the lodging properties in the pipeline. We are forecasting a decline in occupancy of about one% for each of the next two years, dropping from the current 75% to 73% by 2016. While about 20% of the proposed rooms may be dropped as the market becomes more competitive, most of the proposals are put forth by qualified and experienced developers. The neighborhood areas outside of the traditional Loop, River North and North Michigan Avenue are also seeing development activity, with five projects in the west Loop area, one in Wicker Park, and a couple in Wrigleyville (the neighborhood surrounding the home of the Chicago Cubs). Additional focus on McCormick Place (Chicago's Convention Center) to provide a second headquarters hotel to support convention sales is underway, supplemented by plans to add a sports arena and a third, but smaller hotel to an expanding south side market.

The suburban development picture has picked up, with projects underway in several markets, Schaumburg, Mokena, Lake Forest, Arlington Heights and Naperville. Suburban markets are expected to pick up a few (5 to 7) occupancy points this year with some strong rate growth (4-5%).

A series of alternative products are also entering the market with two hostel operations and a couple of economy-priced smaller hotel projects (in terms of the number of rooms). Much of the downtown activity is in repurposed structures, taking such space as the Chicago Automobile Club building, the Chicago Athletic Club and four office/bank structures from class C office to upscale hotel offerings. The Virgin is probably the most prominent of those in the works.

MPEA (Metropolitan Pier and Exposition Authority) continues its redevelopment of Navy Pier, the busiest tourist attraction in the market area, with a proposal for a hotel development on the east end of the mile-long pier. The intense competition for conventions has slowed the growth in that market sector but it is replaced with a new emphasis on tourism that is paying off in strong growth in both domestic and international tourism activity. However, conventions remain the number one source of business in the central business district, accounting for 50% of the room nights annually.

Dallas

As with the rest of the country, the Dallas market area has significantly recovered from the economic recession that reportedly bottomed-out in 2008/2009. This recovery has resulted in rising employment, increasing home sales and building permits, increasing growth in the sales prices of homes, an increase in retail sales growth, higher rents and a decrease in vacancy in all commercial market sectors. Dallas' economy and commercial real estate market are considered well-positioned from a long-term economic perspective given its economic engines.

Recent reports published by Moody's Economy.com states that the Dallas recovery has continued to strengthen and is on the verge of significant expansion. Its strengths include a stable demand for professional services generated by the high concentration of corporate headquarters, as well as being well-positioned as a distribution hub for international trade coming to the southwest. Moody's predicts construction will lead growth throughout the area in the coming year, which is further substantiated by Forbes' June 2013 list of metro areas with the most construction, placing Dallas/Fort Worth in the No. 2 spot, behind New York.

Along with the vastly improving economic climate, the lodging industry has strengthened significantly over the last 4-5 years. Overall visitation including convention activity has been a positive to this overall economic rebound.

UNITED STATES

Overall visitation - An estimated 13.1 million visitors come to Dallas/Fort Worth annually, spending approximately $9.2 billion, with a direct economic impact exceeding $14 billion.

Convention activity - The Kay Bailey Hutchinson Convention Center/the Dallas Convention Center, is located in downtown Dallas and is one of the largest in the nation. This center, originally built in 1957, underwent a $125 million expansion and renovation in 2002, with an additional expansion proposed for the coming years. Currently, this center has over one million square feet of exhibit space and features the largest singular column-free exhibit hall in the world. In addition, the 1,001-room Omni Dallas Convention Center Hotel opened adjacent to the convention center in November 2011.

According to the Dallas Convention & Visitors Bureau, since the 2008-09 fiscal year, the number of conventions and meetings booked to be held in Dallas has grown almost by 50%, from 471 to 693. During the same period, the number of citywide conventions, which fill up most of the hotels in downtown, has gone up by 55% from 20 in 2008/09 to 31 in 2012/13. The development of the Omni Convention Center Hotel has significantly contributed to the increased desirability of the Downtown Dallas area as a convention destination as is evidenced by the statistics.

Lodging activity – Lodging activity in the Dallas area is dispersed into several market areas. Some of the strongest market areas are the Dallas Merchandise market area and the Dallas Central Business District.

Focusing on the core of Dallas – the Central Business District – presents a "picture" of the strength of the marketplace and the direction of the overall market. City leaders have placed a high priority on Downtown Dallas (CBD) redevelopment with significant success.

- 8,600 new/renovated housing units (with hundreds more proposed or under-construction);
- 4,300 new hotel rooms (with hundreds more proposed or under-construction); and
- approximately $3 billion in total investment.

Major accomplishments through redevelopment include:

- The $500 million development of the 1,001-room Omni Dallas Convention Center Hotel which opened in late 2011;
- The $125 million expansion of the Kay Bailey Hutchinson Convention Center (with an additional significant expansion proposed);
- $50 million investment in the renovation of the Hyatt Regency Dallas; and
- the Dallas Area Rapid Transit light rail connection to Dallas/Fort Worth International Airport.

The results of all of this development activity have been a significant impact on the downtown Dallas (CBD) lodging industry. In 2010, the downtown lodging market contained approximately 5,740 hotel rooms and operated at approximately 55% with an average room rate of approximately $126.00. In 2013, the downtown lodging market contained approximately 6,850 hotel rooms and operated at approximately 60.5% with an average room rate of $148.00.

As far as future CBD lodging development, eight lodging projects are in the under-construction and/or planning stages. Another 4-6 lodging projects in the CBD are in the pre-planning stages.

by *John Montgomery*

Denver

The hospitality industry in Metro Denver is continuing to experience a significant market "turn-around" from what was experienced in 2009/2010. As a point of reference, the 2009 Metro Denver occupancy was 60.6% with an average room rate of $113.63. The 2013 Metro Denver lodging occupancy level was 71.0% with an average room rate of $126.87. The year-to-date October 2014 occupancy was 78.4% compared to 73.6% for the same period in 2013. The average room rate through October 2014 was $138.66.

While there are lodging projects under construction in several sectors in Metro Denver, the brightest spot in the overall Denver lodging market continues to be the downtown market area. Downtown Denver achieved one of the highest annual occupancy levels and the highest average room rates of any of the market sectors in Metro Denver. Downtown Denver achieved a 72.2% occupancy level in 2013 and 78.9% in 2014 (through October 2014) compared to 74.3% for the same time period in 2013. The average room rate through October 2014 was $173.84.

Significant reasons for downtown Denver's continued positive performance are the following:

- overall positive image of downtown Denver;
- Metro Denver based events and attractions;
- the major convention/group activity at the Colorado Convention Center;
- new hotels in the downtown area; the continued impact of "Lo-Do" and the "lower Platte Valley" (sports, restaurants, lodging and nightlife);
- the revitalization taking place on 14th and 15th Streets (restaurants, lodging and residential); and
- continued new retail and residential projects in other parts of the "larger" downtown and mid-town areas.

As an indication of the strength of this downtown market, two hotel properties opened in downtown Denver in 2014. They were the Crawford Hotel (in the renovated Union Station) and the Renaissance Hotel (in the renovated Colorado National Bank building). In addition, there are four hotel properties under construction in downtown today (Hyatt Place, Hyatt House, the Art Hotel and an aloft). In addition, there are some half dozen lodging projects in various stages of planning in the downtown market. In addition to the anticipated growth in lodging supply in downtown Denver, there are another 10 to 15 hotels either under construction or being discussed in various parts of Metro Denver. When (and if) these proposed hotels will come to fruition will depend on the continued improvement in the overall economic environment as well as the availability of capital funding for these lodging projects.

Other significant lodging projects that could have a positive impact on Denver's lodging market are as follows:

1. The 517-room Westin – Denver International Airport which is under construction. The Westin Hotel project is expect to open in 2016 and is physically connected to the Denver International Airport Terminal Building.
2. A second project of significance is the proposed 1,500-room Gaylord Hotel. This project, which is in the planning stages, is located in eastern Metro Denver and within 10-15 minutes of Denver International Airport. The entire project sits on 85 acres and is expected to cost $750 - $850 million.

This country report was prepared by John Montgomery (Denver and Dallas), with the collaboration of Paul Breslin (Horwath HTL – Atlanta) and Ted Mandigo (Horwath HTL – Chicago).

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