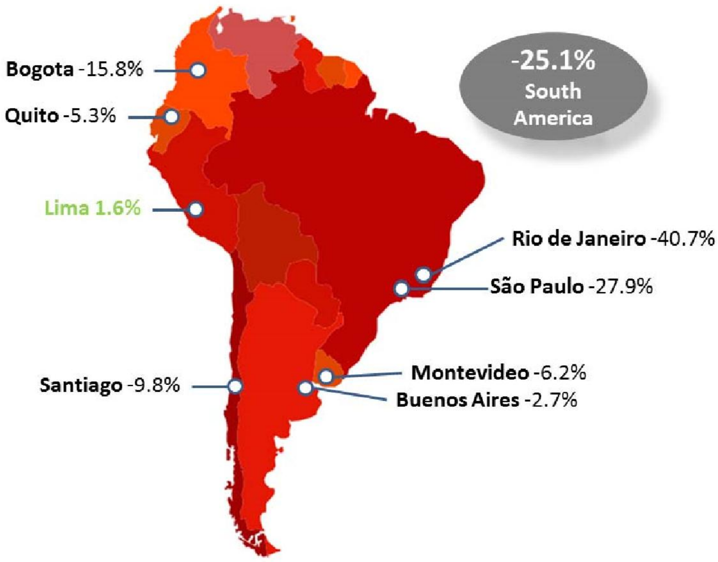
MARKET PULSE: South America

August 2015

Welcome to the 1st edition of the South American Market Pulse, a new publication by HVS/HotelInvest (in association with STR Global).

This article presents an analysis of the hotel performance in the main cities of the region during the first half of the year (1H 2015) and an outlook for the remainder of 2015.

FIGURE 1: SOUTH AMERICA RevPAR - % CHANGE 2015 vis-à-vis 2014, YTD JUNE



Source: STR Global

Demand

- **Lima presents the best performance.** In the 1H 2015, Lima was the only one of the analyzed cities that achieved a positive change in RevPAR. With a slight upturn in the Peruvian economy, demand continued to grow, albeit at a more moderate pace, managing to surpass the growth in supply.

- **Bogota, strong demand growth.** The fact that Colombia is one of the countries with the highest economic growth in the region, as well as the voluminous corporate tourism and the exchange situation, boosted the national and international tourism turning Bogota into the city, among those included in this article, with the highest growth in demand.

- **Rio de Janeiro, Montevideo and Quito show the biggest drops.** Rio de Janeiro was the most affected in terms of decrease of rooms sold. It is important to note that this city hosted the FIFA World Cup during the 1H 2014. Meanwhile, Montevideo and Quito felt the impact of the slowdown in their economies.

- **America's Cup (Soccer) boosts demand in Santiago.** The sporting event had a strong impact on June's performance, softening the fall in demand of the early months of 2015. Note that there are several events held in Santiago only during even years, which positively affects the demand in the city.

Supply

- **Rio de Janeiro, Bogota and Santiago, the markets with the highest growth in supply.** Of the cities analyzed, Rio was the one that concentrated the largest number of openings, primarily in Barra de Tijuca. Bogota continued showing additions to supply, driven largely by the exemption from income tax for hotels developed until 31 December 2017. In addition, Santiago had several openings during 2014 and the 1H 2015, mainly in the Midscale and Upscale segments.

Occupancy

- **Moderate economic growth and increase in supply impact on occupancy levels.** Luxury and Upper Upscale segments were the most affected. The exceptions were Buenos Aires and São Paulo, markets in which these segments achieved a better evolution in occupancy (Buenos Aires) and a lower drop (São Pablo) than the remaining segments.
- **Bogota, Lima and Buenos Aires with moderate increase in occupancy.** While in Lima and Buenos Aires this occurred with a relatively stable supply, the improvement in occupancy in Bogota denotes the strength of the market, which gradually absorbs the significant increase in supply.
- **Falls in occupancy in the rest of the analyzed markets.** Rio de Janeiro, Montevideo and Quito present the greatest drops. In the case of the Brazilian city, the fall, close to 11%, is due to lower demand compared to the previous year, when it hosted the FIFA World Cup, to the impact of the new supply and to the contraction of the economy.
- **Lima and Quito, leaders in occupancy.** Both cities achieved levels close to 70% during 1H 2015.

Rates

- **Increasing supply, local currencies devaluation and moderate economic growth press on the rate in US dollars.** The Luxury and Upper Upscale hotels felt to a lesser extent the impact of these factors, except in Buenos Aires and São Paulo, where these segments suffered the greatest falls of their respective markets.
- **Lima is the only market with positive rate variations.** Of the cities analyzed, the Peruvian capital was the only one that managed to increase its rate in US dollars, but at very moderate levels.
- **Rio de Janeiro and São Paulo: the most affected due to the FIFA World Cup.** Both cities showed significant drops explained by the fact that during 2014 they achieved very high rates due to the FIFA World Cup, the strong devaluation of the real in a market highly tied to the local currency and the increased competitiveness (mainly in Rio de Janeiro). Note that even though all markets, except Lima, showed a decrease in the rate in US dollars, they managed to increase the rate in local currency (except Rio de Janeiro and São Paulo).
- **Bogota and Santiago, new supply press on rates.** The recent openings in both cities have increased the competitiveness of those markets causing a drop in the average rate during the 1H 2015. Santiago managed to soften this fall thanks to the good performance achieved in June, when it hosted the America's Cup (Soccer).

Conclusion

- **While the economy of the region will present a moderate growth in 2015, the hotel outlook in several cities shows encouraging prospects.** The current performance is positive in several of the cities analyzed, with occupancies between 65 and 70% and demand pressure in many of the studied segments, which indicates opportunities for new developments.
- **Impact of the local currencies devaluation on domestic and international tourism.** While the currency devaluation will impact on the rates in US dollars, mainly on those markets more tied to local currency, it may have two positive effects on hotel performance. On the one hand, it will encourage domestic and international tourism and on the other, it will increase revenues in local currency (for the dollarized rates), which will mean an improvement in the bottom line, since the devaluation is higher than the costs increase. In this context, there is an opportunity for various markets in the region to capitalize on the favorable effects of the devaluation of their currencies.
- **More competitive markets put pressure on rates.** Current trends in rates suggest that many of the markets in the region are still in a period of readjustment of their supply. The impact of the new rooms on the performance of existing hotels is expected to remain for the rest of the year and potentially by 2016, affecting the bottom line and the value of the properties. Small independent hotels will face greater challenges in relation to large scale hotels and international branded properties. There could be buying opportunities in markets with modest performance.
- **Colombia: Plan Pipe 2.0 will encourage new investments in the country.** This plan, which took effect during the 1H 2015, will allow investors in the sector to register their projects which are not yet complete until December 31,

2017 and obtain the benefit of income tax exemption for a 30-year term. The opportunity to capitalize tax advantages will drive the development of new projects in Colombia.

Note: The data presented in this article is for informational purposes only and is not meant as a basis for making investment decisions.

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

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