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2012 CARIBBEAN HOTEL MARKET SURVEY

THE BIG SIX

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This article was compiled by the HVS Caribbean office from our primary research during fieldwork, our extensive knowledge of the Caribbean market and in-house database of relevant statistics. Our thanks go to Laura Kalcevic, of HVS New York, for her contribution to an early version of the article and Erin Bagley, Intern with HVS Bahamas, for her research on the Cuba section. This article is a shorter version of our full article which will be available to our 2012 HVS Caribbean Hotel Investment Conference and Operations Summit (HVS CHICOS) attendees at the Atlantis Resort on November 8 and 9 this year.

Highlights

Each island is different and should be analyzed in depth before investing locally. Don't base your decision on the overall Caribbean market.

Understand operating cost on specific islands – some **costs may be two or three times higher** on one island compared to another.

Airlift-Airlift-Airlift - The availability and caliber of air service to the local airports have a material influence on the level of tourism to the islands.

Opportunities on various islands – understand **what product is in demand** on which island.

Performance of Caribbean lodging market – **reliant on the economies of source markets** - stronger economic recovery helps.

Compared to other markets, the **Caribbean has very little supply entering the region**, which should facilitate the recovery.

Demand is rebounding, 2010, 2011 and year-to-date through August 2012 show improvements in the market following the economic downturn.

Group demand is returning but operators are still under pressure to increase rates.

Operators are slowly gaining confidence and properties are beginning to yield better.

Many hotels in the Caribbean are in **need of renovations**. As market and property performance improves, some properties are beginning to renovate.

There is **increasing competition** from other global destinations.

American Eagle has reduced flights in the region, retreating from its hub in Puerto Rico – **Jetblue** however is targeting the the Caribbean and has **added many new flights and currently in discussions to add additional routes**.

Flights out of the UK are costing more due to taxes imposed by government – **Caribbean destinations with the UK as a main source market are impacted**.

Large parcels of relatively **inexpensive land are** available, particularly on the lesser established island destinations.

It is easy to ship in construction materials from the United States (excepting Cuba).

Opportunities for market expansion - branded limited service and mid-market hotels are undersupplied on many islands.

Opportunities for some island destinations to target the luxury market by adding **luxury hotels** to current room mix.

The Caribbean – Introduction

The Caribbean consists of 32 nations, with an estimated population of 38 million people, that are heavily dependant on tourism to drive their economies. The lodging market for each country varies depending on its stage in the destination lifecycle, with some islands being untouched and others being well-established.

In this publication, we have focused on the six countries that receive the highest volume of visitors- considered to be the “The Big Six” for the region. Subsequently we are planning to publish similar articles for other Caribbean islands.

Location

The Caribbean region, located southeast of the Gulf of Mexico and North America, east of Central America, and north of South America, consists of the Caribbean Sea, the islands, and the surrounding coasts. The region comprises more than 7,000 islands, islets, reefs and cays that generally form arcs that delineate the eastern and northern edges of the Caribbean Sea. The islands can be divided into the Greater Antilles and the Lesser Antilles, and the Bahamas.

Smallest country – Saba measuring five square miles

Largest country - Cuba measuring 42,800 square miles

History

The Caribbean was “discovered” in 1492 during the first voyage of Christopher Columbus. Throughout the 16th century, the Caribbean islands grew in importance to the Spanish empire, as Spain claimed the entire Caribbean and created settlements on the larger island colonies. As the Spanish empire declined throughout the 17th and 18th centuries, other European countries established colonies all over the Caribbean region.

The Caribbean colonies were very important to the European nations because the plantations that were established there generated great wealth for the “mother country.” Sugar was the main crop produced throughout the Caribbean region and by the 1800s plantations on the Caribbean islands produced 90% of

the sugar that was consumed in Europe. To satisfy the enormous manpower requirements of the plantation system, a vast number of Africans slaves were imported throughout the 18th century. Following the abolition of slavery, the colonies turned to imported indentured labor from India, China, and the East Indies to meet the demands for labor.

The history associated with the European nations and proximity to the United States hold primary appeal to tourists from all over the world and are the main reasons for the Caribbean’s transition from an economy that was historically heavily dependent on agriculture throughout the 18th through 20th centuries, to a region that is currently reliant on the travel and tourism industry.

Geography and Climate

The geography and climate throughout the region also vary. Some islands have relatively flat terrain of non-volcanic origin (Aruba, Barbados, Bonaire, the Cayman Islands, Saint Croix, the Bahamas, and Antigua), while others feature rugged mountain ranges (Cuba, Dominica, Dominican Republic, Haiti, Jamaica, Montserrat, Puerto Rico, Saba, Saint Kitts, Saint Lucia, Grenada, Saint Vincent, Guadeloupe, as well as Trinidad and Tobago).

The general climate in the region is tropical but the degree of rainfall varies with the island’s elevation, size, and water currents. On mountainous islands, warm and moist trade winds blow from the east, forming rainforest and semi-desert divisions. Winters in the Caribbean are warm and are generally drier. Due to the tropical weather, the region is impacted by hurricanes, which are more likely so strike in the areas north of Grenada and west of Barbados; the principal hurricane belt arcs to the northwest of Barbados.

The Caribbean Sea hosts vibrant underwater life, featuring coral reef formation and the region benefits tremendously from the natural beauty of the region’s spectacular beaches, exotic wildlife, cultural diversity, warm tropical weather, and numerous festivals. However, the Caribbean islands possess limited natural resources. Only the islands of Jamaica (bauxite and gypsum) and Trinidad (petroleum, pitch, and natural

gas) contain notable natural resources. Because of the relative lack of natural resources, tourism is the most important economic driver for many countries throughout the region.

Political Overview

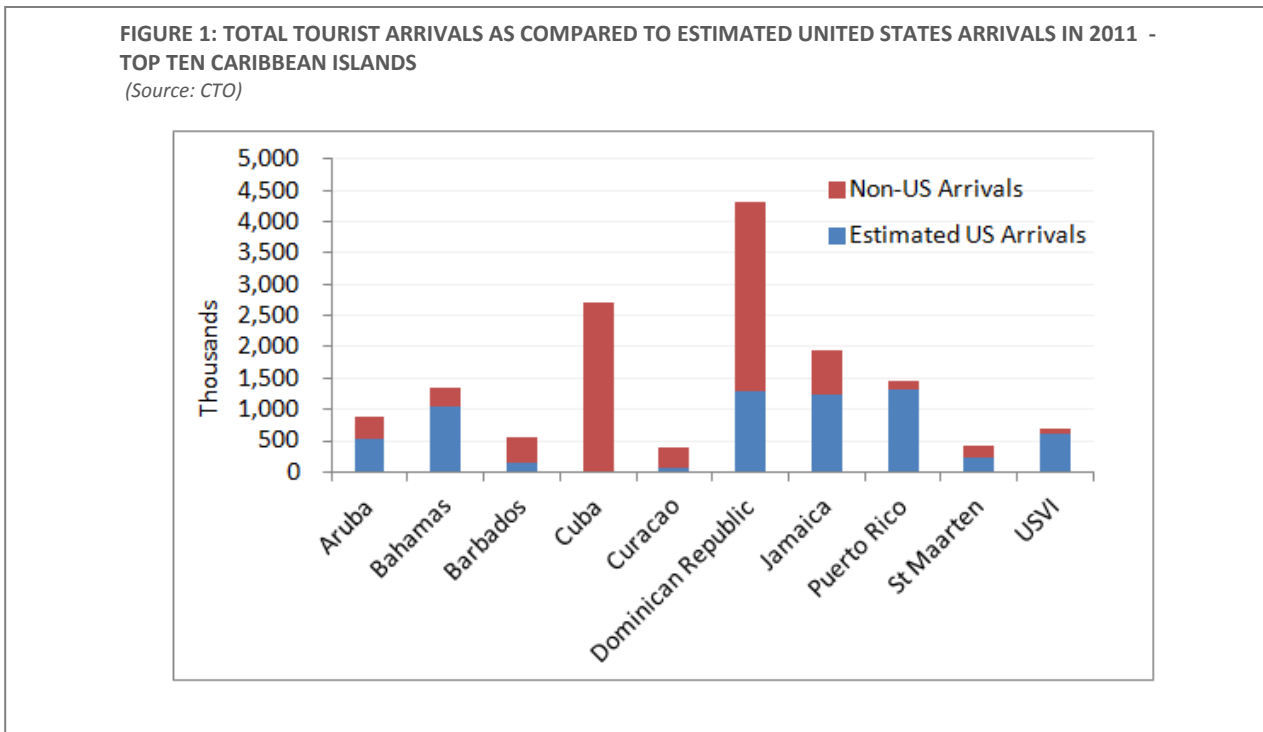
Political systems among the region are diverse, ranging from communism in Cuba to the capitalist Westminster-style parliamentary systems in the Bahamas. Each of the nation's political systems are tied to the island's history and association with the European countries or the U.S.

Despite the differences, there are some commonalities; most contemporary Caribbean political systems reflect a mix of traditional and modern patterns.

Tourism

The Caribbean Islands have long been established as a popular travel destination from United States, Canada, and Europe. Initially, travel to the region from the United States developed as an extension of and alternative to travel patterns to warm-climate southern states, particularly Florida. The heavy European influence, due to most the islands' history as a colony or overseas/ dependent territory of a European nation, has also served as generator for demand from Europe.

The 2012 *Travel & Tourism Economic Impact* (prepared by the WTTC) reported estimates that the travel and tourism industry contributed to approximately 13.9% of the region's overall gross domestic product in 2011 and



Proximity and historical ties among the Caribbean nations has led to some cooperation and collective action in the world's stage. Regionalism serves the Caribbean nations in voicing political and economic perspectives. The Caribbean Common Market and Community (CARICOM), an institution established in 1973 among English-speaking Caribbean nations, is an example of the Caribbean regionalism.

is expected to grow by 2.0% in 2012. Tourism to the islands is dependent upon the availability of transportation. Cruise ships and airlines are responsible for the vast majority of visitor arrivals to the islands, with air service the method of transportation for almost all of the tourists requiring overnight accommodations. Consequently, the availability and caliber of air service to the local airports has had a material influence on the level of tourism to the islands.

The Travel & Tourism Industry provides over \$20 Billion USD a year in revenues and is the largest employer in the region – 1 in 6 jobs

Certain islands in the Caribbean have direct airlift from cities in the United States and Europe. These islands tend to have more and larger resort and residential developments when compared with islands offering less-favorable airlift. However, many other well-known islands offer exclusive projects that are only accessible by either a second flight or a ferry ride.

The introduction of Jetblue airlines, a low-cost carrier, to the Caribbean from the United States has changed the tourism patterns to the region. Jetblue’s relatively recent expansion in the market has increased the number of flights to the market resulting in the

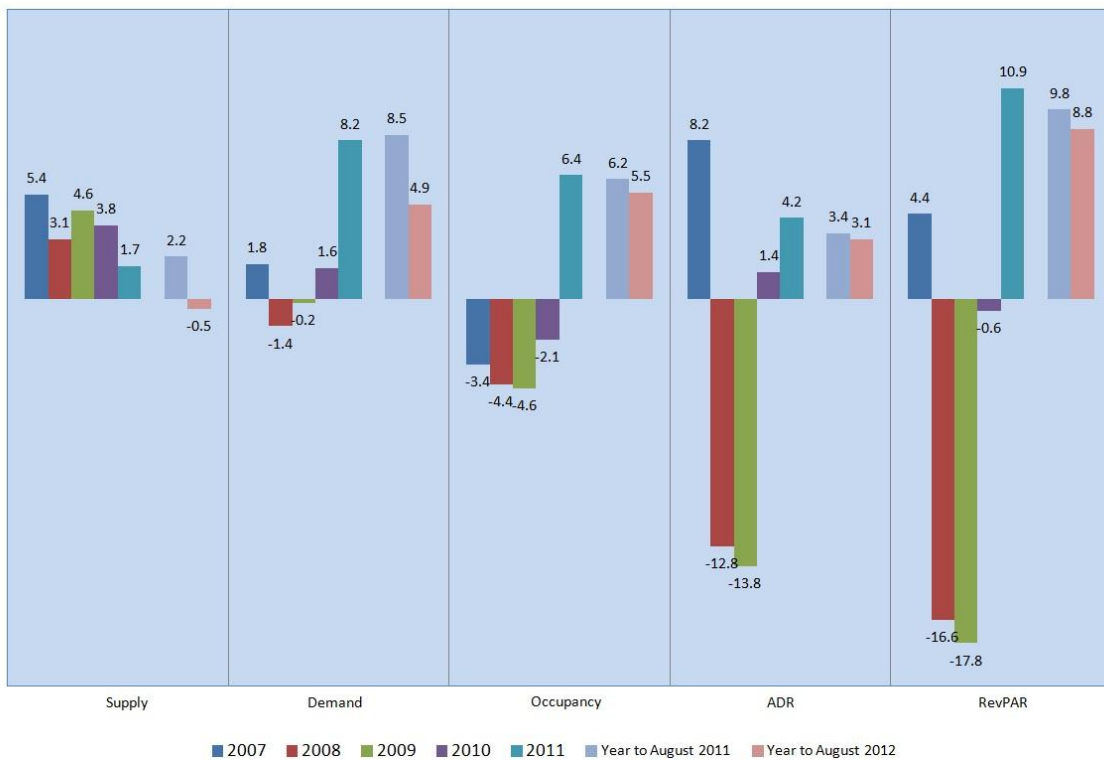
Hotel Market

The majority of the Caribbean island nations are relatively small in size, but large scale, branded resorts are present throughout the various islands and drive the majority of demand to the market.

Following the crash of the financial market in the U.S. and the subsequent downturn in the global economy, numerous hotel projects in the Caribbean faced financing problems resulting in the stoppage, deferment, or complete cancellation of numerous projects. This is reflected in lower levels of supply following the 4.6% increase in 2009. Going forward, we expect overall supply growth in the Caribbean to continue at a slow pace until financing activity for new developments strengthens.

Demand in the region recorded decreases in 2009, but

FIGURE 2: HISTORICAL LODGING TRENDS FOR THE CARRIBEAN REGION- PERCENT CHANGE (SOURCE- SMITH TRAVEL RESEARCH)



reduction of travel cost to the region, enhanced awareness of certain lesser-known destinations, and facilitated increased access to more of the islands.

exhibited a rebound in 2010 and accelerated in 2011 as the market showed signs of improvement. Changes in occupancy levels are reflective of the market’s historical

supply and demand dynamics. The negative impact of the hurricanes and subsequently the global economic slowdown brought marketwide occupancy down to a historic low of 65.3% in 2008, followed by two years of decline; 61.7% in 2009 and 61.0% in 2010. In 2011, market-wide occupancy levels increased notably, reaching a level of almost 65.0%, as increases in demand outpaced new supply in 2011.

Marketwide average rate exhibited decreases in 2008 and 2009 due to the negative impact of the global economic recession. However, the Caribbean market exhibited increases in average rate in 2010 and 2011 and this trend has continued into 2012 as average rate increased by over 3.0% during the recent year to date period through August 2012, compared to the same period last year.

RevPAR reflects the dynamics of occupancy and average rate. The market has undergone two down cycles, caused by the terrorist attacks of September 11, 2001 and the global economic recession in 2008. Despite the dramatic decreases in RevPAR in 2008 and 2009, the Caribbean lodging market is slowly recovering and is expected to continue with gradual growth in the short term and improving performance in the long-term as global economic conditions improve and travel and tourism regains its momentum in the region. RevPAR growth in 2010, 2011 and year to date through August 2012 coupled with notable increases in demand indicates this recovery is gaining momentum.

Seasonality

Despite the fairly stable climate, the Caribbean market shows a significant level of seasonality throughout the year, generally tied to the climate in the northern United States and Europe, the points of origin for most tourists to the region. Seasonality is represented by strong occupancies and average rates throughout the winter season, which are offset by lower occupancies and highly discounted rates in the months of September and October. In addition to the increased risk of hurricanes in September and October, the profound seasonality pattern of the Caribbean islands comes as a result of the region's dependence on leisure travel. Compared to destinations such as Florida or Hawaii, the Caribbean

islands have been less successful in attracting group demand, which typically helps to smooth the seasonality of demand.

Hotel Operating Structure

By analysing hundreds of hotels and operating statements in the Caribbean HVS has a deep knowledge and understanding of the day-to-day operations and cost and profit margins. Below are some of the cost savings as well challenges of operating a hotel in the Caribbean when compared to operating the typical hotel in the United States.

Rooms Expenses tend to be lower due to relatively inexpensive labor; in many cases readily available work force that is highly reliant on the hospitality industry.

Real Estate Taxes tend to be lower or non-existent as governments are likely to offer incentives to developers through tax reductions.

There are also challenges of operating hotels in the Caribbean amongst which are the following:

Food Costs tend to be higher due to import of international produce.

Insurance Cost tend to be higher as many of the islands are located in the hurricane belt.

Utilities expense tend to be higher. Utilities for Caribbean hotels can be more than double the cost compared to U.S. hotels; however, this varies between the islands.

Finding qualified staff in some cases can be challenging and can require considerable time and financial investment to secure and train staff.

Master-Planned Communities

The Caribbean offers a large amount of land for sale and developers have purchased large tracks of land throughout the region for development. Prior to the global economic recession, there were numerous large-scale mixed-use developments slated for development.

As market dynamics have changed and the market is no longer dominated by these proposed master-planned developments, many developers have now placed their projects on hold and in some cases are attempting to sell off their parcels of land.

A major factor in the transition of the market is the reducing levels of demand for residential products when compared to the peak of the market. The Caribbean's traditional base of second- and retirement-home purchasers, primarily from the United States and Canada, have experienced material reduction of wealth in the form of reduced values in primary residences and investment accounts.

In addition, as credit markets tightened, the ability to borrow from United States banks against one's primary residence or other assets in order to acquire a second or retirement home has curtailed. This has caused a transition in the market from master-planned resort-residential communities and condominium-hotels back to more traditional hotel operations. However, as the global market recovers, we are optimistic that this trend should return as the demographics of the US population are still relatively unchanged.

All-Inclusive Hotels

A lodging trend that is unique to the Caribbean compared to the United States is the dominance of all-inclusive hotels, depending on the market.

In particular, Jamaica, Dominican Republic, and Cuba are the markets in the Caribbean that are dominated by all-inclusive hotels. Jamaica is believed to be the founding location of the all-inclusive hotel model, aside from Club Med that came on stream in Greece during the same period. Initially, local Caribbean developers began the all-inclusive model and dominated the market during the earlier periods. However, today many other

FIGURE 3: ALL-INCLUSIVE HOTEL CHAINS IN CARIBBEAN
(SOURCE: HVS RESEARCH)

All-Inclusive Chains

Allegro Resort
Amresorts
Barcelo Hotels & Resorts UK
Club Med
Couples
Grupo Sol Melia
Iberostar
N H Hotels
Occidental
Palace Resort
Riu Hotels & Resorts
Sandals
Superclubs

investors are participating in this model which has proved successful in the region. Many Spanish hotel chains are dominant throughout the region and more recently, US hotel chains have entered the all inclusive market and have been willing to experiment with the all inclusive model.

All-inclusive hotels tend to have higher occupancy levels than European plan hotels, in many cases in excess of 80% annually. When looking at operating performance, the difference between an all-inclusive hotel and European plan hotel is that the food and beverage revenue/expense is included in the rooms revenue line item.

All-inclusive properties offer a variety of product types that cater to various niche markets. The majority of all-inclusive hotels are family oriented focusing on capturing demand originating from the United States.

The pricing strategy of an all-inclusive hotel appeals to the wholesale and FIT segments of leisure demand; therefore, the conversion of a European Plan hotel into an all-inclusive hotel is expected to increase its penetration in these segments.

Meeting and group demand is captured by both European Plan and all-inclusive hotels. Although all-inclusive hotels are able to capture meeting and group demand, it is on a smaller scale than that of European Plan hotels with larger facilities.

As previously mentioned we have focused on the six countries that receive the highest volume of visitors—considered as “The Big Six” for the region. We will present information on each of these islands and will expand in greater detail when producing the full article at HVS CHICOS.

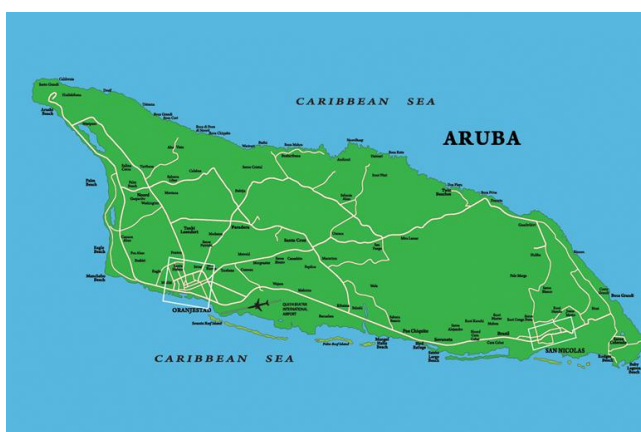
Aruba

With Queen Beatrix as the Head of the State Aruba forms part of the Kingdom of Netherlands, together with its sister islands Curacao, St. Maarten and Bonaire.

Location

The island of Aruba is located approximately nineteen miles off of the northern coast of Venezuela in the Caribbean Sea. Aruba has a population of nearly 100,000 people and has a land area of 75 square miles. Unlike much of the Caribbean region, Aruba has a dry climate and an arid desert-like landscape. In addition to being outside the hurricane belt, this dry climate benefits the island as tourists can reliably expect warm and sunny weather. Known for its white sand beaches, Aruba is one of the premier travel destinations in the Caribbean.

Economy



Similar to many Caribbean destinations, Aruba has a small, open economy that is heavily dependent on tourism. Aruba’s economic growth fluctuated in the past decade but has had a positive growth trend from 2003

to 2008 (in real growth). Aruba’s nominal GDP grew at twice the rate of inflation during that time frame. As a Caribbean destination island, tourism plays a large part in the economic vitality of Aruba; in fact, tourism receipts have made up roundly half of the nation’s GDP. Tourism receipts as a percentage of GDP declined slightly in 2009 following the economic recession. Other factors that contributed to this decline are higher energy prices affecting airline fares. During the recent period, 2010, 2011 and year to date through August 2012, compared to the same period last year the Aruban market has exhibited strong RevPAR growth indicating a positive turn for the Aruban economy and tourism. Overall, the Aruban economy is in a period of economic recovery, which should continue in the near term.

Government Investment

According to Aruba’s Minister of Tourism, over \$230 million was invested on the island in the form of renovations and expansions of the airport, hotels, cruise ship and bus terminals, condos, villas, shopping malls, and spas from 2005 to 2007. Many of the island’s hotels and high-rise developments underwent complete transformations updating both soft goods and case goods of guestrooms and public spaces. Private developers made significant investments in Aruba demonstrating confidence that the private sector has in the future of the island.

“Bo Aruba”

The government is undertaking plans to revitalize the downtown area focusing on streetscape beautification and improvements. The renovation and beautification plan is all part of “Bo Aruba,” and comprises several phases. The downtown main street (shopping area) will be remodeled along with the water towers in Oranjestad and San Nicolas, the old John F. Kennedy School, and the court house and several other buildings. The project is scheduled for completion in 2013 at an estimated cost of \$55 million.

Tourism

Aruba claims one of the highest rates of repeat visitors in the Caribbean. According to a 2010 survey by the Central Bank of Aruba, approximately 30% of visitors to

the island had been there in the past two to five years and 40% of visitors had been to Aruba six times or more. The island proves to be a popular resort destination especially for visitors from the Northeastern U.S.

Aruba has beautiful beaches and a climate conducive to tourism. Its association with the Dutch culture and history has created a rich and vibrant cultural legacy and multi-ethnic society. The ease of using U.S. currency on the island as well as easy access and excellent airlift from the United States, Canada, and European countries helped the island's tourism prosper during the past decades. Additionally, there is a considerable amount of timeshares on the island.

Source Markets

Aruba is one of those Caribbean islands that is dominated by the US as a source market, accounting for about 60% of all tourists. The growing market is South America and particularly Columbia, factored into the category 'Other'. Despite its European roots travellers from Europe only account for about 10% of all guests.

Hotel Market Performance and Outlook

The Aruban lodging market is a mix between resort hotels, all-inclusive resorts, and timeshare developments. The hotels in Palm Beach are divided into two categories: high-rise hotels and low-rise hotels. The high-rise hotels are located along Palm Beach and include the Westin, Holiday Inn, the all-inclusive Occidental Grand, the Radisson, the all-inclusive Riu Palace Aruba, the Aruba Marriott Resort, and the Hyatt Regency. Most of the lodging facilities on the island underwent extensive renovations and refurbishments in 2007 during the government renovation initiative.

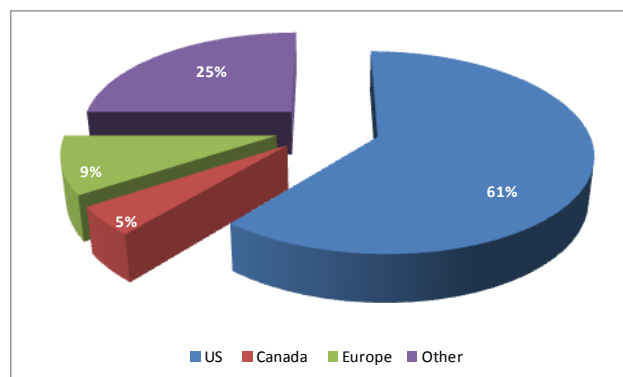
The Aruba hotel market typically runs in the low to high-70 percentile range. Between 2007 and 2009 the competitive supply was constant, while occupied room nights declined. This decline was attributed to negative press due to the Natalie Holloway disappearance coupled with large renovations at area hotels, as well as the economic recession and financial crisis. In 2009, average rate declined as a result of the economic recession. Market-wide occupancy rebounded in 2010

and continued to recover in 2011. Average room rates have increased marginally during 2011 and year to date through August 2012, compared to the same period last year.

Going forward, the long-term outlook for Aruba's

FIGURE 4: SOURCE MARKETS ARUBA

(Source: CHTA)



tourism is positive. While timeshares will inevitably accommodate some of the repeat guests, the tourism officials are also working to market Aruba to different feeder markets and more of a group destination in order to increase accommodated room nights and to replace lower-rated wholesale demand during the summer.

Bahamas

White sandy beaches, the latest series of the UK TV show 'The Bachelor', and the most prominent Caribbean resort, the Atlantis are just a few reasons that make the 700 islands of the Bahamas a well-known and diverse tourism destination.

Location

The Commonwealth of the Bahamas consists of an archipelago of more than 700 islands and 2,400 cays that extend from 50 miles southeast off the coast of Florida to a point north of Haiti. The name Bahamas comes from the Spanish word, "bayamar," meaning "low tide." The total area of the Bahamas is roughly 5,400 square miles, but only 30 of the 700 islands are inhabited.



New Providence and Grand Bahama are the two principal islands of the Bahamas. Nassau, situated on New Providence, is the commonwealth's capital. The remaining inhabited islands are commonly referred to as the "Family-islands," and include Abaco, Acklins/Crooked Island, Andros, Berry Islands, Bimini, Cat Island, Eleuthera, Exumas, Inagua, Long Island, Mayaguana, and San Salvador.

Economy

The Bahamas has become a favorable target for international investment. It has established legal

incentives to attract foreign investors and has streamlined government bureaucracy for more expeditious project approval. Incentives are largely targeted to tourism development, as well as to the finance, insurance, manufacturing, shipping, and import and export trade industries. One of the most attractive investment incentives is the tax-free status that is accorded to income. There are no taxes levied on capital gains, corporate earnings, personal income, sales, inheritance, or dividends. This tax freedom applies to all resident corporations, partnerships, individuals, and trusts.

Investors are also attracted to the stability of the economy; the Bahamian Dollar is tied to the U.S. Dollar (or a 1:1 ratio), and U.S. Dollars and Bahamian Dollars are used interchangeably throughout the island chain.

However, the economy of The Bahamas is heavily reliant upon tourism, which is the country's primary contributor to GDP and major industry. According to the World Travel & Tourism Council, the contribution of Travel & Tourism to GDP is expected to rise from 46.3%, or US\$3,514.0 million in 2012 to 47.3%, or \$4,682.9 million by 2022. The contribution of Travel & Tourism employment is expected to rise from 44,500 direct jobs in 2012, 29.5% of total employment, to 55,000 direct jobs by 2022. Hence, the outlook is generally positive for the Bahamas.

The significance of tourism to the Bahamas is dictated by two primary factors: (1) the lack of natural resources necessary to support manufacturing or other industries and (2) the suitability of the islands (including the climate, location, topography, and natural beauty) as a tropical destination resort area.

Accessibility

The availability and caliber of the air service to the Nassau International Airport – Lynden Pindling International Airport (LPIA) has had a significant influence on the level of tourism. Additional flight itineraries to Nassau were added by Jetblue (daily direct flights from Kennedy Airport in New York in 2010, and White Plains service started in November 2011). COPA airlines has commenced direct flights from South America starting in June 2011. The Ministry of Tourism

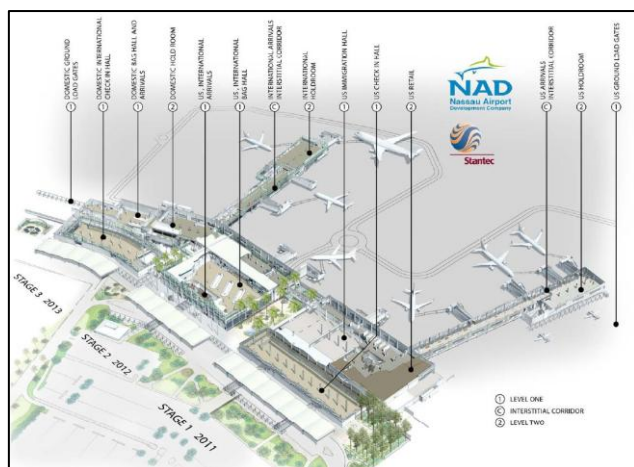
and Aviation estimates that COPA airlines will bring around 14,500 visitors, generate about seven million in hotel room revenue in its first year, and add an approximately \$17 million total boost to the Bahamas' economy.

The LPIA is undertaking a \$409.5 million expansion, which broke ground on July 9, 2009 and is slated for completion in 2013.

According to the Nassau Airport Development Company, the airport now has a new 247,000 square-foot U.S. Departures Terminal, which was completed in March 2011. The terminal is the first phase of the plans for three linked terminals. Phase Two of the expansion, scheduled to be completed in late 2012, includes selective demolition of the current U.S. departures

NEW CONFIGURATION OF LYINDEN PINDLING AIRPORT

(Source: LPIA)



terminal, and construction of the new international arrivals terminal and pier. Phase Three of the expansion includes a new domestic/international departures terminal and a new domestic arrivals terminal. Upon completion of the expansion, the airport will add a total terminal area of just over 585,000 square feet and features ten jet-bridge capable gates. Four additional gates capable of taking Boeing 747 sized aircrafts, and one capable of handling the world's largest aircraft, the Airbus A-380, are also expected to be complete. Once finished, by the end of 2013, LPIA will be able to

accommodate approximately 5.2 million passengers, an increase of 50.0%.

Other Regeneration Initiatives

Nassau Harbor Port Improvement Project

The dredging of Nassau Harbor was fully completed in the fall of 2010. The \$44.2-million Nassau Harbor Port Improvement Project was carried out to accommodate some of the world's largest vessels including the new mega Genesis Class Cruise Ships – Royal Caribbean's 'Oasis of the Seas'. As a subsequent part of this project, the Arawak Cay port was also extended. This project will increase the size of Arawak Cay port by approximately 43 acres. The Government is planning to relocate container shipping operations from Downtown to Arawak Cay, increasing the overall operational capacity of Arawak Cay and relieving downtown Nassau from cargo activities.

Downtown Nassau Redevelopment

According to the Downtown Nassau Partnership, the mandate for this \$12-million initiative on the Bay Street/Straw Market area is to preserve the historic heritage of the city, creating a space for Bahamian art and culture, and make the downtown once again the center of the community. Bay Street is in the heart of the shopping district, and on the west end of the street is the 37,000 square-foot Straw Market. For the purpose of creating a more conducive Bahamian experience for visitors disembarking from the numerous cruise ships that dock near Bay Street, the government is planning to redevelop this area with increased greenery, artistic wall murals, and activity spaces.

Baha Mar

Baha Mar Resorts represents the development of the largest, single-phase hospitality investment venture in the Caribbean as well as North America. Expected to be completed in early 2015, the estimated \$3-billion hotel and casino investment will be constructed along Cable Beach on the northern shore of New Providence Island. Baha Mar is financed by a \$2.4 billion loan from China's Export-Import Bank and a \$150 million investment from

China State Construction and Engineering, which is also the contractor of the project.

Source Markets

The majority of visitors to the Bahamas depart from the United States. The dominance of the United States as a feeder market to the Bahamas is tied to several factors,

FIGURE 5: SOURCE MARKETS BAHAMAS

Source: Bahamas Tourism Ministry

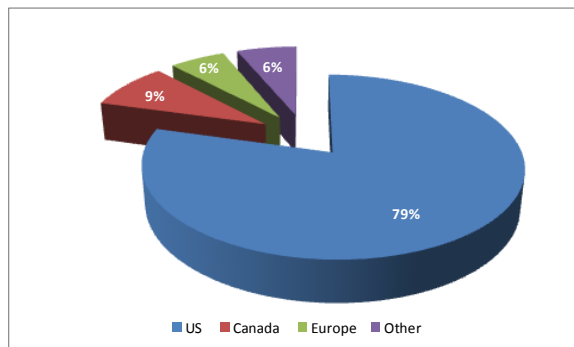


FIGURE 6: HOTEL MARKET PERFORMANCE BAHAMAS

Source: Bahamas Tourism Ministry

	THE BAHAMAS			NASSAU/Paradise Island			GRAND BAHAMA			THE OUT ISLANDS		
	2011	2010	% CHG	2011	2010	% CHG	2011	2010	% CHG	2011	2010	% CHG
Available Room Nights	3,941,247	4,127,706	-4.5%	2,884,683	2,918,386	-1.2%	570,322	753,032	-24.3%	486,242	456,288	6.6%
Occupied Room Nights	2,127,773	2,126,902	0.0%	1,699,322	1,688,684	0.6%	238,266	272,436	-12.5%	190,185	165,782	14.7%
Average Room Occupancy*	54%	52%	2.5%	59%	58%	1.0%	42%	36%	5.6%	39%	36%	2.8%
Rooms Revenue	435,086,592	423,301,190	2.8%	384,287,664	373,501,910	2.9%	21,516,043	23,703,865	-9.2%	29,282,885	26,095,416	12.2%
Average Daily Room Rate (in US\$)	204	199	2.7%	226	221	2.2%	90	87	3.8%	154	157	-2.2%

including the relative proximity to the U.S, the familiarity of an English speaking native population, and the use of U.S. currency on the islands, which is freely exchanged with the Bahamian currency at a one-to-one exchange rate.

Again, airlift is an important factor that drives visitation numbers and the increase in visitation from South America is directly correlated to the introduction of new air routes with Copa Airlines.

Hotel Market

When mentioning lodging in the Bahamas most travellers will inevitably think of the Atlantis Resort,

developed by Kerzner International in several phases over almost 20 years. With its almost 3,000 rooms and various other facilities it is one of the most important employers for Bahamians as well as contributor to the overall community in terms of providing water/electricity supply, landscaping and area regeneration, training and education for locals and so forth.

However, the total hotel supply including out islands might show slightly different characteristics than the Atlantis Resort, even though it heavily weighted in any aggregated performance numbers due to the dominance in hotel supply (number of rooms). The following table displays hotel occupancy, average rate and RevPAR for all islands in the Bahamas compared to New Providence/Paradise Island. We note that these figures are comprised of the overall hotel inventory on the island, including privately owned and managed hotels as well as unbranded and dated products.

Full year 2011 shows some healthy increases in

occupancy and average rate for the overall Bahamas hotel market. Compared to all of the Bahamas, the Out Islands and Grand Bahama register notably lower occupancy and average rate levels than Nassau/Paradise Island. This is because the Out Islands do not have the critical mass for enhanced airline service, which would drive occupancy for hotels in the market similar to this data.

New hotel supply will primarily come on stream from the BahaMar project. The project will include ±3,000 hotel rooms, ±200,000 square feet of meeting space, ±3,000 feet of beachfront, a championship golf course, ±100,000 square feet of gaming space, and ±50,000 square feet of retail and food and beverage space.

Cuba

Despite its isolation, Cuba has been able to create a mystical desire for visitors to venture on the paths of Hemingway, the history of the revolution or the Buena Vista Social Club.

Location

Cuba is the largest island in the Caribbean and is the westernmost island included in the Greater Antilles. Cuba is located merely 90 miles south of Key West, Florida, and is one of the closest Caribbean nations to the U.S. The island measures 42,800 square miles and possesses more than 3,000 miles of coastline. Cuba has an estimated population of over eleven million people.



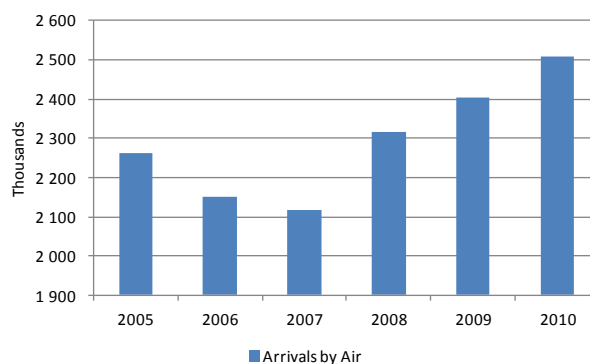
Government and Economic Policy

Cuba is a communist republic that has been ruled under the leadership of the Castro family since 1959. The sharp political contrast between the Cuban government, supported strongly by the USSR in the Cold War, and the policies of the U.S. has been the source of tension for decades. An economic embargo on Cuba, enacted by the U.S. government in the early 1960s, resulted in a decline and subsequent absence of Western influence in the island nation. Soviet subsidies and support to Cuba disappeared with the fall of the USSR in the end of the 20th century. Henceforth Cuban infrastructure, living standards, and economic growth have been slow to recover.

In recent years the Castro government has remarkably begun to alter their strict Marxist economic policies to favor more hybrid economic systems that incorporate

FIGURE 7: AIR PASSENGER NUMBERS CUBA

Source: Oficina Nacional de Estadísticas Cuba



capitalist theories and allow for private ownership. The government has acknowledged the need to update their economic model to ensure its survival in the 21st century. Regulations have been loosened and state businesses have been partially privatized. In 2012 the administration introduced measures to eventually require property and income taxes, which were absent since the 1960s. The slow reshaping of Cuban economic policy to include market functionalities and privatization is an indicator of the country's appeasement to international engagement and eventual investment.

Airports

Cuba has two main international airports, Juan Gualberto Gomez International Airport in Matanzas and José Martí International Airport in Havana, the capital city. Airlift to Cuba is limited but growing, as Cuba opens its doors to more foreign investment. With outside involvement airport infrastructure is being improved and international carriers are more likely to establish themselves in Cuba. Currently most air traffic comes from domestic airports, Canada, and Europe.

The José Martí (HAV) International Airport is the primary international and domestic airport in Cuba. This airport achieves the highest passenger traffic, and welcomes millions of arrivals per year according to the Cuban government, though specific data is unavailable.

The airport has five terminals and serves 37 different airline companies. Most international flights connect to Central and South America or Western Europe, though some do connect to the U.S. for American residents that have special permission to travel to Cuba.

The Juan Gualberto Gombes (VRA) International Airport is located on the northern coast of Cuba and services the cities of Varadero and Matanzas. The airport is the second busiest airport in Cuba, and moves 30% of Cuba's passenger air traffic. Over half of the international arrivals are Canadian, followed by Europeans and Russians.

U.S. Impact on the Cuban Market

Distinct from its Caribbean neighbors, Marxist-socialist political ideology has isolated Cuba from the largest source market to the Caribbean region: the United States. Included in the U.S. policy towards the communist country in the 1960s was a travel ban on U.S. citizens to Cuba, which is still largely enforced by the U.S. government. It is significant to observe this situation, as the potential for the Cuban market to grow with an influx of U.S. visitors would have an immense impact on the tourism industry. The Cuban Ministry of Tourism estimates that without the travel ban to Cuba, an additional three million U.S. tourists would visit the island annually. Furthermore, official estimates infer that each million of U.S. tourists prohibited from travel to Cuba represents a loss of \$490 million USD for the Cuban tourism industry.

However, it is equally important to consider the success of Cuba in establishing and growing its tourism industry despite the ban on travel from the U.S. While tourism is largely directed both by and towards European and Latin Americans, Canada continues to deliver the largest source market for the country. The ability of Cuba to circumvent U.S. restrictions and create an atmosphere conducive to leisure travel has not been in vain, and Cuba continues to attract significant foreign investment and visitation.

Furthermore, the recent shift towards market policies bodes well for Cuban-U.S. relations and authorized travel to Cuba from the U.S. has risen since the mid-2000's. Most recently, educational guided tours have

been authorized by the U.S. government. Such tours, led by designated experts, are still small in numbers but are have proven popular with U.S. citizens and will likely grow in the near future. We estimate the demand by U.S. citizens for facilitation of travel to Cuba to be high.

Eco-Tourism

There is significant commitment among the Cuban government to environmental consciousness and protection of natural areas. One fifth of Cuba's territory is covered by protected areas. Ecotourism is a growing subsector in Cuba and provides an opportunity to cater to a distinct niche market segment, one that typically spends more and stays longer on an average visit. Activities such as hiking, cycling, horseback riding, scuba and cave diving, and canopy tours are popular with tourists. Cuba counts many ecoresorts and hotels in the areas surrounding its six UNESCO Biosphere reserves, harmonizing the hotels with the surrounding environment and decreasing tourism's harmful potential to the areas. Popular areas for eco-tourism in Cuba are Cienaga de Zapata and las Terrazas.

Tourism

Tourism is the dominant industry in Cuba, similar to most Caribbean nations. Despite the U.S. ban on travel to the country, Cuba has successfully continued to attract international tourists from Canada, Europe, and Latin America and in the last decade has grown to become the 9th most visited destination in the Americas (North, South, and the Caribbean). A substantial part of the government's efforts to adjust their economic model to accommodate the world market involves focusing on the tourism sector; tourism is the second largest source of hard-currency earnings after professional/technical services.

Cuba has more coastline than all Caribbean islands combined and has a diverse geography that ranges from white sandy beaches to rocky volcanoes and mountainous ranges. Its natural aesthetic and appeal to tourists is supplemented by its mystery and distinct culture, particularly its political ideology and ties to monumental historic events. Furthermore, the government's support of tourism in recent years has

turned the country into a top choice for many travelers. Old Havana, a UNESCO World Heritage Site, has been largely restored to its original splendor and gives visitors a look into a city untouched by globalization, a feat rare in the Caribbean region and the world at-large.

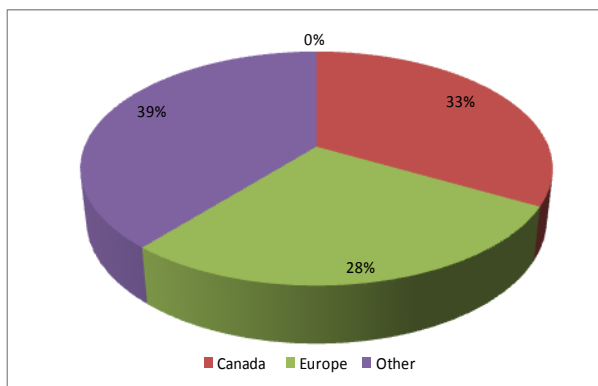
The Cuban Ministry of Tourism announced that as of August 2012, over two million foreign tourists had visited the country, a number 5.3% higher than the visitation rate from the same period in 2011. The highest number of visitors to Cuba continue to arrive from Canada, followed by Britain, Argentina, France, Italy, Germany, and Russia. Estimations for tourist arrivals at the end of 2012 are posed at an unprecedented 2.9 million visitors. The difference between total arrivals and arrivals by air are excursionists arriving by sea, even though those figures are very low.

Source Markets

Cuba, as mentioned before has a travel ban on the U.S. which reflects in its source market statistic.

FIGURE 8: SOURCE MARKETS CUBA

Source: Oficina Nacional de Estadística Cuba



Hotel Market

The Cuban government reports the country possesses roughly 300 hotels and 60,000 rooms. The majority of Cuban hotel companies are foreign, largely from the Latin Caribbean and from Spain. Moreover, unlike other Caribbean destinations, Cuba has financed hotel investments largely with local capital and looked to

foreign hotel corporations for management and ensuring international hospitality standards.

According to the Caribbean Tourism Organization (CTO), in 2010 the vast majority of tourist arrivals were leisure-oriented (95.6%) while only 0.5% were business-oriented. The focus on sea, sand and sun in Cuban tourism is reflected in the hotel industry, with all-inclusive hotels performing well in the market. The amount of 4- and 5-star properties in Cuba has risen overall, from counting as roughly one-fifth (22%) of all hotel properties in 2001 to 30% in 2010. The average visitor in 2010 stayed 10.9 nights.

In 2010 the country registered an occupancy level of 57.1%. Though occupancy rates have decreased 6.5% from 2005 to 2010, overnight visitor stays have increased. Thus one can assume that while lodging demand is rising in Cuba, the current supply is outpacing the increases in demand. Occupancy may have decreased due to the global economic crisis in 2008; the decrease may be a result of both global decreases in demand as well as increases in lodging supply in the Cuban market.

As previously mentioned, the lack of U.S. visitors negatively impacts occupancy potential in the region. Yet if the U.S. travel ban is lifted, Cuban lodging supply will be vastly inadequate, especially during the high seasons of travel.

For the last few years expectations have been for that ban to lift and the international market to tap into that vast development potential. Cuba can then highly profit from being so untouched and virgin if it puts in place a detailed tourism investment masterplan that controls development in a positive way and ensures that a pre-defined destination positioning can be achieved in order to create and maintain a cohesive tourism product.

Dominican Republic

Sharing the island of Hispaniola with neighbouring Haiti could be one of the most contrasting pictures in terms of development and tourism.

Location

The Dominican Republic is the second largest Caribbean nation, on the island of Hispaniola that is part of the Greater Antilles, measuring 18,704 square miles with an estimated population of ten million people.

Haiti borders the Dominican Island to the west, making Hispaniola one of two Caribbean islands that are shared by two countries.



Accessibility

Airports

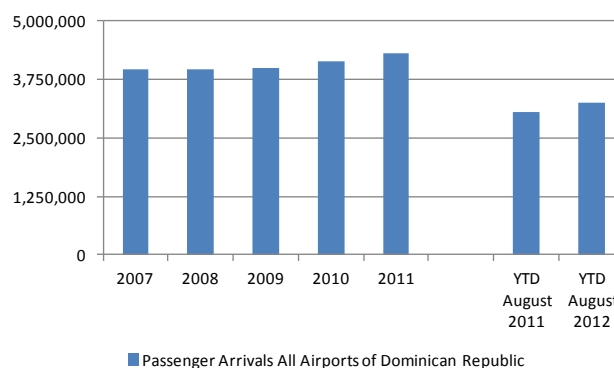
The Dominican Republic has eight international airports, with Punta Cana International Airport and Las Americas International Airport the two more popular airports used by tourists that visit the Dominican Republic. Airlift to the Dominican Republic is considered to be superior to the majority of Caribbean islands, with additional flights continuing to be added.

Las Americas International Airport is located on the southern coast of the country. The airport is also one of the busiest in the Caribbean, with 1,130,622 passengers recorded for 2011 (up 2.7% from 2010).

Punta Cana International Airport is located on the eastern end of the country and services the major resort destinations. This airport achieves the highest passenger traffic, with 2,237,969 recorded in 2011 (up 9.8% from 2010). The airport services 53 different airlines and expanded its facilities in November 2011 with a new runway and air traffic control center.

FIGURE 9: PASSENGER TRAFFIC – ALL AIRPORTS DOMINICAN REPUBLIC

Source: Central Bank of Dominican Republic



Dominican Republic's brand new Coral Highway (the Autopista del Coral), which connects the famous resorts of the eco-rich La Romana region to the luxe beaches and resorts in Punta Cana, was officially inaugurated by the President of the Dominican Republic on 8 August 2012. The four-lane highway connects three of the most popular tourist regions in the country. The highway shortens the trip from the capital city of Santo Domingo to Punta Cana from four hours to roughly two hours, and cuts the drive from La Romana to Punta Cana International Airport to an estimated 40 minutes.

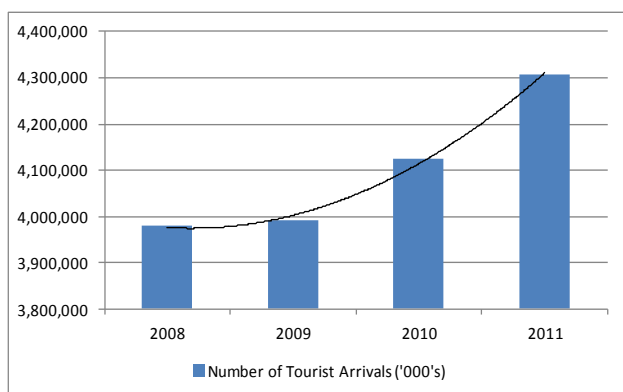
Overall passenger figures show a positive upwards trend from 2009 to the most recent period through August 2012.

Tourism

Tourism is the Dominican Republic's dominant industry. With its ±800 miles of white sand beaches, the country is one of the most popular destinations in the Caribbean, largely because the country features the largest all-inclusive resort industry in the world. Historically, tourism developments have been concentrated in the coastal beach towns in the north, east, southeast, southwest, and in the capital city of Santo Domingo. Recently, ecotourism in the interior of the country gained in popularity.

FIGURE 10: TOURIST ARRIVALS DOMINICAN REPUBLIC

Source: CTO



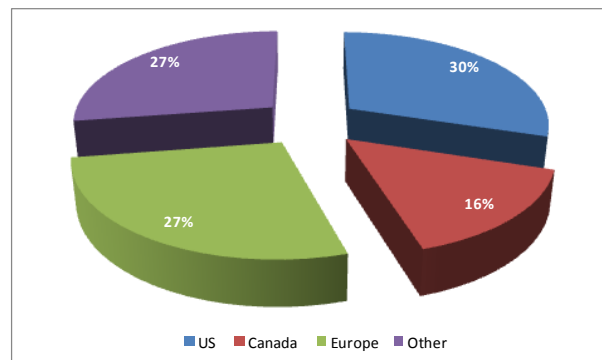
The Dominican Republic boasts a significant number of tourist attractions, both historic landmarks and natural sites, which are located throughout its territory. Most of the historic attractions are situated in the coastal cities, such as Santo Domingo, Puerto Plata, and Samana, while the interior terrain appeals to nature lovers, who can enjoy white-water rafting and cross-country biking. Notwithstanding the preceding, the Dominican Republic's beaches and temperate Caribbean climate are clearly the country's strongest attraction, complemented by the country's other tourist attractions.

The Dominican Republic Ministry of Tourism announced an 8.4% growth in international arrivals during the first quarter of 2012. Overall, the Dominican Republic receives the highest number of visitors to the Caribbean.

Source Markets

FIGURE 11: SOURCE MARKETS DOMINICAN REPUBLIC

Source: CTO



The Dominican Republic has a fairly balanced source market mix with about one third US guests, another one third of the visitors originating out of Europe and one third of international visitors from other source countries. The Dominican Republic is therefore less affected by short term dynamics in one of the major source markets.

Relative to other Caribbean destinations, the Dominican Republic typically maintains some of the highest occupancy levels. The country's tourism has grown from less than two million visitors in 1996 to over four million today. Europe as a source market has changed from 45% in late 1990's to less than 30% today. The United States as a source market has increased visitation from just over 400,000 US visitors in 1996 to over 1.2 million today. The Dominican Republic has therefore seen significant growth in its tourism industry over the last 20 years through a major shift in source markets.

The Dominican Republic benefits from strong domestic demand for hotels and resorts. An estimated 30%-40% of homes within the resort communities are owned by local Dominicans.

In 2011, the country registered an overall occupancy level of 69.3%, and increase from 66.6% in 2010.

Occupancy levels for the Dominican Republic remain high as the majority of hotels are all-inclusive (as discussed previously).

Jamaica

Jamaica increased its destination awareness tremendously over this summer during the London 2012 Olympics as their track and field athletes captured an array of medals and global media awareness. But even long before 2012, Jamaica has been popular for Bob Marley and Reggae music.

Location

Jamaica is an island nation measuring 4,243 square miles and is part of the Greater Antilles, about 90 miles south of Cuba and 119 miles west of Hispaniola (Haiti and the Dominican Republic). The capital of Jamaica is Kingston and the country has an estimated population of 2.8 million people. Jamaica is a well-established tourism destination in the Caribbean with a strong destination brand.



Birth of All-Inclusive Hotel Concept

Jamaica has said to be the founding location of the all-inclusive hotel model, aside from Club Med that came online in Greece during the same period. Abe Issa, hailed as "the father of Jamaican tourism" introduced the concept of couples only resorts in 1978 after 30 years in the hotel industry. His son, John Issa, is known

as a pioneer of the all-inclusive resort concept, introducing the first hotel of this type in Jamaica with the development of Negril Beach Village resort, which is today Hedonism II. The success of the concept lead Issa to launch the SuperClubs group of hotel properties located throughout Jamaica, Curacao, the Bahamas, the Dominican Republic and Brazil.

In 1985, Gordon "Butch" Stewart opened the first Sandals Resort in Jamaica. Also in 1985, Sandals unveiled the first swim-up bar concept, followed by many additional amenity innovations in the beach resort concept. In 1991, Sandals became the largest operator of all-inclusive resorts in the Caribbean. Jamaica is a country dominated by all-inclusive hotels, and its history of high-quality product and rich culture has given it a strong destination brand.

TOURISM INVESTMENTS

Montego Bay Convention Centre

The new Montego Bay Convention Centre opened in January 2011, and is expected to boost group and convention demand to the North Coast of Jamaica. This new center is located on a 35-acre site opposite the Shoppes of Rose Hall along Highway A1. The facility offers 50,000 square feet of exhibition space, over 20,000 square feet of banquet space, and more than 11,000 square feet of meeting space. The project was financed through a \$51 million loan agreement between the Government of Jamaica and the China Export-Import Bank.

Falmouth Cruise Ship Port

The Falmouth Cruise Ship Port, a large mixed-use development containing a new cruise ship pier for Jamaican tourism operations, had a soft opening in the fourth-quarter 2010. This project is under development by Royal Caribbean Cruises and the Government of Jamaica.

Spanish Investors

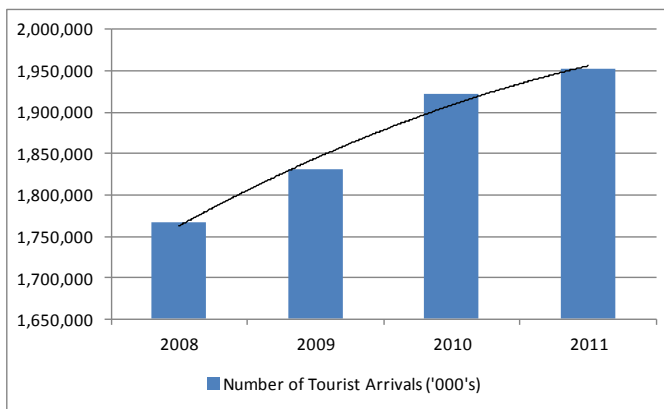
Over the last decade Spanish investors have changed the landscape of Jamaica. Spanish companies such as Riu, Iberostar, and Bahia Principe have opened large-scale resort development mainly concentrated on the North Coast. An estimated 8,000 all-inclusive rooms have been added to the market within the last six years, and the market is continuing to expand with further addition of new supply. These investors have tapped into the mass tourism market in North America and have built many mega 500-plus room hotels.

Tourism

Jamaica is highly dependent on tourism as its number one industry. In 2009 visitor expenditure was an estimated US\$1,925,423,000 from a total 2.75 million visitors to the island. Jamaica’s major resort centers are Montego Bay, Ocho Rios, Negril, Kingston, Port Antonio and the Central and South Coast. There is a wide variety of attractions and scenic beauty.

FIGURE 12: TOURIST ARRIVALS JAMAICA

Source: CTO



Visitation to Jamaica increased year over year from 2009 to 2011. Stopover arrivals in 2011 increased 1.6% compared to 2010. According to the Jamaica Tourist Board, the trend of increasing visitor arrivals continues

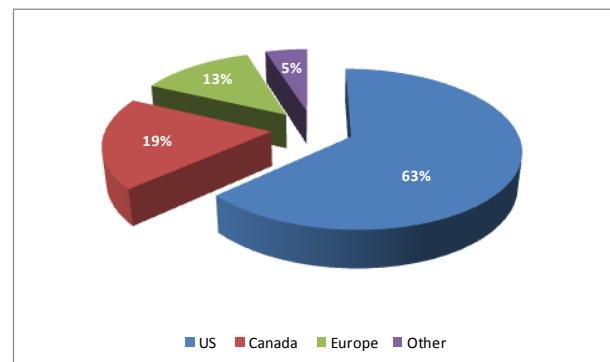
into 2012 based on year to date arrivals through mid year 2012 compared to the same period the prior year.

Source Markets

Jamaica’s main source market is the United States, accounting for about 63% of tourist arrivals, followed by Canada with 20% of arrivals. As evident, the market is very much reliant on the North American visitors.

FIGURE 13: SOURCE MARKETS JAMAICA

Source: Jamaica Tourist Board



Hotel Market

Tourist visitation to Jamaica is usually accommodated in one of the main tourist hubs around the island: the Montego Bay market has historically received the highest number of visitors to Jamaica, followed by Ocho Rios then Negril. This trend is further attributed to the opening of the new conference center in Montego Bay and the new Secrets Resort and Spa that is continuing to ramp up following its opening in March 2010.

Occupancy levels decreased slightly during the period 2008 to 2010, but exhibited an occupancy increase in 2011. The declines in occupancy were partially attributable to hotels combating negative media surrounding crime but the impact was short lived as occupancy levels continue to increase in 2011 and through the most recent year to date period.

Jamaica remains a stable market, despite the impacts caused by the global economic recession. Jamaica also boasts an open and diverse economy with encouraging prospects. This is supported by strong political commitment to free enterprise, strong brand identity, and the expansion of benefits as derived from the country's membership in the Caribbean Single Market and similar trade agreements. In addition, the country ranked 21st for global interest as an inward investment location and 12th in FDI technology transfer and has made tremendous strides in creating an environment conducive to enterprise development.

FIGURE 14: HOTEL OCCUPANCY JAMAICA

Source: Jamaica Tourist Board

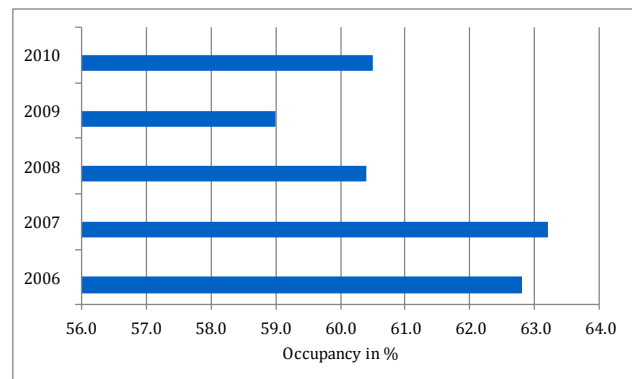


FIGURE 15: VISITATION BY AREA - JAMAICA 2007 TO 2011

Parish	2007		2008		2009		2010		2011		2011 vs 2010	
		%		%		%		%		%	% Change	
Montego Bay	421,663	25%	474,755	28%	518,968	31%	581,220	34%	612,723	31%	5.1%	
Ocho Rios	442,083	26%	441,398	26%	422,630	25%	419,750	25%	427,776	22%	1.9%	
Negril	342,423	20%	351,404	21%	396,848	23%	413,356	24%	398,636	20%	-3.7%	
Kingston	228,504	13%	226,502	13%	224,230	13%	221,779	13%	226,164	12%	1.9%	
South Coast	110,012	6%	118,560	7%	106,592	6%	119,009	7%	120,847	6%	1.5%	
Port Antonio	17,505	1%	17,815	1%	17,594	1%	19,094	1%	18,979	1%	-0.6%	
Other	138,595	8%	136,837	8%	144,235	8%	147,270	9%	146,627	8%	-0.4%	
Total/Average	1,700,785	100%	1,767,271	100%	1,831,097	100%	1,921,478	100%	1,951,752	100%	6.1%	

Source: Jamaica Promotions Corporation

Puerto Rico

The sun-washed backyard of the USA is also famously known as “La Isla del Encanto” (Island of Enchantment).

Location

Puerto Rico, officially the Commonwealth of Puerto Rico, is a semi-autonomous territory of the United States, located in the northeastern Caribbean, east of the Dominican Republic and west of the Virgin Islands. The territory is composed of an archipelago that includes the main island of Puerto Rico and a number of smaller islands and keys, the largest of which are Vieques, Culebra and Mona. The main island of Puerto Rico is the smallest by land area but the third largest by population among the four Greater Antilles (Cuba, Hispaniola, Jamaica and Puerto Rico).

Puerto Rico is an unincorporated organized territory of the U.S. which was granted commonwealth status in 1952, making it the first Overseas Commonwealth of the United States. This commonwealth status allows Puerto Rico self government in respect to internal affairs and administration, subject to relevant portions of the Constitution, and laws of the U.S., and the powers of Congress. Puerto Ricans are U.S. citizens and, although Spanish is the island’s first language, English is widely spoken and both are official languages of the Island. Passports are not needed by U.S citizens to visit the Island. Its currency is the United States dollar.

Tourism Infrastructure

Puerto Rico Convention Center

The Puerto Rico Convention Center began operations on November 17, 2005, and is currently the largest and most technologically-advanced convention center in Latin America and the Caribbean. The Center is able to accommodate groups of up to 25,000 people with a total space of ±580,000 square feet, which includes ±152,700 square feet of total exhibit space, a ±39,600-square-foot ballroom, and ±36,200 square feet of additional meeting space.

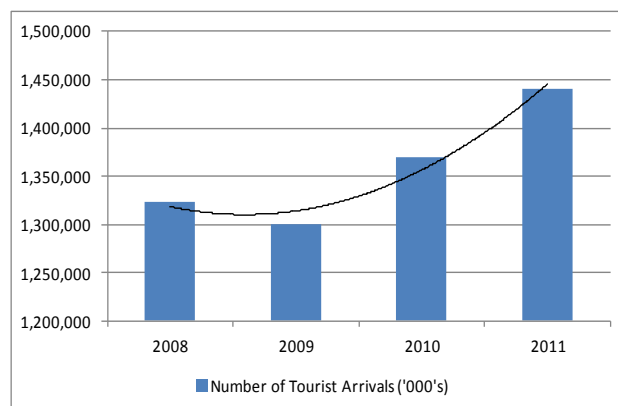
According to interviews in the field, efforts are being made to increase the volume of events and there is a definite need to increase the number of facilities that support the convention center such as restaurants and retail. The improved performance of the convention center presents a tremendous opportunity for the Puerto Rican lodging industry as large conventions are anticipated to create compression and thereby benefit the overall market once the economy fully recovers.

Tourism

Unlike some of the other destinations within the Caribbean, primarily the select destinations we consider that are the most competitive islands to Puerto Rico in the region (Jamaica, the Bahamas, Dominican Republic,

FIGURE 17: TOURIST ARRIVALS PUERTO RICO

Source: CTO



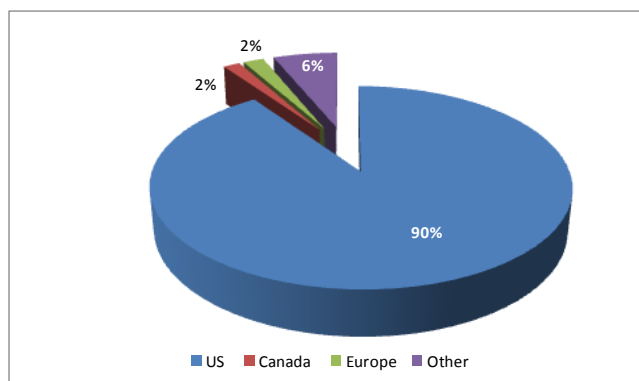
Aruba and the U.S. Virgin Islands) Puerto Rico is not as actively promoted as a leisure destination when compared to these islands. Based on our research the lack of a consistent destination marketing and image campaign has hampered the growth of the destination. Despite the lack of promotion for leisure tourists the overall number of visitors to Puerto Rico continues to increase during the period 2010 to year to date July.

Source Markets

Not surprisingly, tourism demand to Puerto Rico has been dominated by visitors arriving from the U.S. mainland. The second largest market is native Puerto Ricans returning to visit family or friends and/or experience leisure travel. This is a unique characteristic to the tourism market within the Caribbean, as many islands do not have the vast number of residents that migrate to other countries or the U.S. mainland and return driving demand to area hotels.

FIGURE 16: SOURCE MARKETS PUERTO RICO

Source: CTO



U.S. mainland and returning Puerto Ricans account for the vast majority of travelers in Puerto Rico. Europe and the Caribbean each account for 2.0%, while Canada and South America each account for 1.0%. This is by far the most US centric island in terms of visitor arrivals of all the Big Six islands analyzed in this report.

Hotel Market

Commercial demand is the largest demand segment in Puerto Rico and the city of San Juan is seen as the commercial hub for the Caribbean. This is also the case for many non-metropolitan hotels that are reliant on commercial demand from the domestic market; based on interviews with management representatives of some non-metropolitan hotels, they report that the domestic market makes up a significant amount of their demand and 50% to 60% of their segmentation is commercially driven. The recent economic downturn has caused a decline in this market segment throughout Puerto Rico as some businesses downsized, reduced

travel and in some instances left the island. According to local hotel operators, there has been a decline in demand from the banking and pharmaceutical/medical device manufacturing industries. The decreasing levels of demand in the commercial segment since the start of the economic recession has impacted the market as many hotel operators reduced their average rates and increased their reliance on OTA's in response to decreasing levels of commercial demand.

Moderate growth in occupancy was experienced in 2006, followed by three years of decline from 2007 to 2009 as the addition of new supply outpaced the increases in demand. However, occupancy is expected to improve in the near term as growth in demand in the market has outpaced new supply. In addition, historically, Puerto Rico has exhibited strong occupancy performance.

Declines in marketwide average rate were experienced in during the period 2008 to 2010, due to the negative impact of the global recession, particularly driven by the US recession. The Ritz-Carlton is the leader in the market for average rates and area hotels are typically benchmarked against this property. With the aggressive discounting in average rates particularly during the off season in order to capture demand, hotel guests are able to stay at a full-service hotel for a mid-scale rate. The introduction of new supply in the market has caused both a positive and negative impact.

With the St. Regis and W Retreat entering the market, hotels are better able to position themselves against these higher rated products. However, the increasing level of supply has intensified competition and impacted the market which has forced some operators to discount rate in an attempt to secure occupancy.



About HVS

HVS is the world's leading consulting and services organization focused on the hotel, restaurant, shared ownership, gaming, and leisure industries. Established in 1980, the company performs more than 2,000 assignments per year for virtually every major industry participant. HVS principals are regarded as the leading professionals in their respective regions of the globe. Through a worldwide network of 30 offices staffed by 400 seasoned industry professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. For further information regarding our expertise and specifics about our services, please visit www.hvs.com.

HVS CARIBBEAN is one of the latest additions to HVS' global network of expertise in hospitality consulting. HVS Bahamas specializes in the feasibility of new hotels and resort developments, especially in the Caribbean and Central America as well as financial valuation of existing hotels for lenders.



HVS CHICOS, the global hospitality leader's Caribbean Conference and Operations Summit, is the premier event for hospitality and tourism in the region. We invite you to join us at this year's conference taking place on November 8-9 at the Atlantis Resort, Nassau, Bahamas. Please register on www.hvschicos.com.

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During his career, Parris has performed hundreds of complex hotel consulting and valuation assignments throughout the United States, the Caribbean, Mexico, and Central America. Clients include major investment banks, lenders, governments, private equity firms, developers, and hotel brands. Parris holds an MS from the Preston Robert Tisch Center for Hospitality and Tourism at New York University (NYU) where he also lectured as an adjunct professor on lodging development from 2007 to 2009. Parris speaks at hotel investment and tourism conferences all over the world, including HVS's CHICOS conference in the Caribbean, taking place on 8/9th November 2012 in Nassau, Bahamas.

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