



2015 May

TRENDS AND OPPORTUNITIES SOUTH AMERICA

2014 | 2015

Buenos Aires | Santiago | Bogota | Rio de Janeiro | São Paulo

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In association with:



Introduction

Welcome to the 1st edition of the South America: Trends and Opportunities, a new publication by HVS/HotelInvest (in association with STR Global) that focuses on presenting and analyzing hospitality industry performances in the primary markets in the region.

Every year we will digest the latest, reliable market information and present the challenges and opportunities facing the South American hospitality industry. It is our opinion that a well informed and transparent market is a solid and professional one. In the end, we believe this publication will turn into a useful tool to hoteliers, developers, investors, supporting their commercial and investment strategies.

Finally, we invite you to enjoy the reading of Trends and Opportunities. In order to be kept up-to-date on the current industry performances and other strategic information, visit our sites on the internet (www.hvs.com and www.hotelinvest.com.br).

Information, doubts, comments or suggestions? Contact Cristiano Vasques: cvasques@hvs.com or (+ 55 11) 3093-2743.

Our Database

The large database of Trends and Opportunities is mostly built on STR Global database along with internal data from HVS, HotelInvest and industry partners. We thank all that have contributed to this publication, and we invite new hotels, operators and associations to share their performance data with STR Global in future editions.

All the statistical information contained in Trends and Opportunities is generated by the actual commercial performance of the 33,803 hotel rooms, and thereby, represents an accurate reflection of hospitality segments in each of the researched cities. We are certain that the selected indicators are a true reflection of the hospitality activity in each market.

Our annual comparisons maintain an identical, historic, sample base, except when there are new hotel openings or meaningful changes in the segment sample. Each individual market sample is statistically meaningful and is presented in context of each respective market.

Retrospective 2014

During 2014, the world economy grew slower than expected, and economic recovery was uneven in different regions around the globe. Synchronized with global events, growth in South America decelerated more than expected, affected, for the most part, by the economic results of its southern most countries. There were two crucial motives for this deceleration: [1] the price slump of raw materials (accompanied by weak currencies and the worsening of conditions of international commerce) that triggered a reduction in corporate investment and the reduction of local spending in virtue of a general sentiment that the situation was totally unfavorable; [2] the internal uncertainty in some countries (Argentina, Brazil and Chile) that impact the principal economic factors.

Addressing the analysis by country:

- ▶ Argentina experimented with a low growth economy, based on fragile external and domestic demands, worsening international commercial conditions, financial and commercial controls, confidence crises, and macro and micro economic distortions. Moreover, the country was asleep during the year, a result of the called holdouts.
- ▶ The Brazilian economy slowed in 2014, as a result of the lack of corporate confidence, the reduction of private investments, and moderate consumption affecting the growth engine.
- ▶ In Chile, the situation weakened in virtue of the cut back of investments and the uncertainty in relation to the impact of the fiscal reform initiated by the new government, not to mention a drop off in domestic consumer demand.
- ▶ Peru has been affected by the delay of projects in the mining sector and by the deficit in public spending. The deterioration of external conditions had an impact on domestic demand and the level of activity. All the same, the growth of the country's GNP was above average for the region.
- ▶ The bright spot of the region was Colombia, which led economic growth in the South America, and exceeded levels of the previous year. The assurance of the continuation of the political and economic policies of the new government of President Santos reflected positively on the expectations of the direction of the country.

The hospitality industry in the southern hemisphere was not immune to the new reality. For the second consecutive year, excepting Lima and some segments of Rio de Janeiro and São Paulo, the indicators published in Brazil: Trends and Opportunities exhibited negative numbers for room occupancy, average daily rate and RevPAR. The principal reasons that explain the downturn in occupancy are the slowing of economies and increases in rooms inventory. In terms of average daily rate, the decline is a consequence of increasingly competitive markets, fueled by increases in supply, the overall deceleration of economic growth, and the impact of the devaluation of local currencies.

In the cases of Rio de Janeiro and São Paulo, it is important to point out that the FIFA World Cup was held in Brazil, which affected performance in various segments in different manners. In general terms, a majority of hospitality segments were able to increase their average daily rates.

Even though the deceleration of local economies affected performance of the hospitality industry in 2014, current performances in various target cities are positive with room occupancies near the 70% level.

Perspectives for 2015

Even with the recuperation of the United States, world economic growth in 2015 will reach approximately 3.5% by the end of the year (according to IMF), greatly influenced by the deceleration of the Chinese economy and the slow recuperation of the European and Japanese economies. In spite of this, the price of raw materials still remains very low, but economists expect a 2015 without major financial turbulence.

At the regional level, there is only a modest outlook. The international picture presents challenges, such as the reduction of the price of raw materials, increase in dollar income, and deceleration of capital investments. The aggregate picture projects high levels of inflation and a depreciation of local currencies. For Latin America as a whole, the IMF is forecasting an economic growth of only 0.9% for 2015, but with very distinct behaviors among the different countries of the region.

- ▶ **Argentina:** In a slow growth scenario (+0.5%) coupled with an increased financial fragility, one can expect that inflation will intensify and that there will be heavy pressure on the exchange rate. While the actual situation in Argentina is worrisome, markets are waiting for the outcome of presidential elections in 2015 and the possibility of regime changes in 2016.
- ▶ **Brazil:** Experts expect a retreat of approximately 1% of the GNP, as a consequence of the recalibration of the macro economy, a weaker foreign demand, and a continuing loss of consumer confidence. This will accompany higher inflation and currency devaluation. This outlook could be altered positively if consumer confidence among businessmen can be reactivated and corrective measures are adopted to balance the economy.
- ▶ **Chile:** One can expect the economy to advance at a firm pace in 2015 (+2.7%), boosted by fiscal and monetary stimuli. However, expectations for the potential structural reforms planned by the government, together with lower priced raw materials, could affect the recuperation of the country.
- ▶ **Colombia:** Although greatly affected by the decrease in oil prices, it is expected that Colombia will enjoy one of the highest levels of growth on the continent (+3.4%), accompanied by low inflation and a depreciation of currency. Large infrastructure projects, already underway, can energize the economy and help Colombia exceed expectations.
- ▶ **Peru:** One can expect the return to economic growth (+3.8%), fueled by the slow recovery of investments and public debt, coupled with a very low inflation.

With an outlook for moderate economic growth and the existence of pressure from new rooms in some markets, South American hospitality exhibits a modest panorama for 2015. However, some points draw our attention and may indicate possible opportunities for future investments:

- ▶ High room occupancies in various cities;
- ▶ Devaluation of local currencies and its effect on domestic and international tourism;
- ▶ Predominance of independent hotels;
- ▶ Possibility of sales of hotels in modestly performing markets;
- ▶ A clear pressure on demand in some hospitality segments.

Argentina - Buenos Aires

Waiting for a change of direction

ECONOMIC STATISTICS - ARGENTINA

Indicator	2012	2013	2014
GNP (% yoy)	0.8	2.9	0.5
Inflation (% yoy)*	10.0	10.6	25.2
Exchange Rate (US\$/ARS)**	4.9	6.5	8.6
Public Debt (% GNP)	37.3	40.2	48.6

Source: Inprotur/INDEC.

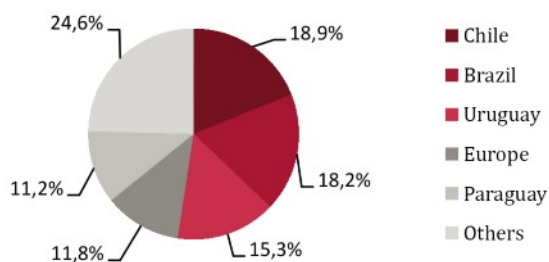
*Official Inflation, IPCNu (yoy, eop) since 2014. Private estimates suggest na inflation considerably higher than the official, around 25-30% per annum for the period. **Official exchange rate.

TOURISM STATISTICS - ARGENTINA

Indicator	2012	2013	2014
Foreign Arrivals	5,586,903	5,246,000	5,935,300
Expenditure per capita (US\$)	847.0	794.0	751.0
Foreign Arrivals at the Ezeiza Airport and Jorge Newbery Airport	2,568,201	2,385,171	2,466,700

Source: Inprotur/INDEC.

FOREIGN ARRIVALS BY COUNTRY OF ORIGIN 2014



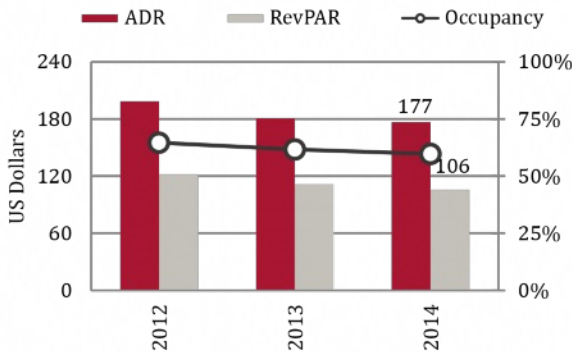
Source: STR Global.

► **Deceleration of the economy in 2014.** Argentina experienced a decline in the rhythm of growth of their GNP in 2014, realizing an increase of only 0.5%. Accompanying this slow down was a major devaluation of the Argentine peso along with the specter of high inflation, a result of financing public debt through the issuance of currency and a half-hearted attempt at default.

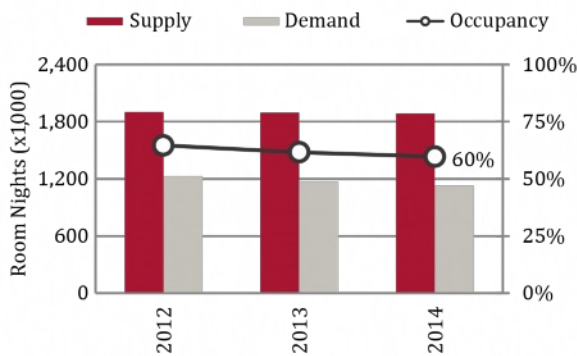
► **Inversion of the tourist tendency: increase in the number of tourists.** In 2014, Argentina was able to invert a two year tendency for the decline of arrivals of international tourists. The number of visitors reached almost 6 million, representing a 13% increase over the previous year. The principal contributors were Chile (18.9%), followed by Brazil (18.2%) and Uruguay (15.3%). Within individual segments, the Paraguayans and Uruguayans jumped the most, 35% and 30% respectively. In Buenos Aires alone, the number of international arrivals at the local airports rose 3.4% in 2014, reaching 2,467,000 tourists.

► **Possibility of generating more domestic and regional tourists.** Because the United States has become an expensive destination with the devaluation of South American currencies, there is hope that this will have a positive effect on local tourism (principally tourists coming from Brazil and Chile, primary sources of tourists to Argentina).

Luxury and Upper Upscale Category

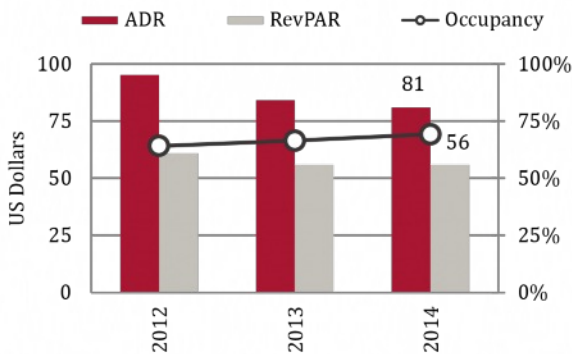


Source: STR Global.

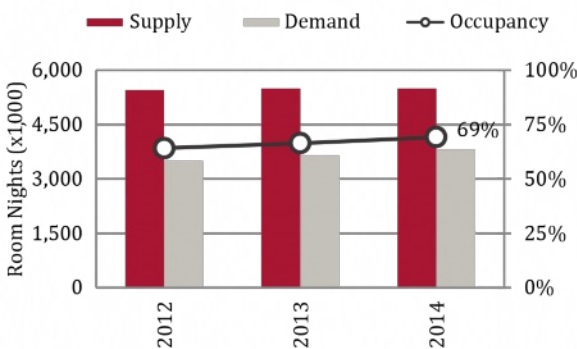


Source: STR Global.

Other Categories



Source: STR Global.



Source: STR Global.

▶ **A 2% increase in occupancy and a 4% decline in room rates in 2014.** The data presented in this study was based on the performance of a hotel sample containing more than 7,700 rooms.

▶ **Luxury and Upper-upscale Category: A reduction in room rates and occupancy.** Last year, this category demonstrated reductions in overall occupancy (-3.1%) and in the average daily rate (-2.2%), caused primarily by the decline in business travel to the country and by a change in the visitor profile that opted to stay in hotels in cheaper categories. The overall result was a drop in RevPAR of 5.2% in relation to 2013.

▶ **Other Categories: An increase in occupancy and a drop in ADR.** The rest of the hospitality category in the hotel market enjoyed a combined growth in occupancy of 4.2%, but accompanied by an overall average daily rate decline of 3.9%. This benefited the hotels in this category by providing them with a small gain in RevPAR (+0.2%). The hotels in the other category were able to capture a part of the demand that in the past has frequented the luxury and upper-upscale category. This growth of occupancy was partially due to the exchange of higher room rates of the luxury and upper-upscale category for the lower tariffs of the other categories.

▶ **The devaluation of the Argentine peso during 2014 impacted room rates.** The decline in the dollar value of the average daily rates was a reflection of the devaluation of the Argentine peso of almost 45%, as well as the imbalance between supply and demand.

▶ **Unvarying rooms supply.** Rooms supply remained unchanged during the past year, not only a result of the previously described situation, but also because of the high inflationary impact on investment profitability that discouraged potential investors.

▶ **2015: A challenging year for Buenos Aires.** For 2015, the general outlook is that the Argentine GNP will continue to shrink, high inflation will persist, and the peso will continue to devalue. In terms of hotel occupancy and room rates, operators anticipate year-end results to be similar to those of 2014. However, there are expectations that a change in government at the end of the year will create new conditions for the prosperity of tourism and that Buenos Aires will resume industry growth.

Chile - Santiago

Attractive occupancy and moderate ADR

ECONOMIC STATISTICS - CHILE

Indicator	2012	2013	2014
GNP (% yoy)	5.5	4.3	1.8
Inflation (% yoy)	3.0	1.9	4.4
Exchange Rate (US\$/ARS)**	480.9	524.1	608.3
Public Debt (% GNP)	12.0	12.8	13.9

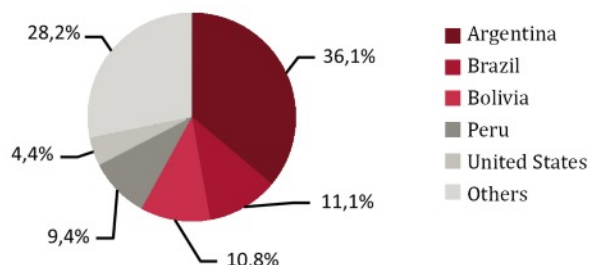
Source: FMI, Goldman Sachs.

TOURISM STATISTICS - CHILE

Indicator	2012	2013	2014
Foreign Arrivals	3,554,279	3,576,204	3,672,803
Expenditure per capita (US\$)	593.6	596.6	602.0
Foreign Arrivals at the Merino Benítez Airport	1,371,417	1,413,197	1,477,678

Source: INE.

FOREIGN ARRIVALS BY COUNTRY OF ORIGIN 2014



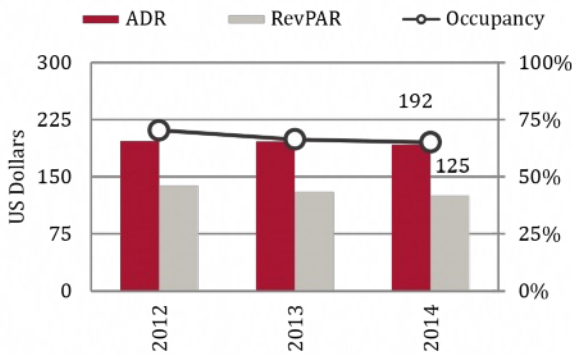
Source: STR Global.

► **2014: Deceleration of economic growth.** Chile's GNP exhibited an increase of 1.8% in 2014, the lowest growth rate since 2009. The inflation was 4.4% for the year - the highest value in six years - a result of the devaluation of the local currency, influenced in part the government's attempt to boost the economy through a relaxation of monetary policies. The President Bachelet took her second term with the promise of a series of political reforms.

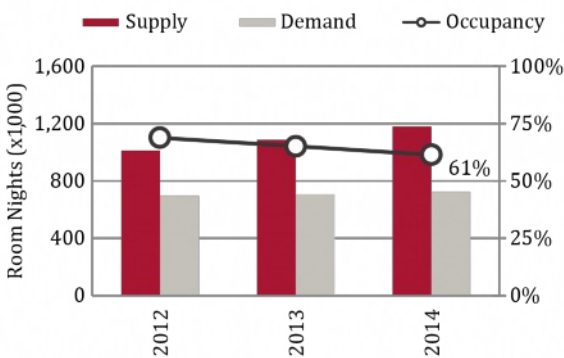
► **A return to growth in the tourism sector.** The 2014 World Cup in Brazil impacted the arrival of international tourists in neighboring countries. However, Chile was not an integral beneficiary. Tourist arrivals in 2014 rose 2.7%, a value much superior the 0.6% noted in 2013. Santiago, the capital city, garnered the largest share (40% of the country total) due to its economic dynamism - responsible for attracting the business segment - better connections to other international hubs, and its proximity to various tourist attractions, such as Vale Nevado. The primary sources of tourists were Argentina (36.1%), followed by Brazil (11.1%) and Bolivia (10.8%).

► **The Sub-secretary of Tourism for Chile launched various publicity campaigns with the objective to attract more tourists to the country.** With a strong presence in major international events, the focus of their initiatives was the Escapadas (Escapes) Program, which concentrated on Chile's neighboring countries, their main source of visitors. This program centers on short trips, generally on weekends, with the objective of distributing the tourist demand throughout the year.

Luxury and Upper Upscale Category

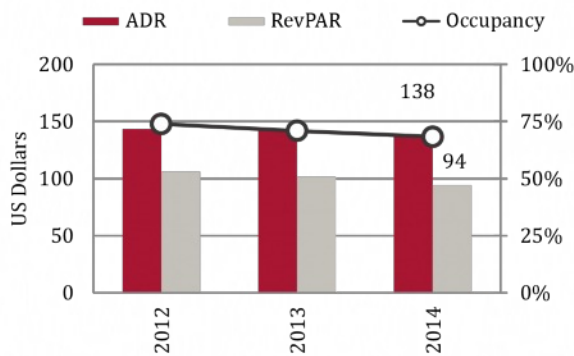


Source: STR Global.

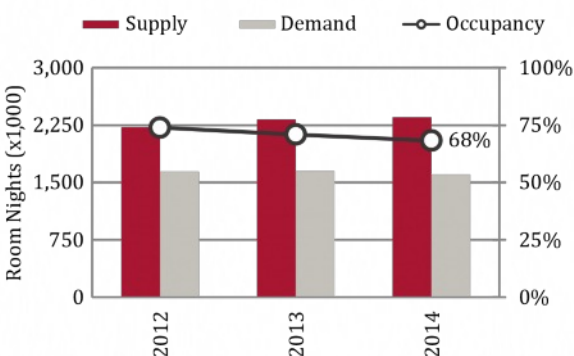


Source: STR Global.

Upscale and Upper Midscale Category



Source: STR Global.



Source: STR Global.

- ▶ **Declines of 2% in the average daily rate and of 2.5% in room occupancy in 2014.** The sample size for the performance statistics presented in this study included more than 4,400 rooms in the Luxury, Upper-Upscale, Upscale and Upper-Midscale categories.
- ▶ **Luxury and Upper-upscale category: growth in supply and demand.** Room occupancy suffered a slight decline of 1% in 2014, although rooms demand for the category reverted a low experienced in 2013. At the same time, rooms supply grew at a rate superior to that of demand, which explains the decrease of occupancy. This lacuna, accompanied by a currency devaluation, impacted on the average daily rates that fell 2% and caused the drop in RevPAR of 3.8%.
- ▶ **Upscale and Upper-Midscale category: Reductions in room rates and occupancy.** The upscale and upper-midscale category exhibited a decline in occupancy of 3% in 2014. Rooms demand diminished (compared to 2013), while rooms supply remained relatively constant, which led to the drop in occupancy. Average daily rates suffered a retraction of 3.6% that weighed heavily on the negative variation of RevPAR (-7.2%).
- ▶ **For 2015, the outlook for economic growth is more optimistic than in 2014.** In general terms, during 2014, the market was affected by an economic deceleration, the rearrangement of rooms supply, and the devaluation of the local currency. In 2015, occupancies and average daily rates should demonstrate tendencies that parallel the previous year. In that the sector has already exhibited favorable occupancies, as the economy improves average daily rates should increase.

Colombia - Bogota

Tax incentives and economic growth

ECONOMIC STATISTICS - COLOMBIA

Indicator	2012	2013	2014
GNP (% yoy)	4.0	4.9	4.6
Inflation (% yoy)	3.2	2.0	2.9
Exchange Rate (US\$/ARS)**	1,777.0	1,927.0	2,392.0
Public Debt (% GNP)	32.0	35.7	34.0

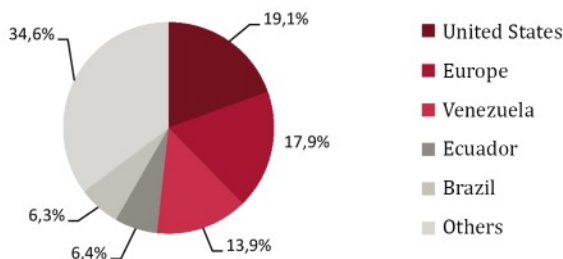
Source: Procolombia.

TOURISM STATISTICS - COLOMBIA

Indicator	2012	2013	2014
Foreign Arrivals	1,591,120	1,726,300	1,967,814
Expenditure per capita (US\$)	1,081.0	1,023.0	1,076.0
Foreign Arrivals at the El Dorado Airport	1,085,939	1,216,265	1,372,829

Source: FMI, Goldman Sachs

FOREIGN ARRIVALS BY COUNTRY OF ORIGIN 2014



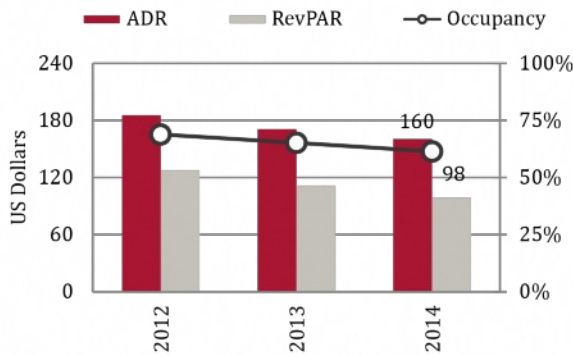
Source Procolombia,

► **Greater economic growth among the countries of the region.** In 2014, Columbia exhibited an economic growth of 4.6%, driven, for the most part, by the construction industry (+9.9%) and the consumer sector (+5.5%). The commercial, restaurants and hotels sector expanded at the same rate as the GNP, 4.6% in relation to 2013. Inflation was within the limits established by the government, finishing the year at 2.9%. With the reelection of President Santos, the country has demonstrated a legal and political stability that is favorable for foreign investment.

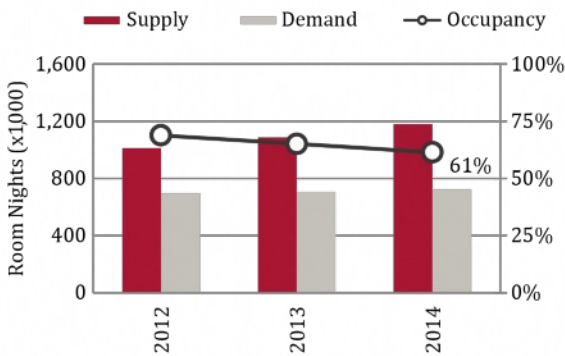
► **Greater business travel and favorable exchange rate boost domestic and foreign tourism.** For Colombians, the devaluation of the Colombian peso boosted internal tourism, and Bogota benefitted from a greater influx of visitors, given its central position as a geographic hub. For foreign travelers, Bogota is the country's principal business center and a strategic stop -arriving and/or leaving - for those visiting the many Colombian cities, generating hospitality demand for the city.

► **Bogota is benefitting from growth in hospitality investments,** both by local and foreign investors. The key factors that drive the development of new hotels are a 30 year income tax exemption on properties built before the 31st of December 2017, an economy in ascension, improvements on the level of security, political and judicial stability, and a tendency for the growth of the tourist demand.

Luxury and Upper Upscale Category

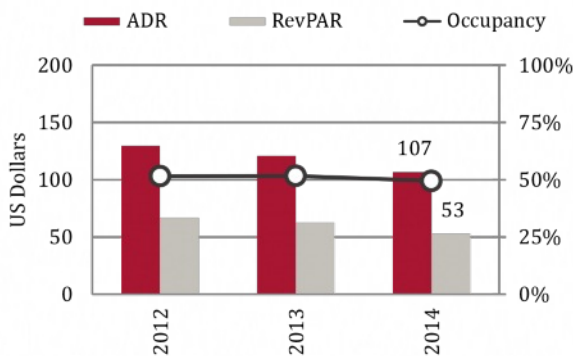


Source: STR Global.

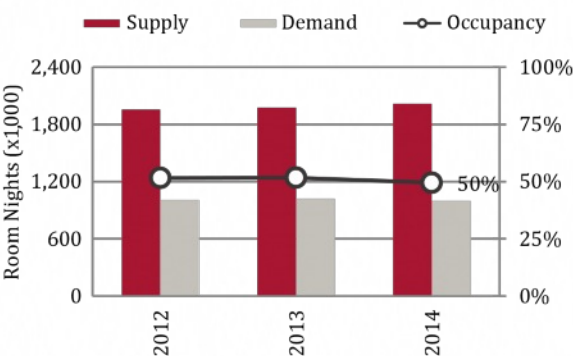


Source: STR Global.

Upscale Category



Source: STR Global.



Source: STR Global.

► **Reduction of the average daily rate and occupancy in 2014.** In the present study, a sample of more than 4,500 rooms was used to derive statistics and conclusions. The average daily rate of the sample inventory suffered an 8.5% decline, influenced primarily by the devaluation of the local currency and the opening of new hotels. Average occupancy dropped (-2.0%), in that demand did not accompany the increases of supply (+4.3%).

► **Luxury and Upper-Upscale Category: increase in both supply and demand.** Average occupancy declined sharply (-4p.p.) in 2014. Demand in the category continued to be positive, increasing 2% in relation to the previous year; however, rooms inventory rose at a sharper rate, causing the drop in occupancy. This increase in rooms supply, accompanied by the devaluation of currency, impacted the category's room rates, reducing them an average of 6.0%. Low average daily rates coupled with low occupancies resulted in an 11% loss in RevPAR.

► **Upscale Category: retreat of room rates and occupancy.** The Upscale Category exhibited a slight decline in occupancy of two percentage points in 2014. Rooms demand remained constant in comparison to levels in 2013, while the rooms inventory increased, leading to the drop in occupancy. The average daily rate fell 12.0%, greatly influencing RevPAR's negative variation (-16.0%).

► **2015: Solid growth of the economy.** In spite of the uncertainty in relation to the future price of oil, the country's principal export, the 2015 economic outlook for Colombia continues to be more optimistic than for other countries of the region. The favorable business climate, its strategic location and a quality hotel inventory, help Bogota to consolidate as an important South American business and meeting center.

► **2015: Supply shake-up.** Given the recent hotel openings and hospitality projects under construction, supply will continue to reshuffle in 2015. Consequently, hotel performance will vary between new and established properties. However, given the favorable outlook for the economy, the recuperation period for hotel performance could be short and quick.

Peru - Lima

Strong market with pressure on demand

ECONOMIC STATISTICS - PERU

Indicator	2012	2013	2014
GNP (% yoy)	5.9	5.8	2.3
Inflation (% yoy)	3.6	2.8	3.2
Exchange Rate (US\$/ARS)**	2.5	2.8	3.0
Public Debt (% GNP)	21.2	20.0	20.7

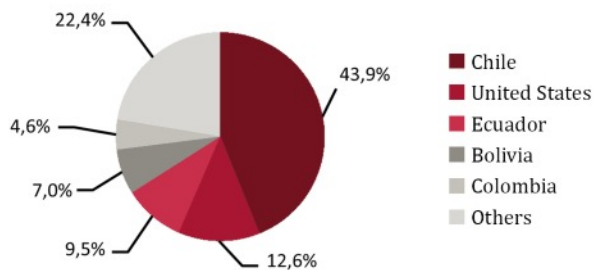
Source: FMI, Goldman Sachs.

TOURISM STATISTICS - PERU

Indicator	2012	2013	2014
Foreign Arrivals	2,528,373	2,742,526	2,824,801
Expenditure per capita (US\$)	1,281.0	1,281.0	1,282.0
Foreign Arrivals at the Jorge Chávez Airport	1,606,264	1,820,431	1,849,194

Source: Mincetur.

FOREIGN ARRIVALS BY COUNTRY OF ORIGIN 2014



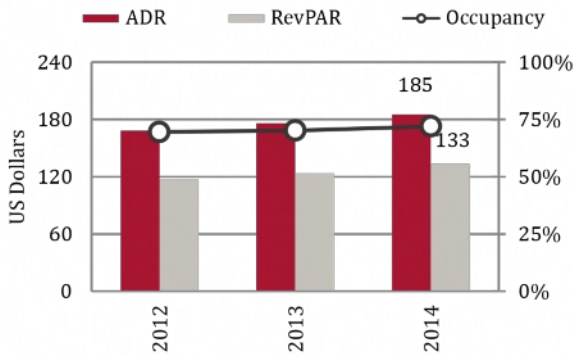
Source: Mincetur.

► **Peru continues to be among the three South American countries with the highest growth rate.** Even though the GNP increased 2.3% in 2014, the average annual gain during the last four years was 7%. Public investment, which fell approximately 3.0% in 2014, was the predominate factor that contributed to this decline. The local currency continues to devalue in relation to the American dollar; however, the country's monetary policy maintains a good part of their credits in dollars, reducing the impact of devaluations. Interest rates continue to fall, and inflation ended the year at 3.2%.

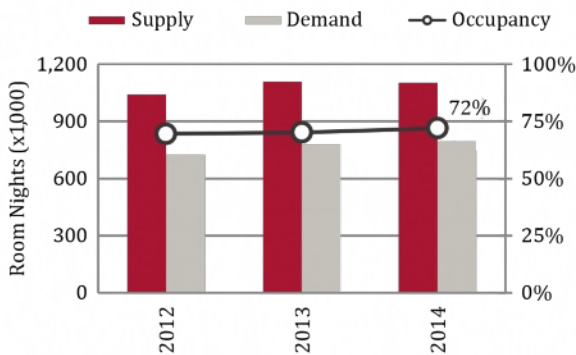
► **Lima, Peru's capital and primary financial center, exhibits an economic dynamism that attracts a large percentage of the visitors to the country.** The economic growth and the business vitality has helped to attract corporate headquarters to the better parts of the city. With one of the most interconnected airports in South America – 10.5% annual average growth of foreign visitors during the past five years – Lima is the entry point for foreign travelers visiting historic Peruvian sites; and ever more frequently, the city is being included in travel itineraries.

► **The creation of the Ventanilla Unica de Turismo and future events.** To further stimulate the growth of tourism, the Peruvian government created in 2014 a Ventanilla Unica de Turismo. The program, which simplifies the processes with which to obtain licenses and permissions to develop tourist properties, has the objective to improve business conditions, encourage investment, and promote tourist destinations. Additionally, Lima continues to invest in infrastructure focused on the 2019 Pan-American Games that should attract an important tourist demand.

Luxury and Upper Upscale Category



Source: STR Global.



Source: STR Global.

- ▶ **Growth of the average daily rate and room occupancy in 2014.** The results presented in this study were based on a hospitality sample of more than 2,300 rooms in the Luxury and Upper-Upscale category of the market. Lima exhibits the best results of the analyzed cities. The average daily rate grew 5.2%, superseding by two percentage points annual inflation. Occupancy rates rose 2.0% - a result of a rising demand and a relatively constant rooms supply - leading to an overall growth of RevPAR of 8.0%.
- ▶ **2015: economic growth and favorable conditions for the development of the hospitality industry.** The promise of economic growth is based on the rapid execution of public infrastructure projects, as well as adjustments to monetary and fiscal policies. This public attitude creates an environment favorable for building construction and, moreover, new hotel properties.
- ▶ **Encouraging panorama for the hospitality market, both in occupancy levels and average room rates.** The industry expects that the increase in demand will outpace room supply, causing both occupancy and room rates to rise. In the future, the factors that will positively influence the performance of the destination will be the opening of the Convention Center at the end of 2015 and the expansion of the airport.
- ▶ **Expectations for the growth of rooms supply.** During the next few years, the rooms inventory will continue to grow, motivated by the exemplary performance of the primary industry indicators: occupancy, average daily rate and rising demand.

Brazil - São Paulo and Rio de Janeiro

Excellent performance especially from the luxury hotels

ECONOMIC STATISTICS - BRAZIL

Indicator	2012	2013	2014
GNP (% yoy)	1.7	2.7	0.1
Inflation (% yoy)	5.4	6.2	6.3
Exchange Rate (US\$/BRL)	2.0	2.3	2.7
Public Debt (% GNP)	63.5	62.2	65.2

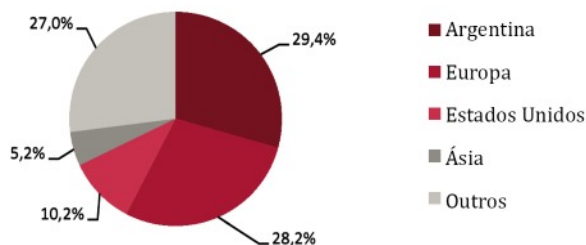
Source: FMI, Goldman Sachs.

TOURISM STATISTICS - BRAZIL

Indicator	2012	2013	2014
Foreign Arrivals	5,676,843	5,813,342	n/d
Expenditure per capita (US\$)	1,162.6	1,152.5	n/d

Source: Mtur | FIPE.

FOREIGN TOURIST ARRIVALS BY COUNTRY OF ORIGIN - 2013



Source: Mtur/FIPE.

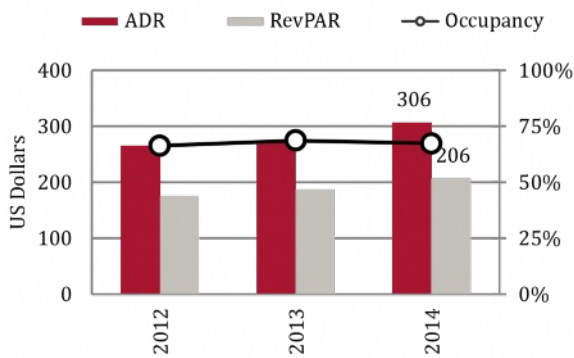
► **Contraction of the economy in 2014.** In 2014, the Brazilian GNP registered a decline of 0,1% in relation to 2013. By year's end, the Brazilian currency had greatly devalued in relation to the US dollar, and inflation continued its ascent, ending the year above the ceiling of the government's goal. The reelection of President Dilma Dousseff, high profile cases of corruption, an uncertain atmosphere surrounding economic growth, and political instability, impacted the market negatively.

► **Growth of the Tourism.** Even though the official tourism statistics for 2014 still have not been published, the preliminary estimates for the year are optimistic, essentially a result of the impact of the World Cup. Before the event, the country expected around 500 thousand visitors for the games; however, the Ministry of Tourism has estimated that there was over a million tourist arrivals. The country benefited greatly from the international exposure that the World Cup provided and should continue profiting by hosting the Olympic and Paralympic Games in 2016.

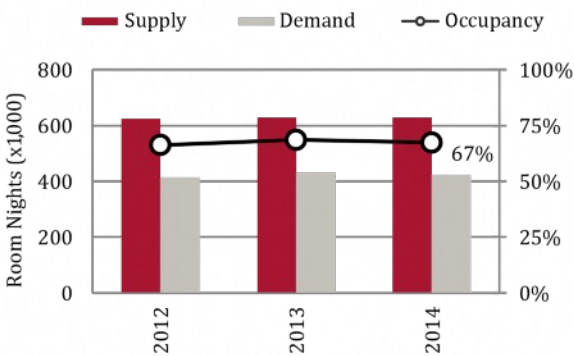
► **Rio de Janeiro and São Paulo: the primary destinations.** São Paulo, as the financial headquarters and the largest contributor to the economy of the country, captures the largest portion of foreign business travel. With the busiest airport in the country, the city also receives many visitors in transit to other parts of the nation. Rio de Janeiro, given its importance in the economy, beautiful beaches and other tourist attractions, attracts as much business demand as leisure travelers. It is important to note that both cities played host to important football matches during the World Cup, thereby attracting the greatest percentage of foreign tourists who visited the country during the event.

**For more information about São Paulo, Rio de Janeiro and other Brazilian capitals visit Trends and Opportunities Brazil available on HVS's website.*

Rio de Janeiro: Luxury Category

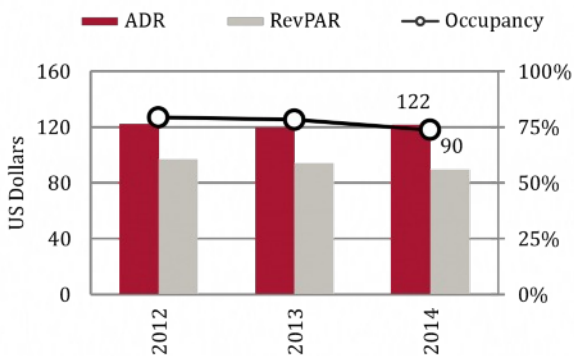


Source: STR Global | HVS | HotelInvest.

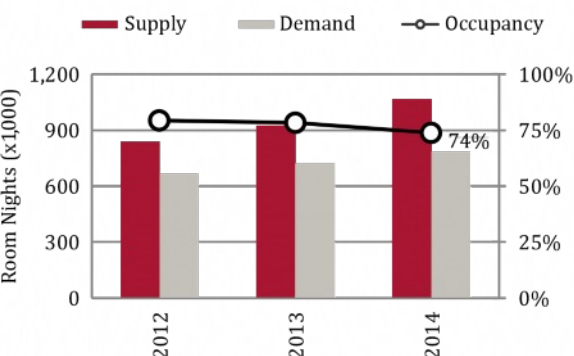


Source: STR Global | HVS | HotelInvest.

Rio de Janeiro: Midscale and Economy Category



Source: HVS | HotelInvest.



Source: HVS | HotelInvest.

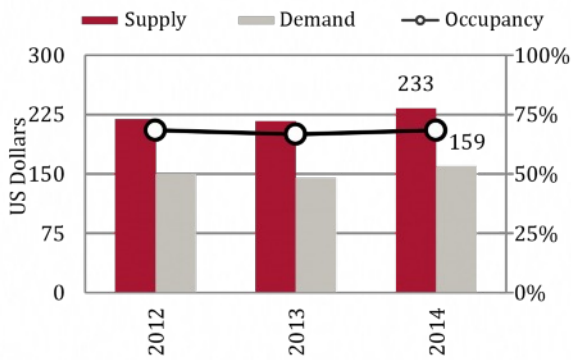
► **Increase in average daily rates and RevPAR in 2014.** The present study worked with a sample of more than 4,700 rooms. The average occupancy of the hotels participating in the study sample suffered a drop of 4.1%, primarily a result of an increase in rooms supply that greatly exceeded the increase in demand. The average daily rate grew 5.7%, resulting in a small elevation of RevPAR (1.4%).

► **Luxury Category: excellent performance.** In 2014, this category suffered a 1.8% drop in rooms demand, which resulted in an overall drop in average occupancy (-1.8). On the other hand, during the World Cup, luxury hotels benefited most from the increase in demand, leading to significant readjustments to room rates. During the year, the average daily rate grew 12.9%, carrying RevPAR with it (+10.9%).

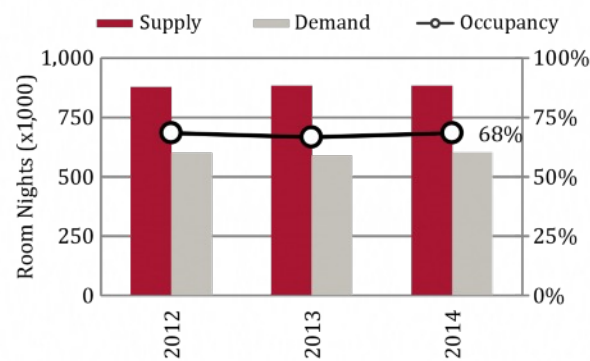
► **Midscale and Economy: declines in occupancy and average daily rates.** The midscale and economy category exhibited a drop in occupancy (-1.8%), mainly effected by the openings of new hospitality properties. While rooms supply increased 15.4% during the year, demand only rose 8.6%. As a result, on average, hotel operators could only apply small rate increases (+1.6%), which resulted in a decrease in RevPAR (-4.3%). Considering the whole year, rate changes were only possible because of the extraordinary influx of visitors during World Cup.

► **2015: New Openings, greater competition.** For 2015, one can expect a reduction in business and meeting travel, especially that associated with oil industry that is very active in local economies. Even so, there will be numerous inaugurations of new hotels. Just in 2015, there a 16 hospitality properties, contributing 3,997 rooms, scheduled to be opened. Of this total, 70% are located on Barra de Tijuca, west of Rio de Janeiro, a market that will suffer from oversupply. This, however, will have little effect the performance of hotels located in the center and southern areas of Rio de Janeiro. Pre-Olympic events (beginning in the second semester) and the devaluation of the real (with a possible positive impact on internal leisure travel) might help generate additional demand for the hospitality market in Rio de Janeiro.

São Paulo: Luxury and Upper Upscale Category

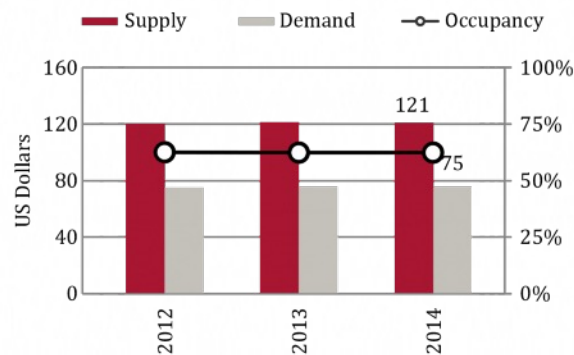


Source: STR Global.

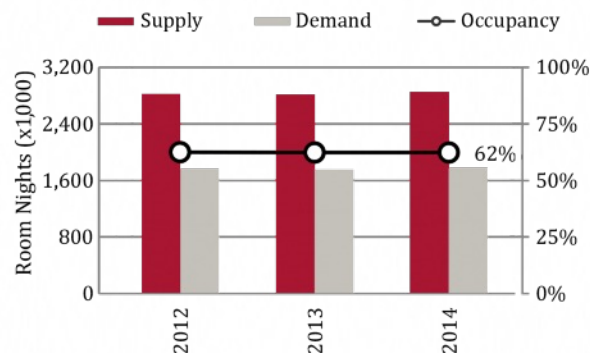


Source: STR Global.

São Paulo: Upper Midscale and Midscale Category



Source: HVS | HotelInvest.



Source: HVS | HotelInvest.

► **São Paulo: small increases in occupancy and average daily rates in 2014.** The following conclusions in the present study were based on the performance of a sample of more than 10,200 rooms. The overall average occupancy of the total rooms sample remained, for the most part, constant in relation to the previous year (+0.7%), given a minor increase in demand (+1.4%) and a nominal variation in rooms inventory (+.07%). The average daily rate for the year grew 1.9%, resulting in a gain in RevPAR of 2.6%.

► **Luxury and upper-upscale Category: pressure from rooms demand yields an excellent performance.** The category exhibited in 2014 a growth in demand of 2.7%, which boosted average occupancy 2.5% from the year before. During the period of the World Cup, this elevated demand allowed operators to increase their rates an average of 7.6%, which greatly contributed to an increase in RevPAR of 10.3%.

► **Upper-midscale and midscale Category: Continuing stability.** The category displayed a slight increase in both rooms inventory and rooms demand of 1.3% for the year. Consequently, average occupancy registered similar levels as those from the preceding year. Average daily rates, however, fell slightly (-0.3%), causing RevPAR to shrink by the same amount.

► **2015: A year of challenges.** In 2015, the hospitality industry expectations are relatively somber in virtue of the weak national economy and the impact of national holidays on the year's business cycle. Average room rates are projected to increase with or slightly below annual inflation, reflecting tougher competition within the business segment. Even though São Paulo is the primary hospitality market in the country, its rooms inventory has displayed the smallest growth of all major cities during the past decade. Continuing that trend, there are no new properties scheduled to open during the year. One can probably expect that once the Brazilian economy reverts to a positive growth mode, the hospitality industry will undoubtedly accompany this trend and present attractive occupancies and average daily rates.



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HotelInvest

HotelInvest was founded in 1999 by Diogo Canteras and is a reference as an advisory service for hotel investment in South America. With a team of 20 consultants and experience in 14 countries, the company is active in three business areas: hotel investment consulting, hotel asset management and hotel investment funds. Having elaborated more than 700 studies in Brazil and 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 condo-hotels. The HotelInvest, in association with Banco BTG Pactual, is responsible for the administration of the Fundo de Investimento Imobiliário FII Hotel Maxinvest (Maxinvest Real Estate Investment Fund), one of the most successful investment funds in Brazil with an internal rate of return of over 30% annually.

Intelligence in Hotel Investments



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