

*Hoteliers at the CHRIS conference in Miami explored investment opportunities in the Caribbean, where several factors have led to a surge in hotel performance.*

Conversations at the recent Caribbean Hotel & Resort Investment Summit (CHRIS) in Miami confirmed that the region's hospitality markets are in the midst of dramatic, positive change. Hotel investment in the Caribbean is growing and expected to accelerate in the near term. The upward trend for Caribbean hotel markets is evident in substantial RevPAR growth, which has attracted interest from international investors. The U.S. market has realized year-over-year growth in hotel performance and values for half a decade and is now on the verge of a notable increase in supply. The ever more competitive U.S. marketplace has resulted in lower yields for hotel owners. By comparison, many consider the Caribbean a more fruitful, yield-rich opportunity for hotel investment.



## An Inviting Outlook for Hotel Investment in the Caribbean

One of the CHRIS conference's opening sessions established the overall positive outlook for the Caribbean. Ian Carter, President of Global Development for Hilton Worldwide, indicated that now is the time for investors to move in on deals in the region. For a well-advised project in a market poised for growth, the risks are balanced out by the potential return on investment. Paulo Pena, President and Managing Director for Wyndham Hotels in Latin America and the Caribbean, agreed. "Various types of investors, including high-net-worth individuals, are chasing deals in the region," he said. This view from the top helps substantiate the inviting climate for investment in hotel markets across the Caribbean, including the British and U.S. Virgin Islands, Jamaica, Puerto Rico, the Dominican Republic, and the Cayman Islands.

The reports on flourishing investment in Caribbean hotel markets came from all sides of the industry. Hotel developers and operators at the conference, as well as high-profile professionals representing hotel brands and financiers, spoke to the motivations behind the growing investment and deal-making in the Caribbean. Robert Lowe Jr., co-president of Lowe Enterprises, reported that a number of the company's private equity partners are currently seeking opportunities in the region, which is a distinct shift from the investment climate of just a year ago.

Warren Jestin, Chief Economist for Scotiabank, and Jan Freitag, Senior Vice President for Smith Travel Research (STR), made strong arguments for the promise of Caribbean hotel markets, particularly as tourism continues to improve. According to STR, the first-quarter 2015 RevPAR increase for Caribbean hotel markets was attributable to the cold winter in the U.S., which brought visitors to the tropics in droves. Both occupancy and average rates have risen to levels above the prior peak. This hard evidence of a positive shift in performance has buoyed optimism among hotel stakeholders in the region.

## Challenges: Finding Financing for Caribbean Hotel Projects

While investor interest rises in the region, financing for hospitality projects remains a challenge. Some traditional banking institutions have set their sights on hotel deals, but on a very selective basis; the cautious approach reflects the stalled and distressed projects financed by these institutions prior to the international economic downturn at the end of the last decade. The underwriting for many of these developments relied on the success of a residential component, which often did not materialize to the level that some developers and lenders expected.

Developers are now seeking value-added opportunities through the acquisition of distressed assets, with the goal of recapitalizing and repositioning when possible. A selection of these stalled projects still exists; however, some lenders are still holding out for a selling price nearer to the value achieved prior to the recession, and this will be difficult to attain.

## New Seeds for Growth: Hotel Investments from Non-Traditional Sources

Gary Brough from KPMG presented a survey gauging the appetite for investment in the Caribbean among traditional banks versus non-traditional sources of financing. While both types of entities share overall objectives when analyzing a deal's potential, the survey showed that non-banks tend to focus more on the availability of airlift, prevalence of crime, and utility costs in a market. These factors are improving, and this has not passed the notice of the non-traditional financiers. The fact is that financing remains scarce for hotel projects in the Caribbean, but as investor confidence increases, funding is expected to become more available in the near term.

## Gauging Potential for Hotel Projects and Markets: The Importance of Due Diligence

Hotel equity experts emphasized the need for due diligence on the part of hoteliers looking to make deals. James Salter, Founder of CM&D, said that sponsors absolutely need to "check their boxes" when it comes to presenting crucial information about their hotel to potential lenders, who still approach projects with strict scrutiny.

Patrick Freeman, President of Cisneros Real Estate, reported on the company's financing of a ground-up development of a Four Seasons Resort in El Seibo, Dominican Republic. He felt strongly that luxury hotels and high average rates are feasible in the Dominican Republic, an island market dominated by all-inclusive hotels. The selective nature of this resort development underscores an important point: every Caribbean market has its own unique characteristics, and while a hotel project may be promising in one market, certain factors may discourage it in another. Investors are keen to this fact, and independent analyses evaluating a hotel's performance, expenses, revenues, and the need for improvements as they relate to an asset's value are critical when it comes to justifying investment from the most active funders in the region: private institutions and high-net-worth individuals.

## HVS CHICOS: Channeling Insight into Caribbean Lodging Markets

HVS will host its fifth annual Caribbean Hotel Investment Conference & Operations Summit (CHICOS) November 12-13, 2015, in San Juan, Puerto Rico. The event brings together hundreds of top industry professionals providing fresh insights on regional hotel investment and overcoming financing challenges. Co-hosted by HVS, the Caribbean Hotel and Tourism Association, and the Caribbean Tourism Organization, CHICOS gives attendees the opportunity to significantly expand their network while gaining key perspectives from the most relevant, current, and wide-reaching trends impacting investment decisions in the Caribbean.



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