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INVESTING IN THE FUTURE

Developers and hoteliers are bullish on Latin America's hotel sector.

BY MARK CHESNUT

Hotel development and investment has grown tremendously in recent years in Latin America, as investors and developers partner with international hotel brands to create an array of new properties around the region. Despite some challenges, the growth seems unstoppable.

"It is a vast region with vast opportunity," said Javier Rosenberg, chief operating officer for Radisson, Americas. "Some countries are easier to work with than others, but without a doubt the potential is there, the growth is there, and we are starting to see more formal investment vehicles, in funds where they have a mandate to invest in the [hospitality] industry. It's creating a healthy new development environment for the industry."

"Latin America is booming, in terms of economic growth and political and institutional stability, which is creating a promising business climate," said Craig S. Smith, president of the Caribbean and Latin America for Marriott International. "This is an exciting time for hotel development in Latin America; the growing regional demand and broadening market, combined with the lack of consistent domestic hotel product and service, represents a large opportunity to develop upscale branded hotels as well as multi-unit, moderate tier development platforms with local partners in the region."

Last year, Wyndham Hotel Group commissioned a white paper study by Jones Lang LaSalle titled "Economic Transformation Drives Latin America's Lodging Industry," which predicted a need for more than 425,000 new hotel rooms in the region over the next 10 years. Wyndham is focusing largely on Brazil, México, Colombia and Perú, according to Paulo Pena, the company's senior vice president and managing director for Latin America. "What the research showed is that the evolution of Latin American economies, combined with the dynamics of infrastructure investment, a rising middle class and new discoveries in oil and gas" are all fueling the demand.

According to the latest hotel index from *Latin Business Chronicle*, the number of rooms held by the region's 10 largest hotel chains increased by around 8,000 last year to 200,000. The index also showed that Accor Hospitality is now Latin America's largest hotel chain, with 38,143 rooms in the region. Accor's expansion in Latin America represents nearly one-third of its global growth.

HOT CATEGORIES

When it comes to hotel growth in Latin America, most money is in the middle. "The huge opportunity in the whole region is in the mid-market, limited service hotel," said Arturo García Rosa, president of Sahic, the South American Hotel and Tourism Investment Conference.

"One of the key trends that we're seeing is the growth of the mid-market section," concurred Danny Hughes, senior vice president of operations for Caribbean, México and Latin America at Hilton Worldwide. "We're now starting to see, in several countries, [interest in] products like Hampton Inn and, in particular, the Hilton Garden Inn, not only in the larger cities, but also in the secondary and tertiary cities."

The reason for the midscale boom is only logical, according to Salo Smaletz vice president of development for Latin America at IHG, which owns brands including InterContinental Hotels & Resorts, Crowne Plaza and Holiday Inn. "There are only [so] many cities in Latin America that would actually be able to afford a luxury brand," he reasoned. "When we talk about midscale, the opportunities are much broader, because you have a market that's looking for a price range that is lower than InterContinental or Crowne Plaza, and with limited service like Holiday Inn Express, or a midscale brand that can be full service, like Holiday Inn. Most of our projects that we have been signing lately are for Holiday Inn and Holiday Inn Express."

That's not to say that the upscale and luxury segment isn't in growth mode. Starwood Hotels & Resorts Worldwide — which owns luxury brands including Westin, Sheraton, St. Regis and W — grew from the sixth to the fifth larg-

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Craig S. Smith, president of the Caribbean and Latin America, Marriott International

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Paulo Pena, senior vice president and managing director for Latin America, Wyndham Hotel Group

est hotel chain in the region between 2012 and 2013, according to *Latin Business Chronicle*. Simon Turner, Starwood's president of global development, predicted that in Latin America, "in the biggest six or seven major cities, you're going to have W [hotels] and you're going to have St. Regis. It's just a matter of time." These projects would include an upscale residential component.

GROWTH MARKETS

In Latin America, opportunities and challenges vary from country to country.

"Clearly the differences are significant among countries," said Rosenberg. "Let's call one pocket [of countries] favorable to business. You could throw in countries like Panamá, Colombia; I think Perú has been quite flexible and open in the last six to eight months, and Ecuador is starting to be flexible, to drive investments in hospitality. Chile is probably in that pocket, because it's a country [in which it's] easy to do business and it's a very stable country. Then you've got a middle pocket —the countries that may not be necessarily aggressively looking to expand the industry, but they're not hindering the industry. Then you have the last pocket, which would be the countries that make it very difficult. Venezuela and Argentina come to mind."

Every hotelier has its focus markets. Hilton is focusing heavily on Colombia, Perú and Chile, according to Hughes, and "México's on fire. That's our number one growth market in the region," he said, noting that the Hilton Worldwide Development Forum, which took place at the recently opened Hilton Santa Fe in México City in May, was expected to draw some 20 percent more attendees than the previous year, for a total of 290 investors.

"We are very bullish on México," agreed Starwood's Turner, noting that the country's increasing popularity as an industrial hub is fueling some of the demand. "As China becomes more and more expensive, México becomes a source of manufacturing. What the government has done has been tremendous from a pro-business perspective. We're seeing a lot of growth in México in the Four Points [by Sheraton] level and in the Aloft brand."

Wyndham's Pena is similarly positive about México. "It's a large economy that has continued to move forward, and in tertiary markets it still has a fairly limited inventory of quality-branded product," he said. "The demand we've seen is in secondary markets, driven by investment in things like new automobile factories, [and] there's been recent reform in the energy segment. We see a similar landscape in México to what we see in Brazil."

Preferred Hotel Group predicts growth in México's leisure destinations as well. "We see a lot of investments still in the Cancun area," said Rodrigo Tsutsumi, the company's director of business development for Latin America. "We're going to see a lot of investment in future years in the Riviera Maya, Playa del Carmen, going south to Tulum," he predicted.

BANKING ON BRAZIL

Government regulations, financing and other local practices may make it slightly difficult to enter, but Brazil's allure for domestic and international travelers keeps it on the radar. According to a recent study released in May by Amadeus, "Building the future of travel: megatrends that will boost industry growth on the next decade," Brazilians will double their spending on travel over the next 10 years, to more than $40 million — although the growth will be more pronounced with international travel than domestic.

"Brazil is at a point like the United States was in the 1960s," said Daniel Fonseca, president and chief visionary officer at Latinn Hotels, a Belo Horizonte-based hotel developer that is partnering with Wyndham to develop Super 8 and Travelodge properties. Latinn Hotels aims to develop 20,000 new hotel rooms in a 10-year period in Brazil, primarily in secondary cities, with a total of 400 hotels within the next 10 to 15 years. In addition, Latinn Hotels recently opened a new office in Miami, to expand the company's focus and develop Wyndham properties in Colombia, Perú, Argentina and México.

Wyndham's Pena echoed Fonseca's enthusiasm. "We continue to believe [in] the evolution of Brazil's economy, the growing middle class, the investment in infrastructure," he said. "We found in a number of secondary markets in Brazil that there was an undersupply of branded hotel rooms." He mentioned Parauapebas, a town in northern Brazil that's home to a large iron mine. "It's a fairly recent discovery," he said. "The mine itself is generating 30,000 jobs and the city currently has 200 [hotel] rooms. We found that with basic, conservative projections, that town will need at least 900 rooms. There are a number of projects like that throughout Brazil."

Among Starwood's main goals in Brazil, according to Turner, is to place a W and a St. Regis hotel in both Rio and São Paulo, likely paired with a residential development. Wealthy Brazilians traveling abroad more is an important selling point in developing these luxury properties. "The number of Brazilian guests that we have, for example, at the W in South Beach has gone off the charts," he said. "Many of those very well-heeled individuals, when they go back to São Paulo or Rio, they're saying that '[we want the same] experience that we had at the St. Regis Bal Harbour.' It's just one of those examples where the world is getting smaller and smaller, particularly at the high end."

For Preferred Hotel Group, "the main interest in the last few years has been Brazil," said Tsutsumi. "We currently have seven hotels there,

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Danny Hughes, senior vice president of operations for Caribbean, México and Latin America, Hilton Worldwide

PHOTOS: COURTESY OF WYNDHAM HOTEL GROUP; COURTESY OF HILTON WORLDWIDE which is very small [relative] to what we believe will eventually be the need." His company just hired a regional director based in São Paulo, and is partnering with Windsor Hotéis for that company's new Miramar Hotel by Windsor in the fast-growing Barra da Tijuca area in Rio de Janeiro. But Tsutsumi acknowledges that Brazil presents challenges.

"The main barriers may be financing and bureaucracy," he said. "There are some definite barriers to entry. For Brazilian investors, you have to talk about an equity fund, but no loans from banks — the interest rates are just too expensive."

> "There are only [so] many cities in Latin America that would actually be able to afford a luxury brand."

Salo Smaletz, vice president of development for Latin America, IHG

COUNTING ON COLOMBIA

Colombia is also ranking on the "must-build" list. One of the biggest selling points: Proexport Colombia, which promotes investment in the nation and offers income tax exemption for 30 years for new developments, valid from the start of operations for hotel services, from 2003 to December 2017. Add the relatively stable economy, and growth in international arrivals from 600,000 in 2000 to over 1.6 million in 2012 (according to Proexport), and it's easy to see the attraction.

Among the newest hotels in Colombia are the 159-room Cali Marriott, the 233-room Radisson Cartagena Ocean Pavillion Hotel and the 168-room W Bogotá, which opens later this year as a joint project between Starwood and Colombian developer Terranum, as part of a mixed-use development. Separately, Terranum this year acquired Decameron Hotels & Resorts, which has hotels in 10 countries.

"We've got nine hotels open or under construction, and it's a fabulous environment there," said Hughes, noting Colombia's "readily available financing, talented entrepreneurs looking to develop and an educated labor force." Another factor driving growth: "With the virtual collapse of Venezuela, so much [business] has moved to Colombia. The demand generators are very real."

CHALLENGES & OPPORTUNITIES

When it comes to challenges, two destinations are mentioned most: Venezuela and Argentina. "Both countries today share a very common challenge," said Rosenberg. "We are working in both countries with people who are looking for opportunities with us, but they cannot find a way

PHOTO: COURTESY OF IHG

to commit to the necessary investment to get the elements that they need and the supplies they need. We've lost deals because of that."

Argentina and Venezuela have "the same issues in common, but with different futures," according to García Rosa. "Venezuela, no one knows what will happen and no one can predict when a change will happen. What's happened in Venezuela is very tough."

Argentina may be facing difficulties related to inflation and exchange rates, García Rosa continued, "but in 2015 there will be elections," he noted. "Nobody has any doubt that change will arrive, because the potential candidates understand very well that this [situation] really damaged not only the hotel business, but also the most important businesses in other niches."

> "In Latin America, in the biggest six or seven major cities, you're going to have W [hotels] and you're going to have St. Regis. It's just a matter of time."

Simon Turner, president of global development, Starwood Hotels & Resorts Worldwide

While most take a "wait and see" approach to Venezuela, sentiment is more optimistic in the Southern Cone. "Argentina is always a wild card," said Smaletz. "There are ups and downs and cycles. There are some challenges for hotel development affecting other industries as well — but still, it's a very strong country, and we hope that it's just another cycle that will soon end."

Developers and investors may find fresh opportunities by gauging the needs of international hotel companies, according to Turner. "We want somebody who understands the local market inside and out, but also has a global perspective and also understands how our brands should be positioned both for the local market and for the global market," he said. "We see very few investors that are pan-Latin American in focus," he said, noting that most developers operate in only one or two countries. "I think there's an opportunity for someone to create more of a pan-continental investment platform."

As for government regulations, Turner said they are "a challenge in any market, but if we're having a global conversation, in Latin America they vary from country to country," he said. "For us, this is part and parcel of being a global company. Latin America is no more challenging than any other part of the world." LT

Mark Chesnut reported from New York.

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