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Economic Cycles Affect the Differentials between Top Caribbean Lodging Facilities

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The Caribbean Islands are made up three main groups of islands: the Bahamas to the north, the Greater Antilles (including Cuba, Jamaica, and Puerto Rico), and the Lesser Antilles to the southeast and consist of 32 individual countries. Each country offers tourists something distinctive and unique; however, the common denominators are warm weather, tropical beaches, and beautiful ocean vistas. The islands offer accommodation, amenities, and activities for all market segments and welcome visitors from all over the world; the lodging industry is well-established in the region. Typically, February, March, and April represent the busiest months of the year for the lodging market whilst September and October represent to the off season.

Map of the Caribbean

This article discusses the differences between two of the highest-yielding segments of the lodging market in the Caribbean. Smith Travel Research (STR) classifies branded hotels into the following tiers: Luxury, Upper Upscale, Upscale, Midscale, or Economy, from highest to lowest quality. This analysis has grouped Upscale and Upper Upscale properties together (a sample of 11,778 rooms in 37 hotels, yielding an average size of 318 rooms per hotel, as of the end of 2009) and compares their performance over the last eleven years against the performance of Luxury properties (a sample of 6,113 rooms in 25 hotels, yielding an average size of 245 rooms per hotel as of the end of 2009). Defining facets of the properties, occupancy, average daily rate (ADR), and revenue per available room (RevPAR), are analyzed. To ensure the most consistency in classification, only chain-affiliated properties were taken into consideration. The list of the specific establishments included in the analysis and their respective locations can be found in the appendix.

Occupancy Trends of Upscale and Upper Upscale Lodging Facilities Located in the Caribbean

Upscale and Upper Upscale properties have historically been a profitable component of the lodging market in the Caribbean. These properties attract guests who require high quality amenities and service but are not willing or able to pay an additional $70 to $160 dollars per night for a room at a Luxury establishment.

These properties have historically maintained annual occupancy levels above 70%; however, occupancy levels have been declining annually since 2004, falling to 65% in 2009, the lowest level since 1998. The data below illustrate that the change in the number of room nights sold has not kept pace with the inventory that has been added to the market.

Historical Occupancy Trends for Upscale and Upper Upscale Branded Lodging Facilities

Year	Room Nights Available	Percent Change	Room Nights Sold	Percent Change	Occupancy
1998	3,398,030	---	2,471,807	---	72.7 %
1999	3,432,873	1.0 %	2,531,540	2.4 %	73.7
2000	3,520,425	2.6	2,506,976	(1.0)	71.2
2001	3,502,519	(0.5)	2,496,140	(0.4)	71.3
2002	3,492,905	(0.3)	2,489,504	(0.3)	71.3
2003	3,660,100	4.8	2,540,569	2.1	69.4
2004	3,717,556	1.6	2,781,027	9.5	74.8
2005	3,898,207	4.9	2,879,863	3.6	73.9
2006	3,654,968	(6.2)	2,667,611	(7.4)	73.0
2007	3,765,512	3.0	2,568,579	(3.7)	68.2
2008	4,210,937	11.8	2,757,542	7.4	65.5
2009	4,291,623	1.9	2,787,703	1.1	65.0
Compound Annual Growth Rate		2.1 %		1.1 %	

Source: Smith Travel Research

As illustrated above, the number of room nights available per year has grown at an average rate of 2.1% but demand has only increased by 1.1%, accounting for the decline in occupancy levels. Specific properties have done better than others, but this trend reflects the collective average for the sector. The declining occupancy levels have negatively affected profitability for the Caribbean's Upscale and Upper Upscale properties.

Occupancy Trends of Luxury Lodging Facilities Located in the Caribbean

Luxury properties in the Caribbean have faced similar problems as those in the Upscale and Upper Upscale tier: the development of new rooms has outpaced the increase in demand.

Demand for room nights peaked in 2006 but occupancy levels have been declining since 2004. Demand for room nights started to constrict in 2007, prior to the current recession, only to be exacerbated as the effects of the recession emerged in late 2008 and accelerated in 2009. The number of room nights sold declined a further 7.1% in 2009, while the room nights available continued to increase.

Historical Occupancy Trends for Luxury Branded Lodging Facilities

Year	Room Nights Available	Percent Change	Room Nights Sold	Percent Change	Occupancy
1998	1,768,463	---	1,252,662	---	70.8 %
1999	1,828,989	3.4 %	1,308,281	4.4 %	71.5
2000	1,921,356	5.1	1,288,065	(1.5)	67.0
2001	2,029,668	5.6	1,231,182	(4.4)	60.7
2002	1,999,848	(1.5)	1,340,425	8.9	67.0
2003	1,948,907	(2.5)	1,339,452	(0.1)	68.7
2004	1,936,114	(0.7)	1,381,488	3.1	71.4
2005	2,076,033	7.2	1,422,242	3.0	68.5
2006	2,188,175	5.4	1,436,828	1.0	65.7
2007	2,194,939	0.3	1,433,197	(0.3)	65.3
2008	2,208,829	0.6	1,420,023	(0.9)	64.3
2009	2,218,125	0.4	1,319,650	(7.1)	59.5
Compound Annual Growth Rate		2.1 %		0.5 %	

Source: Smith Travel Research

The fundamental problem for the market is that demand is not keeping pace with the additions to the market. For example, in 2005 demand for room nights increased by 3.0% but the number of nights available increased by 7.2%; as a result, occupancy levels declined from 68.5% to 65.7%. From 1998 to 2009, the supply of room nights has increased by an average of 2.1% per year while demand only increased 0.5% per year.

Upscale and Upper Upscale Tiers Compared to the Luxury Tier

These two product/quality groupings achieve the highest average daily rates (top 30.0%) and RevPAR in the Caribbean market. RevPAR is calculated by multiplying occupancy by rate, and indicates how well rooms revenue is being maximized. The purpose of this analysis is to quantify the differences in average rate and RevPAR between these two groupings.

As illustrated in the following table, Upscale and Upper Upscale establishments have achieved higher occupancy rates than Luxury establishments and Luxury properties have achieved higher rates and RevPAR levels.

Comparison of Occupancy, Rate, and RevPAR

	Upscale & Upper Upscale			Luxury		
Year	Occupancy	Average Rate	RevPAR	Occupancy	Average Rate	RevPAR
1998	72.7 %	$140.44	$102.16	70.8 %	$209.45	$148.36
1999	73.7	150.99	111.35	71.5	221.46	158.41
2000	71.2	158.50	112.87	67.0	240.66	161.34
2001	71.3	152.78	108.88	60.7	235.34	142.76
2002	71.3	143.38	102.19	67.0	228.79	153.35
2003	69.4	148.43	103.03	68.7	240.96	165.61
2004	74.8	157.51	117.83	71.4	256.28	182.86
2005	73.9	174.92	129.23	68.5	279.43	191.43
2006	73.0	189.56	138.35	65.7	309.29	203.09
2007	68.2	207.24	141.36	65.3	354.26	231.32
2008	65.5	204.18	133.71	64.3	364.59	234.39
2009	65.0	182.81	118.75	59.5	311.59	185.37
Average / Compounded Annual Growth						
	70.8%	2.4%	1.4%	66.7%	3.7%	2.0%

Source: Smith Travel Research

In order to understand how well one grouping of the lodging market is performing relative to another, we have analyzed the changes in the difference of average rate and RevPAR for the two groupings. Utilizing these data allows for the direct comparison of changes in relative performance. Analyzing the changes in occupancy, average rate, and RevPAR from one year to the next can determine the affect of specific events while the 11-year trend helps to understand the overall evolution, relative health, and potential for the market.

As illustrated in the following table, the average rate for a room classified as “Luxury” in 2000 was $82.16 more than one classified in the Upper or Upper Upscale group; this difference represented a 16.6% increase from the rate differential reported in 1999. Even though there was a significant increase in the rates, the resulting change in the RevPAR differential was just $1.39, or 3.0%.

Luxury Establishment Performance Relative to Upscale and Upper Upscale Establishments

	Average Rate				RevPAR			
Year	Average Rate Differential	Percent Differential	Percent Change in Differential	Index	RevPAR Differential	Percent Differential	Percent Change in Differential	Index
1998	$69.01	49.1 %	---	1.49	$46.20	45.2 %	---	1.45
1999	70.47	46.7	2.1 %	1.47	47.07	42.3	1.9 %	1.42
2000	82.16	51.8	16.6	1.52	48.46	42.9	3.0	1.43
2001	82.56	54.0	0.5	1.54	33.88	31.1	(30.1)	1.31
2002	85.41	59.6	3.5	1.60	51.16	50.1	51.0	1.50
2003	92.53	62.3	8.3	1.62	62.58	60.7	22.3	1.61
2004	98.77	62.7	6.7	1.63	65.04	55.2	3.9	1.55
2005	104.51	59.7	5.8	1.60	62.21	48.1	(4.4)	1.48
2006	119.72	63.2	14.6	1.63	64.73	46.8	4.1	1.47
2007	147.02	70.9	22.8	1.71	89.95	63.6	39.0	1.64
2008	160.41	78.6	9.1	1.79	100.68	75.3	11.9	1.75
2009	128.77	70.4	(19.7)	1.70	66.63	56.1	(33.8)	1.56
Compound Annual Growth Rate								
1998-2009		5.8%				3.4%		
2007-2009		-6.4%				-13.9%		

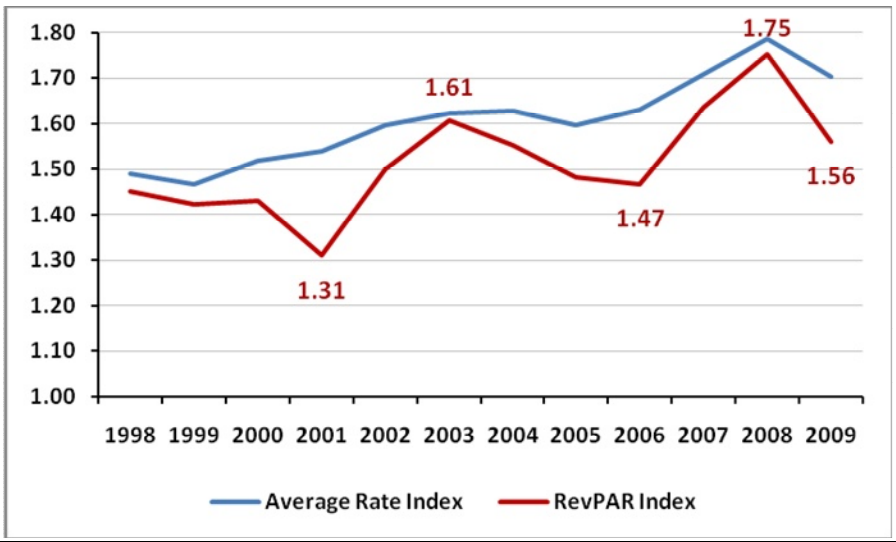
From 1998 to 2009 the average rates reported by the Luxury sector increased by 5.8% more than Upscale and Upper Upscale properties. The 5.8% growth in the difference of rate between groupings has translated to 3.4% growth in the difference of RevPAR levels which implies that Luxury properties have been widening the gap in the rooms revenue that they have been generating.

These data illustrate that the gap between property types has been widening. Since 1998, there has only been one year where the difference in average daily rate declined: in 2009, the average rate achieved by Luxury properties decreased by 19.7% more than average rate reported for the Upscale/ Upper Upscale sector. Concurrently, the RevPAR premium declined by more than one-third.

The percent difference in the average rate further illustrates that the difference between the Luxury grouping and the Upscale and Upper Upscale grouping has changed significantly. The three-year average from 1998 to 2000 show that Luxury average rate was 49.2% higher than Upscale and Upper Upscale while from 2007 to 2009 the average rate was 73.3% higher than the Upscale and Upper Upscale grouping, an overall change of 24.1%. With regards to RevPAR, the three-year average from 1998 to 2000 indicated that Luxury RevPAR was 43.5% higher, increasing by 21.5% to 65.0% in the 2007 to 2009 period. These data indicate the growing difference between the groupings, peaking in 2008 when there was a 78.6% and 75.3% difference in average rate and RevPAR, respectively.

The following graph illustrates the performance of the luxury sector as compared to the Upscale/Upper Upscale sector, as measured by an index in which the luxury Average Rate (or RevPAR) is the numerator and the Upscale/Upper Upscale Average Rate (or RevPAR) is the denominator.

Luxury vs Upscale/Upper Upscale Average Rate and RevPar Index



As the above chart indicates, the demand for Luxury accommodations is much more sensitive to the economic climate than demand for Upscale and Upper Upscale accommodations. The 2001 downturn, influenced by both an economic recession and the terrorist attacks of September 11th, resulted in significant decline in the Luxury RevPAR index, principally due to decreases in occupancy; the average rate index during this period was only minimally affected. The divergence between the two sectors evident in 2005 and 2006 is again primarily due to occupancy, largely as a result of the influx of luxury supply in these years. Data for the current downturn indicates that the luxury sector is again more vulnerable. In this instance, the drop in REvPAR index can be attributed to both occupancy and average rate, as the chart illustrates. When the economy is expanding Luxury properties raise rates faster than Upscale and Upper Upscale properties, but in times of economic hardship Luxury properties are the first to lose patrons and tend to drastically adjust rates.

Conclusion

Over the past eleven years, the demand for branded Upscale, Upper Upscale, and Luxury accommodations has been relatively stable and increased annually by only 0.89%, from 3,724,469 room nights in 1998 to 4,107,353 room nights in 2009. However, the influx of supply to the market has outpaced the minimal increases in demand and has resulted in declining occupancy levels. Demand for room nights will increase when the general economic climate improves, but occupancy levels may continue to drop if a disproportionate number of rooms continue to be developed. Investors who are considering entering the market should note that that demand for branded Luxury properties has not increased as significantly (0.5% annually) as the demand for branded Upscale and Upper Upscale properties (at 1.1% annually). With regards to demand and occupancy levels, Luxury establishments are more directly influenced by economic conditions. In strong economic periods, this has translated to stronger performance levels,, but in downturns the hotels in this sector have proven to be much more vulnerable

The RevPAR difference between Luxury and Upscale and Upper Upscale properties has gradually been expanding, from $46.20 in 1998 to $100.68 in 2008, but dropped dramatically in 2009, to $66.63.. Since 1998, the annual growth in RevPAR levels at Luxury properties, at 2.0%, has outpaced the 1.4% growth for Upscale and Upper Upscale properties. The disparity between the two groupings is greatest when the economy is prospering and the closest during difficult economic times.

However, the potential rooms revenue generated at Luxury properties are highly subject to external global factors and rely on a smaller, lower-growth demand source. Demand for Upscale and Upper Upscale properties has increased faster than the demand for Luxury properties which offers greater stability, representing an average of 66.0% of the overall demand for these two groupings, and therefore lower risk.

Though general demand and occupancy trends have been negative in recent history, a significant number of lodging facilities within these groupings have maintained excellent occupancy, average rate, and RevPAR levels. Opportunities to develop, redevelop, and/or renovate in the Caribbean will resurface as demand levels improve. Developers and investors are advised to take a cautious approach, and conduct the proper due diligence when positioning assets in the region since cost bases vary significantly.

APPENDIX

Upscale and Upper Upscale Chain-Affiliated Caribbean Properties

Location	Hotel
Aruba	Hyatt Regency Aruba Resort & Casino
	Marriott Aruba Resort & Stellaris Casino
	Renaissance Aruba Resort & Casino
	Westin Aruba Resort
Bahamas	Hilton British Colonial
	Sheraton Hotel Cable Beach Resort
	Elegant Colony Club Hotel
	Elegant Crystal Cove Hotel
	Elegant Tamarind Cove Hotel
	Elegant The House Resort
	Elegant Turtle Beach Resort
	Hilton Barbados
Cayman Islands	Marriott Grand Cayman Beach Resort
	Westin Casuarina Resort & Spa
Dominican Republic	Embassy Suites Santo Domingo Juan Dolio
	Hilton Santo Domingo
	Renaissance Jaragua Hotel & Casino
Jamaica	Hilton Kingston
	Hilton Rose Hall Resort & Spa
Netherlands Antilles	Hilton Curacao
	Marriott Curacao Bch Resort & Emerald Casino
	Renaissance Curacao Resort & Casino
	Westin St Maarten Dawn Beach Rsrt & Spa
Puerto Rico	Doubletree Hotel San Juan Puerto Rico
	Embassy Suites Dorado Del Mar Beach & Golf Resort
	Embassy Suites San Juan Hotel & Casino
	Gran Melia Puerto Rico
	Hilton Caribe
	Hilton Ponce Golf & Casino Resort
	Marriott San Juan Resort & Stellaris Casino
	Renaissance La Concha Hotel
	Sheraton Hotel & Casino Old San Juan
St Kitts / Nevis	Marriott St Kitts Rsrt & Royal Beach Casino
Trinidad / Tobago	Hilton Trinidad
	Hyatt Regency Trinidad
US Virgin Islands	Marriott Frenchman`s Reef & Morning Star Bch
	Westin St John Resort

Luxury Chain-Affiliated Caribbean Properties

Location	Hotel
Antigua / Barbuda	Rosewood Jumby Bay Resort
Bahamas	One & Only Ocean Club
	Fairmont Royal Pavilion Suites
	Preferred Sandy Lane Hotel
	Fairmont Hamilton Princess
	Fairmont Southampton
	Mandarin Oriental Elbow Beach
	Preferred Tucker`s Point Hotel & Spa
British Virgin Islands	Preferred Boutique Peter Island Resort
	Rosewood Little Dix Bay
Cayman Islands	Ritz-Carlton Grand Cayman
Dominican Republic	InterContinental V Centenario Santo Domingo
	Sofitel Frances Santo Domingo
	Sofitel Nicolas De Ovando Santo Domingo
Jamaica	Ritz-Carlton Golf & Spa Resort Rose Hall
Puerto Rico	Conrad San Juan Condado Plaza
	InterContinental San Juan Resort & Casino
	Ritz-Carlton San Juan Hotel Spa & Casino
	Waldorf=Astoria El Conquistador Resort
	Waldorf=Astoria El San Juan Hotel & Casino
St. Lucia	RockResorts The Landings St Lucia
St. Vincent / The Grenadines	Raffles Resort Canouan Island
Turks / Caicos Islands	Regent Hotel The Palms
US Virgin Islands	Ritz-Carlton St Thomas Resort
	Rosewood Caneel Bay Resort

About the Author

Andy Reed is an analyst in the Miami office of HVS, the premier global hospitality consulting firm since 1980. Since joining HVS, Andy has provided consulting and appraisal services for a number of hotels throughout Florida and the Caribbean. His particular areas of specialization include appraisals and feasibility studies. Prior to joining HVS, he provided a range of consulting services to a significant number of proposed and existing public and private tourism attractions and private tourism entities throughout Australia, New Zealand, and portions of Asia. Andy holds a degree in Economics from the University of Colorado, Boulder.

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