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2010 SOUTH AMERICA HOTEL MARKET OVERVIEW

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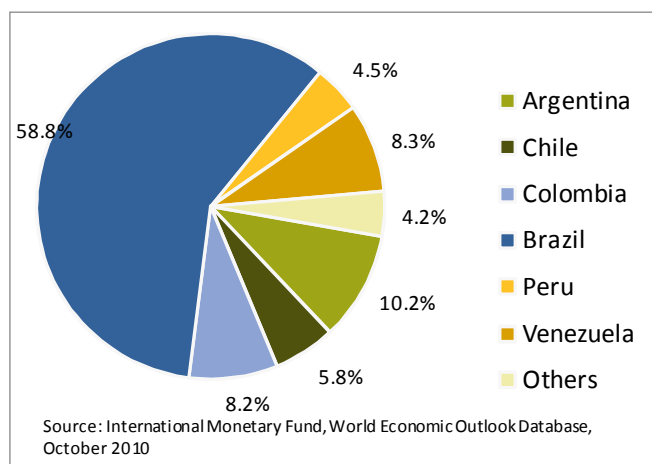
Ramiro Alem



Regional Economic Overview

South America comprises 13 countries and accounts for around 5.55% of World GDP. As of 2010 data, Brazil has the largest GDP of the region, with US\$ 2,024 billion (58.83% of South America), followed by Argentina (10.20%), Venezuela (8.29%), Colombia (8.23%), Chile (5.79%) and Peru (4.46%). The rest of the countries add for the remaining 4.19%.

FIGURE 1: SHARE OF TOTAL SOUTH AMERICA GDP (2010)



After a marked economic slowdown in 2009 due to the global economic crisis, South America showed clear signs of recovery in 2010, fuelled by an increase in consumption and investment following the implementation of stimulative policies, inventory accumulation, higher commodity prices, positive terms of trade, and favorable external financing conditions.

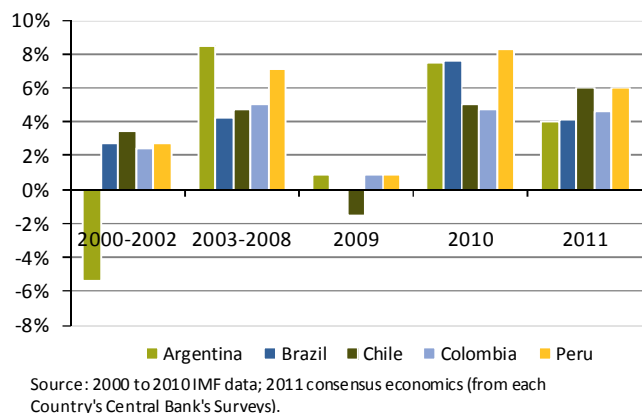
However, the drivers of growth varied with each country. Unlike those more financially integrated economies in South American countries (with lower spreads and higher credit ratings such as Brazil, Chile, Colombia, Peru and Uruguay), the rest of the region experienced restrictive external financing conditions, so its growth was mostly based on favorable terms of trade.

Brazil, Peru and Uruguay, with a real GDP growth of over 7% in 2010, are already operating at or near full capacity, with unemployment rates at historic lows in some cases. In Chile and Colombia, activity significantly picked up last year, with a 5% increase, despite the

earthquake that hit Chile and the conflicts between Colombia and Venezuela. The more financially integrated economies have benefited from the increase in capital inflows during 2010. This inflow has encouraged credit recovery, even by local public and private agencies, and a currency appreciation, with Brazil, Colombia and Uruguay experiencing the largest appreciation since end-2009. The Chilean, Colombian, and to a less extent the Peruvian stock markets have been kept very busy. In those countries, the inflation rate has remained near targets (or within target ranges), although core inflation and inflation expectations have been rising in some cases.

On the other hand, Argentina's and Paraguay's strong growth has been supported by close intraregional trade ties with Brazil, a rebound in agriculture following the drought of 2009, and highly stimulative policies. In countries such as Ecuador and Venezuela, economic recovery has been weaker, largely reflecting supply constraints and weak policy fundamentals. In most countries of this group, fiscal and monetary policy stimulus are pushing demand up and contributing to a rise in inflation.

FIGURE 2: REAL GDP GROWTH RATES



Although the resurgence of domestic demand following the crisis was certainly a good development, a moderation of demand growth is necessary to avoid fanning inflationary pressures or widening current account deficits. The expansionary policies adopted earlier to confront the global recession now risk becoming procyclical and need timely normalization.

The main risks faced by the major countries in the region are related to the possibility of a continuous increase in domestic demand, fuelled by favorable external conditions (which leads to rising capital inflows) and the continuity of stimulative policies. This could pose a problem, especially to countries that have reached their potential GDP and where demand pressures threaten to generate inflationary pressures and widen current account deficits.

Although most countries will continue to benefit from favorable terms of trade, the more financially integrated economies will face additional challenges from easy external financing conditions. In some countries of South America, fast-growing intraregional demand will boost growth, while in other cases supply-side constraints will continue to hold back growth and maintain inflation pressures.

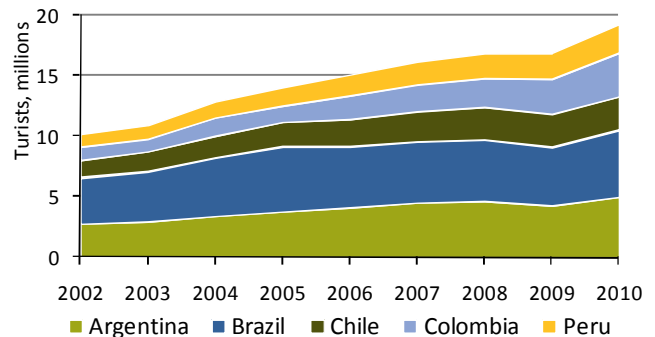
Regional Tourism Overview

South America represents 2.51% of worldwide international tourist arrivals, which in 2010 was equivalent to 23.5 million tourists. This percentage of international tourism has been kept stable throughout the past decade.

According to a survey conducted by the UNWTO, the year 2010 was characterized by an uptrend in tourist movement, which was rather slow in advanced economies and faster in developing economies. Forecasts indicate that this trend will continue during 2011.

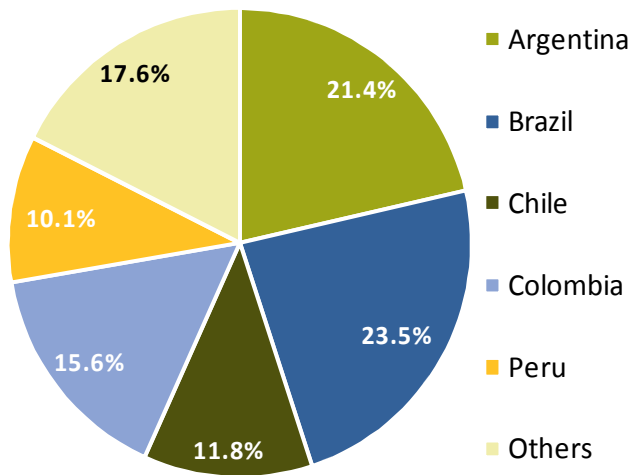
The following chart shows the evolution of international arrivals throughout 2002 and 2010. Overall international tourist arrivals were 12.7 million in 2002, and for 2010 it reached 23.5 millions of international tourist arrivals, exceeding the 21.8 millions record from 2008. Amongst the countries of the region, Brazil is the main tourist receiver, followed closely by Argentina, Colombia, Chile and Peru.

FIGURE 3: INTERNATIONAL TOURIST ARRIVALS (2002-2010)



Source: Mintur Argentina, Embratur Brasil, Sematur Chile, Proexport Colombia, Mincetur Peru, UNWTO, HVS estimated growth for 2010

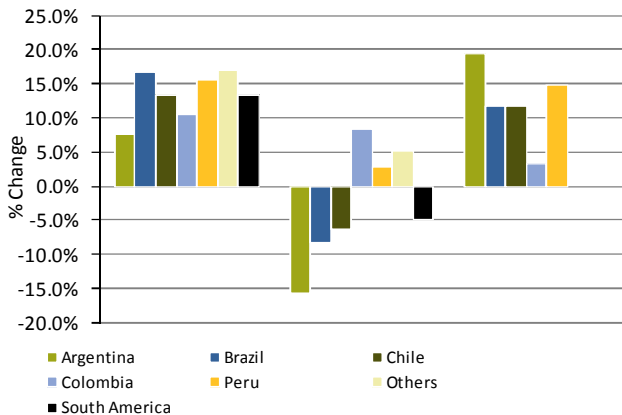
FIGURE 4: SHARE OF INTERNATIONAL TOURIST ARRIVALS IN SOUTH AMERICA (2010)



Source: UNWTO, Barometer - Advance Release January 2011 & HVS Projections

Although the final figures regarding international tourism earnings for the region in 2010 are not yet available, partial data published by the World Tourism Barometer show some positive signs vis-à-vis 2009, without, however, achieving the same growth level as in 2008. The graph below illustrates the year-on-year variation of international tourism revenues for each country.

FIGURE 5: % CHANGE OF INTERNATIONAL TOURISM RECEIPTS (2007-2010)

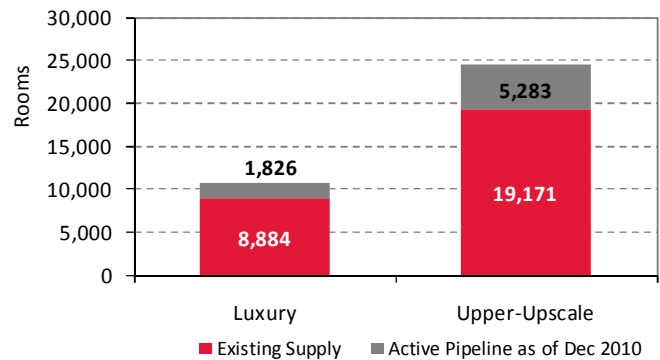


2009vs2010: Argentina, Colombia & Perú: YTD Jan-Jun
Brasil & Chile YTD Jan-Sep

Source: UNWTO

As for the Hotel development throughout the region, according to the survey conducted by STR Global, the existing supply for the Luxury & Upper-UpScale segments for the whole of Central and South America is 28,055 rooms, with a total active pipeline of 7,109, which means an expected 25.3% increase in supply for those segments.

FIGURE 6: PIPELINE CENTRAL AND SOUTH AMERICA (AS OF DEC 2010)



Source: STR Global

Buenos Aires

Buenos Aires is Argentina's capital and largest city in addition to being the second largest city in South America, after the city of Sao Paulo. Besides being the main gateway to international tourist arrivals for all domestic final destinations, it has a wide array of demand generators for all tourism segments, making it a very attractive city for international tourism.

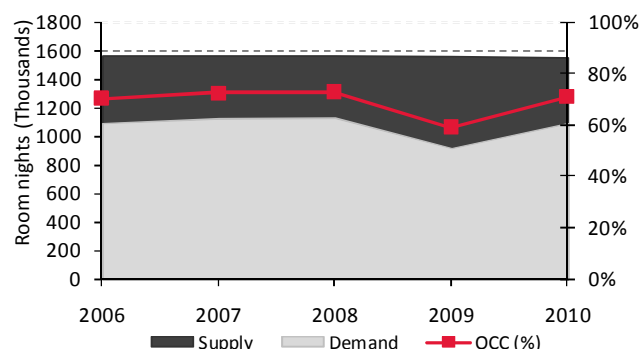
Performance Analysis

Hotel demand rebounded strongly in 2010, with a 20% increase in occupancy rates for Luxury & Upper Upscale hotels in Buenos Aires City. Therefore, the levels reached were similar to those prior to the economic crisis and the impact of the swine flu.

Average rates in USD dollars remained practically the same as in 2009, while their increase expressed in local currency was on the order of 4%, i.e. similar to the nominal depreciation percentage of the peso value vis-à-vis the US dollar.

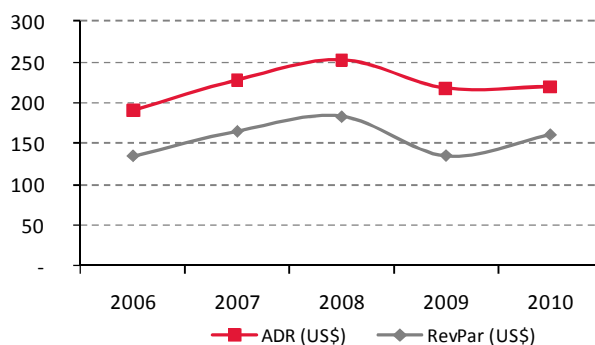
With regard to the revenue per available room (RevPar) in US dollars, there was a remarkable recovery in 2010 of nearly 21%, which was mostly led by a surge in demand, while rates remained almost unchanged. Therefore, it has been a partial recovery, as rate levels have not yet reached those in 2008. It should also be noted that the market has long been experiencing a sharp rise in costs in US dollars due to the appreciation of the rate of exchange caused by high inflation.

FIGURE 7: SUPPLY, DEMAND AND OCCUPANCY - LUXURY & UPPER UPSCALE MARKETS



Source: HVS

FIGURE 8: ADR & REVPAR (\$)



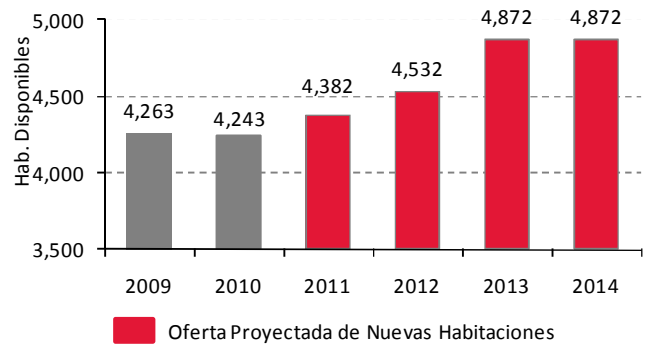
Source: HVS

Trends

Market demand prospects are still positive for the current and upcoming year, mostly based on the good performance expectations for the local and regional economies. As to occupancy and rate levels, they are expected to keep the level reached in 2010.

After 5 years of stability in the hotel supply of the Luxury & Upper Upscale market segment, a strong growth is foreseen to start. The Alvear Art Hotel is projected to open at the end of next year, and for the period 2012 - 2014 the St. Regis, Alvear Puerto Madero and the 5-Star Hotel within the mixed-use project Madero Harbour openings are projected.

FIGURE 9: LUXURY & UPPER UPSCALE SUPPLY PROJECTION



Fuente: HVS

Santiago

Santiago is Chile's capital and largest city, and the center of its largest conurbation, Greater Santiago. Chile's steady economic growth has transformed Santiago into one of Latin America's most modern metropolitan areas.

Performance Analysis

After a 2009 where the market was affected by the economic crisis and the swine flu, Santiago started the year with an earthquake that hit the country at the end of February 2010. The immediate reaction was the cancellation of a large number of bookings, which led to a drop of 32% in the room nights demand in March, if compared to the same period of 2009. Once the crisis was overcome and the Merino Benitez International Airport was operational again, hotel reservations began to pick up, rather slowly at first to subsequently and rapidly attain the city's usual levels. The fast recovery after the earthquake is remarkable, with positive results and an average annual growth of 7% in the occupancy levels if compared to year 2009 results.

Average rates in US dollars grew 5%, compared to 2009. In local currency, the average rate decreased around 4%, mainly due to the market efforts to capture a higher room nights volume after the earthquake.

The overall performance of the Luxury & Upper Upscale market in Santiago, measured in terms of RevPAR, achieved a recovery of nearly 12% vis-à-vis 2009, mainly driven by the increase on the demand.

FIGURE 10: SUPPLY, DEMAND AND OCCUPANCY - LUXURY & UPPER UPSCALE MARKETS

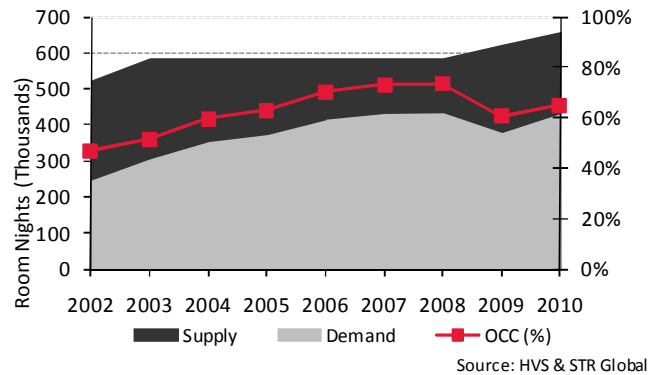
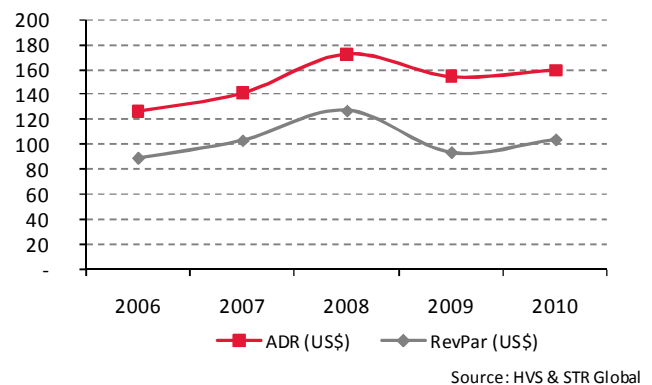


FIGURE 11: ADR & REVPAR (\$)

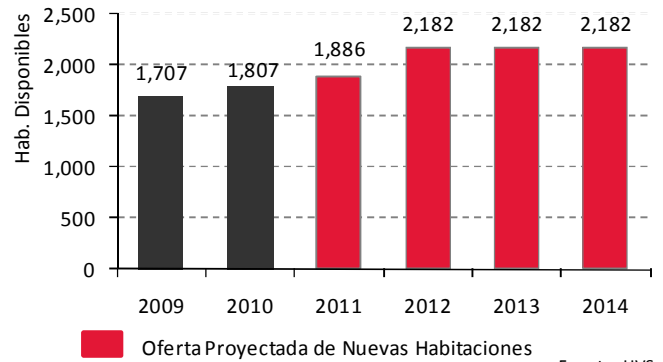


Trends

Market demand will remain in an up-trend in the next years, mostly as a result of the country's and the region's favorable economic indicators. With regard to ADR and occupancy performance levels, forecasts indicate that the Luxury & Upper Upscale market will continue to grow in line with the pickup of demand.

Within the Luxury & Upper Upscale segment, the InterContinental Hotel inaugurated 81 new rooms (Dec 2010). Some of the projects we can mention are the hotel in the Costanera Center mixed-use project undertaken by Cencosud (296 rooms); and in an very early development stage a Park Hyatt. Likewise international hotel chains have shown interest to enter the market with products such as Sofitel, Four Seasons and St. Regis, amongst others.

FIGURE 12: LUXURY & UPPER UPSCALE SUPPLY PROJECTION



Lima

Lima is the capital city of Peru, and besides being the gateway to the country's main tourist destinations such as Cusco, Machu Picchu and The Sacred Valley, it has become an important destination in South America itself. The town, with its multicultural and multiethnic heritage, offers an interesting array of tourist attractions, ranging from colonial architecture, museums, nightlife and its world famous cuisine.

Although leisure travelling is an important driver of demand for the city's hotels, the corporate market is the major source of revenue for the Upper-Upscale hotel segment.

Performance Analysis

After a difficult year for Lima's Luxury & Upper-Upscale segment on account of the global financial crisis and, to a lesser extent, of the swine flu, the segment experienced a rebound in 2010 in terms of occupancy levels, which increased by 4.4% vis-à-vis 2009, without however reaching the 2007-2008 levels. This pickup was largely due to the world's economic recovery and to the strong growth in Peru and in the main countries in the region with outbound tourism to that destination, such as Chile, Argentina and Colombia, among others. It should be noted that, despite the severe flooding in Aguas Calientes in January that hit the Peruvian market, the event did not significantly affect the annual performance of the segment in question. In fact, it had a greater impact on Lima's hotels with a higher tour & travel segmentation.

Average rates in US dollars remained practically the same as in 2009, with a slight 0.6% drop. With regard to these variables in local currency, the decrease was on the order of 7% vis-à-vis the previous year.

With regard to the revenue per available room (RevPar) in US dollars, the recovery in 2010 amounted to nearly 4%, which was mostly led by a surge in demand, while rates remained almost unchanged. It is therefore clear that high occupancy levels were obtained as a result of the economic recovery, but mostly thanks to the hotels'

strategy of giving up rate increases. Thus, it has been a partial recovery, as rate levels have not yet reached those in 2008.

FIGURE 13: SUPPLY, DEMAND AND OCCUPANCY - LUXURY & UPPER UPSCALE MARKETS

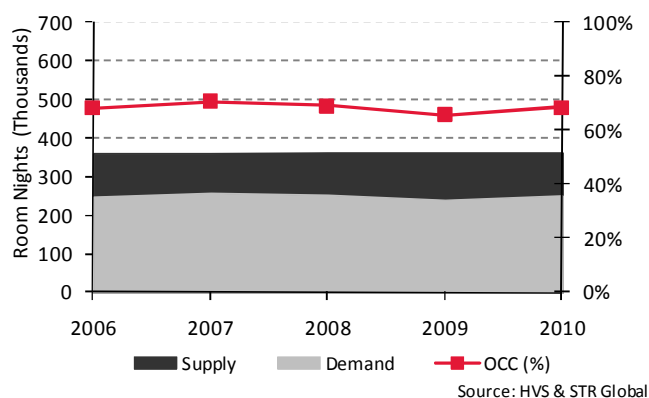
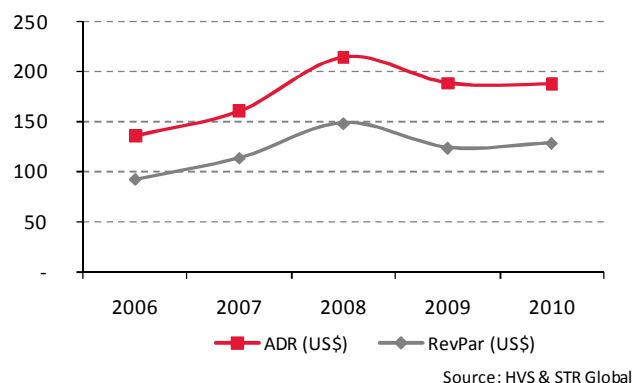


FIGURE 14: ADR & REVPAR (\$)



Trends

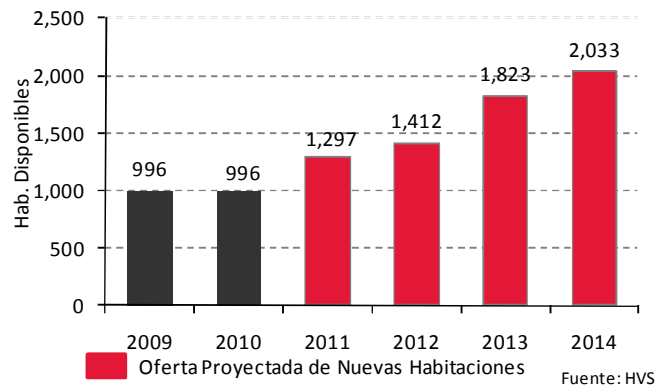
Demand growth is expected to consolidate in 2011, reaching occupancy levels slightly higher than those attained in 2010. These expectations are based on growth projections for Peru and the main countries with outbound tourism to that destination. The favorable economic climate experienced by Peru will seemingly continue to attract investment and business, hence increasing the number of corporate travelers in the hotel segment under study. The projected rise in demand will allow for an increase in average rates in the Luxury & Upper Upscale segment. However, such increase will be moderate as the existing hotels will remain cautious over

the arrival of new market competitors.

The top market is expected to almost double its offer during the next four years, adding 4 new hotels (including the Westin, Hilton and the Proposed Hotel Larcomar) with a total of 1,037 new rooms. Main development areas are Miraflores and San Isidro, two high-end neighbourhoods in Lima.

For year 2011 the most prominent opening will be the Westin Libertador Hotel with 311 rooms and a scheduled opening date by the first semester of the year. Only with this hotel, the city's room supply will grow by approximately 30%.

FIGURE 15: LUXURY & UPPER UPSCALE SUPPLY PROJECTION



Bogota

Bogota is Colombia's capital city and its cultural, educational, trade, and business center. The town is mainly a tourist, trade, and business destination. In recent years, its infrastructure and corporate services have been significantly improved, which has led to the establishment of a rising number of major multinational companies.

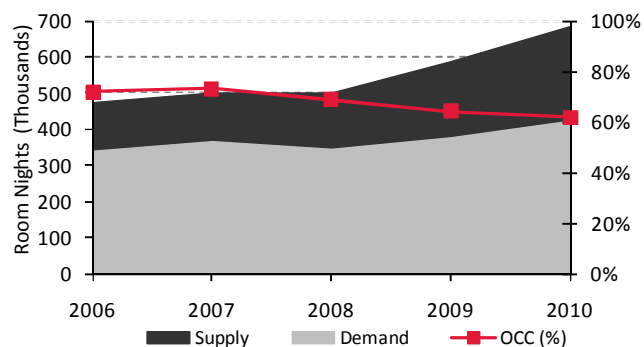
Performance Analysis

The average hotel occupancy rate in Bogotá's Luxury & Upper Upscale segment dropped by 4% in 2010, unlike the rebound experienced by the rest of the main regional markets. This downturn in occupancy levels in the last few years has been largely due to the city's rapid increase in room supply, boosted by tax incentives for the sector, vis-à-vis demand. Furthermore, and to a lesser extent, the sizable appreciation of the peso against the US dollar, the largest in the region during 2010, contributed to the market's loss of competitiveness in recent years.

Average rates in US dollars have grown a 14% vis-à-vis the previous year, however it should be noted that in terms of local currency, they remained practically the same as in 2009. Hence, the rate growth in US dollars are mainly attributable to a strong appreciation of the Colombian peso during 2010.

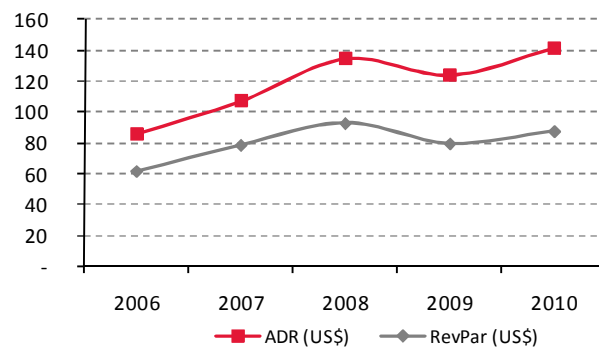
As regards for the evolution of the revenue per available room (RevPAR) in 2010, measured in US dollars, it has grown a 10% vis-à-vis the previous year. This is attributable to the growth of the rate in US dollars, as the occupancy has dropped 4% in the same period. To complete the analysis in terms of local currency, we can observe that the RevPAR in Colombian pesos declines almost 4%, reflecting the market weakness during 2010, in terms of demand levels and the strong increase of the competitors.

FIGURE 16: SUPPLY, DEMAND AND OCCUPANCY - LUXURY & UPPER UPSCALE MARKETS



Source: HVS & STR Global

FIGURE 17: ADR & REVPAR (\$)



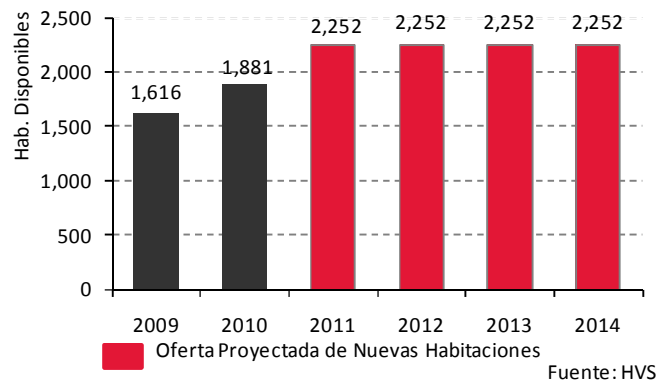
Source: HVS & STR Global

Trends

The perspectives related to the demand level and average rate for this beginning year and the following, are positive. We estimate a moderate growth in the occupancy and stability in the average rate levels. This projections of the market trend is based on the economic growth perspectives for the following years, as well as in the projection of the absorption rate of the new supply rooms that recently entered the market.

The rooms supply in the Luxury & Upper Upscale market segment has strongly grown with the opening of two Marriott properties, that together added around 27% of the total supply for this segment. For next year there are two new openings that are projected, that for the location, international brand, facilities and the projected services, will compete among the higher hotels segment. For next year there will be a rooms stock growth of around 20%.

FIGURE 18: LUXURY & UPPER UPSCALE SUPPLY PROJECTION



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HVS Argentina & Perú

HVS Argentina is the continuance of RHC – Hospitality Consulting, founded by Arturo Garcia Rosa in 1995. Since then actively works in the regional market –mainly in Colombia, Peru, Chile, Argentina, Uruguay, Panama, Costa Rica and Ecuador– offering a wide range of services for the hospitality and real estate industry and tourist destinations.

Since 2008, HVS organizes the leading event of the industry in the Region, SAHIC – South American Hotel & Tourism Investment Conference, being the first three editions held in Buenos Aires, Argentina, Rio de Janeiro, Brazil and Cartagena de Indias, Colombia, its 2011 edition will take place in Santiago, Chile, on September 21-22.

In 2009, accompanying the growth process of the economy of the country and the accumulated experience for the intensive work during the last five years, HVS Peru started to operate with the opening of its office in Lima.