



Buenos Aires Market Snapshot

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Introduction Buenos Aires - Argentina

Buenos Aires is the capital of Argentina and its largest city and port. It is located on the southern shore of the Río de la Plata, next to provincial territory on the southeastern coast of the South American continent.

The weather in Buenos Aires is oceanic temperate. The annual average temperature is 18°C. There are no frosts in the winter and the temperatures range from 3°C to 8°C. In the summer, it is hot and humid and the average temperature is 28°C.

Argentina Economic Outlook

As a consequence of the deep social, political and economic crisis experienced in late 2001 and the consequent currency devaluation at the beginning of 2002, real Argentina's GDP declined by 10.9% in 2002. From 2003 onwards the economy underwent a continuous and sustained economic expansion, reaching a GDP average annual compounded growth of 7%.

The IMF Economic Indicators published on April 2009 stated that the Argentine GDP reached 384,201 billion Argentine Pesos for the year 2008, which represents a 7% increase against the previous year, a slightly lower growth in comparison to past years. Projections by the IMF for 2009 forecast a real GDP decrease of 1.5% in comparison to the previous year, increasing the likelihood of hard landing if failure to address price misalignments and other distortions were to spur a faster than expected deceleration of investment growth.

Significant success in preventing inflation to rise occurred in 2004 and 2005 with single-digit inflation. In 2006 though, Argentina experienced a sharp increase in the consumer price index reaching 10.9%. Even though official statistics estimate a better performance for the forthcoming years in terms of prices stability, most economists agree in a higher inflation rate experienced for 2008 and for the present year.

Regarding the local currency, the peso, it remained stable respect to the US dollar since devaluating in 2002 until the last months of 2008, under a flotation band regime. Since then, it had been around three pesos a dollar and had been a key factor in the actual government's economic

policies, which sustained it and prevent it from appreciating, achieving important increases in foreign reserves stocks accumulation, under the argument of competitiveness of depreciated currency.

Since October 2008 and in line with many other countries in South America due to the international crisis and its effects, the national currency has devaluated approximately 20%. The effects of the devaluation are more visible in 2009. So far in 2009 the annual average of the exchange rate is at 3.61 pesos, which represents a 14.06% increase in comparison to 2008. However, the IMF forecast an exchange rate of approximately 3.74 pesos per dollar for December 2009.

Economic and Demographic Data Summary – Argentina (2003-2008)

	Year					
	2003	2004	2005	2006	2007	2008 ¹
Population	37,869,730	38,226,051	38,592,150	38,970,611	39,356,383	39,745,613
PBI real (millons, pesos 1983)	256,024	279,141	304,764	330,565	359,190	384,153
PBI real (Change %)	8.8%	9.0%	9.2%	8.5%	8.7%	7.0%
GDP Current Prices (Millions of US\$)	127,643	151,958	181,549	212,710	259,999	323,800
GDP per capita (US\$)	3,371	3,975	4,704	5,458	6,606	8,147
Average Consumer Prices (Change %)	3.7%	6.1%	12.3%	9.8%	8.5%	9.0%
Exchange Rate	2.95	2.94	2.92	3.07	3.12	3.16

Source: Dirección General de Estadística y Censos (GCBA), World Economic Outlook 2008 (IMF), INDEC
¹ Estimations IMF

Tourism in Argentina

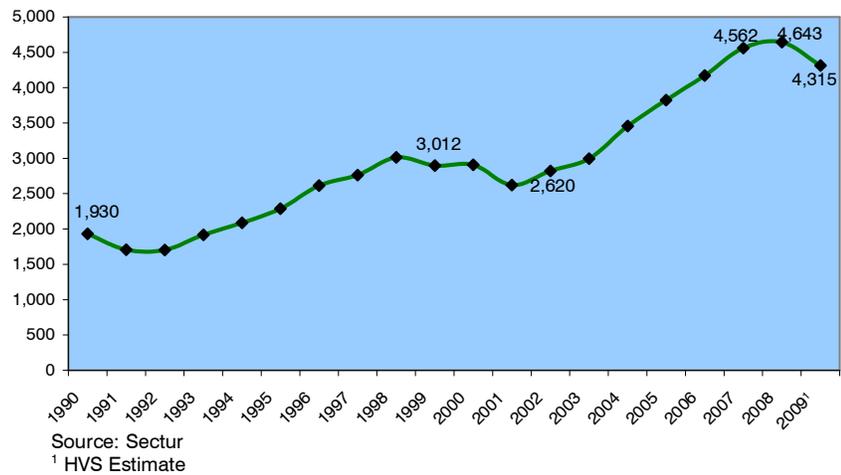
Tourism in Argentina has been for the last 6 years one of the most dynamic sectors of the national economy. Although recent statistics for 2009 show a decrease in the level of tourism activity due to the international crisis, projections for the future years point to it continuing to play a vital role in the generation of revenue -and foreign currency- and the creation of new jobs.

Since the crisis in 2001, with the depreciation of the peso's exchange rate, Argentina became a competitive and attractive international tourism destination. This advantage was used to promote the country and the tourism activity helped economic recovery. Nowadays, prices have risen considerably, although in comparison to other destinations such as Europe, it still remains less expensive. The country has also experienced a substantial improvement of the quality in the supply of services, attractions and lodging facilities. The great cultural offering and the extensive geography that boasts a diversity of landscapes, helps to prevent this tourism destination from the economical cycle downturns.

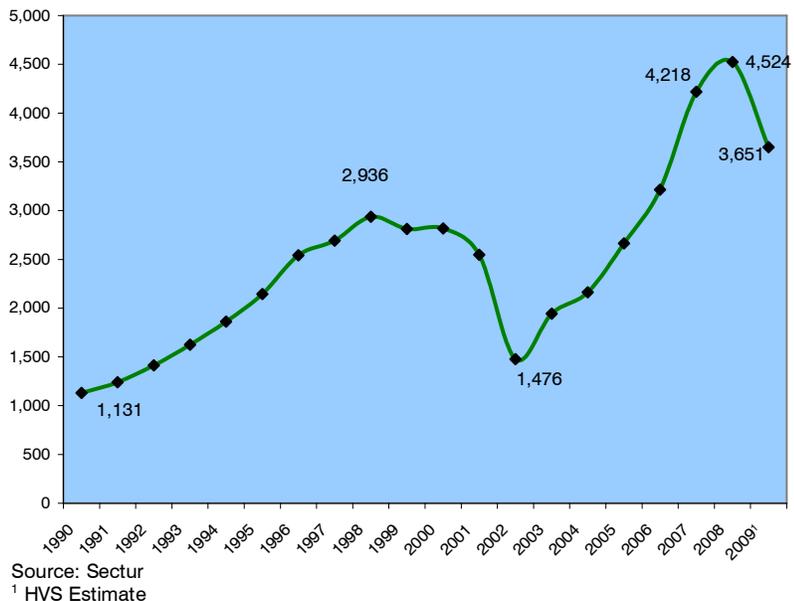
Argentina is the fifth receiving country of tourism in America, behind United States, Mexico, Canada and Brazil, and shows the highest rate of growth in the arrival of tourists between 2004 and 2007.

During 2008 4,643,315 non-resident tourists arrived to the country, exceeding in 1.8% the 4,561,511 arrivals that were registered in 2007. If we extend this analysis since 2003, the growth rate until 2008 was 55.02%. However, due to the international crisis, in the first trimester of 2009 non-resident tourist arrivals have begun to decrease (-7.9%). The following chart shows the evolution of non-resident tourist arrivals in Argentina from 1990 onwards:

Non-Resident Tourist Arrivals to Argentina 1990-2009 YTD



Evolution of Tourist Expenditures in Argentina 1990-2009 YTD (in US\$ MM)



Along with the tourism growth throughout the country, the number of hotel openings has been growing steadily since year 2003. The following chart shows the evolution of the quantity of new hotels in the country with the total estimated investment.

Hotel Openings in Argentina -All Segments- (2003-2010)						
	2003	2004	2005	2006	2007	2008-10
Hotel Openings	79	52	27	77	288	300 *
Aprox. Investment(US\$)	37	110	156	168	199	1250

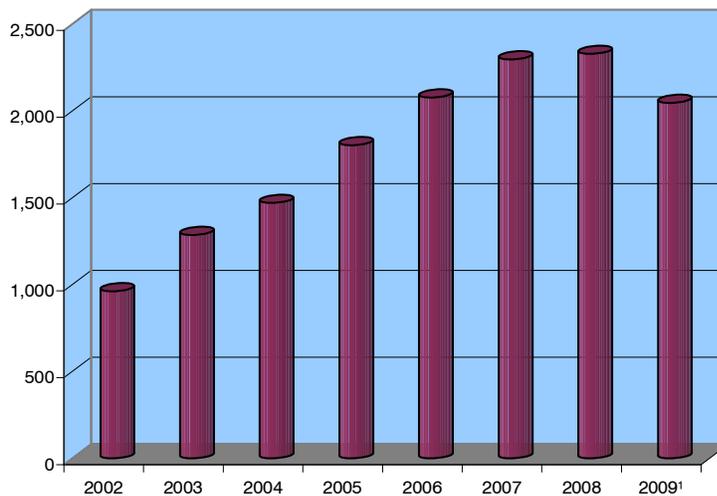
Source: Sector
 * Properties under construction in the whole country

Tourism in Buenos Aires

The main gateway to the city is Ezeiza International Airport, followed by the port of Buenos Aires and, in the third place, Jorge Newbery Domestic Airport. According to the 2006 Report of International Tourism, published by the Under Secretary of Tourism of the City of Buenos Aires, the city was chosen as the only destination in Argentina by 1,410,161 foreign tourists, which represents 11.4% increase as compared to 2005. If considered those who added other destinations, the number of tourist amounts to 2,106,835, showing an increase of 14.9%.

The following chart shows the evolution of tourist arrivals to Ministro Pistarini International Airport at Buenos Aires

Tourist Arrivals at Buenos Aires International Airport (2002-2009)



Source: Indec - 2009 HVS Estimated 2Q 3Q & 4Q

After the depreciation of the peso in 2002, the City of Buenos Aires has experienced significant growth as a tourist destination. This has been accompanied by a strong development in the tourist attractions offer throughout the city, which displays a larger amount, variety and quality of hotels and restaurants. New neighborhoods such as Palermo Soho, Palermo Hollywood and Puerto Madero have been developed as new tourist attractions, providing a wider range of options for tourists and a larger geographic area.

The city offers the visitors a unique mixture of European elegance, and the enterprise atmosphere of the great cities. The texture of the city combines parks and wide boulevards framed by Parisian, Italian and Classical architecture, alternating with the skyscrapers of modernity and the districts of historical character and present life. On August 24, 2005 Buenos Aires was appointed as the first UNESCO City of Design.

For the visitor from abroad, this is an excellent time to visit Buenos Aires. Devaluation has made it a cheap city to explore and enjoy sightseeing and shopping by day and dancing and enjoying gastronomic delights at night. With several new museums and a continuous agenda of cultural attractions and events, there is much to see and do. One of its most peculiar features is its varied and entertaining night life. Bars, cafés, restaurants, pubs and discos stay open all night until morning.

In 2008, Buenos Aires was chosen as the best tourist destination in America by the readers of the prestigious travel magazine, Condé Nast Traveler.

Being the financial, economical and commercial center of the country, Buenos Aires hosts the headquarters of the main companies in the country, thus it is well established as a destination for the corporate segment.

Over the last years, the cruise movement in the port of Buenos Aires has grown considerably. Between the 2002/2003 season and the last one (2006/2007), arrivals to the Port of Buenos Aires have increased by 93.6%, going from 47 to 91. The 91 arrivals in the last season implied a 75% increase in relation to the previous one. Likewise, the average occupancy in boats has been 85%, while historically it had always been 70%. Also, the cruise season has extended, as going from October through April.

In the MICE segment, Buenos Aires is growing as a convention destination in the Region. ICCA (International Congress and Convention Association), ranks the cities in the World regarding the number of events that take place in a year in each city. The events taken into account are the ones that rotate constantly and achieve a minimum

of 50 attendees, rotating at least through 3 different countries. The following chart sets forth of the ranking mentioned above:

Ranking of Latin American Cities by Number of Events

Rank	City	N° Events
23	Sao Paulo	61
32	Buenos Aires	44
39	Rio de Janeiro	37
48	Santiago	28
50	Salvador da Bahia	27
62	Montevideo	22
83	La Habana	16
89	Cartagena	15
93	Panama	14
114	Bogota	12

Source: Ranking 2007 ICCA

Number of Events in Argentina and Buenos Aires (2000-2007)

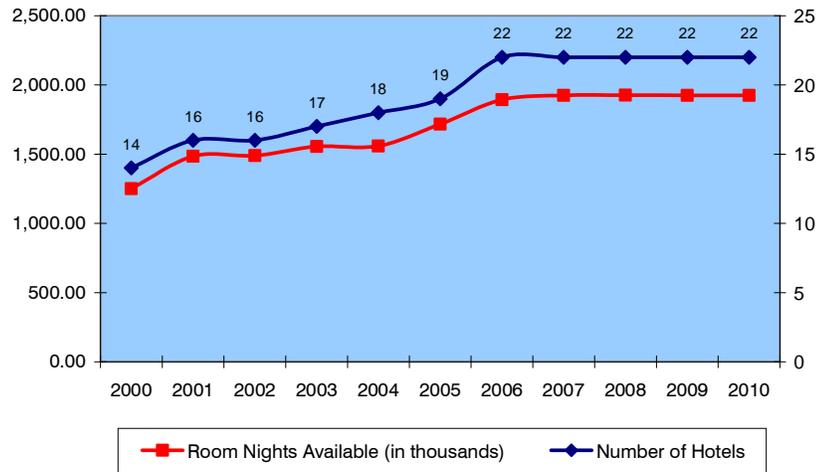
Year	City of Buenos		% City/ Argentina
	Argentina	Aires	
2000	1051	616	58.61%
2001	844	509	60.31%
2002	561	333	59.36%
2003	695	389	55.97%
2004	778	403	51.80%
2005	904	411	45.46%
2006	996	418	41.97%
2007	1110	481	43.33%

Source: Magazine Ferias y Congresos - Ente de Turismo Cdad Buenos Aires

**Supply Evolution
Luxury – Upper
Upscale Hotels**

Over the last few years, the City of Buenos Aires has experienced significant growth as a tourist destination. This has been accompanied by a strong development in the hotel tourist offer throughout the city, which displays a larger amount, variety and quality of hotels and restaurants. The following chart sets forth the evolution of the hotel supply in the luxury and upper upscale segments:

Room Nights and Hotels Available in Buenos Aires Luxury & Upper Upscale (2000-2010)



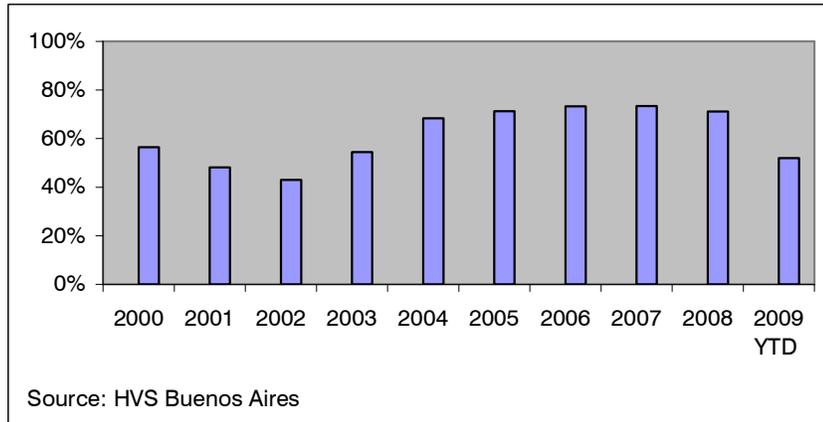
Source: HVS Buenos Aires

From year 2000 to 2006 the market has experienced a significant growth in room night availability for the Luxury and Upper Upscale segment. With the openings of Faena Hotel + Universe (2004) and Palacio Duhau Park Hyatt (2006), adding to the existing Alvear Palace Hotel (1932) and Four Seasons Hotel Buenos Aires (2001), the Luxury segment has begun to settle as such, reaching levels of ADR considerably higher than the upper upscale segment.

Therefore, we will first analyze the behavior of the luxury and upper upscale segment all together with a sample of hotels from both categories. And from 2006 onwards we will analyze the luxury segment and a sample of the upper upscale segment apart.

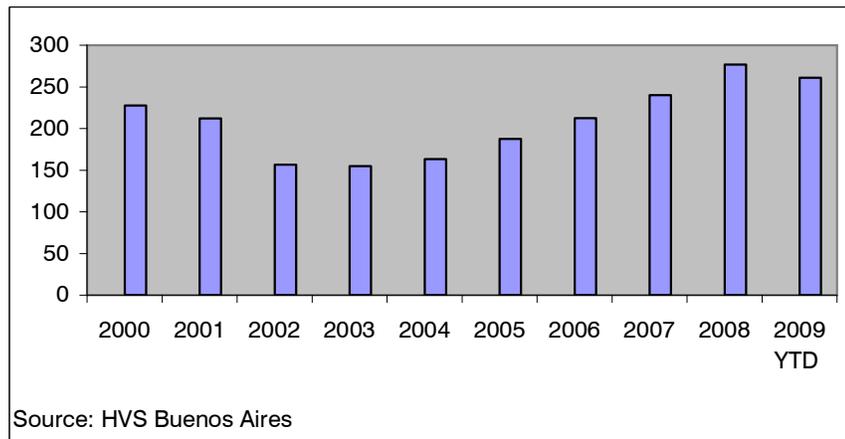
From year 2000 to 2002 occupancy had been declining. After the depreciation of the peso by December 2001, this trend was reversed and it began to rise settling in average values around 70% in the last three years.

Occupancy - Sample Luxury and Upper Upscale Hotels in Buenos Aires (2000-2009 YTD)



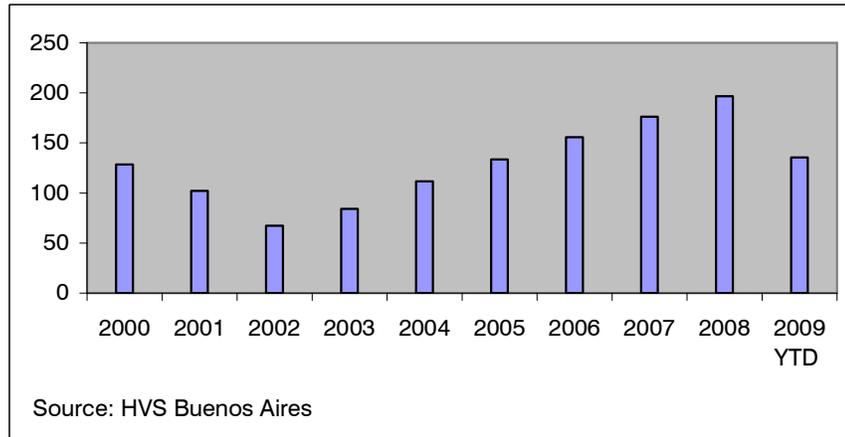
Average Daily Rate in US\$ has had a steep fall from 2001 to 2002 due to the depreciation of the peso in December 2001. From 2003 onwards it has begun to recover. By 2008 it had even exceeded the values reached before the depreciation, accomplishing a record value of US\$ 277.

Average Daily Rate – Sample Luxury and Upper Upscale Hotels in Buenos Aires (in US\$) 2000-2009



As a result of the evolution of the occupancy and ADR, the following chart shows the evolution of the RevPar in this market. In 2008 there has been a considerable increase in the market RevPar accomplishing an average of US\$ 197. On the other hand, in 2009 it has been decreasing below the values of 2006 reaching year to date similar values to the ones in 2005.

RevPar – Sample Luxury and Upper Upscale Hotels in Buenos Aires (in US\$) (2000-2009)



**Supply
Luxury Segment**

The following table describes the luxury hotel supply in Buenos Aires:

Luxury Hotels in Buenos Aires

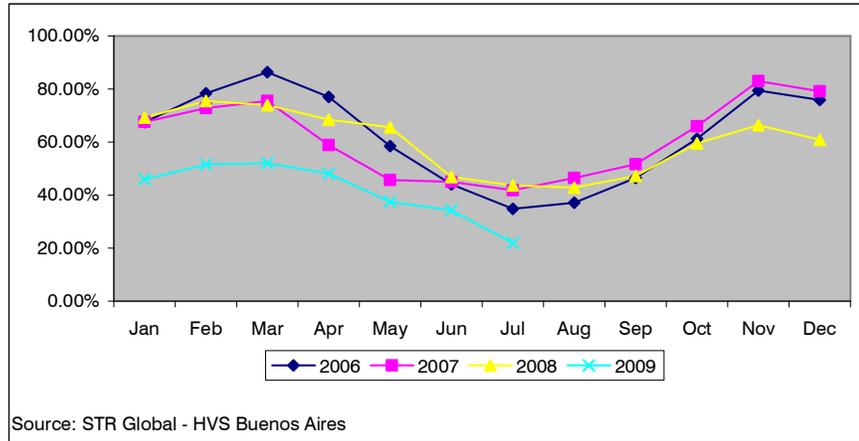
	Rooms	Opening Year	Category
Alvear Palace Hotel	210	1932	Luxury
Four Seasons Hotel Buenos Aires	165	2001	Luxury
Faena Hotel + Universe	110	2004	Luxury
Palacio Duhau Park Hyatt	165	2006	Luxury

Source: STR Global - HVS Buenos Aires

As it is observed on the chart above, Buenos Aires luxury market is composed of international hotel brands and independent hotels in the same proportion. Thus, independent hotels play a more significant role in this market that what usually happens in markets abroad. It is worth mentioning that both independent luxury hotels are members of The Leading Hotels of the World.

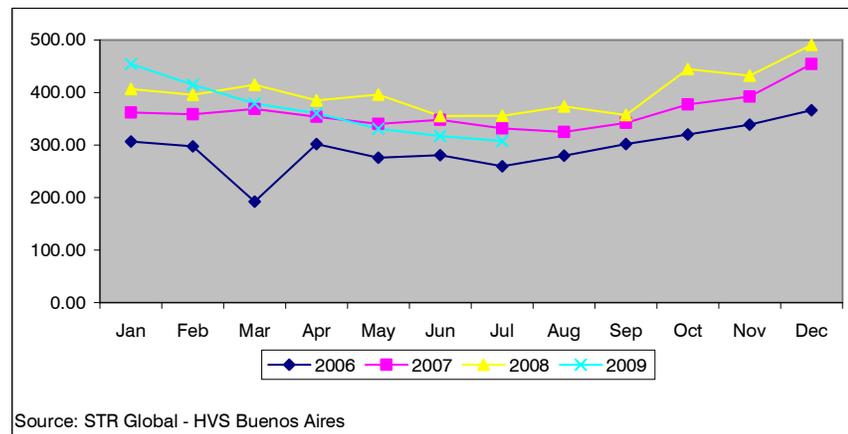
Buenos Aires Luxury market has been maintaining an average yearly occupancy around 60% from 2006 to 2008. However, comparing year to July data, the present year shows a significant declination due to the effects of the global economic crisis and the H1N1 flu.

Occupancy - Luxury Hotels in Buenos Aires



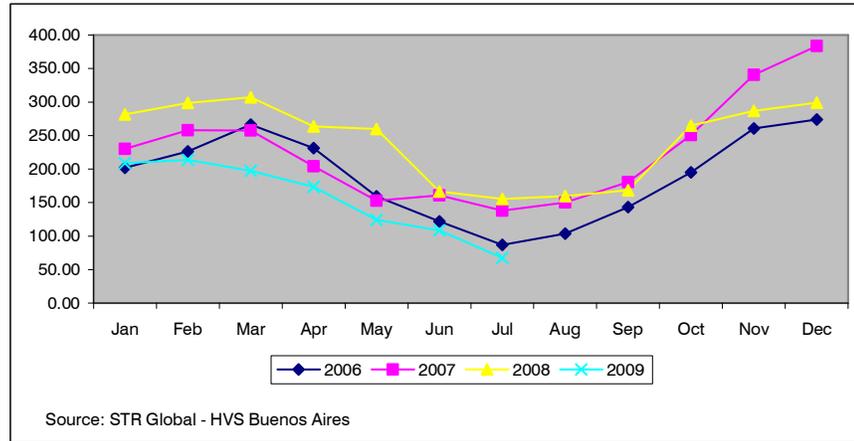
Average Daily Rate of Luxury hotels in Buenos Aires, had been rising steadily from 2006 to 2008 accomplishing a record value of US\$ 491 in December 2008. In the last three months, decline in occupation, forced ADR to decrease reaching levels below the ones of 2007.

Average Daily Rate - Luxury Hotels in Buenos Aires (in US\$)



As a result of the evolution of the occupancy and ADR in the Luxury Hotels in Buenos Aires, the following chart shows the evolution of the RevPar in this market. In 2008 there has been a considerable increase in the market RevPar getting an average of US\$ 242. On the other hand, in 2009 year to date, it has been decreasing below the values of 2006 reaching an average of US\$ 156.

RevPar - Luxury Hotels in Buenos Aires (in US\$)



**Supply
Upper Upscale
Segment**

The following table describes the hotels that have been considered in the sample of upper upscale hotels in Buenos Aires for the performance analysis:

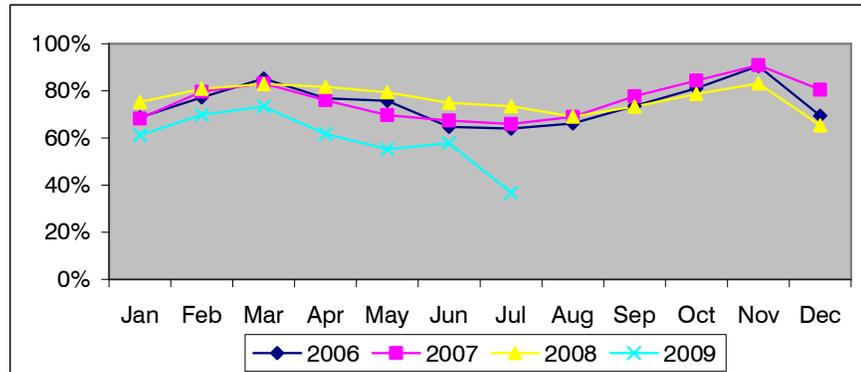
Sample of Upper Upscale Hotels in Buenos Aires

	Rooms	Opening Year	Category
Panamericano Hotel Buenos Aires	323	1981	Upper Upscale
Caesar Park Buenos Aires	175	1992	Upper Upscale
Intercontinental Hotel Buenos Aires	309	1994	Upper Upscale
Hotel Emperador	265	2000	Upper Upscale
Melia Buenos Aires	210	2000	Upper Upscale
Hilton Buenos Aires	417	2000	Upper Upscale
Sofitel Buenos Aires	144	2002	Upper Upscale
Hotel Madero	193	2004	Upper Upscale

Source: STR Global- HVS Buenos Aires

Upper upscale market has been maintaining an average yearly occupancy around 75% from 2006 to 2008. However, comparing year to July data, the present year shows a significant drop due to the effects of the global economic crisis and the swine flu, presenting an average occupancy of 41.62% for 2009 year to date.

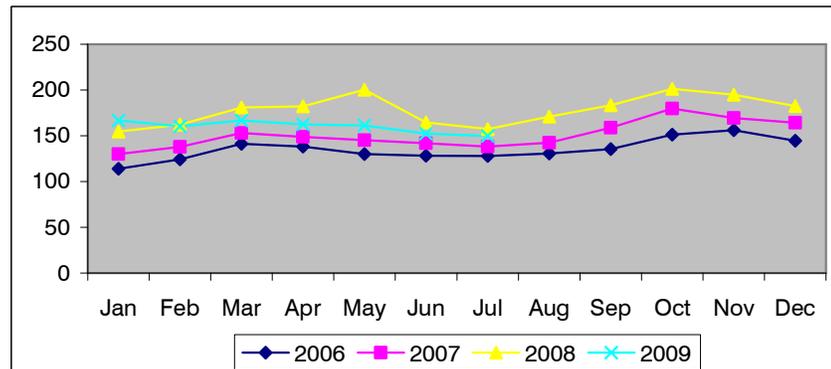
Occupancy – Upper Upscale Hotels in Buenos Aires



Source: STR Global - HVS Buenos Aires

Average Daily Rate of Upper upscale hotels in Buenos Aires, had been rising steadily from 2006 to 2008 accomplishing a record value of US\$ 200 in May and October 2008. In the present year it is observed a decrease in ADR to values below the ones of 2008. However, the slope of this decline is softer than the one observed in the Luxury market.

Average Daily Rate – Upper Upscale Hotels in Buenos Aires (in US\$)

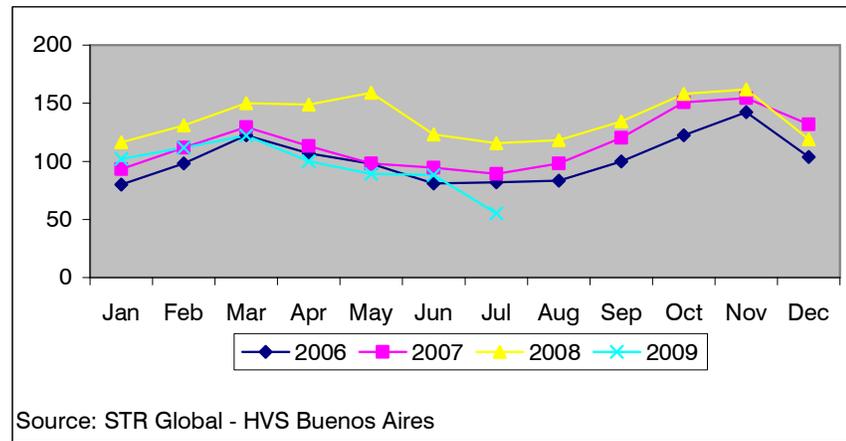


Source: STR Global - HVS Buenos Aires

As a result of the evolution of the occupancy and ADR in the upper upscale hotels in Buenos Aires, the following chart shows the evolution of the RevPar in this market. In 2008 there has been a considerable increase in the market RevPar getting an average of US\$ 136. On the other hand, in 2009 year to date; it has been decreasing below the values of 2006 reaching an average of US\$ 95.5. It is worth mentioning that the upper upscale segment has not been suffering less significant drops than the luxury segment. This might be explained by the fact that due to the economic crisis, some companies prefer upper upscale products to

luxury ones, not only because of the price but also as a matter of corporate image in hard times.

RevPar – Upper Upscale Hotels in Buenos Aires (in US\$)



Tourism Trends and Opportunities

The significant growth in tourism in Argentina in general, and Buenos Aires in particular that started in 2003 is not only evidenced by numbers. There have been some qualitative changes in the market which are easily noticeable. New neighborhoods have been born as an attraction for foreign tourists and locations for new investments:

- Puerto Madero was transformed from an industrial port to the most modern area with the tallest state-of-the-art buildings and trendy hotels, in less than 10 years
- Recoleta, the most Parisian area of Buenos Aires has always been a tourist attraction, and has also been settled as a desired hotel location in the last years
- Palermo Soho, the trendiest neighborhood in the city, similar to the Soho in New York has been the cradle of several boutique hotels

Boutique hotels have also opened in other areas of the city such as San Telmo, Belgrano and Downtown, becoming a boom itself between years 2006 and 2008.

A more recent trend in terms of investment is the condo hotel model which is being considered by many developers and investors as an attractive option for the financing of the development. Projects in the suburbs of the city such as Crowne Plaza San Eliseo and Intercontinental Nordelta have adopted this business model. Mixed-use projects, that are considering a hotel within the components of the

Masterplan are also arising interest in hotel investors, especially in the suburbs.

Considering the projects in the pipeline, it is worth mentioning that global economic crisis does not impact hotel projects as hard as in other regions because the investment is made with genuine local capitals and Argentina does not have an “over building” situation.

In the near future the following hotels are to be constructed in Buenos Aires:

Grupo Hoteles Alvear, owner of the emblematic Alvear Palace Hotel, is developing Alvear Puerto Madero with an investment of US\$ 80M will offer 156 suites and meeting spaces for more than 1,000 people. Also, they are developing the Alvear Suipacha, a hotel oriented to the corporate segment.

Other luxury hotel in the city will be the St. Regis Puerto Madero. The mixed-use project will require an investment of almost US\$ 50M. The hotel will feature 160 rooms, together with a select number of Branded Residences and will be placed in Puerto Madero. The opening date is not yet confirmed as construction time frame has been rescheduled.

Other relevant projects include the future opening of NH Metro, also a mixed-use project as the building holds a Tango Show in its ground floor placed in the centric Avenue 9 de Julio in the building that used to be a renowned cinema.

No investment decision should be made based on the information in this survey. For further advice please contact the authors.

About our Team

HVS has a team of experts that conducts our operations in Latin America. The team benefits from international and local cultural backgrounds, diverse academic and hotel-related experience, in-depth expertise in the hotel markets in the Latin America and a broad exposure to international hotel markets. Over the last nine years, the team has advised on more than 200 hotels or projects in the region for hotel owners, lenders, investors and operators. HVS has advised on more than US\$ 4 billion worth of hotel real estate in the region.

About the Authors



Graciana García Iribarne, Managing Director of HVS Buenos Aires, Managing Director HVS Lima, Vice President of SAHIC. Graciana's career started in 1992 at the Caesar Park Buenos Aires (Westin Hotel). In 1998, she traveled to Europe and worked at the Caux Palace (Montreaux) adding to her knowledge the recognized expertise and excellence of the Swiss hotel school. Back in Argentina, she worked for renowned hotel chains, such as Marriott International and Starwood Hotels & Resorts. In year 2002, she joined HVS, and in March 2008, following her successful leadership of diverse development projects in Argentina, Chile, Peru, Colombia and Uruguay, Graciana became the Managing Director of HVS Buenos Aires. With the recent office opening in Peru, Graciana expanded her role also as the Managing Director of HVS Lima.



Arturo García Rosa, Senior Partner of HVS Global Hospitality Services, President of HVS Argentina, President of HVS Peru, and President of SAHIC. Arturo has been working in the domestic and international hospitality industry for more than 30 years. His wide range of publications and papers serve as testimony of his continuous update of his broad knowledge and overall vision of the industry. For 11 years he was Managing Director of the Alvear Palace Hotel, leading the project that allowed Buenos Aires to recover one of its finest hotels, creating the first national deluxe management. He is the founder of Destino Argentina and the author of the Argentina 2010 Tourism Plan. His professional activity is nowadays focused on the consolidation of HVS presence in the main South American markets and on the expansion to new Latin American markets. The South American Hotel & Tourism Investment Conference (SAHIC) is aligned with this path, as well as some other major projects in progress today, including the recent opening of the HVS Lima office, in Peru.

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