# Santiago Market Snapshot

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## Introduction Santiago - Chile

The city of Santiago is the capital city and financial centre of Chile. It is also part of Great Santiago metropolitan area which includes 26 entire districts and part of other 11 districts as well. Santiago spreads over 86,775 hectares.

The city hosts the main governmental, financial, administrative and commercial bodies of Chile. However, due to the fact that it is geographically located in a valley surrounded by mountains that restrict wind circulation, it suffers from serious atmospheric pollution, which becomes particularly critical during winter.

Santiago has a population of 6,188,594 according to the census performed in 2002. Even though the population is almost homogeneous as regards ethnic characteristics, Santiago city inhabitants are highly heterogeneous as regards social and economical features.

## Chilean Economic Outlook

The Chilean economy is internationally known as one of the most solid in the continent. Despite having faced several crises throughout history, important and sustained growth has currently been observed. The economic model implemented during the Military Regime and supported by later governments was reformed to afford the government's social programs.

The economy is marked by exports and exploitation of raw material mainly due to treaties signed with the European Union, USA, South Korea, the P4 Agreement and China. Chile joined several economic forums, such as APEC or Mercosur as an associated member. However, despite good indicators, the Chilean economy still needs to address a serious flaw: uneven wealth distribution among the population, generating a big gap among social classes.

## Economic and Demographic Data Summary - Chile

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|
| **Population (In Millons)** | 15,589 | 15,749 | 15,991 | 16,226 | 16,414 | 16,584 [1] | 16,781 [1] | 16,984 [1] | 17,190 [1] |
| **Population % Change** | - | 1.03% | 1.54% | 1.47% | 1.16% | 1.04% | 1.19% | 1.21% | 1.21% |
| **GDP Current Prices (Millions of US$)** | 67,252 | 73,990 | 95,819 | 118,976 | 145,845 | 163,792 [1] | 169,919 [1] | 173,182 [1] | 179,517 [1] |
| **GDP % Change** | - | 10.02% | 6.04% | 5.55% | 4.34% | 5.10% [1] | 4.46% [1] | 3.80% [1] | 4.50% [1] |
| **Per Capita Income (US$)** | 4,314 | 4,698 | 5,982 | 7,288 | 8,921 | 9,884 [1] | 10,814 [1] | 10,081 [1] | 10,572 [1] |
| **Unemployment (%)** | 8.90% | 8.50% | 9.10% | 8.10% | 7.68% | 7.13% | 7.93% | | |
| **Exchange Rate** | 688.94 | 691.40 | 609.52 | 559.77 | 530.28 | 522.47 | 523.72 [2] | 574.0 [1] | 586.4 [1] |
| **Average Consumer Prices % Change** | 2.5% | 2.8% | 1.1% | 3.1% | 3.4% | 4.4% | 8.9% [1] | 6.5% [1] | 3.9% [1] |

[1] IMF Projections - World Economic Outlook Report, October 2008
[2] Estimated 16/12/08
Source: Instituto Nacional de Estadísticas (INE), World Economic Outlook - October 2008 (IMF),

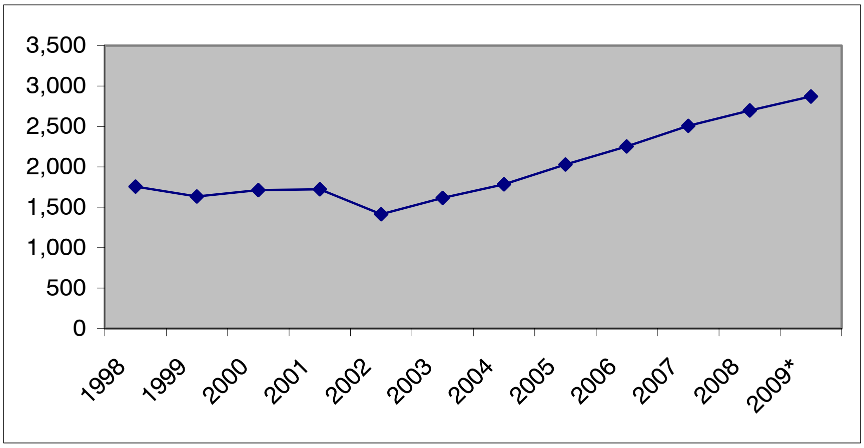
## Tourism in Chile

Tourism in Chile has been for the recent years one of the most dynamic sectors of the national economy. Although recent statistics for 2009 show a slight decrease in the level of tourism activity in the month to month comparison, 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.

In 2007 revenues generated by receptive tourism reached 1,803.7 million dollars, which represents 20.5% of the exports that the country receives for the provision of services. Tourism therefore maintains itself as the second exporting services sector of the country.

With an average growth rate of 11.5% since 2004, international tourism in Chile grew almost twice as fast as the world's annual growth rate of 6.6%.

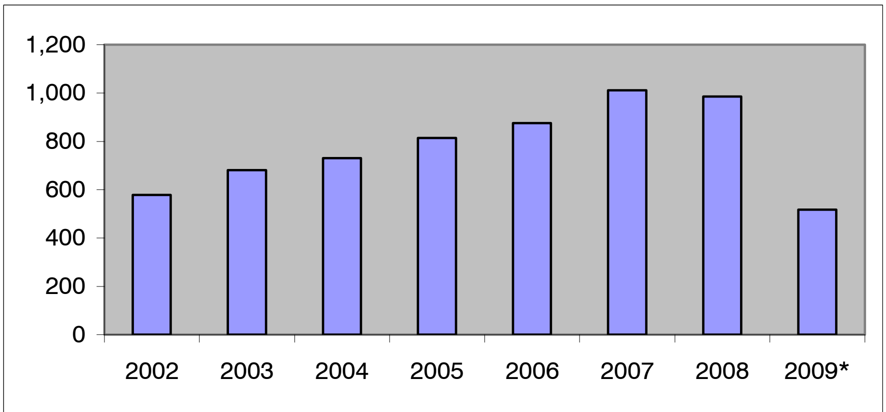
**Total Non-Resident Arrivals at Chile**




Source: Sernatur - HVS Buenos Aires
*From July Estimated HVS - Buenos Aires

In the last year a total of 986,490 non-resident arrivals were registered at Comodoro Arturo Merino Benitez Airport in Santiago. The chart that follows presents the total arrivals at this airport since the year 2000:

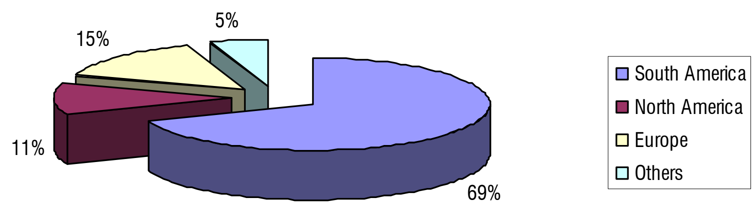
**Non-Resident Arrivals at Santiago's Airport in (000s)**




Source: Sernatur *2009 YTD

Most visitors come from South American countries, mainly from Argentina. The nationalities of these international passengers are illustrated on the following chart.

**Nationality of International Arrivals in 2008**




**Tourism in Santiago**

Santiago is a touristic destination that has experienced significant growth in the last years and represents the main tourism pole of the country. As a result, there has been a strong development of the hotel and tourism supply of the city, offering more quantity, variety and quality of hotels and tourism services.

Santiago is the main centre for the reception and distribution of both national and international tourism in Chile. Tourist attractions include city tours around Santiago, with its many cultural centres, sightseeing areas and entertainment centres both at daytime and nighttimes. Among the main tourist attractions we find:

- La Chascona (house of the famous writer Pablo Neruda)
- Plaza de Armas (Fortress)
- Royal Tribunal and National Historical Museum Palace
- Santiago's Cathedral
- Red House (Casa Colorada)
- Palacio de la Moneda
- San Cristóbal Hill
- Alonso de Cordoba Avenue
- Museums: The Fine Arts, Contemporaneous, Pre-Colombian and Archeological Museums, National Library and the National Historical File.
- Parks: O'Higgins Park, the Forest Park Bicentenario Park, among others.

Being the centre of the country's business, Santiago receives corporate travelers, which represent approximately 60% of the tourism in the city.

The city of Santiago contains three main convention centers: Santiago Convention Center, -a fair and exhibitions centre- Casa Piedra and Centro Cultural Estación Mapocho as well as hotels and alternative facilities with large meetings capacity.

According to the ranking results published by the International Congress and Convention Association (ICCA), Chile has been ranked in the 36th position; and Santiago has been ranked in the 48th position in the amount of events that have taken place during year 2007. The ICCA rankings cover meetings organized by international associations which take place on a regular basis and rotate for a minimum of three countries.

In the following tables we set forth the mentioned ranking including only the Latin American Cities that qualified for the ICCA survey.

**ICCA Ranking by City**

| 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: International Congress & Convention Association (ICCA)

## Supply
### Luxury - Upper Upscale Hotels

Although Santiago is one of the most important capital cities in South America, the luxury and upper upscale hotel markets are less mature compared to other important cities such as Buenos Aires or São Paulo. Luxury and Upper Upscale International Hotel Brands have their flags in the city; however market performance does not follow the same patrons of behavior as in other cities. As an example, we could mention the case of Holiday Inn Express. With a property in the city and other in the airport, this select service brand has reached levels of ADR higher than what is expected for this kind of hotels and in some cases this brand may even compete with full service hotels.

Santiago luxury hotel market has been growing at a slow pace, and seems to continue with this slow growth in the near future. Average Daily Rate (ADR) has been growing in the past years but it still has not reached a sustained high level.

On the other hand, last July the first W hotel in South America has opened in Santiago. Even though, this brand is not internationally recognized as luxury, in Santiago, it will most probably compete in the luxury market, given the characteristics of the market aforementioned, the excellent location of the property and the concept design of the whole mixed-use project -Territoria 3000-. This new player may impact in the market elevating the market wide ADR, provided that a brand with modern characteristics may create new demand for the city.

The following table shows the sample of luxury and upper upscale hotels taken into account to analyze market performance:

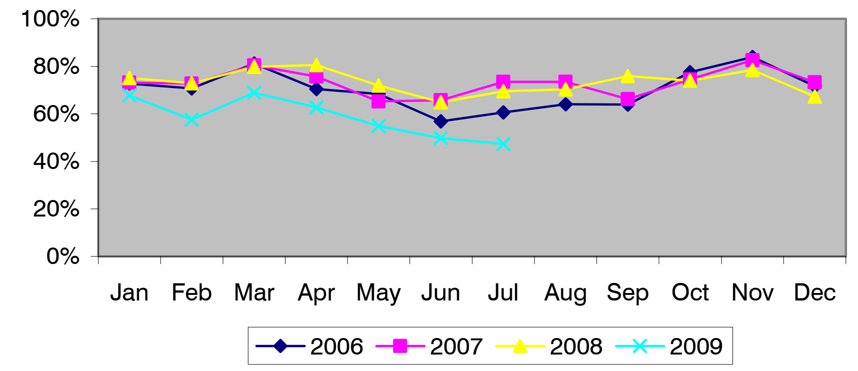
**Sample of Luxury and Upper Upscale Hotels in Santiago**

| | Rooms | Opening Year | Category |
|---|---|---|---|
| Grand Hyatt Santiago | 310 | 1992 | Luxury Class |
| San Cristobal Tower Luxury Collection | 139 | 1997 | Luxury Class |
| InterContinental Santiago | 296 | 1998 | Upper Upscale Class |
| Marriott Santiago Hotel | 280 | 2000 | Upper Upscale Class |
| Ritz-Carlton Santiago | 205 | 2002 | Luxury Class |

Source: STR Global - HVS Buenos Aires

The fact that the amount of tourists and passengers arriving to Santiago is increasing can also be confirmed by analyzing the hotel occupancy in the city in the last years. Nevertheless, this trend has been changing in the present year due to the effects of the global economic crisis and the swine flu as it can be observed in the next chart.

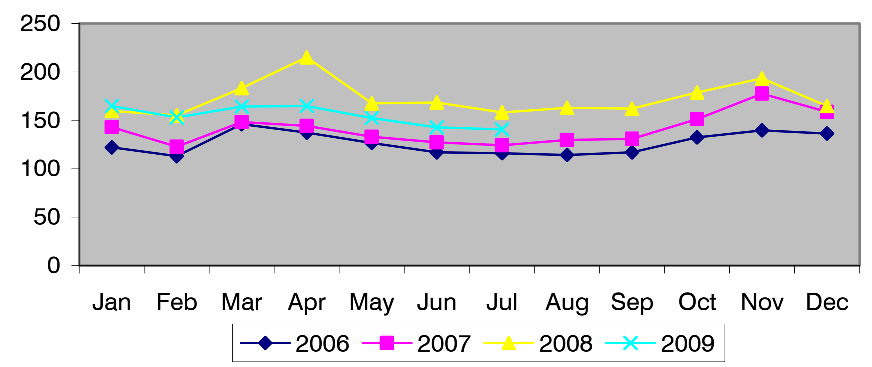
**Occupancy - Luxury and Upper Upscale Hotels in Santiago**




Source: STR Global - HVS Buenos Aires

The average rate of hotels in Santiago has experienced a significant increase especially between 2007 and 2008. The last year has been a top record for the market in Santiago in accordance with the entire region. In the first semester of 2009, even though the values were below the ones of 2008, ADR has not suffered a significant decrease, remaining over values registered in 2007 and previous years.

**Average Daily Rate - Luxury and Upper Upscale Hotels in Santiago (in US$)**

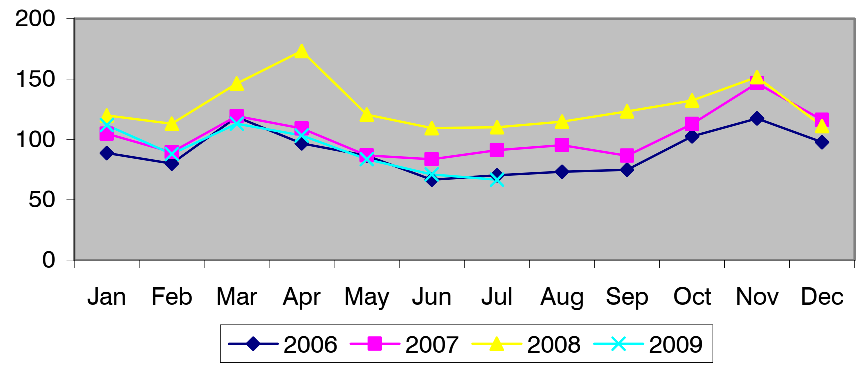



Source: STR Global - HVS Buenos Aires

As a result of the evolution of the occupancy and ADR in the Luxury and Upper Upscale Hotels in Santiago, the following chart shows the evolution of the RevPar in this market. As commented above, in 2008 hotels had achieved record levels of RevPar. On the other hand in the first semester of

2009, decrease in ADR and more significant decrease in occupancy, is taking RevPar to fall below the values of 2007.

**RevPar - Luxury and Upper Upscale Hotels in Santiago (in US$)**




Source: STR Global - HVS Buenos Aires

**Development and Initiatives**

As aforementioned, the recent opening of W Santiago hotel might create an impact on Santiago's hotel market. The property with 196 rooms is part of a mixed-use project that includes boutique office space, and high-end retail shops in addition to the W Hotel and W Branded Residences. With 3,440 square meters of meeting space, it is expected the hotel to become one of the biggest convention centers in the city. Developed by the Territoria Group, W Santiago is located in the heart of the fashionable El Golf district of the Chilean capital city.

The City of Santiago is undergoing a reorganization process regarding the circulation and the usage of green areas. Luxury International Hotel Brands are looking with interest this process. As a result of these, some mixed-use projects with luxury hotel and residences are expected to come out in the near future.

Moreover, there is an important mixed-use project under development, named Costanera Center, which is being developed by Cencosud. Costanera Center is an ongoing development and construction of four skyscrapers being built in the Central Business District of Santiago, Chile. The tallest of the four buildings, designed by César Pelli, will be 300 meters in height, making it the tallest building, when completed, in South America and second tallest in the Southern Hemisphere behind only Australia's Q1 on the Gold Coast at 322 m tall. The whole project is projected to hold offices, a shopping mall, and two hotels.

## Conclusions

In this snapshot, we reviewed a wide variety of economic and tourism related overall indicators for the country and the city of Santiago. It is evident that the area was subject to an economic growth since year 2002, concurrent with the rest of the nation. Furthermore, the tourism sector has shown high growth rates and there are clear signs that the real growth should continue through the next years. It is important to take into account that global economic situation and the impact of the swine flu have been reducing the rate growth for 2009 against the robust increase of years 2007 and 2008. Nonetheless, the market is on the move with recent openings and several projects under analysis.

*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.

***For further information, please contact one of the authors.***

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