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CARTAGENA MARKET SNAPSHOT

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Cartagena Market Snapshot

INTRODUCTION

Cartagena de Indias, the capital of the Bolívar Department, is a colonial city located on the northern coast of Colombia, along the Caribbean Sea. The city is Colombia's major tourist destination, with 950,000 inhabitants; it ranks fifth in terms of population after Bogota, Medellin, Cali, and Barranquilla, and seventh in terms of economic growth.

Since the beginning of the 1990s, Cartagena has become consolidated as a tourist and cultural center. It has developed its urban area while preserving the historic district, and has flourished as one of Colombia's largest ports.

The city epitomizes history: It was declared Colombia's National Heritage Site in 1959 and given UNESCO World Heritage status in 1984. The historic quarter, known as "corralito de piedras" (little stone corral), its houses, and balconies attest to the architecture of a colonial Spanish village.

Cartagena de Indias boasts a solid and versatile economy thanks to its diversified production in sectors such as industry, tourism, trade, and logistics for international sea trade, which is further enhanced by its strategic location on the Caribbean Sea, in northern South America and in the center of the Americas.

ECONOMIC OVERVIEW

Colombia underwent significant economic expansion between 2003 and the first quarter of 2008, mostly through the impact of high commodity prices and a series of actions implemented by the government to curtail public expenditure, promote an export-oriented growth strategy, and enhance domestic security.

Cartagena is one of the most celebrated tourist destinations in the Caribbean, and the second most popular Colombian destination for foreign visitors, after Bogota.

By the end of 2008, the economy began to feel the effects of the global economic crisis, which extended until late 2009, when the

economic growth was virtually nil. However, Colombia outperformed the Latin American average during the same period as a result of a number of emergency policies adopted by the government, such as the elimination of capital controls and the promotion of investment incentives. Another important factor that contributed to this performance was the access to the credit lines granted by

multilateral agencies. At the same time, the government sought to encourage the diversification of exports and reach trade agreements with Canada and with European and Asian partners.

It should be underlined that there is a growing confidence in the economy thanks to increased investment and the economic reforms and security strategies introduced by the government. In 2008, S&P raised Colombia's rating to investment grade (BB+), and according to the "Doing Business 2010" report, Colombia has recently managed to rank first among Latin American countries in the ease of doing business category.

However, despite the country's economic achievements in the last few years and the strength of its economy while the global crisis hit its climax, the country still faces huge economic challenges such as lowering the high unemployment rates and informal employment, and diversifying exports, to name a few.

Furthermore, Colombia's economic recovery is expected to be the slowest in Latin America partly on account of political issues (recent elections) and the conflict with Venezuela in 2009. The projected growth rate for the Colombian economy this year is on the order of 3.4%, which will be mostly driven by consumption.

Economic Indicators Colombia 2003-2011

Colombia	2003	2004	2005	2006	2007	2008	2009	2010	2011
GDP at Constant Prices (% Variation)	4.61%	4.66%	5.72%	6.94%	7.55%	2.43%	4.61%	3.41% ³	4.04% ³
GDP at Current Prices (USD, billions)	91.8	113.8	144.5	162.5	208.0	240.2	228.8	268.1 ¹	286.8 ¹
Exchange Rate (Local Currency per USD)	2,876	2,628	2,321	2,359	2,076	1,992	2,157	1,954 ³	1,995 ³
CPI (% Variation, at end of period)	6.49%	5.50%	4.86%	4.48%	5.69%	7.68%	2.00%	3.80% ¹	3.40% ¹
Foreign Reserves (USD, millions)	10,916	13,536	14,947	15,436	20,949	24,030	25,356	26,665 ²	--

¹ IMF Estimates - World Economic Outlook April 2010 (IMF)

² Bank of the Republic of Colombia, July 2010

³ Consensus Economic Forecast

TOURISM OVERVIEW

Cartagena is one of the most celebrated tourist destinations in the Caribbean and the second most popular Colombian destination for foreign visitors after Bogota. The table below illustrates the final destination of international travelers arriving in Colombia.

Destination City for International Travelers

City	2004*	2006*	2007*	2008*	2009*	% Variation 2008-2009
Bogota D. C.	368,037	517,643	616,772	627,056	692,800	10.5%
Cartagena de Indias	79,926	128,973	133,172	141,367	155,259	9.8%
Medellin	54,759	95,089	104,445	107,841	143,084	32.7%
Cali	60,652	86,979	102,296	99,149	98,056	-1.1%
Barranquilla	32,176	44,602	48,882	48,020	50,870	5.9%
San Andres	47,084	61,870	59,308	58,009	47,526	-18.1%
Bucaramanga	9,020	12,413	17,564	24,738	23,005	-7.0%
Santa Marta	4,810	11,923	17,695	22,342	17,078	-23.6%
Cucuta	13,465	15,128	14,000	14,695	15,928	8.4%
Pereira	10,847	14,074	14,452	12,662	15,878	25.4%
REST	110,164	64,654	66,854	67,087	94,216	40.4%
TOTAL	790,940	1,053,348	1,195,440	1,222,966	1,353,700	10.7%

Source: DAS

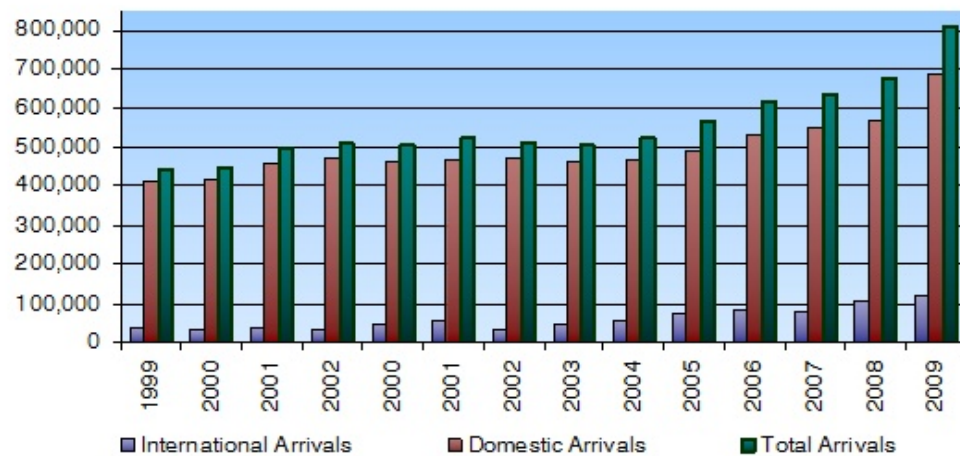
*Preliminary Information

Not including border points and cruisers

As observed, from 2004 to 2009, the flow of foreign visitors arriving in the City of Cartagena almost doubled.

The arrival of tourists in Cartagena through the Rafael Núñez International Airport saw a sharp increase from 1999 to 2009. The following chart shows the trend of tourist arrivals at Cartagena's international airport.

Tourist Arrivals at Cartagena's International Airport 1999-2009



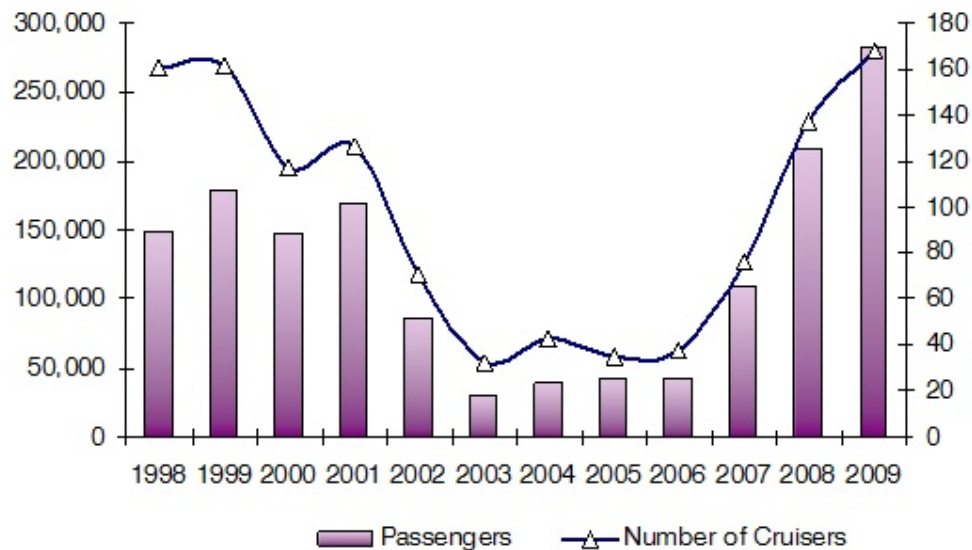
Source: Sociedad Aeroportuaria de la Costa SA

As illustrated in the preceding chart, the number of tourist arrivals increased by over 80% during the period in question, rising from around 450,000 to slightly more than 800,000 in 2009.

From January to July 2010, there was a 38% increase in tourist arrivals vis-à-vis the same period of the previous year, which is accounted for by a 41% rise in domestic arrivals and a 20% increase in international arrivals.

Moreover, the city has experienced a revival in the cruise sector, which at the beginning of the decade had been severely damaged by the insecurity created by the FARC, and further aggravated in 2001 by the events of 9/11. As seen in the graph below, the number of cruise arrivals in 2009 broke the record set a decade earlier, and the number of cruise passenger arrivals in 2009, 282,705, exceeded the figure for 1999.

Number of Passenger and Cruise Arrivals at the Port of Cartagena 1998-2009



Source: Sociedad Portuaria Regional de Cartagena (SPRC)

It is expected that 206 cruise ships with nearly 349,320 passengers will be arriving at the Port of Cartagena during the 2010-2011 season.

Additionally, it should be noted that since the 2008-2009 season, a number of agreements have been reached with cruise travel agencies, which have started to use the Port of Cartagena for passenger embarking and disembarking. This in future will create a room night demand that, in our opinion, will grow

significantly over the next few years. During the 2009-2010 season, 31,662 passengers embarked at the Port of Cartagena.

Apart from leisure travelers who choose Cartagena for its history, culture, and beaches, the organization of congresses and conventions is another key driver of demand.

Cartagena has a very large convention and exhibition center that can accommodate nearly 4,000 people, in addition to the meeting facilities offered by 5- and 4-star hotels in the city. These facilities, along with the city's wonderful tourist attractions, have placed Cartagena as South America's seventh town measured by the number of international meetings organized, according to ICCA rankings for 2009. Cartagena stands above Bogota in the International Congress & Convention Association (ICCA) ranking, as the latter occupied the 8th position during the same year.

ICCA Ranking of South American Cities by Number of Events – Year 2009

Ranking 2009	City	Number of Events
11	Buenos Aires	90
18	Sao Paulo	79
26	Rio de Janeiro	62
40	Santiago	41
46	Lima	34
57	Montevideo	29
60	Cartagena	28
79	Bogota	21
99	Quito	17
114	Salvador da Bahia	15

Source: International Congress & Convention Association (ICCA)

The table below shows the City of Cartagena trend in terms of number of meetings and conventions organized from 2001 to 2009.

Cartagena's ICCA Ranking Trend – 2001 to 2009

Year	ICCA Ranking	Number of Events
2001	117	9
2002	133	9
2003	100	12
2004	107	13
2005	64	22
2006	89	18
2007	79	19
2008	69	22
2009	60	28

Source: ICCA

As noted, in 2002 Cartagena began climbing significantly in the ICCA ranking, reaching a record in 2009.

HOTEL MARKET

In August 2009, the City of Cartagena had approximately 4,144 rooms distributed in 63 classified hotels.¹ It is important to note that in the high-end segments – 4- and 5-star hotels – only two are international hotel brands, while six are owned/operated by domestic hotel chains.

The table below illustrates the current hotel supply segregated by category.

Hotel Supply

Category	Properties	Rooms
5-Star Hotels	7	1,613
4-Star Hotels	5	282
3-Star Hotels	12	1,604
Boutique Hotels	38	558
Other	1	87
Total	63	4,144

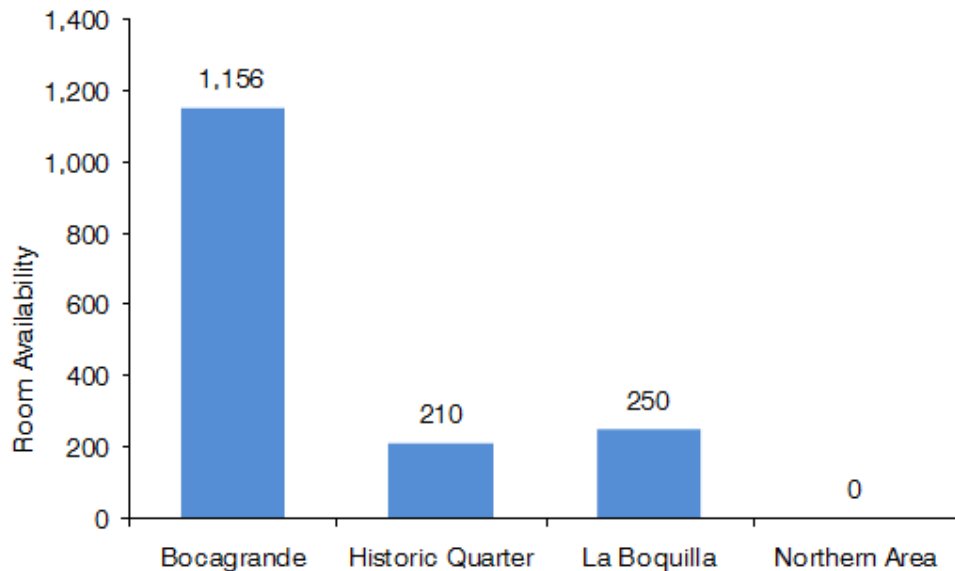
Source: HVS (based on Cotelco & Asotelca)

¹ Hotels affiliated with Cotelco or Asotelca. Excluding 1- and 2-star hotels, tourist apartments, hostels, and inns. Not including hotels located on the islands.

As shown by the above information, boutique hotels are one of the city’s major segments, experiencing the greatest growth in terms of number of properties inaugurated in recent years. This type of accommodation is mostly located in Cartagena’s historic center, in refurbished old large houses, with fully equipped and finely decorated rooms, but with limited additional facilities.

The 5-star hotel segment has developed mainly in Bocagrande and El Laguito, both modern areas with huge residential building projects under way and overlooking the Bay of Cartagena (or de las Ánimas – of the Souls), and the Caribbean. Along with the historic center, these are the city’s preeminent tourist areas. We also note that the Hotel Las Américas opened in 1995 in La Boquilla, a seaside neighborhood to the north of Cartagena. This undertaking, together with the construction of luxury residential buildings in the last few years, has influenced the northward expansion of the city.

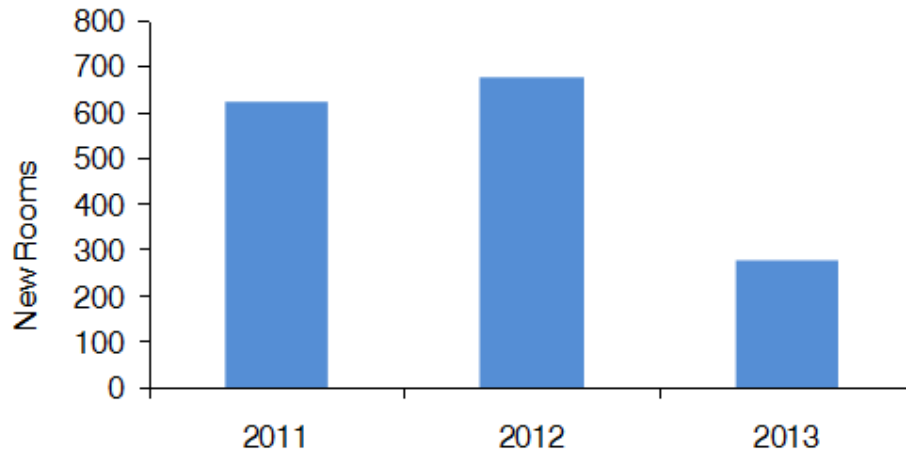
5-Star Segment – Distribution of Room Supply by Area



Source: HVS Buenos Aires

As a result of the development of tourism in Cartagena and its favorable outlook, projections indicate a marked increase of room availability in the city and surrounding areas in the coming years. The graph below illustrates the projections of increased room supply in the 5-star segment until 2013.

Projections of New Hotel Room Supply* – 5-Star Hotels

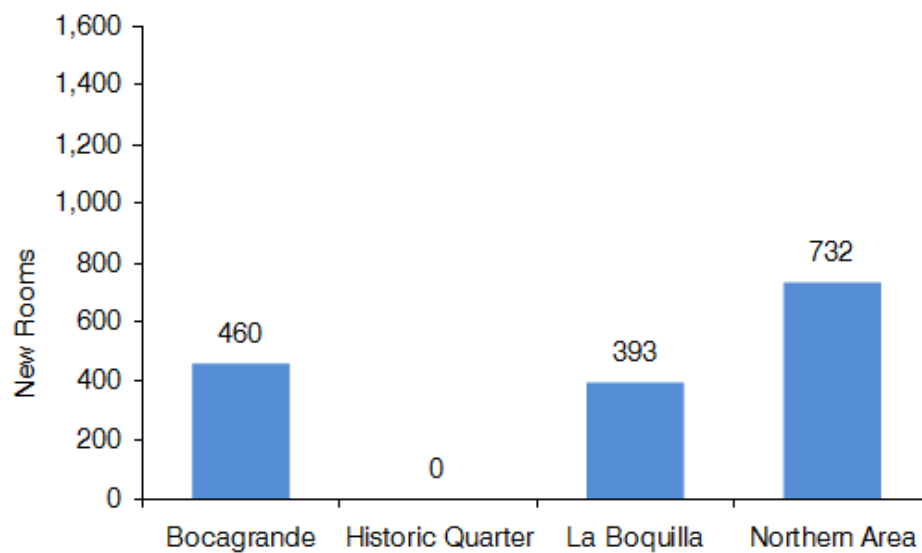


Source: HVS Buenos Aires

* Includes hotels under construction and projects in the pipeline.

The chart below indicates the per-neighborhood distribution of the new projected room supply in the 5-star segment.

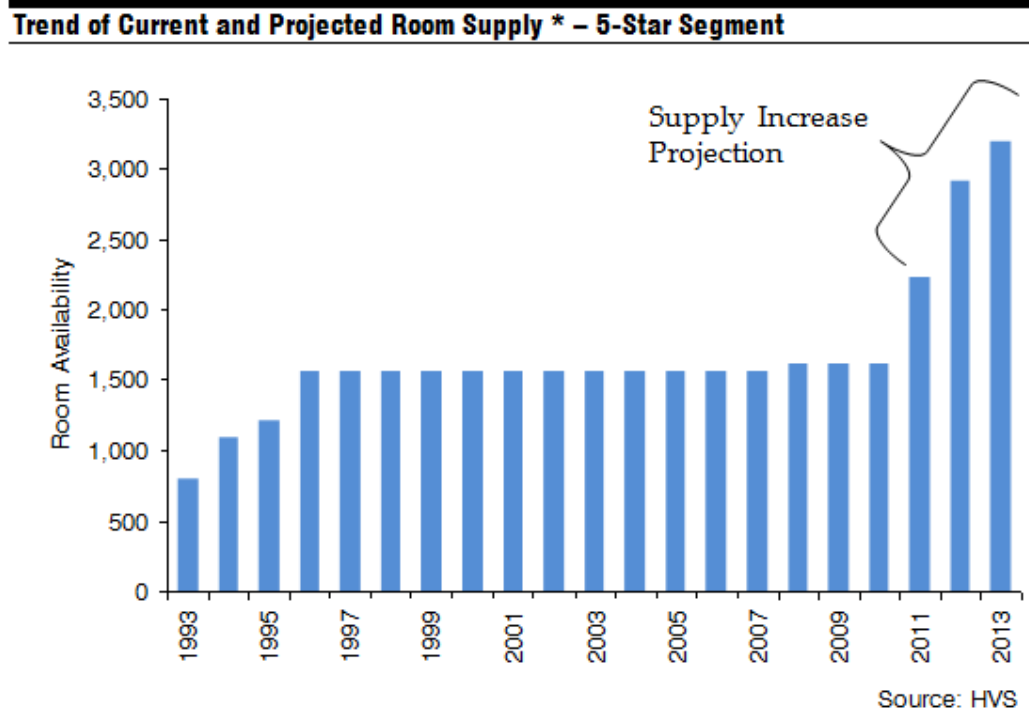
Distribution of New Room Supply per Area (Year 2013)



Source: HVS Buenos Aires

The estimated increase in the city’s room supply would stand as the most significant growth since the beginning of the 1990s, when the 5-star hotel supply was doubled over a 3-year period, with the inauguration of hotels such as Sofitel Santa Clara and Hotel Las Américas, both being key references in the market.

The graph below shows the trend of the 5-star hotel supply since 1993 to date and the projections through 2013.



* Includes hotels under construction and projects in the pipeline.

OUTLOOK & OPPORTUNITIES

The City of Cartagena boasts the highest average hotel rates in Colombia, which in U.S. dollars have grown at an average annual rate on the order of 5.5% from 2006 to 2009. In 2007 and 2008, rates increased by nearly 20%, while in 2009 they dropped by almost 13%. Since the beginning of 2010, the trend has changed, and rate levels are expected to pick up considerably.

With regard to occupancy, the peak was reached in 2006/07 with a 67% level. Then, in 2008 and 2009, Cartagena’s tourism demand decreased, partly due to the strength of the Colombian peso, which affected competition vis-à-vis the

demand of Colombian travelers, and also to the effects of the global economic crisis on tourism since the end of 2008.

However, despite the strength of the Colombian currency against the U.S. dollar in recent years and the world economic crisis, the influx of foreign visitors has risen steadily since 2002. Notwithstanding this, the volume of international travelers is still rather modest for a destination with such great tourist potential as Cartagena. Therefore, in our opinion the expansion of international tourism is a great opportunity for growth, considering the continuity of the successful policies to position both Colombia in general and Cartagena in particular as attractive destinations.

The prospects for 2010 are favorable in terms of recovery in demand. According to our projections, occupancy levels will equal those of 2007 as of the end of 2011 and the beginning of 2012.

Based on current trends and prospects for the tourism industry in Cartagena, we believe that in the next few years, Cartagena will boast more updated hotel services with a wider range of facilities and a higher penetration of international brands. As indicated by our survey of projects under construction and in the pipeline, the new projected supply will be mostly focused on 5-star hotels with more than 200 rooms, situated in Bocagrande and the Northern Area, along the seaside road.

It should be noted that the city's forecasted hotel supply increase is not only the result of Cartagena's positioning worldwide, but also of the official industry incentive policy. These incentives include tax deductions of up to 30 years for new hotel projects.

The expansion projected for the 5-star hotel segment will lead to a room inventory with more modern facilities and additional amenities than those currently available. We thus estimate that the market will consolidate its rate growth, with increases higher than the inflation rate. Furthermore, according to our market analysis, there is a significant latent demand in Cartagena's market, especially with regard to novel and high-end products. Therefore, our projections concerning the absorption of new hotel rooms are favorable. We do not anticipate any major pressure over the market occupancy rate, apart from the typical context-dependent effects arising from the inauguration of new hotels in a given market.

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Santiago Berraondo obtained a degree in Economics from Universidad Argentina de la Empresa in 1999, and two years later he did a postgraduate diploma in finance at Universidad Torcuato Di Tella in Buenos Aires. In December 2007, he also completed an executive program at Universidad Di Tella Business School with a concentration in the real estate and hotel industry and in financial modeling. At the start of his professional career, Santiago worked in the financial department of a number of local companies specialized in the hotel and real estate industry. In 2006, upon joining HVS Buenos Aires, he began to work in consulting services. While working at the firm, he has prepared numerous economic-financial feasibility studies for urban hotels, boutique hotels, integrated resorts, and mixed-use suburban developments, with a focus on market analysis, product definition, and financial modeling. At the same time, he has completed several valuations for hotels in the region. Most of the projects Santiago has participated in are located in Argentina, Chile, Colombia, Peru, and Uruguay.



Fernanda L'Hopital has a degree in Economics from Universidad de Buenos Aires and an MBA from Universidad del CEMA. She started her professional career as a consultant in the Corporate Finance area, working for local companies specialized in the SME sector. In 2002, Fernanda joined Argentina's Ministry of Economy as a consultant at the *Dirección Nacional de Cuentas Internacionales* (National Board of International Accounts), being responsible for estimating direct foreign investment accounts and private debt in the Balance of Payments. In 2006, she joined the HVS Buenos Aires team in the consulting and valuation area, where she has acquired great expertise in the industry through her participation in numerous market studies, feasibility analyses, valuations, and strategic planning for hotels, resorts, and mixed-use projects. Most of the projects Fernanda has worked on are located in Argentina, Chile, Peru, Colombia, and Uruguay.

About HVS

HVS is the world's leading consulting and services organization focused on the hotel, restaurant, shared ownership, gaming, and leisure industries. Established in 1980, the company performs more than 2,000 assignments per year for virtually every major industry participant. HVS principals are regarded as the leading professionals in their respective regions of the globe. We are client driven, entrepreneurial, and dedicated to providing the best advice and services in a timely and cost-efficient manner. Through a worldwide network of 30 offices staffed by 400 seasoned industry professionals, HVS provides an unparalleled range of complementary services for the hospitality industry.

About HVS Buenos Aires and HVS Lima

HVS Buenos Aires, which celebrated its 10th anniversary in 2010, works actively 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 for tourist destinations.

In 2009, HVS opened an office in Lima in response to the economic growth in Peru and the volume of projects HVS worked on in that nation during the prior five years.

Each year since 2008, HVS has organized the leading industry event in the region: SAHIC – South American Hotel & Tourism Investment Conference. The first three conferences were held in Buenos Aires, Rio de Janeiro, and Cartagena de Indias, Colombia.

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