MARKET REPORT

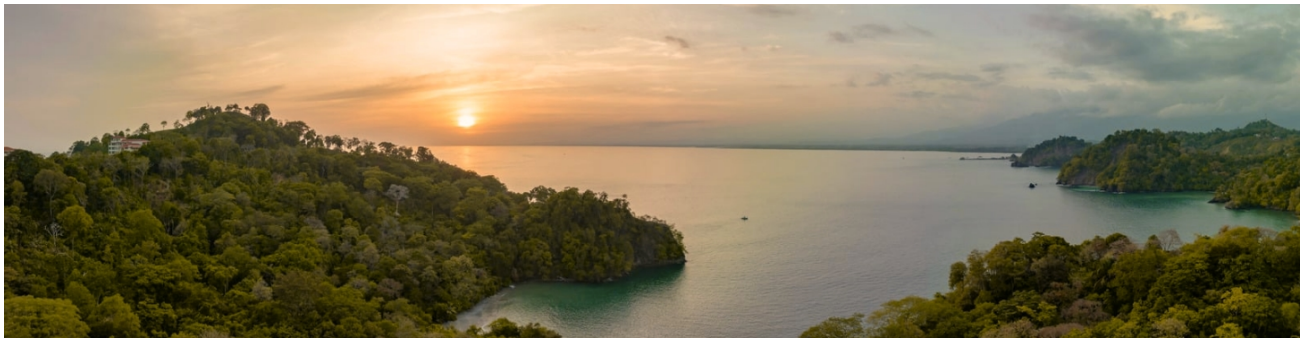
# Guanacaste, Costa Rica’s Rise and Challenges as an Eco-Luxury Lodging Destination

DECEMBER 3, 2024

The Guanacaste province on Costa Rica's Pacific Coast has experienced tremendous growth over the past two decades, fueling opportunities for further lodging development to accommodate growing tourism demand. To support sustainable growth and maintain Guanacaste’s eco-luxury appeal, it will be essential to address challenges such as infrastructure shortcomings while balancing environmental stewardship.

Costa Rica’s natural beauty, dedication to sustainability, and rich biodiversity have made it a top destination for travelers worldwide. Known for its lush rainforests, pristine beaches, and diverse ecosystems, the country attracts nature enthusiasts and adventure-seekers alike.

In particular, the Guanacaste province on Costa Rica's Pacific Coast has experienced tremendous growth in tourism over the past two decades. With significant infrastructure improvements, such as the 2012 construction of a new terminal at Liberia’s Daniel Oduber Quirós International Airport, the region has drawn an increasing number of tourists. While the more recent growth in tourism supports additional expansion to accommodate visitors, future development in Guanacaste also faces challenges.

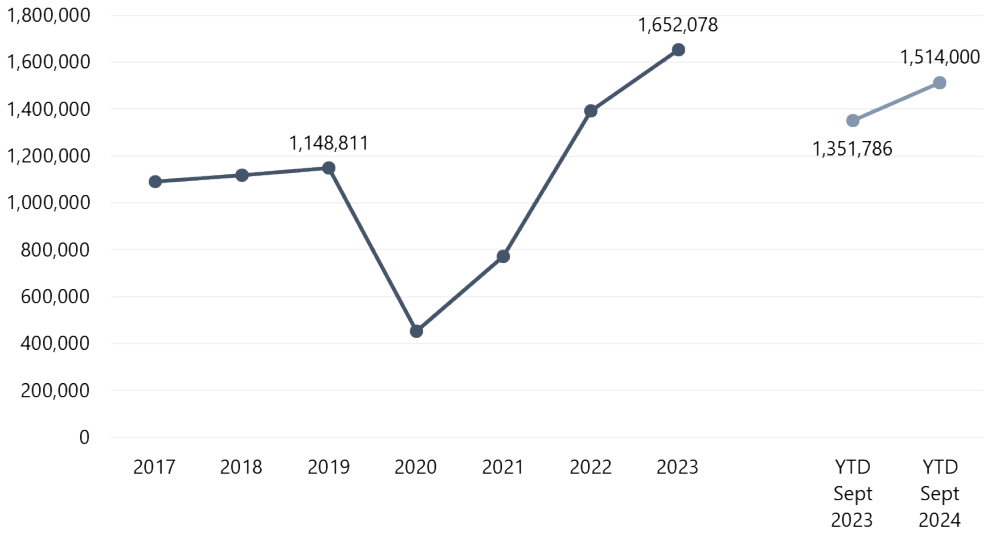


## Indicators Supporting Further Development

***Increased Passenger Traffic at Liberia’s Daniel Oduber Quirós International Airport (LIR)***

- Annual passenger traffic at LIR continues to rise, with arrivals in 2022 and 2023 surpassing the levels recorded in 2019.
- Year-to-date data through September 2024 reveal a 12% increase in arrivals compared to the same period in 2023, indicating strong recent demand for the region.
- LIR now serves over 20 international destinations, and new routes are anticipated in late 2024 and 2025, contributing to increased visitor convenience and capacity.
- Top international feeder markets include Houston, Miami, Los Angeles, Mexico City, and Atlanta.
- The airport's greater connectivity signals Guanacaste's rising popularity among international travelers and positions the region for further tourism-related growth.

**LIR Passenger Traffic Far Surpasses 2019 Level and Continues to Grow**




*Source: Daniel Oduber Quirós International Airport*

### *Stronger Demand for Hotels & Luxury Accommodations*

- The hospitality sector in this market has grown substantially since 2004, particularly in the upscale and luxury segments, which cater to high-end travelers and eco-conscious visitors alike.
- New high-end hotel projects in development are expected to contribute to higher average daily rates (ADRs) across Guanacaste, making the region more profitable for hotel investors.
- The demand for luxury accommodation aligns with the region's growing prestige as a top-tier tourist destination for those seeking both relaxation and eco-friendly experiences.
- While the number of total hotel rooms in Costa Rica and Guanacaste is not available, data are reported to STR for at least 10,000 hotel rooms, with many more not reported. Booking.com lists 1,700 individual accommodations, suggesting the breadth and depth of the market.
- A selection of the under-construction or imminent new supply is shown on the interactive map below. However, we note that approximately 1,000 additional rooms, mostly in the luxury space, are in the planning stages in Guanacaste.

### *Economic Growth, Leisure Attractions & Sustainability Initiatives*

- Tourism is a vital contributor to Costa Rica's economy. The sector provides employment and supports local businesses such as hotels, restaurants, tour operators, and artisans.
- Strong leisure demand also drives funding for conservation efforts and eco-friendly tourism practices, ensuring that tourism growth aligns with the country's commitment to sustainability.
- The mixed-use Ciudad Nya project, currently under construction, will feature Costa Rica's first Crystal Lagoon and will diversify the area's leisure attractions.
- Guanacaste's rise as a luxury destination is also reflected in the elevated real estate prices, which have attracted investors and established the region as a prime location for hospitality and residential development.

## Challenges to Further Development

### *Strain on Airport Operations & Runway Conditions*

- The sharp rise in passenger traffic has put significant strain on LIR's single-runway infrastructure. As of October 2024, KLM Royal Dutch Airlines has temporarily suspended operations at LIR due to delays in necessary runway repairs, raising concerns about operational capacity and safety.
- Four other airlines have also indicated the possibility of redirecting flights to other airports if runway maintenance issues persist, which could affect visitor numbers, especially if the repairs are not completed by the beginning of the high season in December.
- With only one runway, the airport has limited ability to add flights and sometimes requires airlines to schedule arrivals and departures at less desirable hours.

### *Lagging Infrastructure Development & Seasonal Congestion*

- Infrastructure growth has not kept pace with tourism demand, and many roads in Guanacaste remain unpaved, limiting safe and convenient access to a number of destinations.
- The lack of bridges and critical access routes in some areas further restricts mobility, particularly during the rainy season.
- Rapid real estate development in regions like Playa Tamarindo has reportedly led to water shortages, highlighting the importance of sustainable resource management in new developments.
- During peak travel seasons, the influx of tourists can lead to overcrowded beaches and congested roads, which negatively affect both the quality of life for residents and the visitor experience.
- High demand also strains local services, from waste management to emergency services, with the needs of visitors often exceeding the capacity of small towns and rural areas.

### *Environmental Strain & Ecosystem Stress*

- Increased visitor numbers place stress on Guanacaste's natural ecosystems, raising concerns about pollution, resource depletion, and habitat disturbance.
- Biodiversity is a core aspect of Guanacaste's appeal, and continued ecosystem degradation could damage both the environment and future tourism.

### *High Real Estate & Rental Costs*

- While the growing popularity of Guanacaste as a luxury destination has significantly raised property values and attracted investors, this trend has also created higher housing and rental prices, sometimes making it difficult for local residents to afford housing.
- Rising living costs and real estate prices can lead to the displacement of locals, which could, in turn, reduce the labor pool for the tourism sector and affect the availability of essential workers.

### *Lengthy Development Process Due to Complex Bureaucracy & Environmental Concerns*

- The development process for new real estate and hospitality projects in Guanacaste can be lengthy due to bureaucratic hurdles, as multiple governmental approvals are required for new construction, especially in areas with environmental significance.
- Environmental impact assessments and strict regulations are essential to preserving Costa Rica's biodiversity but can delay projects, affecting investment timelines and profitability.
- This regulatory landscape, while aimed at protecting natural resources, can slow the pace of development and may hinder Guanacaste's ability to capitalize on rising tourist demand in a timely manner.
- Introducing public-private partnerships, similar to Mexico's Fonatur program, could help streamline development while maintaining sustainability, thereby providing infrastructure support and incentives to attract responsible tourism investment.

Costa Rica's regulatory environment, which prioritizes environmental preservation, prevents overdevelopment and helps safeguard Guanacaste's natural landscapes and cultural integrity. This careful balance reduces the risk of overcrowding and overbuilding, upholding Guanacaste's appeal as an eco-conscious, luxury destination. The controlled growth of the region aligns with Costa Rica's sustainable tourism model, creating lasting value for existing investments and enhancing its exclusivity. However, to support growth and meet the needs of existing and future travelers, it is essential to address the region's basic infrastructure challenges. With Costa Rica's commitment to sustainable development, coupled with infrastructure improvements, the Guanacaste region can preserve its natural beauty, remain the premier eco-luxury destination in the Americas, and support lasting prosperity for residents, visitors, and investors alike.

For more information about the Guanacaste market or for help making informed investment decisions that align with your goals and risk tolerance, please contact Luigi Major, Managing Director of HVS Advisory.