

HVS Market Intelligence Report: San Juan, Puerto Rico

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San Juan, capital city of the Commonwealth of Puerto Rico, has a heritage of some distinction. Spanish colonists founded San Juan in 1521, making it the second-oldest European-established city in the Americas, and the tomb of famed explorer Juan Ponce de León lies within one of the city's oldest buildings, the Cathedral de San Juan Bautista. Modern San Juan acts as Puerto Rico's centrifugal city, and its commercial and cultural energies echo across the Island. The San Juan metropolitan area now fosters a population of nearly half a million people,^[1] a great diversity of businesses and manufacturing operations, a hive of tropical tourism, and one of the busiest seaports in the Caribbean.

Lodging trends in the San Juan area have experienced overall improvement year-over-year, with major corporations, tourism, and a newly built, state-of-the-art convention center serving as consistent sources of demand. Banking and pharmaceutical manufacturing industries generate most of the area's commercial demand. The island's major financial institutions include Citibank, Banco Popular, Banco Santander, Banco Bilbao Vizcaya, Eurobank, Scotiabank, First BanCorp, R&G Financial Corporation, Doral Financial Corporation, Oriental Financial Group, and Westernbank. Puerto Rico is the world's fifth-largest pharmaceutical manufacturing region after the United States, the United Kingdom, Japan, and France, and boasts a staggering \$60-billion pharmaceutical industry infrastructure. This includes approximately 89 FDA-approved pharmaceutical and biopharmaceutical plants, as well as the operations of such industry heavyweights as AstraZeneca, Abbott Laboratories, GlaxoSmithKline, Johnson & Johnson, Merck, and Pfizer.

A variety of cultural districts, shopping venues, cruise ships, casinos, beaches, and crystalline waters generate heavy leisure demand in San Juan. Tourists are inescapably drawn to the blue cobblestone streets of the Old San Juan district and the abundance of shops, museums, antique homes, and open-air cafés among which they wind. Old San Juan serves as the epicenter for regional and international tourism, catering to leisure clientele originating primarily from major cities located in the eastern region of the United States. The Western Hemisphere Travel Initiative requires a passport of U.S. Citizens when visiting Latin American countries not under U.S. jurisdiction, but affords U.S. citizens the right to visit Puerto Rico without the burden of a passport—a situation from which the Puerto Rico tourism sector has benefited greatly. Overall, visitation to the area peaks from November through April—not coincidentally the time when winter creeps across the United States and makes the island's tropical flavor all the more appealing. Leisure travelers from neighboring islands tend to increase their presence during the summer months, seeking not so much to escape an oppressive climate as to experience the novel diversity of the city's offerings.

The Puerto Rico Convention Center, currently the largest in the Caribbean and the most technologically advanced in all of Latin America, began operations on November 17, 2005. Since its opening, the convention center has greatly increased the demand for rooms, and compression has positively affected all area hotels. In its first year alone, the Center hosted 15 major convention groups that brought nearly 13,000 room nights to area hotels.^[2] The Center is the heart of a master-planned mixed-used project designated as the Puerto Rico Convention Center District (PRCCD). The District's first milestone is a magnificent urban park featuring lagoons, fountains, and recreational areas interwound by a series of promenades. The park, known as the Paseo de las Fuentes, opened to the public in September 2006. Projects under construction or planned in the PRCCD include a 500-room Sheraton hotel, a 96-unit residential building, office buildings with 50,000 square feet of commercial space, an entertainment and retail complex, a cinema, waterfront restaurants, and a boardwalk.^[3] The Center has already secured bookings through 2015,^[4] and the increased attention should bring even better numbers to San Juan-area hotels.

Summary

New developments are making the "Walled City" more welcoming than ever, while limited supply allows occupancies to remain strong and average rates to increase tremendously.

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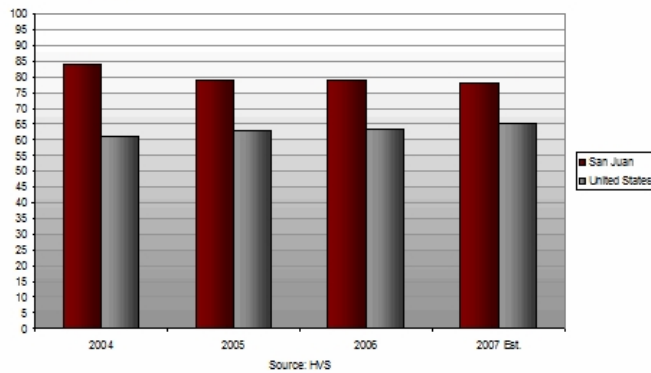
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Rendering of the Puerto Rico Convention Center District²



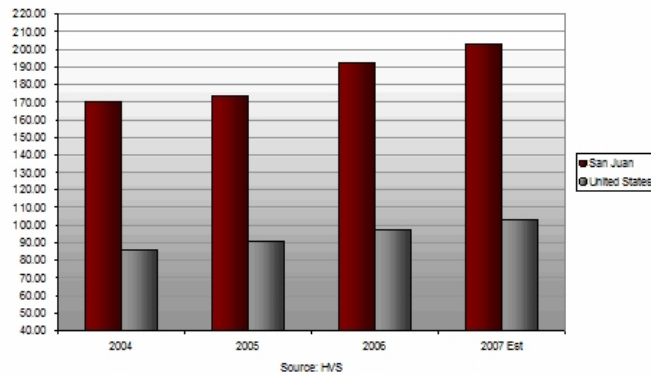
The sluggish entry of new lodging supply into the San Juan market has allowed occupancies to remain strong and average rates to increase tremendously. Historically, occupancy levels in San Juan have kept well above those in the continental United States. In 2007, occupancy is estimated to decrease slightly, as the market has experience an increase in room availability following major renovations of various hotels in 2006. The following chart illustrates occupancy trends in the San Juan market compared to those in the United States:

Historical Occupancy Trends



The gulf between average rates in San Juan versus the United States is even more dramatic. Average rates have shown a year-over-year increase since 2004. In 2006, average rates in the San Juan market were 97% higher than those of the continental United States. By year-end 2007, it is estimated average rates would have increased 6% over the prior year to approximately \$203. The following chart illustrates average rate trends in the San Juan market compared to those in the United States:

Historical Average Rate Trends



The new supply on the horizon will come both from renovations to existing hotels and the construction of several new ones. The following chart illustrates anticipated increases in supply over the next two years:

New Supply

Number of

<u>Proposed Property</u>	<u>Rooms</u>	<u>Estimated Opening Date</u>	<u>Developer</u>	<u>Development Stage</u>
Renaissance La Concha Hotel & Casino	248	November 15, 2007	International Hospitality Enterprises, Inc.	Under Construction
DoubleTree San Juan	184	March 1, 2008	Swiss Chalet, Inc.	Under Renovations
Condado Vanderbilt Hotel	300	November 1, 2009	International Hospitality Enterprises, Inc.	Under Construction
Sheraton at the Convention Center	500	December 1, 2009	CCHRR Hospitality, LLC	Under Construction
Additional Supply	1,232			

Lodging trends should remain strong as the number of new hotel rooms entering the market is not expected to outpace the demand. San Juan's diverse economy, ease of entry for U.S. citizens, mounting convention activity, tourism centers, and strategic location in the Caribbean should help increase occupancies and average rates even further over the next few years.

[1] U.S. Census Bureau, 2006 Population Estimates

[2] Puerto Rico Convention Bureau

[3] Convention Center District Authority

[4] Puerto Rico Convention Bureau

[5] © 2005 Puerto Rico Convention Center

About Luigi Major, MAI



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