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MARKET REPORT

The Hospitality Industry Drives Mixed-Use Development in the Emerging Markets of Central America

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This article explains trends in hotel development models and patterns throughout Central America, as well as identifies the countries within the region offering the greatest potential for hotel development.

Tourism Development - Central America

Tourism has become an integral industry for growth in the economies of the Central American region consisting of Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama.

- In 2006 the World Tourism Organization (WTO) identified the region as the second fastest growing destination in the Americas.

- According to Central American System for Integration (SICA)1; between 2000 and 2007, international tourist arrivals have grown at an annual compounded rate of 9.0%. Tourism receipts between 2000 and 2006 have grown at a compounded annual rate of approximately 10.9%.

- Currently, the most notable growth in the tourism industry has been realized in Costa Rica, Panama, Belize and Guatemala.

- According to Smith Travel Research, in 2007 the lodging market in Central America realized double digit growth in average daily room rate (ADR) and rooms revenue at 13.5% and 18.8%, respectively.

This significant growth of the tourism industry is the direct result of changes in international consumer behaviors as well as economic prosperity and political stability within the region. Historically, the supply of lodging facilities within the region has proved to be both inadequate in terms of product quality as well as insufficient in quantity for meeting the increasing levels of demand. These elements of supply and demand have created a favorable investment climate for development within the region, resulting in a real estate boom in both tourism and residential development. The growth in residential real estate development has been primarily driven by foreign demand for vacation and retirement homes in both urban and resort destinations within the region. Investment and development has been further supported by the variety of financial incentives for investment in tourism projects offered by national governments as well as the availability of local capital for the financing of large projects. We note that to date, most of this development activity is taking place in Costa Rica, Panama, Honduras and Belize.

Evolution of Real Estate Development – Central America

As Central America opened up to new source markets; it became apparent that an elevated level of hotel product and service quality was needed to cater to a more sophisticated clientele. In addition, the market for vacation and retirement homes demanded the same level of product and service quality. The resulting outcome of this shift in consumer preferences was an increased presence of "hospitality driven mixed-use developments" i.e. developments containing three or more significant revenue producing uses, one of which includes a hotel component, as well as some form of "for-sale" real estate product. Often, one of the real estate products is affiliated or branded with the hotel component. This hospitality driven mixed-use development model has proved successful, as the large upfront development costs of many hotel projects require some form of "for-sale" real estate product to make the overall project viable. Concurrently, the "for-sale" real estate products benefit from the additional amenities contributed by the presence of the hotel, as well as the marketing strength provided by certain hotel brands. The hotel brand image and strength, plus the appeal of hotel services and amenities available to second home residences, often results in pricing premiums for the real estate and improved market acceptance of the "for-sale" real estate product.

Over the past five years, specifically in the past three year period, the Central American region has realized tremendous growth in both urban and resort hospitality driven mixed-used developments.

Current Hospitality Mixed-Use Development Patterns

During the past 18 months, HVS Miami has provided consulting and/or valuation services on 25 hospitality driven mixed use projects in Central America; specifically the projects were located in Costa Rica, Panama, Honduras and Belize…

Based on this work and our current research, this region currently has 33 active hospitality driven mixed use projects, representing a cumulative total of 5,854 new hotel rooms, which are either under construction or in the planning and approval process. This number of projects is down slightly from a previous confirmed total of 39 projects (6,715 rooms) in September of 2008, due to six projects being cancelled or placed "on hold" due to the weakened global economy.

The following tables present the regional data collected for total hospitality driven mixed-use development projects by country, as well as total hotel rooms within these projects by country.

Table 1: Total Hotel Rooms in Planning or Under Construction by Country in Hospitality Drive Mixed-Use Developments

	Total Rooms	% Total
Belize	354	6%
Costa Rica	2,083	36%
Honduras	484	8%
Panama	2,933	50%
Total	5,854	100%

Table 2: Hospitality Driven Mixed-Use Development Projects in Planning or Under Construction by Country

Resort Hospitality Driven Mixed-Use Development Projects by Country

	Total Projects	Total Hotels	% Total	Average Size of Hotel (# Rooms)
Belize	2	2	6%	177
Costa Rica	15	15	45%	139
Honduras	4	5	12%	97
Panama	12	15	36%	196
Total	33	37	100%	158

A review of projects currently in *planning or under construction* provides some interesting insights regarding characteristics and trends related to the future potential increases in hotel supply associated with this business model. A recap of our observations follows:

- Costa Rica has the largest share of projects in planning or under construction in the region, at a total of 45%, while Panama has the second largest share of projects in the region at a total of 36%. In terms of total hotel rooms, Panama ranks first in the region at a total of 50%, while Costa Rica has the second largest share at 36%, followed by Honduras at 8% and Belize at 6% of total hotel rooms for the region.

- In Costa Rica, 93% of the total hotel rooms are being developed in resort destinations, with the remaining 7% of the hotel rooms in mixed-use developments are in urban destinations. Panama on the other hand, only has 32% of its total hotel rooms being developed in mixed-use developments in resort destinations, with the balance (68%) planned or under construction in urban destinations. We believe that there exists future resort hotel development opportunity in Panama.

- The average hotel facility size (average number of hotel rooms) per project for the overall region is 177 rooms. Further analysis revealed that the average number of hotel rooms for a resort mixed-use development is 155 rooms, and 237 rooms for an urban mixed-use development.

- Since several of these mixed-use developments have programmed more than one hotel, when the total hotel rooms are analyzed relative to total individual hotel facilities, the overall average facility size is reduced to 158 rooms. We then analyzed these figures by country and by destination type (resort or urban), arriving at average hotel facility sizes of 143 rooms for resort mixed-use developments, and 194 rooms for urban mixed-use developments.

- The average hotel facility size in Panama is 189 rooms for resort mixed-use developments and 199 rooms for urban mixed-use developments, while in Costa Rica the average hotel facility size is 138 rooms for resort mixed-use developments and 150 rooms for urban mixed-use developments.

Table 3: Hospitality Driven Mixed-Use Development Projects in Planning or Under Construction by Country

Resort Hospitality Driven Mixed-Use Development Projects by Country

Country	Total Projects	Total Hotels	Total Rooms	Average Hotel Size (# Rooms)	Total Rooms	% Resort Rooms of Total Rooms
Belize	2	2	354	177	354	100%

Costa Rica	14	14	1933	138	2083	93%
Honduras	4	5	484	97	484	100%
Panama	4	5	947	189	2933	32%
Total	24	26	3718	143	5854	100%

Urban Hospitality Driven Mixed-Use Development Projects by Country

Country	Total Projects	Total Hotels	Total Rooms	Average Hotel Size (# Rooms)	Total Rooms	% Urban Rooms of Total Rooms
Costa Rica	1	1	150	150	2083	7%
Panama	8	10	1986	199	2933	68%
Total	9	11	2136	194	5854	100%

Total Projects by Country

Country	Total Projects	Total Hotels	Total Rooms	Average Hotel Size (# Rooms)	Total Rooms
Belize	2	2	354	177	354
Costa Rica	15	15	2083	139	2083
Honduras	4	5	484	97	484
Panama	12	15	2933	196	2933
Total	33	37	5854	158	5854

A hotel brand analysis of established existing hospitality driven mixed use developments in the region, combined with the projects under construction and in the planning process, reveals the following observations and conclusions:

- Of the projects analyzed, 73% have a hotel brand. The predominant hotel brands affiliated with these projects include:
  - Starwood (W, Westin, St, Regis, Le Meridien and Sheraton)
  - Marriott (Ritz-Carlton, JW Marriott and Renaissance)

- Intercontinental Hotels Group (Intercontinental, Crowne Plaza)
- Hilton International (Doubletree, Hilton Garden Inn, Hilton, Conrad)

Conclusion

Despite the global economic downturn, the development of hospitality driven mixed-use projects will continue in Central America; although we do recognize that the pace of these developments has slowed significantly. Until mid 2008, most of the hospitality driven mixed-use development activity had taken place in Costa Rica. Recent trends indicate that the development pace in Costa Rica is slowing, as this market, particularly in resort destinations, is moving into the stabilized stage of its development life cycle. In 2008, hospitality driven mixed-use development activity in Panama increased significantly. Most of this activity has taken place in Panama City and the surrounding areas which serve as the economic center of the country and generate significant room night demand. However, currently the Panamanian government is investing in significant infrastructure improvements throughout the country, which in turn will facilitate development in its various resort areas. The trend is clear that the initial growth phase for resort hospitality driven mixed-use developments has begun. Honduras and Belize are both emerging as markets with significant potential for the development of these mixed-use projects, although there are limitations to development resulting from less developed infrastructure and support services.

With the exception of Panama, most of the hospitality mixed-use development activity is occurring in resort destinations throughout the region. Panama City enjoys a unique position as an important international destination for both business and leisure travel, much of which is driven by the economic activity stimulated by the Panama Canal and the Colon free trade zone.

As noted in this article, most of the new supply of hotel facilities within these mixed-use developments are affiliated with a recognized hotel brand. This trend indicates that recognized hotel brands will play an important role in the growing hotel industry of the region.

With over 20 years of combined experience in the hospitality and shared ownership industries, HVS Miami offers our clients a wide array of expertise relative to hospitality driven mixed use developments including product positioning studies, market and financial feasibility analysis ,and branded management contract searches. We offer our clients the flexibility of working with them through various stages of planning and development process, and are familiar with the complicated nature of these projects that frequently results in extended planning and development timelines.

Information requests in English or Spanish regarding on our work and services in Mexico and Central and South America can be sent to Marianne Canero at or Andrew Cohan at .

[1]Sistema de la Integración Centroamericana (SICA), Consejo Centroamericano de Turismo – Secretaria Técnica