



Photo: Antigua



Horwath HTL

Hotel, Tourism and Leisure

MARKET REPORT

The Caribbean

SEPTEMBER 2019



Photo: Aruba

Introduction

Like no other region in the world, the Caribbean is commonly linked to nostalgic, paradisiac all year sun tropical islands and tranquil, white sandy beaches, sharply contrasting with the urban - and often hectic – everyday life surroundings of modern, western world people. Exclusively composed of islands and archipelagos, which are home to some of the world's most awarded beaches, the Caribbean is famously dubbed as “the most desirable warm weather destination of the northern Hemisphere”. Visitors from around the world are attracted to beach relaxation stays, engaging in outdoor- and underwater activities, partaking in music- or artistic festivals, or exploring the remarkable historical and architectural diversity and uniqueness of the destinations.

Located southeast of the Gulf of Mexico and North American mainland, measuring around 1,000 miles from north to south and over 2,500 miles from east to west, the region is a conglomerate of island countries including sovereign states and also island groupings, which in different ways remain dependencies of the United Kingdom, United States, France, and the Netherlands. The total population is around 42.5 million spread over approximately 700 islands, of which about 100 are permanently inhabited. The number of Caribbean countries depends on the context, as in a wider sense, sometimes South American, Atlantic Ocean, Central- and North American destinations are included, examples are Bermuda, Belize, Guyana or the Mexican Caribbean.

The cultural marks of Taino, Arawak, Caribs and other indigenous people along with Afro-Caribbean ethnicities originating from slavery between the early 16th and mid-19th century and Spanish, English, French, and Dutch involvement during the modern age of European Colonization, shaped today's extreme diversity of culture, ethnicities and languages across the region, each island country and inhabitants have their own rich history, food and traditions.

Since around half a century, the Caribbean is one of the most stable tourism markets in the world, tourism activities make up roughly 15% of the region's annual GDP, making it the worldwide most tourism dependent geographic area, having replaced agriculture as former most important economic sector.

In the relatively small island nations, natural disadvantages regarding economic competitiveness, mainly due to higher transport and trading costs when compared to central economies, trigger the importance of inbound tourism as income generator. Local governments are actively pursuing the sector as foreign currency generator, having established a tradition of different fiscal incentive laws for foreign and local investors; this together with the region's political stability provides an overall investment friendly climate.



Photo: St. Thomas, Virgin Islands

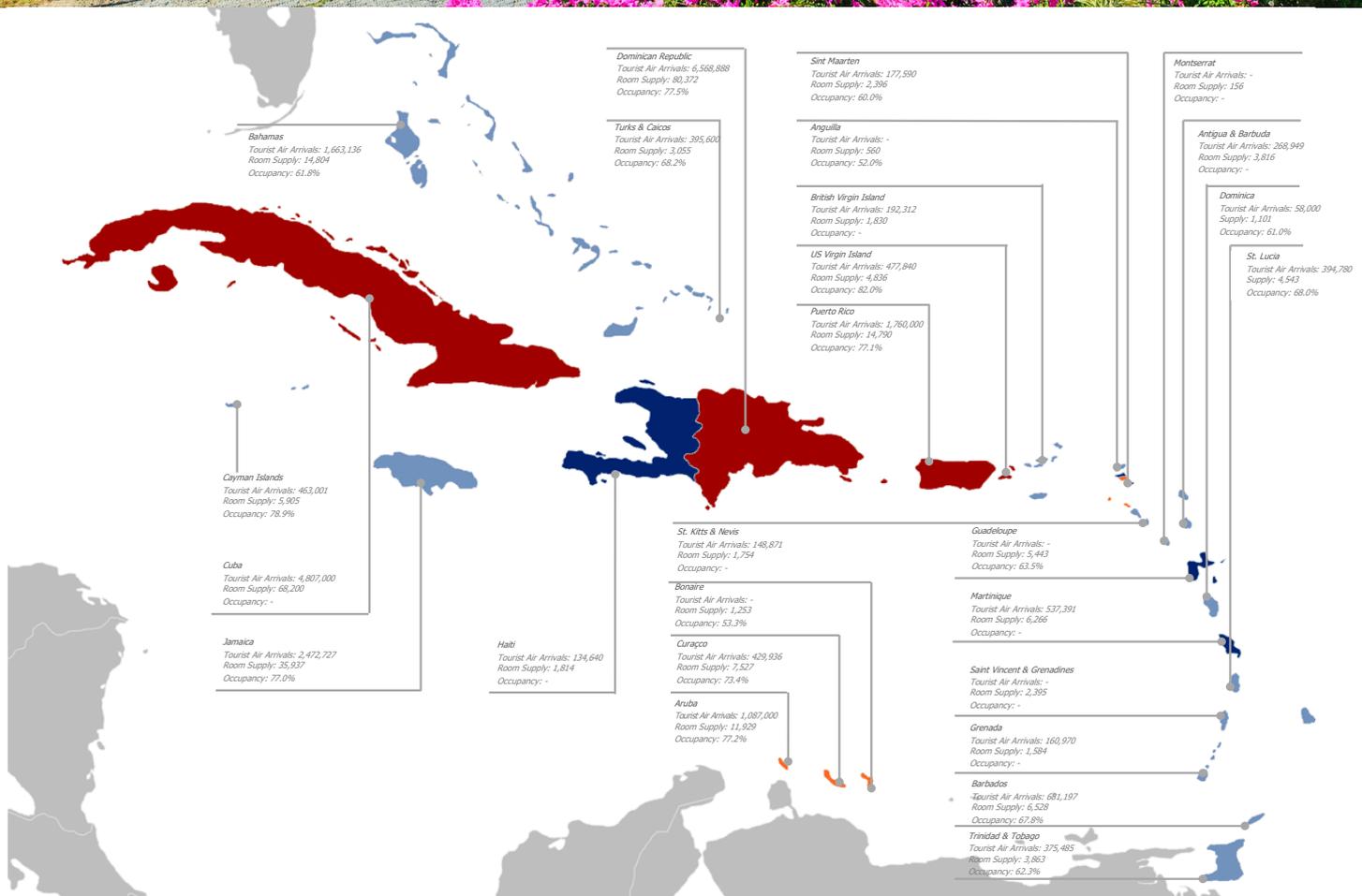




Photo: St. Georges, Grenada

Islands by Official Language Spoken

Commonwealth & Independent English-Speaking Caribbean		
Island	Sq. Km.	Pop. (000s)
Anguilla	91	14.7
Antigua & Barbuda	440	93.6
Bahamas	13,864	373.5
Barbados	432	274.6
British Virgin Islands	153	31.8
Cayman Islands	26,063	63.1
Dominica	750	71.5
Grenada	344	110.5
Jamaica	11,424	2,729.1
Montserrat	102	4.9
St Kitts & Nevis	269	48.6
St. Lucia	617	178.0
St Vincent & Grenadines	389	110.0
Trinidad & Tobago	5,128	1,356.6
Turks & Caicos Islands	417	37.9
US Virgin Islands	346	104.9

Spanish-Speaking Caribbean		
Island	Sq. Km.	Pop. (000s)
Cuba	110,860	11,239.1
Dominican Republic	48,442	10,529.0
Puerto Rico	8,875	3,411.3

French-Speaking Caribbean		
Island	Sq. Km.	Pop. (000s)
Guadeloupe	1,373	395.7
Haiti	27,750	10,889.9
Martinique	1,060	376.8
Saint Martin	32	35.1
Saint Barthélemy	25	9.4

Dutch-Speaking Caribbean		
Island	Sq. Km.	Pop. (000s)
Aruba	178.9	104.8
Bonaire	294	18.9
Curaçao	444	160.0
Saba	13	1.9
Sint Maarten	42	40.1
Sint Eustacious	21	3.2

Arrivals 2014 -2019

Since more than four decades, the Caribbean has constantly accounted for a share of around 2-3% of worldwide annual tourist arrivals. Air carrier supply plays a crucial role for the industry's success. In addition to the traditional tourism sector, the Caribbean is the most popular cruise destination in the world, accounting for around 35% of total global deployment. Even if the arrival numbers of cruise and flight passengers are almost evenly matched, cruise tourists account for only 8% of total annual visitor spending.

Because of the geographic proximity, US travellers are traditionally the biggest inbound market, followed by Europeans and Canadians. Apart from the major markets, in recent years, arrivals from emerging inbound markets such as Russia, Brazil, other Caribbean countries and South America are gaining importance.

After an all-time high of 30.6 million air arrivals in 2017 and for the first time since the Worldwide Financial Crisis back in 2008, 2018 saw an arrival decrease of 2.3%. However, during the last four months of the year, numbers rebounded significantly, going up 9.8%, contrasting with the -6.5% of the first eight months, which were impacted by the restoration of services in Hurricanes Irma and Maria affected destinations, which occurred in September 2017.

If one would narrow the drastic arrival decreases (50% and more) on the few hurricane-affected islands to normal historical levels, the region's arrival growth of the prior three years would be easily matched, however, the positive push from Q4 2018 also continued throughout the first half of 2019.

Due to the market's strong momentum together with the region's ability to serve modern travellers' appetite for increasingly divers travel experiences, which includes traits such as ecological responsibility, cultural encounters and education, and taking into account the positive economic outlook in major source markets, the CTO estimate of 6-7% arrival increase for the year 2019, can be considered supportable.

The Caribbean is one of the declared priority regions in expansion plans of some of the biggest international hotel giants, new properties of different brands are scheduled to open during 2019 especially in Dominican Republic and Jamaica, and a series of consciously added products from diverse chains' portfolios are expected until 2021.

Worldwide & Caribbean Tourist Arrivals, 2004-2019

Year	World		Caribbean		Caribbean Share in the World
	Tourist Arrivals, Mn	% Change	Tourist Arrivals, Mn	% Change	
2004	754	10.3%	21.7	6.8%	2.9%
2009	893	-4.0%	22.3	2.8%	2.5%
2014	1,142	4.5%	26.6	6.4%	2.3%
2015	1,195	4.6%	28.5	7.1%	2.4%
2016	1,239	3.7%	29.9	4.9%	2.4%
2017	1,323	6.8%	30.6	2.3%	2.3%
2018*	1,400	5.8%	29.9	-2.3%	2.1%
2019**	1,449	3.5%	31.8	6.5%	2.2%
Total Increase CAGR* 2004-2018	646	4.5%	8.2	2.3%	-

Source: UNWTO, Caribbean Tourism Organization (CTO), Horwath HTL.

*Preliminary Results and Forecasts

**Forecasted by UNWTO, CTO.



Photo: St Lucia, Margiot Bay

Arrivals to Main Destinations

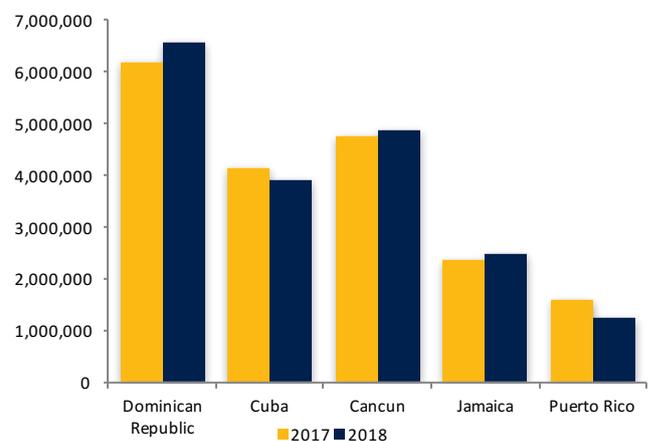
In 2018, main Caribbean destinations were among the top performers, with especially Dominican Republic and Jamaica recording strong results.

Together with Cuba and Cancun, these two countries are also the construction pipeline leaders. Cuba remains particularly successful in attracting visitors other than US, especially Canadians and Europeans.

Cancun is currently seeking to reverse a slightly negative arrival number trend, which can partly be attributed to negative publicity over raising security concerns. Additionally, the destination is facing a challenging year 2020 with US elections, which tend to diminish foreign tourist arrivals to the region, however, despite these momentous uncertainties, the Mexican Caribbean continues to be one the America’s tourism powerhouses and many investors remain undeterred.

In May this year, the death of a US couple in a hotel resort in the Dominican Republic made unusually large headlines, followed by media attention attributed to other fatalities of US tourists in the destination, vacation cancellations in June followed. By the time of this report and following latest news from tour operators, airlines and hotels, this cancellation trend remained short lived and flight bookings from US to Dominican Republic already re-increased and is forecasted to record yet another y-o-y increase.

During the first months of 2019, hotel room availability in the hurricane hit Puerto Rico returned to 100%, with many properties being freshly renovated, air arrivals are predicted to exceed pre-2017 numbers by the end of the year.



Source: CTO, National Tourism Boards.
 *In the case of Cuba and Cancun, estimates based on available data have been applied for the full year 2018 results.



Photo: Fort-de-France, Martinique

Arrivals from Main Inbound Markets

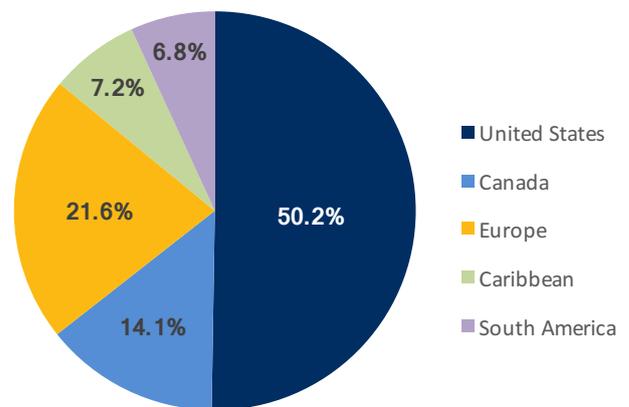
Among the major inbound markets, with 5.7%, Canadian visitors accounted for the strongest y-o-y increase, reaching a total of 3.9 million, while European visitors saw a modest growth of 1.3%. South American (3.6%), and Caribbean countries (5.3%) both recorded increases, thus approaching 2 million annually each and solidifying the region’s sustained diversion of inbound markets.

The United States as the most important visitor market fell by 6.3%, this must be attributed to the effects of the two hurricanes in September 2017, which affected arrivals to popular US traveller destinations like Puerto Rico, Turks & Caicos, US and British Virgin Islands throughout the first nine months of 2018. However, during the last four months of 2018, destinations saw an increase of 28% in US arrivals, this positive trend continued throughout Q1 2019, outpacing prior 2017 numbers.

Due to the currently robust US economy and low unemployment rates, further increases of US visitors to Caribbean destinations are being anticipated, while growth of Canadian visitors can be expected, too; as it is the case for the neighbouring United States, economic growth and a strong Canadian Dollar favour this tendency. Factors like the still unclear outcome and reachability of a Brexit Deal or the Gilets Jaunes movement in France make tourist arrivals from Europe slightly more unpredictable during 2019.

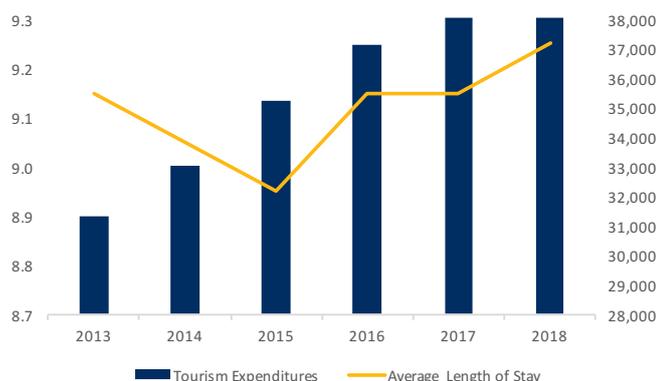
On the other hand, Russian tourists – among the world’s top spenders and representing already a major inbound force in Dominican Republic and Cuba – have started to increasingly take advantage of the many options across the region, alleviated by additional flight routes from Russian main airports and streamlined visa procedures.

Increased Chinese business and diplomatic activity across the region and Caribbean official’s sustained desire to tap the biggest traveller’s market more efficiently, stir the hope for Chinese travellers arriving in larger numbers soon.



Source: Caribbean Tourism Organization (CTO).

Tourism Spending and Average Length of Stay



Source: Caribbean Tourism Organization (CTO), National Tourism Boards.

During 2018, visitor spending experienced a slight contraction of 1.0%, making it the first decrease in this category in eight years. Considering the completed reinstatement of operations at hurricane-hit units on affected islands, the worldwide economic growth and upswing in main Caribbean markets, this trend is projected to be reversed during 2019.

The slight decrease in visitor spending tends to misrepresent the actually growing on average spending patterns, the slight contraction of 2018 was also prompted by the fact, that the few affected islands like British Virgin Islands, US Virgin Islands or Turks & Caicos, traditionally record higher spending per visitor than the region's average.

A currently high construction activity in the upper upscale and luxury hotel segment is another indicator which points to higher income from tourism in the immediate future. Similar to arrival numbers, overall air capacity (-3.4%) and flight frequency (-4.3%) decreased, while both seat capacity (5.3%) and frequency (5.2%) re-increased during the last quarter of 2018.

A majority of destinations, including Anguilla, Aruba, Curaçao, Dominican Republic, Grenada, Jamaica or Saint Lucia, reported average lengths of stay per visitor between 7 and 10 days. St. Vincent & the Grenadines and Barbados recorded average stays of 13.6 and 10.6 nights respectively. Visitors to Puerto Rico spent in average less than seven nights on their trip, this is partly a product of high numbers of visitors from the geographically close US.

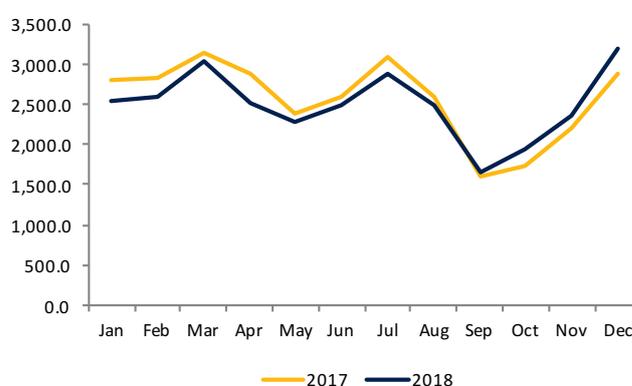
Not surprisingly, US travellers have on average, shorter stays than Canadian vacationers, while Europeans stay the longest among these three markets. Considering that there are currently no signs for notable additions of inter-regional flights, which would trigger shorter average stays, no drastic changes in average length of stay patterns are expected for 2019.

The improved inter-Caribbean flight connectivity could play another crucial role with regards to the visitor's willingness, to explore additional destinations during their stay, leading to overall longer stays and total spending.

The region's all year sunny climate generally diminishes the effects of seasonality in tourist arrivals by air when compared to more weather dependent destinations. However, seasonal differences in arrival numbers and hotel occupancy performances exist, with the span from August to November traditionally being low season and December to April high season.

Among the main inbound markets, US and European travellers tend to display these patterns to a lower degree, while arrivals from Canada are more biased towards the winter season. Throughout the last years, destination managers have been successful in further lessening the challenges and negative effects of seasonality. As the graph above shows, after a flat arrival performance in the first half of 2018, arrival numbers rebounded significantly during the last 4 months of the year, clearly setting all signs on enhanced industry growth.

Arrivals by Month (000's)

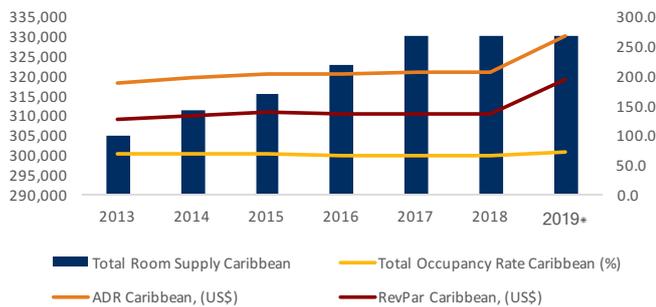


Source: Caribbean Tourism Organization (CTO).



Photo: Grand Turk Island

Hotel Industry Performance



Source: Caribbean Tourism Organization (CTO), STR Global. *Q1 2019

During 2018, Dominican Republic, Jamaica, Curaçao and Cayman Islands were among the destinations that could record growth in all major hotel key performance metrics, while Puerto Rico and Cancun registered declines.

The ADR did not suffer as a result from the two hurricanes during September of the prior year and even managed an increase from US\$205 to US\$208, RevPar reached US\$136, and average occupancy decreased from 66.7 to 65.3%.

As for the region’s hotel room inventory, partly due to the fact that a considerable number of hotels and resorts were reopening or temporarily inactive by the end of 2018, the room supply did not match the increases of the prior three years. With the majority of said properties going back

to business during 2019 and additions from the current pipeline, a supply increase of around 3% is expected by the end of the year, during Q1 of 2019, a 2.1% increase was already recorded.

For the next three to five years, over 100 projects comprising an approximate 27,300 rooms are in the pipeline. This supply growth, together with rapidly increasing arrival numbers and strong performance of existing hotels during Q4 2018 and Q1-Q2 2019, suggest a premium year 2019.

As it has been the trend in recent years, the upper upscale and luxury room count continues to increase and fresh and innovative hotel products of various scales and categories are currently being introduced to the markets. At the same time land owners, developers and investors are often stepping back and reasoning for less riskier products in the mid-upscale segment.

Because of the robust visitor flow and their comparably easy marketability through a set of dynamic sales channels, all-inclusive resorts in destinations such as Dominican Republic and Jamaica continue their success story, with considerable numbers of newly built, branded properties comprising 350 rooms upwards, entering the market.

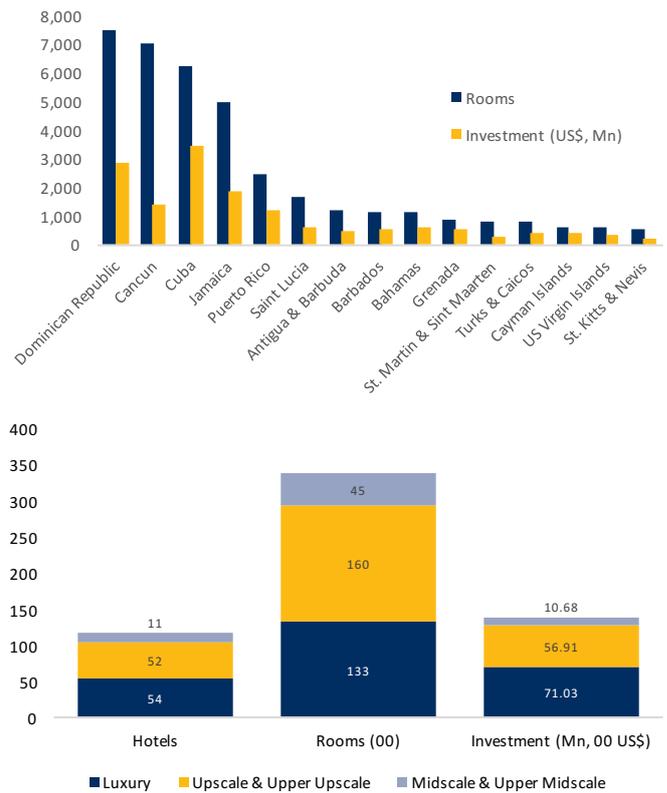
Current Construction Pipeline

With 7,451 rooms, the Dominican Republic is currently the construction pipeline leader of the region, followed by Cancun and Cuba, with the latter having the biggest pipeline investment volume. Through almost 5,000 new rooms, Jamaica will add significantly to the country's room inventory, the recovered Puerto Rico will inject around 2,500 new rooms, St. Lucia and Antigua & Barbuda follow with 1,629 and 1,173 respectively.

Marriott International is leading the region's chain pipeline with 17 properties, followed by Hilton Worldwide with 12 projects, each of the two worldwide biggest hotel chains have scheduled to add around 3,100 new hotel rooms. AMResorts, Hyatt, Accor and Blue Diamond Hotels & Resorts are also expanding their presence in the region.

Caribbean Construction Pipeline by Scale

Supply growth is dominated by Luxury, upscale and upper upscale projects, midscale and upper midscale properties make up only around 15% of the region's pipeline rooms.



Source: TopHotelProjects, Horwath HTL.

CHAINS

Rank	Chain	Hotels	Rooms	Investment, US\$ M
1	Marriott International Inc.	17	3,111	1,468
2	Hilton Worldwide	12	3,140	1,214
3	AM Resorts	8	2,232	685
4	Hyatt	7	2,021	966
5	Accor	5	818	477
6	Blue Diamond Hotels & Resorts	4	1,700	659
7	Melia Hotels International	4	1,521	569
8	IHK	4	641	316

LUXURY BRANDS					
Rank	Brand	Chain	Hotels	Rooms	Investment, US\$ M
1	Royalton Luxury Resorts	Blue Diamond Hotels & Resorts	3	1,300	592
2	The Ritz-Carlton	Marriott International Inc.	3	546	319
3	Blue Diamond by BlueBay	Blue Bay	2	830	505
4	Hyatt Zilara	Hyatt Hotels Corporation	2	750	390
5	Kempinski	Kempinski Hotels & Resorts	2	406	201
6	Mandarin Oriental	Mandarin Oriental Hotels	2	339	253
7	Four Seasons Hotel & Resorts	Four Seasons Hotel & Resorts	2	333	176
8	Dreams Resorts & Spas	AM Resorts	2	307	86
9	Six Senses Resorts & Spas	Intercontinental Hotel Group	2	270	163
10	Banyan Tree Hotels & Resorts	Accor	2	198	120

Source: TopHotelProjects, Horwath HTL.

UPSCALE & UPPER UPSCALE BRANDS					
Rank	Brand	Chain	Hotels	Rooms	Investment, US\$ M
1	Hilton Hotels & Resorts	Hilton Worldwide	3	1,741	775
2	Melia Hotels & Resorts	Meliá Hotel International	2	1,100	447
3	MGM Muthu Hotels	MGM Muthu Hotels	2	748	455
4	Wyndham Grand Hotels & Resorts	Wyndham Hotel Group	2	620	377
5	Sandals	Sandals Resorts International	2	600	166
6	Iberostar Hotels & Resorts	Iberostar	2	552	160
7	Renaissance Hotels	Marriott International Inc.	2	380	92
8	AC Hotels by Marriott	Marriott International Inc.	2	350	96
9	Aloft Hotels	Marriott International Inc.	2	327	94
10	St. Clair Collection	St. Clair Collection	2	317	203

Source: TopHotelProjects, Horwath HTL.



Photo: Willemstad, Curaçao

Outlook

Brand power is overpowering independent hotel stars

After the temporary dip following the two hurricanes during the prior year, 2018 closed in with a very strong last quarter, sparking refreshed enthusiasm among key industry players. The region's robust, all time selling and at the same time strong differentiator assets, paired with political stability, make it an attractive territory for entities exploring investment options, construction and investment interest is currently up-ticking.

One observable tendency is an increasing market penetration by hotel brands that are familiar to travellers from main inbound markets. Long established and renowned hotel brands generally enjoy a high level of trust regarding the desired amenities and services. As a consequence, major chains have successfully closed deals recently and fresh products continue to pour into the market.

In recent years, French and Dutch speaking destinations, which normally welcome higher shares of European visitor's than Dominican Republic, Mexican Caribbean or English-speaking islands, have been negatively affected by factors like political strains in Europe - or in the case of Southern Caribbean destinations - the massive Venezuelan economic crisis.

Nonetheless, several islands have re-begun to successfully capitalize on their strengths as sophisticated tropical island destinations, Curaçao or Guadeloupe par example, managed to increase arrival and hotel occupancy during the past year. Smaller destinations are generally continuing their efforts to target North American travellers as priority and tailoring their products towards this source market, new hotel supply comprises an increasing share of products particularly adept to US and Canadian visitors.

Curaçao (18.2%), St. Vincent & the Grenadines (13.2%), the Cayman Islands and St. Kitts & Nevis (12.8% each) managed to attract higher US traveller numbers when compared to the prior year, part of this can be attributed to rerouted itineraries from hurricane affected islands during late 2017 and early 2018.

At the time of this report, rebounding destinations are continuing to launch major campaigns, reaffirming that the region is open for business; particularly Puerto Rico as US territory and one of the Caribbean's "Big Five", is expected to impact 2019 arrival numbers positively after the steep declines during the prior year, the re-opening of the world-famous Hilton Caribe just in time this summer is a suitable testimonial.



Photo: Punta Cana, Dominican Republic

As the only non-pure island destination in this list, the Mexican Caribbean, considering the destination's hotel market configuration and market sources, is increasingly competing with Punta Cana in the Dominican Republic as the biggest tourism spot in the region, even if one difference is the heavier seasonality and higher number of land arrivals in areas like Playa del Carmen.

Air cost and availability remains one of the key factors for the hotel, tourism and commercial activities. Throughout the last ten years, increases in extra-regional carriers and routes contrasted with stagnating inter-regional airlift supply, impeding further growth of inter-Caribbean travel and also the possibility of moving overseas travellers among different islands.

A current lack of harmonization regarding individual tax regimes and airport charges are main reasons why airlines in some cases perceive the opening of new intra-Caribbean routes as too risky. Waves of Sargassum – a type of seaweed – is currently affecting especially Southern and Eastern coasts of the region. Revolving political tensions in sunny, coastal regions that are closer to the European continent, are driving a portion of their demand to the Caribbean, which is perceived as being safe for travellers.

Formalized diplomatic relationships with the People's Republic of China in selected Caribbean destinations, visits from high ranked Chinese officials and authorized Chinese tour operators, have made the prospect of arrivals of curious traveller groups from the worldwide biggest outbound market a hot topic in the region. Chinese investments in high profile projects in destinations like Jamaica and St. Lucia have indeed become reality, considerable numbers of Chinese traveller groups have not been recorded yet, though.

In addition to the strong construction pipeline, destinations like Punta Cana, are currently building up on the momentum and adding significantly to their destination portfolio, including new residential and office real estates, high profile hotel projects, shopping & healthcare outlets, hence setting the signs on continuous growth of key market segments and capturing new/currently under served ones.

The trends described in this report, paired with the islands' great capability to blend traveller's experience with high lodging comfort, strengthens the Caribbean's position as one of the most stable markets among the world's leading tourism regions, and reasonably backs up growth predictions for 2019 and 2020.

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Daniel Stockhammer is Associate Director at Horwath HTL Dominican Republic. Daniel's work includes market and financial feasibility studies, property valuations and land appraisals, hotel chain selection, management contract negotiation, operational reviews, asset management, and destination development strategies for projects throughout the Caribbean and Central America. Daniel is fluent in English, Spanish, French and his native language German. Daniel holds an M.A. in international relations from the University of Hamburg, an MBA from the Joseph Schumpeter Institut, Wels, and a Certificate in Hotel Real Estate Investments and Asset Management from Cornell University, New York.



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