LATIN-AMERICAN HOTEL SECTOR LOOKING FOR INVESTORS

For decades, with the exception of major capitals and some sunny and beachy tourist destinations, the Latin-American hotel sector has been lacking a proper development effort. The positive economic cycle by the end of the last decade changed the situation, with annual growth rates above 4%.

With the economic stagnation in 2015 and the 2016 recession, there was an excess of brand new supply that the market is still trying to absorb. "**The demand is growing faster than the offer for the first time in six years**," says Patricia Boo, the regional director of STR for South and Central America.

The 2016 Olympic Games in Rio de Janeiro are partially accountable for those numbers, which fostered an oversupply in the Brazilian city and altered the revenue numbers per available room (RevPAR), the key statistic for hotel revenue." In 2017, the average RevPAR increased in some cities such as Cartagena, Santiago and Mendoza but, in general, the downfall was quite significant, especially in Brazil," says Boo.

The internal capital is still the king. "It's the main player", says Arturo García Rosa, president and founder of the South American Hotel & Tourism Investment Conferences (SAHIC), but today everyone is trying to bank a good opportunity, especially with a devalued coin". The Brazilian hotel sector is raising some questions, given the political turmoil and its dependence on the internal market, but García Rosa remains optimistic. "We are witnessing a recovery of the price of raw materials", he says. And Real will remain extremely devalued, so a fair share of the demand will stay where it is, instead of moving abroad".

The big hotel chains went shopping. "In the past year, we signed 43 management agreements," says Antonietta Varlese, director of communication for Latin America of the French chain Accor. "For 2018, we will consolidate the development of the past three years with new openings. Our goal is to have 400 hotels open by the end of 2018 and 500 hotels by the end of 2020". It's not the only case. The Spanish NH has invested 65 million euros (R$ 287 million) in 2015 to buy the Colombian Royal, while Hilton surpassed 100 hotels and has another 70 in development.

But, according to Clay Dickinson, director manager for Latin America of the real estate consultant JLL, today there are two major investment strategies in the Latin-American hotel sector. "We are seeing European hotel chains getting interested in management and with a strategic standpoint, looking for platforms to ensure their growth", he says. "From the US, we see Family offices and venture capital funds more often, going after symbolic buildings which are simple to get". As examples of the latter, Dickinson uses the Windsor Atlântica in Rio's Copacabana beach, acquired by Blackstone and turned into a Hilton, and the Sheraton of the San Martín square in Buenos Aires, bought at the beginning of the year by a fund headquartered in Delaware and with Argentinian capital.

One of the traits of this expansion is that international investors are trying to extend their range of products – looking for spaces like medium and small-sized hotels, something unheard of in major chains – and in new destinations disregarded until now, such as San Luis Potosí (Mexico) and Copiapó (Chile). "The difficulty was finding a product available to comply with the quality standards," says Dickinson.

Likewise, the remaining elements of the tourism sector are also facing many challenges. The first, violence, is one of the factors that keeps Chinese capital, so vibrant in the rest of the world, quite noiseless on the continent. "Rio de Janeiro, which became one of the key global markets, has been swept by violence," says García Rosa. "What the region really needs is more transparency and less complex regulation," says Dickinson. "The hotel sector investors tell me that executing a mortgage can take five, ten years in Brazil and Mexico. Capital always has options, and if you have an insecure legal context, they just opt to have 5% income tax in the United States rather than 20% in Latin America".

Date: 2018-07-02

Article link: https://www.tourism-review.com/brazilian-hotel-sector-needs-investment-news10657