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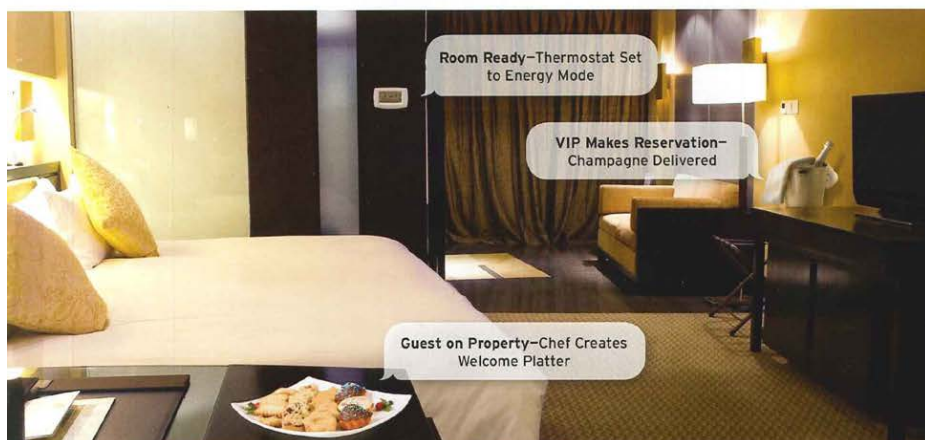
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Land of Opportunity?

U.S. hotel companies are flagging Cuba
as a hot spot for future growth

Hyatt House heats up
HB goes behind the brand

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GLOBAL VIEW



Located in the Condado district of San Juan, Condado Vanderbilt Hotel underwent a \$200-million renovation and reopened December 2014 as a five-star hotel. The suites consist of three bedrooms, living area and terrace with panoramic views.

HB ON THE SCENE

Puerto Rico tourism growth bodes well for island's hotels

By Matthew Marin
Associate Editor

PUERTO RICO—The slow entry of new supply into the lodging market of Puerto Rico, a U.S. territory in the northeastern Caribbean, has allowed occupancies to remain strong and average daily rates (ADR) to increase over the past several years. With only one new-build project in the pipeline, the Puerto Rican market presents opportunities for repositioning properties as revenue per available room (RevPAR) reaches new heights.

The hotel market in Puerto Rico has seen steady growth. According to STR, Inc.'s Trend Report on Puerto Rico, occupancy climbed from 66.5% in February year-to-date (YTD) 2009 to 78.1%

in February YTD 2015; ADR went from \$208.27 to \$230; and RevPAR increased from \$138 to \$179.5.

With occupancy levels at almost 80% over the last few years and a RevPAR increase of 6% in 2014, Puerto Rico has performed strong since the most recent economic downturn, similar to other market in the Caribbean, according to Parris Jordan, VP, HVS, New York and managing director, HVS Bahamas.

"Puerto Rico continues to perform well," said Jordan. "When recovery begins, it starts with occupancy, as in the case of Puerto Rico, and then increases to RevPAR. Puerto Rico's leisure platform has performed well, and it still has strong commercial demand. The government has placed greater

emphasis on marketing tourism."

Puerto Rico's tourism industry continues to grow as hotel occupancy rates increased in February 2015, compared to the same month during the previous year, according to the Puerto Rico Tourism Company (PRTC). The company projects a strong increase of 4.8 percentage points, compared to the same month in 2014, indicating 86.1% occupancy in February 2015 vs. 81.3% in February 2014.

Additionally, the new findings reveal an average rate increase of 1.4%, which equals a \$189.59 fee in February 2015 compared to \$186.93 the previous year. The data also shows that the hotels revenue per available room increased to \$163.24 in February 2015 vs. \$151.97 in the same month last year. According to the data, which is based on daily surveys conducted by PRTC, 12,384 more rooms were sold this year during the month of February than in 2014.

"This increase in hotel occupancy, based on our preliminary numbers, combined with the record number of cruise ship visitors to the island, encourage us as we continue our efforts to increase visitors, strengthen maritime and air access, and offer a varied and attractive destination, as well as maximize our efforts to promote

Puerto Rico as a unique, five-star destination," said Ingrid I. Rivera Rocafort, executive director of PRTC.

Puerto Rico's current room inventory is 14,572, and PRTC's goal is to increase that figure to 20,000 by 2016. According to the company, RevPAR has reached its highest level in 15 years, and ADR has increased by almost double that of other Caribbean destinations.

For local development, management and ownership opportunities in Puerto Rico, repositioning properties is profitable. A leading developer and manager of casinos and hotels in Puerto Rico, International Hospitality Enterprises (IHE), which specializes in renovating, rebranding and repositioning distressed hotels, has capitalized on the recent surge of leisure tourism to the island. IHE has been able to secure financing from a combination of vehicles that include local institutions and mezzanine lending from the Hotel Development Corporation, a subsidiary of PRTC.

"Our main strategy is taking lemons and making lemonade," said José M. Suárez, president, IHE. "That's been our philosophy for many of our hotels. We've taken existing hotels and relaunched them successfully. More world-class, luxury hotels have opened in Puerto Rico, which had a domino effect on the rest of the hotels on the island."

IHE has continued to elevate its portfolio with the property enhancements and renovations, especially in the luxury, upper-upscale and upscale segments. The company's portfolio includes Best Western Plus Condado Palm Inn & Suites; Courtyard by Marriott Isla Verde Beach Resort; Hotel El Convento; Copamarina Beach Resort & Spa; DoubleTree by Hilton San Juan; Condado Vanderbilt Hotel; and La Concha, A Renaissance Resort. Six of the seven hotels, which are based in the San Juan area, have reached occupancy levels of 85-90% in the past year.

IHE implemented its approach to turning around distressed assets with the \$200-million renovation of the historic Condado Vanderbilt Hotel. Built by Frederick William Vanderbilt in 1919, the property had been closed for more than a decade. The hotel, located in the Condado district in the capital of San Juan, reopened in December 2014 as a five-star hotel with 319 guestrooms, including 108 suites,

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"The reopening of the hotel, which was once a home-away-from-home for royalty and

celebrities, not only signifies a renaissance of an iconic period, but it holds a much larger implication for Puerto Rico's resurging economy," said Suárez. Another example is the

\$32-million renovation of Courtyard by Marriott Isla Verde Beach Resort. After sustaining damage from Hurricane George in 1998, the hotel had been shut down due to

structural issues. IHE acquired the beachfront property in the Isla Verde section of San Juan and reopened the hotel in December 2014. Along with the revamp of its 260 guestrooms,

lobby and public spaces, the resort added a new ocean-front bar and lounge.

Additionally, IHE pursued a more affordable, business-friendly option in Condado with the opening of Best Western Plus Condado Palm Inn & Suites two years ago. IHE purchased the former Diamond Palace Hotel and embarked on a \$21-million renovation for the 161-room hotel. In February and March of this year, the property achieved 98% occupancy—"the highest occupancy in San Juan," said Suárez.

The company's properties have taken advantage of the latest leisure travel trends, especially with an increase in destination weddings. La Concha, for example, hosted 100 weddings in the past year. Of any hotel segment, Suárez foresees the greatest potential in the luxury market, which, he said, "grows stronger and stronger in Puerto Rico with the success of Dorado Beach, A Ritz-Carlton Reserve, The St. Regis Bahia Beach Resort and Condado Vanderbilt."

Since March 2014, four properties have opened totaling 575 rooms, according to STR. As for the current pipeline, STR, Inc. shows one property—the 149-room Hyatt Place San Juan—under construction and a 225-room project in final planning. Expected to open in the first quarter of 2016, the \$29.7-million, 149-room Hyatt Place San Juan will be located in Puerto Rico's Convention District, adjacent to the Hyatt House San Juan.

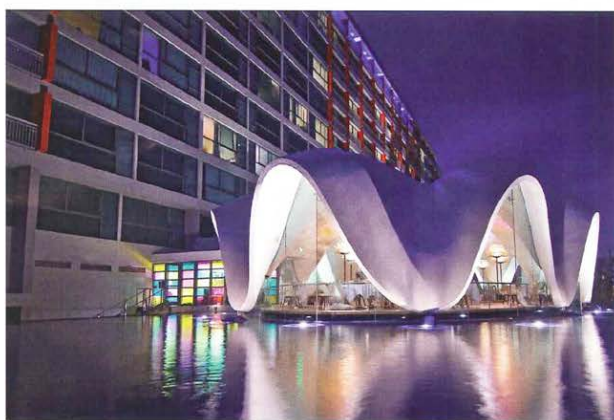
Within the past 12 months, PRISA Group and McConnell Valdes Consulting have broken ground on four Hyatt-branded, select-service hotels in Puerto Rico. Recent openings include the 156-room Hvatt



TOP TO BOTTOM: Courtyard by Marriott Isla Verde Beach Resort underwent a \$32-million renovation, which added a new oceanfront bar and lounge.

La Concha, A Renaissance Resort reopened several years ago as an upscale hotel following a \$220-million investment by International Hospitality Enterprises.

Located on the Southwestern coast of the island in Guanica, Copamarina Beach Resort & Spa underwent a \$1-million overhaul that included renovations of the guestrooms, pool deck and hotel entrance.



of real estate & development for the Americas, indicated that the company's plans to introduce new brands to the market resulted in healthy returns the first year.

With last year's opening of the Holiday Inn Express Hotel in Condado and the renovated InterContinental San Juan, InterContinental Hotels Group (IHG) has put a focus on leisure travelers pursuing three- to four-day stays, according to Joel Eisemann, chief development officer, Americas, IHG. Due to the high cost of construction and importing materials to the island, renovations present the best alternative to add value for IHG, which recently reported RevPAR growth of up to 6.2% in the Americas.

As a result of improved air access through direct flights from 20 major continental U.S. airports, Puerto Rico continues to generate strong leisure tourism demand. Puerto Rico offers a tropical climate with average temperatures of 82 degrees year-round and a variety of cultural districts, nightlife, shopping venues, beaches, casinos, cruise ships and eco-tourism.

And, as the U.S. government eases travel restrictions to Cuba, PRTC foresees an opportunity for increased leisure interest to the Caribbean resulting in potential travel packages with Puerto Rico. "I see it as a great opportunity to draw more travelers to the Caribbean island, and we'll continue leveraging," said Rivera Rocafort. **HB**



Place San Juan/Bayamon, the 104-room Hyatt Place Manati in the north central municipality of Bayamon and 126-room Hyatt House San Juan.

"Tourism has been the bright spot for Puerto Rico as the Commonwealth undergoes fiscal challenges," said Frederico Stubbe Jr., president of PRISA Group. "Puerto Rico is seeing double-digit growth in visitors and RevPAR during the last few years. Puerto Rico has been and continues to be an important destination for

travelers, posting consistent gains in visitor arrivals, rates and occupancy in the last several years. We believe in new-build and bringing in the best product to drive top-line revenue."

Compared to other island destinations, Puerto Rico has generated strong commercial demand, especially in the pharmaceutical manufacturing industries, which is why Hyatt Hotels Corporation is pursuing opportunities that target business travelers. David Tarr, Hyatt's SVP



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