



LATIN AMERICA'S NEW BOOM

THE EFFECTS OF THE CONSTRUCTION PIPELINE ON BUSINESS TRAVELERS AND PEOPLE ON THE MOVE

Around the world, hotels are popping up. Some regions are seeing higher hotel construction pipelines than others. One such region is Latin America. According to Lodging Econometrics – which considers hotels under construction, in final planning, in early planning, and those included in its proprietary three-year forecast – there are nearly 600 projects that will contribute more than 96,000 guestrooms to the Latin American economy in the pipeline.¹

As more hotel rooms become available throughout the world, and more specifically within Latin America, business and leisure travelers and expatriates on pre-assignment visits will be able to find lodging with more modern conveniences for a reasonable rate.

WORLDWIDE HOTEL CONSTRUCTION

Hotel construction in the U.S. peaked at \$38.21 billion in August 2008, and by the end of 2011, construction had declined 78-percent to \$8.43 billion.² Likely a significant cause for the decline is the tight lending market. Many investors and builders have struggled with securing hotel construction financing.³ Despite the impact of the Great Recession, the U.S. remains one of the top regions in the world for hotel construction.

As of November 2012, the McGraw Hill Construction Dodge Pipeline Report identified that the U.S. hotel pipeline had 2,586 projects (equaling 299,201 rooms) in the works – representing a 3.6-percent year-over-year decline.⁴ However, increases in new construction along with the refurbishment and remodeling of existing and acquired hotels are expected

in the coming years. The American Institute of Architects expects hotel construction spending to rise by nearly 10-percent to 19.7-percent in 2013.⁵

Along with the U.S., the European and Asia Pacific (APAC) regions round out the top three regions in hotel construction spending. In the APAC region, New Dehli, India, and Manila, Philippines, expect to add the most new hotels in the coming years, growing by 42.1-percent and 34.8-percent respectively.⁶ Other Asian countries that have boosted their pipelines are Indonesia, Vietnam, and China.

By 2039, China will have 9.1 million hotel rooms – four times more than it has today – and will overtake the U.S. as the world's largest hotel market.⁷



In Europe, investors and builders are rushing to add new properties that will service the upscale, upper midscale, and upper upscale markets.⁸ Major cities in the United Kingdom (including Manchester, London, Birmingham, and Edinburgh) and Moscow, Russia, are leading the charge with the most number of room growth in the active pipeline at 22,196 and 5,398 rooms respectively.⁹

FIGURE 1: WORLDWIDE HOTEL CONSTRUCTION PIPELINES AS OF NOVEMBER 2012¹⁰

	Projects*	Rooms
U.S.	2,586	299,201
Latin America/Caribbean/South America	352	54,835
Middle East/Africa	480	119,932
Asia Pacific	1,748	377,036
Europe	855	142,020

* Includes projects under construction, in final planning, and in planning stages – excludes projects in pre-planning stage.

¹ Nathan Greenhalgh. "Latin American pipeline up: Lodging Econometrics." Hotels, October 9, 2012.

² Anirban Basu. "Lodging Construction Grinds through Recession." Construction Exec, April 2012.

³ Ibid.

⁴ "STR reports US hotel pipeline for November." HotelNewsNow.com, December 11, 2012.

⁵ Anirban Basu. "Lodging Construction Grinds through Recession." Construction Exec, April 2012.

⁶ "STR Global: Asia/Pac pipeline for October." HotelNewsNow.com, November 14, 2012.

⁷ Yang Yijun. "Number of hotel rooms set to soar." China Daily, November 8, 2011.

⁸ "STR Global: Europe pipeline for October." HotelNewsNow.com, November 14, 2012.

⁹ Nathan Greenhalgh. "Asia Pacific, Europe top global pipelines: STR." Hotels, October 17, 2012.

¹⁰ STR Global. December 11, 2012.

Existing hotels also plan to make their offerings more attractive to travelers. According to a global survey by TravelClick, a provider of revenue-generating solutions for hoteliers, nearly two-thirds of hoteliers plan to make capital improvements to their properties in 2013.¹¹

HOTEL CONSTRUCTION IN LATIN AMERICA

According to a survey by Jones Lang LaSalle Hotels, hotel performance fundamentals, surging local demand, and sound economies are attracting hotel investors to the region.¹² The hotel pipeline in Central America is marked by construction of luxury and upscale properties in mainly capital cities.

Leading the region's charge is Brazil – thanks to its growing export economy and its selection as the host city for the 2016 Summer Olympics and 2014 FIFA World Cup. Brazil has the world's fourth largest hotel pipeline, behind the U.S., China, and India.¹³ In 2013, 46 hotels will open in Brazil, and in 2014, 87 new hotels are slated to join the market.¹⁴ Along with these new properties, existing hotels are undergoing substantial renovations and brand conversions.

The region also boasts the 16th largest hotel construction pipeline. Argentina will contribute more than half of the forecasted new hotel openings for the region excluding Brazil.¹⁵ However, the country's economic troubles could cause construction to slow down significantly in the coming years.

Panama has benefited from the activity surrounding the widening of the canal. The country saw a significant surge in construction over the last 10 years. While this activity has slowed, the country still accounts for 45-percent of the region's pipeline rooms.¹⁶

FIGURE 2: LATIN AMERICA HOTEL PIPELINE AS OF FALL 2012¹⁷

	Projects*	Rooms
Entire region	590	96,777
Brazil	259	43,827
Argentina	49	5,617
Colombia	29	5,189
Mexico	89	12,836
Caribbean	74	14,365
Panama	31	4,309
Central America (excluding Panama)	19	5,265

* Includes all lodging development activity including those projects under construction, starts in the next 12 months, and early planning, as well as Lodging Econometrics proprietary three-year forecast for new hotel openings.

WHY LATIN AMERICA?

International companies are investing in countries throughout Latin America. Businesses are looking to capitalize on the region's growing middle class by providing goods and services that were previously unavailable or too expensive for the masses.¹⁸ Specifically, infrastructure, telecoms, and energy-based industries see the benefits of the stable political and economic environments found in Colombia, Peru, and Chile.¹⁹ And Venezuela, despite its political situation, has vast amounts of energy deposits that attract multinational organizations.²⁰

Though the International Monetary Fund cut growth forecasts by 0.3-percent for Latin America, the region is still expected to realize a 3.9-percent expansion in 2013.²¹ The estimate was lower than originally expected based on potential impacts from the continuing euro zone crisis, China's slowing economy, and uncertainty surrounding the U.S.'s debt ceiling. The Latin America region heavily depends on the economic

impact of exports to China and travel and business investments from the U.S.

In general, countries throughout the region have done a good job of building strong reserves and maintaining low levels of public debt.²²

This economic growth coupled with more inclusive social policies has created a growing middle class. To be a member of the Latin American middle class, an individual must have a daily income of \$10 to \$50.²³ At present, a third of the region's population is considered to be middle class. This percentage equals the number of people who remain in poverty, which is a huge improvement from previous numbers.²⁴

Business travel throughout the region is also booming. Latin American countries are collaborating to grow business opportunities regionally, which in turn will increase the demand for hotels.²⁵ In addition to regional business opportunities, American, European, and Asian companies are looking to Latin America for expansion and growth.

While Brazil, Mexico, and Argentina account for 75-percent of the region's business travel volume, other countries are seeing an influx in business travel spend. Peru, Chile, and Colombia have seen higher than average growth in this area, with Colombia alone accounting for 8.2-percent of the region's business travel spend.²⁶

A CLOSER LOOK AT LATIN AMERICAN ECONOMIES

With an expected growth rate of 5.5-percent, Peru should enjoy steady expansion and its related benefits in 2013.²⁷ This growth comes on top of an expected growth rate of six-percent in 2012 thanks to the year-over-year double-digit growth in construction and retail, strong domestic demand, and an increase in

¹¹ "NewsLog." Business Travel News, January 9, 2013.

¹² "Positive Outlook for Hotel Performance in Latin America, According to Jones Lang LaSalle Hotels Survey." Jones Lang LaSalle Hotels, May 2012.

¹³ Lodging Econometrics. "Latin America: Lodging Real Estate Trends – Executive Summary," Fall 2012.

¹⁴ Ibid.

¹⁵ Ibid.

¹⁶ Ibid.

¹⁷ Ibid.

¹⁸ Anna Yukhananov. "Latin America's Middle-Class Population Finally Rivals Poor in Size." Reuters, November 13, 2012.

¹⁹ "HRG's Latin American forum points to continued business travel boom across the region." Hogg Robinson Group, November 26, 2012.

²⁰ Ibid.

²¹ "IMF cuts growth outlook for Latin America on global weakness." Reuters, October 8, 2012.

²² Jonathan Watts, Jonathan Franklin, and Sibylla Brodzinsky. "Latin America's booming economies face tough test." The Guardian, August 15, 2012.

²³ Anna Yukhananov. "Latin America's Middle-Class Population Finally Rivals Poor in Size." Reuters, November 13, 2012.

²⁴ Ibid.

²⁵ Hannah Sampson. "Kirk Kinsell talks hotel growth in booming areas." The Miami Herald, June 24, 2012.

²⁶ "HRG's Latin American forum points to continued business travel boom across the region." Hogg Robinson Group, June 13, 2012.

²⁷ Crayton Harrison. "Peru Economy Seen Expanding 5.5% Next Year, Andina Reports." Bloomberg, November 25, 2012.

mining activity.²⁸ The country's strong reserves, low debt, and public-private investment have and are expected to continue to aid this expansion.²⁹ Further contributing to the country's economic growth, unemployment has declined 1.1-percent year-over-year to 6.2-percent as of the third quarter 2012.³⁰

Growth in Brazil, the world's sixth largest economy, is expected to rise 4.0-percent in 2013 from the likely 1.5-percent increase in 2012.³¹ The lower growth rate in 2012 demonstrated how much the economic downturns in Europe and China impacted Brazil.³² Dealing with an economic slowdown, Europe reduced trade in China, which in turn impacted Brazil because China is the country's main trading partner.³³ Overall, Brazil saw a decrease of \$26.573 billion in exports in 2012 from the year prior.³⁴ Going forward, Brazil will need to invest significantly in infrastructure in the next couple of years to prepare for the upcoming World Cup and Olympics.

Chile and Colombia should also see their economies grow at more than 4.0-percent in 2013.³⁵

However, the picture is not completely rosy for every country in Latin America. Venezuela and Argentina will likely see downward pressure on growth in 2013. Venezuela has unresolved currency issues that could cause a cooling on the economy, especially if the government continues to grow the deficit.³⁶ According to Argentine bank Banco Ciudad, Argentina has the fourth highest inflation rate in the world, which causes exports to be less profitable and stymies job creation.³⁷

ATTRACTING BRAND NAME HOTELS

The world's leading hotel brands have taken note of Latin America's potential – and many are making substantial investment in the hotel landscape. The reasons for this growth

are multifaceted. Among the top reasons for expanding into the region are:

- > Stable and growing economies
- > Opportunities for revenue growth from business and leisure travelers
- > Accelerating opportunities for economic development
- > Rising middle class
- > Ability to drive demand among international travelers and conventions by offering amenities that include technology, exercise facilities, healthier food options, and more.

According to Kirk Kinsell, president of the Americas for InterContinental Hotels Group, in a *Miami-Herald* interview, hundreds of cities throughout Latin America could support branded hotel offerings. He cites Brazil as an example. The country has "41 cities with a population of 500,000 residents or more, many of which do not have any branded hotel products."³⁸

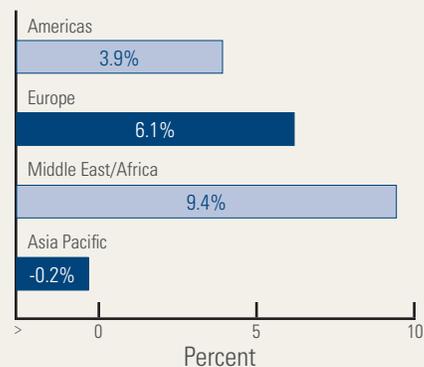
Many marquee hotel chains are already making a play to be the brands people see and prefer in these countries. In 2012, Hilton Worldwide opened properties in Bogota, Colombia; Saltillo, Mexico; Ciudad del Carmen, Mexico; Guadalajara, Mexico; Panama City, Panama; Lima, Peru; and Tucuman, Argentina – and has an additional 20 more projects in development throughout the region.³⁹

Hyatt opened its first Hyatt Place hotel outside of the U.S. in San Jose, Costa Rica, in late 2012. This milestone marks a first step in the company's desire to serve the Latin American market. Also under construction are other Hyatt-branded hotels in Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, Panama, and Uruguay.⁴⁰

Add to this mix Marriott International, Inc. The company plans to grow the number of

hotels in its Latin American and Caribbean portfolio from 69 to more than 140 properties by 2017.⁴¹

FIGURE 3: AVERAGE YEAR-OVER-YEAR HOTEL RATE INCREASE IN OCTOBER 2012⁴²



TRAVEL PRICES INCREASE

Across the world, with the exception of the Asia Pacific region, average daily hotel rates increased in October 2012 from the year prior. Graebel has covered these rising costs and how they impact relocation budgets in the Graebel ReloTRENDSSM, "[Rising Domestic Travel Costs Could Impact Relocation Budgets](#)," and the Special Report, "[Where Are Hotel Rates Rising?](#)"

The Latin American region will continue to witness increases in hotel rates in 2013 thanks to growing economies, rising regional and international business travel, increased leisure travel from an emerging middle class, and globally active companies' growth and expansion. Currently, the economic disparities among the countries in the region will affect how much these rates increase.

In 2013, Latin America is expected to see an increase in conference and convention spending. According to Carlson Wagonlit Travel, the region will see the world's highest increase (9.8 – 12.2%) in per-attendee per-day spending.⁴³ To offset these

²⁸ "Update 1: Peru economy grows 5.94 pct in Sept, below forecast." Reuters, November 15, 2012.

²⁹ Crayton Harrison. "Peru Economy Seen Expanding 5.5% Next Year, Andina Reports." Bloomberg, November 25, 2012.

³⁰ "Update 1: Peru economy grows 5.94 pct in Sept, below forecast." Reuters, November 15, 2012.

³¹ "IMF cuts growth outlook for Latin America on global weakness." Reuters, October 8, 2012.

³² Jonathan Watts, Jonathan Franklin, and Sibylla Brodzinsky. "Latin America's booming economies face tough test." The Guardian, August 15, 2012.

³³ Marcus Vinicius de Freitas. "Brazil-EU Relations: Beyond the Eurozone Crisis." The EuroFuture Project, August 2012.

³⁴ Jeffrey T. Lewis. "Brazil Had 2012 Net Dollar Inflow of \$16.753 Billion, vs \$65.279 Billion in 2011." Dow Jones Newswire, January 9, 2013.

³⁵ "IMF cuts growth outlook for Latin America on global weakness." Reuters, October 8, 2012.

³⁶ "Venezuela economic growth at 5.2 percent." Boston Globe, November 20, 2012.

³⁷ "Argentina with the world's fourth highest inflation, says private bank." MercoPress, November 21, 2012.

³⁸ Hannah Sampson. "Kirk Kinsell talks hotel growth in booming areas." The Miami Herald, June 24, 2012.

³⁹ Brian Major. "Hilton Worldwide Continues Expansion in Latin America, Mexico." Travel Pulse, September 10, 2012.

⁴⁰ "Expansion of Hyatt-Branded Hotels in Latin America Continues with the Opening of First Hyatt Place Outside of the U.S." Hyatt, November 12, 2012.

⁴¹ "Marriott plans to double Latin American portfolio by 2017." Hotel Management, April 20, 2012.

⁴² Michael J. Shapiro. "October Hotel Rates Rise in Most Global Locations." Meetings and Conventions, November 28, 2012.

⁴³ "2013 Travel Price Forecast." Carlson Wagonlit Travel, July 2012.

FIGURE 4: EXPECTED INCREASES IN HOTEL RATES FOR THE FIRST HALF OF 2013⁴⁴

Argentina	3.2 – 4.2%
Brazil	13.3 – 14.8%
Chile	5.0 – 5.3%
Colombia	2.1 – 5.2%
Mexico	1.9 – 3.6%

costs, companies may choose to decrease group sizes and trip durations for conferences, and thus this expected increase may not be realistic.

Despite higher travel prices, companies with strategic international growth and development goals will likely continue sending employees on business travel opportunities in the region throughout 2013,⁴⁵ as face-to-face meetings can help improve communication and forge stronger partnerships.

Boosted by the upcoming 2014 FIFA World Cup and 2016 Summer Olympics, Brazil is the only country that may post double-digit gains in hotel rates.

Hotel construction is up in a number of Latin American countries, but travelers will not be able to take advantage of this total room inventory for several years. In the meantime, they will be subject to rate increases as demand grows.

Along with potential supply issues, travelers face further complications with securing hotel accommodations in the region. Many countries do not participate in global commodity and distribution systems, which makes it harder for convention and travel buyers as well as

relocation companies to negotiate hotel rates.⁴⁶ In fact, Chile, Colombia, Mexico, and Peru are some of the most popular destinations with the largest number of independent hotel properties.

FINDING THE RIGHT ACCOMMODATIONS

Companies that partner with Graebel benefit from dependable, cost-effective on-the-ground support in 153 countries. This G|LOCAL™ knowledge enables Graebel to recommend proven, best-in-market suppliers and to provide valuable and ongoing communication to clients and their relocating employees on local trends, culture, and activities. Additionally, the Graebel vendor management team works closely with the vetted global supply chain to help ensure the best possible accommodations – from temporary living to hotels – are sourced.

Client-dedicated representatives are intimately familiar with each client's relocation policies so that expectations are properly set from the onset of each relocation, including what each expatriate and the family can expect for housing, temporary living accommodations, and hotels in their new host country. By knowing what to expect from the start, clients' employees are more satisfied with the relocation experience, and remain productive from the day the assignment was accepted.

"The Graebel vendor management team works closely with its global supply chain to ensure the best possible accommodations are sourced," stated Donna Reinke, vice president global vendor management for Graebel. "Our team of subject matter experts track housing, including hotel trends in the emerging, remote, and expanding markets around the world. We

HOSPITALITY INDUSTRY EXPERTS AT GRAEBEL

For more than two decades, Graebel has provided commercial office relocation and a comprehensive suite of workplace services for the Fortune 1000. This menu includes Furniture, Fixtures, and Equipment (FF&E) specialized services for the hospitality industry. Because the company has served literally every major hotel brand, resort and timeshare since 1991, Graebel has managed and installed more hotel rooms than any other organization worldwide.

From simple hotel room installations to massive 1,000-plus room renovations, inventory asset management, eco-friendly liquidations to global logistics and cargo freight management, Graebel helps lodging properties with cost-effective solutions and delivers exacting attention to every detail.

keep our clients aware of housing availability, amenities that can differ from market to market, and of course, changing rates. This helps ensure that their relocating people will be pleased with their short- or long-term assignment housing. Naturally, this satisfaction can contribute to expatriates completing their assignments. Up-to-the-minute communication with our clients and our supply chain network also helps ensure best-in-market value."



Transform Your Approach to Global Mobility with Graebel. Thinking Ahead. Moving You Forward.



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⁴⁴ "2013 Travel Price Forecast." Carlson Wagonlit Travel, July 2012.

⁴⁵ "American Express Predicts Robust Increases in Business Travel Pricing in Select Markets in Latin America, Asia, and Eastern Europe in 2013." American Express Global Business Travel, October 18, 2012.

⁴⁶ "2013 Travel Price Forecast." Carlson Wagonlit Travel, July 2012.