Hotel Investor Sentiment Survey

Latin America | 2014

JLL's fourth edition of the Latin America Hotel Investor Sentiment Survey highlights investors' hotel performance outlook, reveals investors' targeted investment yields and investment strategies, and ranks the key constraints to investment for 18 markets across Latin America.

Latin America Hotel Investor Sentiment Survey

Highlights from the survey

- Investor sentiment for Latin America a whole has improved since the last survey, and is in line with other regions globally including North America and Asia Pacific
- Over the two-year outlook, investors' lodging performance expectations were optimistic for all 18 markets in the survey
- Respondents indicate potential to deepen the stock of institutional-quality hotels outside of the major cities

Hotel performance outlook exceedingly positive

Hotel investors have a positive outlook for hotel performance across Latin America as the region's growing economy is leading to healthy hotel demand. JLL computed the net balance of investors' responses to measure respondents' sentiment with regard to the outlook for hotel performance, as defined by revenue per available room (RevPAR).

Net balance methodology defined

JLL surveyed respondents on whether they have a **positive**, **negative**, or **neutral** outlook for RevPAR across 18 Latin American hotel markets. Responses which indicated a "positive" outlook were given a score of 100; responses indicating a "negative" outlook were assigned a score of -100; and responses expecting "no change" in hotel RevPAR were provided a score of 0. The scores were then added together to compute a **net balance**. A higher net balance figure implies a more optimistic investor outlook, while a negative net balance indicates that more investors expect performance to decline than to increase during the given time period.

In line with the last survey, responses show that among countries in Latin America, investors have the most optimistic performance outlook for Mexico over both the six-month and two-year time frames. Moreover, Mexico has witnessed moderate increases in both the short and medium-term investment outlook from the previous survey given improving economic activity.

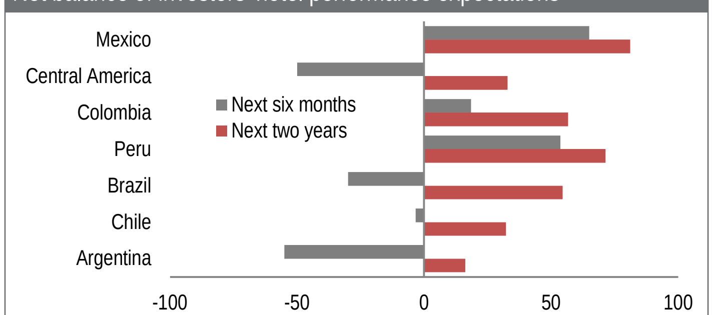
Peru also has a positive investment outlook, especially for the two-year horizon. Such optimism is attributable to high economic growth projections for the country; the Peruvian economy is expected to grow by 4.5 percent in 2014.

Colombia recorded a slight increase in short-term sentiment since the last survey and a significant increase in medium-term sentiment. Demand fundamentals remain stronger in Colombia than in a number of other South American markets and the uptick in sentiment further suggests that the supply pipeline is peaking and that new openings are slowly being absorbed.

Brazil ranked fourth-highest in hotel investor sentiment over the two-year time frame, but declined in the short-term outlook since the previous survey in part due to uncertainties surrounding the upcoming presidential election and downward revisions in near-term economic growth prospects. Overall, however, the Brazilian economy is expected to build on success garnered during the FIFA World Cup as business activity picks up following the election and in preparation for the 2016 Summer Olympic Games.

Chile also garnered positive investor sentiment over the medium term, though the responses are less optimistic than in the past survey following a year of modest growth. Nonetheless, the country boasts the most mature financial markets in South America, and this resulted in a record year of hotel investment activity in 2013. Forward looking, investors remain optimistic about improving lodging performance given a growing leisure sector, especially on weekends.

Net balance of investors' hotel performance expectations



Source: JLL Research

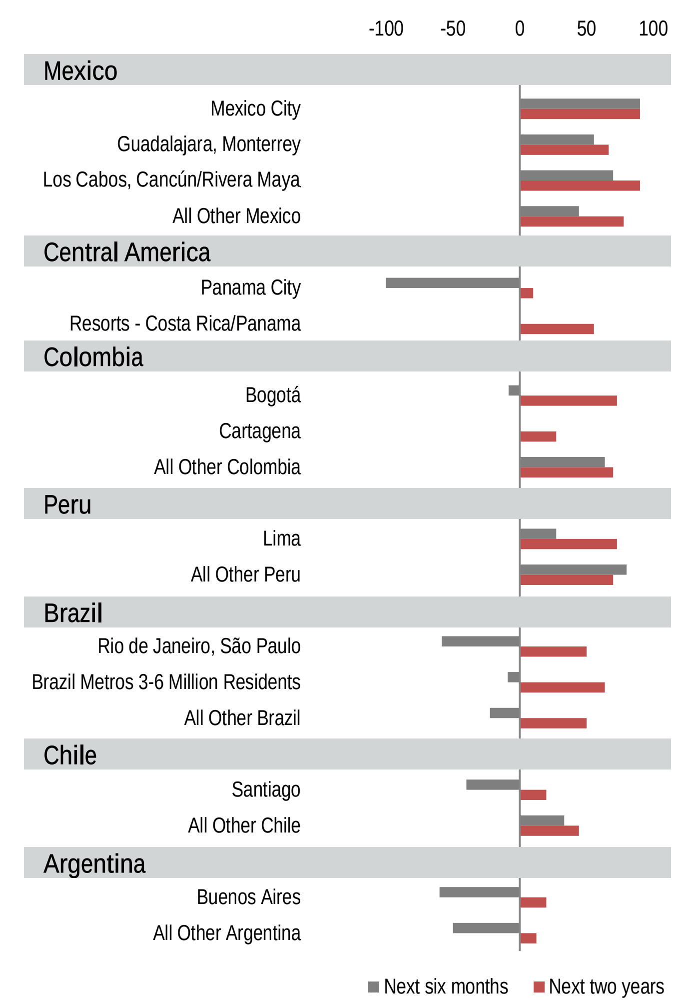
In Argentina, over the next six months, investors remain unenthused about hotel performance given looming economic uncertainties. However, investors' responses marked significant improvement in the medium term since the last survey. The medium-term net balance of investor sentiment was 16.3 percent, meaning that for the first time in several years a greater share of respondents expect RevPAR to increase rather than to decrease over the next two years.

Like Argentina, responses for expected hotel performance in Central America were negative in the short term and positive in the two-year time frame. Markets in Central America have a relatively limited demand base given the constrained size of the hospitality market overall; however, as economic activity improves in Latin America's major markets, commerce is expected to increase in banking hubs in Central America, boding well for the area's hotels.

Investors are optimistic about the two-year outlook

The country by country performance expectations summarized in the previous section represent an average of the responses within the respective countries. The following chart details the responses for each individual market contained in the survey.

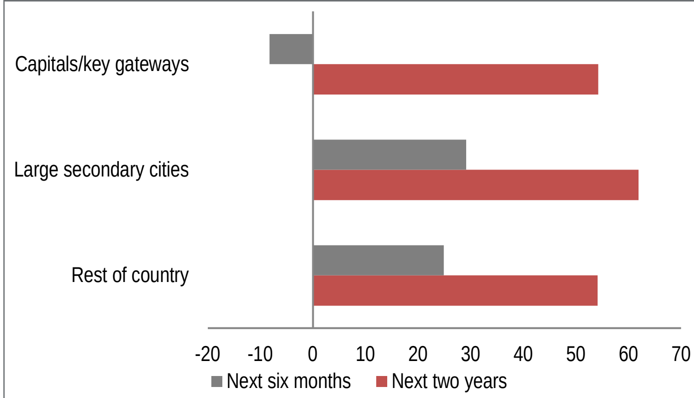
Net balance of investors' hotel performance expectations



Source: JLL Research

Of the 18 markets in the survey, investors were optimistic for every market over the two-year outlook. While investors were bullish about many of the markets in previous surveys, positive investor sentiment across the board sheds light on anticipated gains in markets where investors were previously bearish, such as Panama City, Bogotá, Cartagena and Buenos Aires.

Net balance of investors' hotel performance expectations



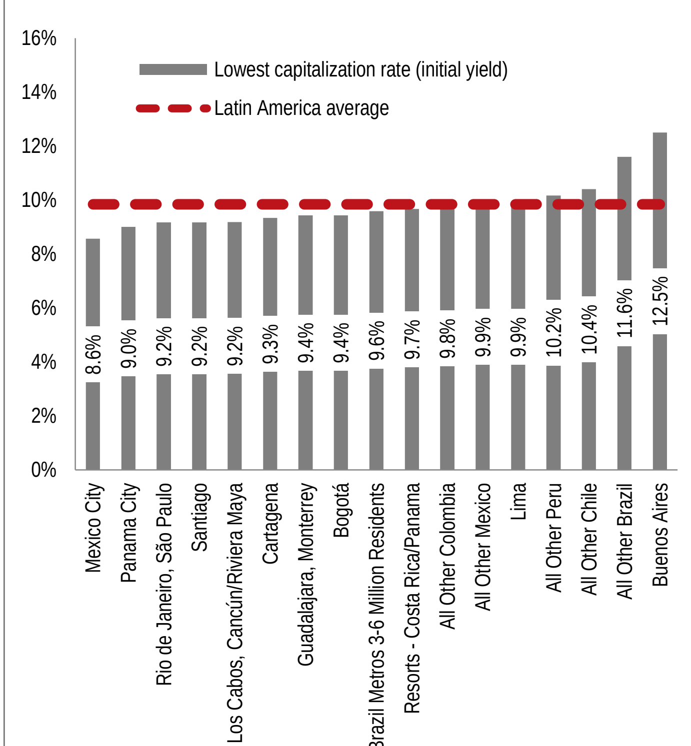
Source: JLL Research

A summary of investors' responses by type of market also yields a compelling picture. The highest medium-term results on a net balance basis were garnered for the respective countries' large secondary cities followed by gateway and tertiary markets, respectively. In the short term, investors expect hotel performance in the region's capitals/gateway markets such as Rio de Janeiro and São Paulo to soften, largely due to slower economic growth and impending new supply.

Cap rate expectations lowest for gateway markets

Survey respondents indicated their yield requirements for 18 markets across Latin America. Respondents' targeted capitalization rate (initial yield) for the acquisition of an international-grade hotel over the next six months averaged 9.8 percent according to the survey.

Investors' lowest capitalization rate (initial yield) by market



Source: JLL Research Note: pertains to institutional-grade full service hotel assets

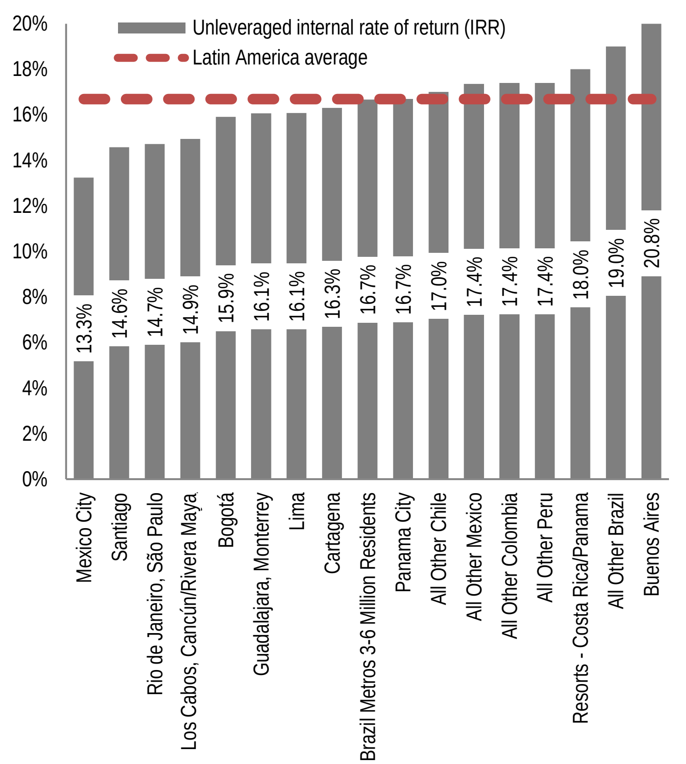
Mexico City exhibited the lowest cap rate expectations, at 8.6 percent, a 70 basis point decrease from the previous survey, which is explained by improved lodging performance. Investors' cap rate expectations for many of the other major markets are in the 9 percent range.

The survey data allows for the relative benchmarking of cap rates and comparisons among cities, clusters of cities or countries. For example, survey responses suggest a 120 basis point cap rate premium in Santiago compared to the rest of Chile. On the other hand, investors target a smaller basis point cap rate premium for a hotel acquisition in Mexico City versus Los Cabos and Cancún/Riviera Maya.

Investors' unleveraged IRR requirements soften, reflecting decreased risk perception

Survey respondents' average unleveraged internal rate of return (IRR) requirements are lowest in large urban centers and highest in Argentina, the non-urban areas of Brazil and Costa Rica/Panama resorts.

Investors' lowest unleveraged rate of return by market



Source: JLL Research Note: pertains to institutional-grade full service hotel assets

The lowest unleveraged return requirements indicated by survey respondents averaged 13.3 percent for Mexico City and 14.6 percent for Santiago due to their depth of investor interest and relative market transparency. Rio de Janeiro and São Paulo ranked the third lowest for unleveraged IRR expectations, at 14.7 percent, followed by Los Cabos and Cancún/Riviera Maya at 14.9 percent.

In Brazil, the responses imply that investors have a 4.3 percentage point lower unleveraged IRR requirement for São Paulo and Rio de Janeiro versus non-urban areas in the rest of the country, indicating that there are large spreads even within countries.

'Build' sentiment is highest outside of gateway markets

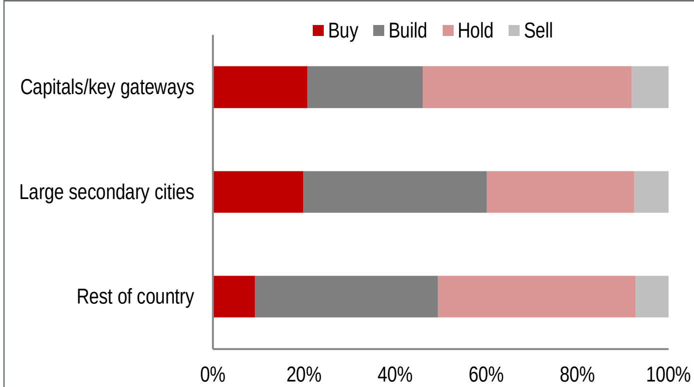
Survey respondents were asked to indicate their primary investment strategy (buy, build, hold, sell) across markets applicable to them. The compilation of responses allows for an assessment of drivers of hotel investment.

Investors' intention to 'build' was highest in large secondary and tertiary markets, with 40 percent of investors indicating this as their primary intention, given more affordable land and a lack of quality hotels outside of the major markets.

Investors' intentions to 'buy' assets are similar in capitals/key gateway cities and large secondary cities with 20 percent of investors citing this as their primary investment strategy.

This distribution of responses implies that additional investors are looking to enter key markets by building assets, and that owners are still seeking to 'hold' onto their existing assets given expected future asset appreciation. The imbalance in the number of likely buyers and sellers in Latin America's capitals/key gateway cities also suggests that prime assets that do come to market will garner considerable interest.

Respondents' primary investment strategy by market type



Source: JLL Research

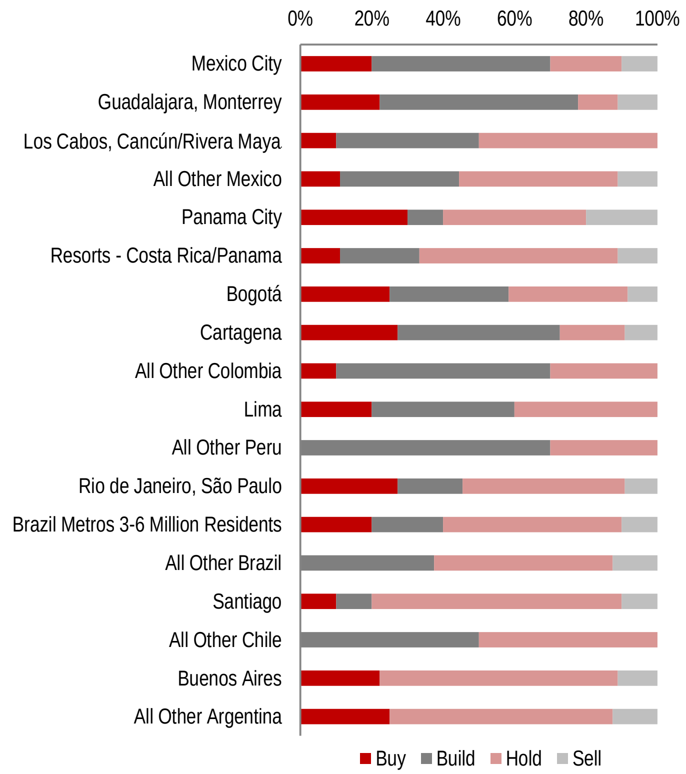
The potential to deepen the stock of institutional-quality hotels outside of the key cities is substantial, and the survey responses support this concept. Investors indicate that the top markets for development are secondary markets in Peru and Colombia. Those markets are seeing the emergence of branded select service developments in their respective airport submarkets, for instance.

Constraints to hotel investment vary by country

In order to quantify and contrast common constraints to hotel investment, the survey asked respondents to rank five constraints related to development and market entry from most negative/significant to least negative/significant for seven countries/regions in Latin America.

In Mexico, concern over new supply absorption and availability of debt financing were cited as the most significant impediments. On the other hand, apprehension over political/economic stability is less applicable in Mexico, while it remains a prevalent constraint in Central America.

Respondents' primary investment strategy by market



Source: JLL Research

(1=most significant constraint)

Mexico	
Rank	Constraint
1	Concern over new supply absorption
2	Security concerns
3	Availability of debt financing
4	Availability of credible partners (developers/operators)
5	Political/economic stability

Central America	
Rank	Constraint
1	Security concerns
2	Political/economic stability
3	Availability of credible partners (developers/operators)
4	Availability of debt financing
5	Concern over new supply absorption

Colombia	
Rank	Constraint
1	Concern over new supply absorption
2	Security concerns
3	Availability of debt financing
3	Availability of credible partners (developers/operators)
5	Political/economic stability

Source: JLL Research
Note: Markets where the same rank appears more than once indicates a tie

Peru	
Rank	Constraint
1	Concern over new supply absorption
2	Availability of credible partners (developers/operators)
3	Availability of debt financing
4	Political/economic stability
5	Security concerns

Brazil	
Rank	Constraint
1	Concern over new supply absorption
2	Availability of debt financing
3	Political/economic stability
4	Availability of credible partners (developers/operators)
5	Security concerns

Chile	
Rank	Constraint
1	Concern over new supply absorption
2	Availability of credible partners (developers/operators)
3	Political/economic stability
4	Availability of debt financing
4	Security concerns

Argentina	
Rank	Constraint
1	Political/economic stability
2	Availability of debt financing
3	Availability of credible partners (developers/operators)
4	Security concerns
4	Concern over new supply absorption

In Colombia, the greatest restrictions to hotel investment were cited as being the unease over new supply absorption, security concerns and availability of debt financing. In Peru, concern over new supply absorption also ranks as the biggest concern, while the availability of credible partners ranks second. Respondents reported that among the most significant hindrances to investment in Brazil is concern over supply.

In Chile, which has more sophisticated debt capital markets, the lack of debt financing tied for the least significant constraint. However, investors' biggest deterrent is the concern over new supply absorption.

In Argentina, volatile capital markets and the default of sovereign debt are primary drivers for political/economic stability to be at the top of the list of constraints. The security concerns and concern over new supply categories tie for the lowest rank.

Latin America's hotel investment market garnering attention with an expanding middle class, Latin America has shown rapid growth in recent years. Given strengthening economic conditions, the region's hotel investment market is expected to mature over the next decade with rising transaction activity and more upscale branded hotel development throughout the region.

Contributors

Clay B. Dickinson
Managing Director
Latin America Region
+1 305 529 6363
clay.dickinson@am.jll.com

Ricardo Mader
Executive Vice President
South America
+55 11 3071 0747
ricardo.mader@am.jll.com

Fernando Garcia-Chacon
Executive Vice President
Mexico/Caribbean/Central America
+1 305 529 6342
fernando.chacon@am.jll.com

Alfonso deGortari
Senior Vice President
Mexico
+52 55 5980 8773
alfonso.degortari@am.jll.com

Santiago Berraondo
Vice President
Buenos Aires, Argentina
+54 11 4893 2600
santiago.berraondo@am.jll.com

Eric Gorenstein
Analyst
Americas Research
+1 312 228 3518
eric.gorenstein@am.jll.com

About the survey:
JLL's survey is targeted toward 500 top investors active in Latin America. The survey is directed towards investors and does not include the opinions of advisors or analysts. Results are averaged across all respondents and not weighted by any factors. Responses for this survey were collected from July 30 to August 20, 2014.

About JLL

JLL (NYSE:JLL) is a professional services and investment management firm offering specialized real estate services to clients seeking increased value by owning, occupying and investing in real estate. With annual revenue of $4.0 billion, JLL operates in 70 countries from more than 1,000 locations worldwide. On behalf of its clients, the firm provides management and real estate outsourcing services to a property portfolio of 3.0 billion square feet. Its investment management business, LaSalle Investment Management, has $47.6 billion of real estate assets under management. For further information, visit www.jll.com.

About JLL's Hotels & Hospitality Group

JLL's Hotels & Hospitality Group has a long track record in Latin America. With 25 hotel professionals in the region, the group has a very strong local presence in multiple markets, spanning a variety of clients from global hotel brands to private equity funds.

For more information from JLL's Hotels & Hospitality Group in Latin America, please visit: http://www.jll.com/hospitality-latam

JLL's Hotels & Hospitality Group serves as the hospitality industry's global leader in real estate services for luxury, upscale, select service and budget hotels; timeshare and fractional ownership properties; convention centers; mixed-use developments and other hospitality properties. The firm's 300 dedicated hotel and hospitality experts partner with investors and owner/operators around the globe to support and shape investment strategies that deliver maximum value throughout the entire lifecycle of an asset. In the last five years, the team completed more transactions than any other hotels and hospitality real estate advisor in the world totaling nearly US $36 billion, while also completing approximately 4,000 advisory, valuation and asset management assignments. The group's hotels and hospitality specialists provide independent and expert advice to clients, backed by industry-leading research.

For more news, videos and research from JLL's Hotels & Hospitality Group, please visit: www.jll.com/hospitality or download the Hotels & Hospitality Group's iPhone app or iPad app from the App Store.