



Horwath HTL™

Hotel, Tourism and Leisure

Special Market Reports

Issue 3 - Brazil

COUNTRY / FACTS & FIGURES - 2010

Population	190.755.79
GDP (Gross Domestic Product)	USD 2.023 billions
GDP Growth	7,5 %
FDI (Foreign Direct Investment)	USD 30,2 billions
CPI (Consumer Price Index)	6,2 %

HOTEL / FACTS & FIGURES - 2010

Total number of hotels and condo hotels	9.564
Total number of rooms	448.872
Average occupancy rate	67,3 %
Average daily rate	USD 114,91
RevPAR	USD 77,40

BRAZIL

The current and forecasted data projections about Brazil’s economic performance tends to encourage all sorts of investment projects, including the reckless ones, but after looking at what the Brazil market has to offer who wouldn’t be optimistic.

All the signs are positive, not only for tourism but also as an investment destination.

“The country has produced sustainable economic growth, with a controlled inflation and fiscal surplus during the last 10 years”.

- Brazil is the 10th largest economy of the world.
- According to Goldman Sachs, Brazil, among Russia, India and China, will become the most relevant and dominant economies within the next few decades.
- The country has produced sustainable economic growth, with a controlled inflation and fiscal surplus during the last 10 years.
- Between 2002 and 2008, 20 million Brazilians migrated from the D and E classes (lower income inhabitants) to the C class (the new middle class). Nowadays the C class represents more than 50% of the country’s population (97 million people).
- Among the BRIC countries Brazil presents the lowest absolute values in terms of FDI, however, if taken proportionally relative to its GDP, its performance is much better and takes the lead.
- 6th place in the world ranking according to tourism total contribution to the GDP (USD 68 billions).
- Brazil will host world’s major sports events: FIFA World Cup 2014 and the 2016 Olympics in Rio.



“Brazil has lacked in coherence and good information about its hotel offering for decades”.

This only partially proves the point and even though Brazil’s economy is strong and is expected to grow substantially for a while, the delay effect that the economy (as a whole) has over the hotel industry in the region partly explains the long walk that remains to develop an adequate (both quantitatively and qualitatively) lodging offer.

**SOME MORE FACTS & FIGURES,
SPECIFICALLY ABOUT THE TOURISM SECTOR:**

- In absolute terms, Brazil appears on top of the rankings regarding tourism’s employment, investments and direct contribution to the GDP. Still, Brazil’s ranking drops considerably if considered in relative terms the participation (% share) of each of these items.
- International tourist arrivals is, still, an unfinished business for Brazilian tourism: barely approaching Argentina’s 5.29 million visitors, Brazil is far behind Mexico’s 22.14 million arrivals. Only 10-15% of hotel guests are foreign.
- Brazil has lacked in coherence and good information about its hotel offering strategy for decades. Until now, there have been no recognizable standards to classify hotels throughout the immense Brazilian territory. Only now the Ministry of Tourism has launched the Brazilian System for the Qualification of Accommodation Options.

So how can we understand what is going on in the Brazilian Hotel Industry? To begin with we need to look closely at the classic drivers, demand, offering and investment.

DEMAND: HOME SWEET HOME

To begin with, Hotel and tourism demand is mainly domestic. The highest percentage of international guests could be found in 5* city hotels (upscale, luxury and super-luxury). Even though the Brazil received 5.1 million international visitors during 2010, showing a 6 % more than in 2009, the truth is that most of the hotels make their living through the corporate and events segments boosted by the general economic activity of the country.

There is some sort of distorted image that places real estate tourism developments located in the northeast region of Brazil (Bahia, Alagoas, Rio Grande do Norte) as an international destination for many European tourists. In fact, there are some specific destinations (Porto Seguro and Italy, Natal and Portugal, etc.) that might show some significant participation of Europeans in their international visitors record; however, the Brazilian tourist is still the main guest in these resorts.

Distances, lack of good publicity and still poor airport infrastructure are some of the reasons that could explain this scenario. On the other hand, the same picture with different reasons could be drawn for economic and midscale (3* and 4*) hotels around the country.

Lastly, the current exchange rate (an over appreciated Brazilian Real) benefits dollarized tourism products (the Caribbean, Cruise ships) that tend to be more competitive than Brazilian vacation complexes.

SUPPLY: A FAMILY BUSINESS

Hotel offering in Brazil could be divided into three main groups: independent hotels, national chain affiliated hotels and international chain affiliated hotels. The number of chain affiliated hotels (both national and international) is still low in terms of establishments (8% of total approximately), but the number of chain affiliated rooms is much more relevant: 27% of the total rooms available in the country.

Since the 90's, hotel chains have gained space within Brazilian hotel supply. The international ones (Accor, the largest chain in Brazil with 146 hotels and more than 24,392 rooms) have achieved a significant penetration in the market through the tropicalization of the products (adapting international brand standards to local customs) and aggressive business plans that include franchised products in secondary an interior cities.

Meanwhile, national chain affiliated hotels have also gained significant participation in the market (4% of the hotels, 12% of the total rooms available in the country), but faced, or are facing different problems, specifically how to grow professionally in operational and commercial terms. Most of these national chains where originally part of the group of independent hotels (92% of the hotels, 74% of the total rooms) and grew locally and regionally.

Some of these chains are introducing more professional processes and investing in training. As for their growth, they are not only spreading their brands in Brazil, but also they are starting to look outside (mainly South America) following Brazilians guests in preferred destinations such as Argentina, Chile and Uruguay.

SURFING THE WAVE: THE REAL ESTATE LOGIC VS. THE HOTEL LOGIC

A strong increase in demand and the general business conditions seem to compound a suitable scenario for an investment wave in the hotel industry; the truth is that many projects still rely on the condo hotel/pulverized capital model to fund the development. Mixed-use projects (hotel, offices, residences, retail, etc.) became attractive options for individual and small investors seeking for a stable and long term income.

Even with these conditions, a shadow of doubt has risen over a new wave of hotel projects that have proliferated in many cities in Brazil caused by investors getting their fingers burned 15 years ago, during the last years of the 20th century. There was an explosion of new launched projects including various hotels, with perhaps the most famous example taking place in the city of Sao Paulo.

During 1998-2004, the hotel supply grew significantly, which evolution of demand did not match and consequently a rate war began and the damage was long lasting.

What happened more than 10 years ago and what can happen in some specific markets nowadays in Brazil is that the real estate logic might prevail over the hotel logic. This means that the "need to sell" promoted by the developers of the mixed use project (real estate logic) could leave aside the "need to exploit" that comes out the hotel operation business.

Hotel rooms were sold without in depth analysis to corroborate if that city or area could sustain new bedrooms. The developers and constructors made a great deal, while investors took a haircut.

STEPPING UP TO THE PLATE

While the eyes of the world seem to be focused on Latin America and specifically on Brazil's potential, the Brazilian government has announced 5% growth for the economy in 2012, a stable exchange rate and contained inflation (4.8%). Hotel projects are multiplying in different cities all over the country, though part of them will never get off the ground (lack of funding, lack of timing, lack of market). The game is rolling, as the country is running against the clock to host the major sports events in the next five years.

To hit a homerun, it is essential to analyze each and one of the opportunities that the market has to offer today and what will they become tomorrow; and to do so it is necessary to distinguish which one is a good opportunity for a hotel development, which one is a good opportunity for a real estate development and which one are both.

After all, chances and business all are about timing, especially in Brazil.

SOURCES:

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