Workshop on Foreign Direct Investment in the Caribbean Basin

OECD - Netherlands Antilles

Views of Investors: The Hotel Sector

Presentation by George C. Spence

Curaçao April 5, 2001
Foreign Direct Investment in Hotels: Ingredients of Success

- Destinations
- Airlift
- All - Inclusives
- Operating Formula
- Society & Politics

- Labor
- Infrastructure
- Tour Operators
- Taxes
- Statistics
Destinations

• What is the development objective of the destination? How does tourism fit in?
• Which destinations are growing and why?
• Business people go where the business is
• Leisure travelers are motivated by perceptions, price, distribution & their economic situation
• Image is important
Air Transport

- A Key Issue for success
- Diverse Gateway Service
- Diverse Carriers
- Scheduled and Charter
- Diverse National Markets
- Healthy Air = Healthy Hotels = Healthy Destination
All - Inclusive Resorts

- Attractive Pricing
- Freedom from monetary concerns during the vacation
- Efficient cost management
- Appeals to couples, singles and families with children
- Easily packaged with air transportation
- Appeals to the European and Canadian markets
- Fastest growing segment in Caribbean
- Issues in some destinations with reduced spillover effect
Society & Politics

- Overall stability and order of processes
- Is tourism & hospitality a priority?
- Is the physical security of guests an issue?
- Are tourists in enclaves? Is this controversial?
- Are there collateral attractions?
- Political demonstrations vs. image
Labor

Labor market characteristics favorable for growth:

- Service & productivity are considered virtues
- Focus on job creation vs. job protection
- Consultation vs. confrontation
- Ability to hire and fire

Issues:

- Expatriate work permits
- Languages & computer skills
- Labor pool available
Infrastructure

- Key Competitive Constraint in some destinations

- Water
- Sewage
- Electricity
- Garbage
- Roads
- Airports
- Education
  - Languages
  - Computers
  - Customer service
- Telecommunications
- Neighboring Attractions
  - Beaches
  - Old town, shopping
  - Ruins
  - Rainforest
  - Neighbors

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Tour Operators

- Growth & Consolidation
- Attractive Prices
- Europe / USA / Canada
- Vertical Integration
- Distribution
- Institutionalization
  - Publicly held vs. Private
  - Strong Sponsors
- Alignment of Interests Vs. Destinations
# Tax Trends

- Heavier Reliance on Value Added Taxes

<table>
<thead>
<tr>
<th>Destination</th>
<th>Nomenclature</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cancun</td>
<td>IVA</td>
<td>10%</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>ITBIS</td>
<td>12%*</td>
</tr>
<tr>
<td>Jamaica</td>
<td>GCT</td>
<td>15%</td>
</tr>
</tbody>
</table>

- Room Taxes difficult to apply to all-inclusives
- VAT type taxes are easy to apply & enforce
Tax Trends

- Higher Import Duties
  - Lower Income Tax

- Higher Income Tax
  - Lower Import Duties
Tax Trends

Taxation Issues

Look for:

- Income Tax Holiday (not available in Mexico and Dominican Republic)

- Exemption from duty on imported equipment, etc.

- VAT type Tax of 10 - 15%
Tax Trends

Tax Issues

Watch out for:

- Transfer taxes or stamp duties
- Withholding taxes are critical
- Misunderstandings with customs exemptions
- Conditionality of exemptions
- Authority for exemptions
- Foreign exchange taxes (implicit & explicit)
Statistics on Various Destinations in the Caribbean
# Top 10 Destinations in the Caribbean

1999 stopover arrivals (Thousands)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Destination</th>
<th>Arrivals</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Cancun, Mexico</td>
<td>2,818</td>
</tr>
<tr>
<td>2.</td>
<td>Dominican Republic</td>
<td>2,665</td>
</tr>
<tr>
<td>3.</td>
<td>Cuba</td>
<td>1,603</td>
</tr>
<tr>
<td>4.</td>
<td>Bahamas</td>
<td>1,439</td>
</tr>
<tr>
<td>5.</td>
<td>Jamaica</td>
<td>1,248</td>
</tr>
<tr>
<td>6.</td>
<td>Puerto Rico</td>
<td>1,090</td>
</tr>
<tr>
<td>7.</td>
<td>Aruba</td>
<td>683</td>
</tr>
<tr>
<td>8.</td>
<td>U.S. Virgin Islands</td>
<td>560</td>
</tr>
<tr>
<td>9.</td>
<td>Martinique</td>
<td>564</td>
</tr>
<tr>
<td>10.</td>
<td>Barbados</td>
<td>517</td>
</tr>
</tbody>
</table>
### Top Destinations in the Caribbean by Room Count

<table>
<thead>
<tr>
<th></th>
<th>1980</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Dominican Republic</td>
<td>3,800</td>
<td>42,412</td>
</tr>
<tr>
<td>2. Cuba</td>
<td>7,526</td>
<td>35,708</td>
</tr>
<tr>
<td>3. Cancun</td>
<td>N.A.</td>
<td>23,581</td>
</tr>
<tr>
<td>4. Jamaica</td>
<td>10,092</td>
<td>22,713</td>
</tr>
<tr>
<td>5. Bahamas</td>
<td>11,429</td>
<td>14,243</td>
</tr>
<tr>
<td>6. Puerto Rico</td>
<td>9,224</td>
<td>11,828</td>
</tr>
<tr>
<td>7. Guadeloupe</td>
<td>3,037</td>
<td>8,371</td>
</tr>
<tr>
<td>8. Martinique</td>
<td>2,235</td>
<td>7,400</td>
</tr>
<tr>
<td>9. Aruba</td>
<td>2,235</td>
<td>7,212</td>
</tr>
<tr>
<td>10. Barbados</td>
<td>6,680</td>
<td>5,752</td>
</tr>
</tbody>
</table>
Caribbean Tourism Growth Rate

<table>
<thead>
<tr>
<th></th>
<th>1992 - 97 Average Annual % increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Tourism</td>
<td></td>
</tr>
<tr>
<td>Visitor arrivals</td>
<td>4%</td>
</tr>
<tr>
<td>Caribbean Tourism</td>
<td></td>
</tr>
<tr>
<td>Visitor arrivals</td>
<td>5.3%</td>
</tr>
</tbody>
</table>
### Average Annual Rate of Growth
Caribbean Tourist Arrivals by Market Place

<table>
<thead>
<tr>
<th>Market Place</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>4.5%</td>
</tr>
<tr>
<td>Canada</td>
<td>4.2%</td>
</tr>
<tr>
<td>Europe</td>
<td>14.4%</td>
</tr>
</tbody>
</table>

1987 - 1997
Average Length of Stay

<table>
<thead>
<tr>
<th>No. of Nights</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>10.0</td>
<td>Dominican Republic</td>
</tr>
<tr>
<td>2.7</td>
<td>Puerto Rico</td>
</tr>
<tr>
<td>11.4</td>
<td>Cuba</td>
</tr>
<tr>
<td>10.8</td>
<td>Jamaica</td>
</tr>
<tr>
<td>7.5</td>
<td>Aruba</td>
</tr>
</tbody>
</table>

European visitors have longer average stays, thus requiring higher investment in room inventory.
Growth Destination:

The “Riviera Maya”

Growth of Total Room Count

<table>
<thead>
<tr>
<th>Year</th>
<th>Rooms</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>4,918</td>
</tr>
<tr>
<td>1999</td>
<td>7,832</td>
</tr>
<tr>
<td>2001</td>
<td>14,453</td>
</tr>
<tr>
<td>2003</td>
<td>19,866</td>
</tr>
</tbody>
</table>
# The “Riviera Maya”

## Year 2000 update

<table>
<thead>
<tr>
<th></th>
<th>Jan - Aug 1999</th>
<th>Jan - Aug 2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cancún Arrivals</td>
<td>2,074,048</td>
<td>2,212,230</td>
</tr>
<tr>
<td>Riviera Maya Arrivals</td>
<td>510,179</td>
<td>808,270</td>
</tr>
<tr>
<td>Cancún Occupancy</td>
<td>80.93%</td>
<td>79.80%</td>
</tr>
<tr>
<td>Riviera Maya Occup.</td>
<td>73.44%</td>
<td>87.03%</td>
</tr>
</tbody>
</table>

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## Growth Destination:

**Punta Cana / Bavaro**  
(Dominican Republic)

<table>
<thead>
<tr>
<th>Year</th>
<th>Passenger Arrivals</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>4,229</td>
</tr>
<tr>
<td>1990</td>
<td>71,231</td>
</tr>
<tr>
<td>1995</td>
<td>343,135</td>
</tr>
<tr>
<td>1999</td>
<td>650,000</td>
</tr>
</tbody>
</table>
Punta Cana / Bávaro
(Dominican Republic)

<table>
<thead>
<tr>
<th>Year</th>
<th>Passenger Arrivals Jan. - June</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>284,225</td>
<td></td>
</tr>
<tr>
<td>1999</td>
<td>330,117</td>
<td>16.1%</td>
</tr>
<tr>
<td>2000</td>
<td>463,563</td>
<td>40.4%</td>
</tr>
</tbody>
</table>

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*Trends*

**Growth Destinations**

- Spanish speaking Caribbean
  - Punta Cana, Dominican Republic
  - Varadero, Cuba
  - Playa del Carmen (Cancun), Mexico
- Longer stay Europeans require higher room inventory
- Extensive foreign direct investment involved, equity and debt
Trends

Caribbean vs. Other Destinations

- Name Recognition (Evocative, Appealing)
- Close to U.S.A. and Canada, accessible to Europe
- Cost Effective
- Variety of cultures & geography
- Familiarity of Languages & History

Comparative Disadvantages of Competitors:

- Southern Mediterranean: Politics
- Southeast Asia: Distance
- Hawaii: Distance from Europe
- Indian Ocean: Distance from U.S.A.
Conclusions

• The Caribbean will continue to be an area of above average growth for the hotel industry

• Growth will be focused in the all-inclusive segment and in destinations with competitive characteristics

• The hotel Sector requires large amounts of investment to build assets for years of use
Conclusions

• Hotels can’t be moved around like cruise ships: they become a part of the society

• Hotel investment = construction jobs, service jobs, foreign exchange generation, supply jobs, etc.

• Public policy & leadership make a big difference
Conclusions

• Hotels can’t be moved around like cruise ships: they become a part of the society

• Hotel investment = construction jobs, service jobs, foreign exchange generation, supply jobs, etc.

• Public policy & leadership make a big difference
1,000 Hotel rooms costing US$100,000 each equals US$100,000,000 of investment

5,000 Hotel rooms costing US$100,000 each equals US$500,000,000 of investment

The Riviera Maya has some 19,000 hotel rooms costing US$70,000 each, which equals US$1,330,000,000 of investment

The Dominican Republic, has some 50,000 hotel rooms costing US$60,000 each, which equals US$3,000,000,000 of investment
Thank you

George Spence
Tel. (809) 487-5667
Fax (809) 487-5892

gspence@allegroresorts.com