
**Workshop on Foreign Direct Investment
in the Caribbean Basin**

OECD - Netherlands Antilles

**Views of Investors:
The Hotel Sector**

**Presentation by
George C. Spence**

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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**



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

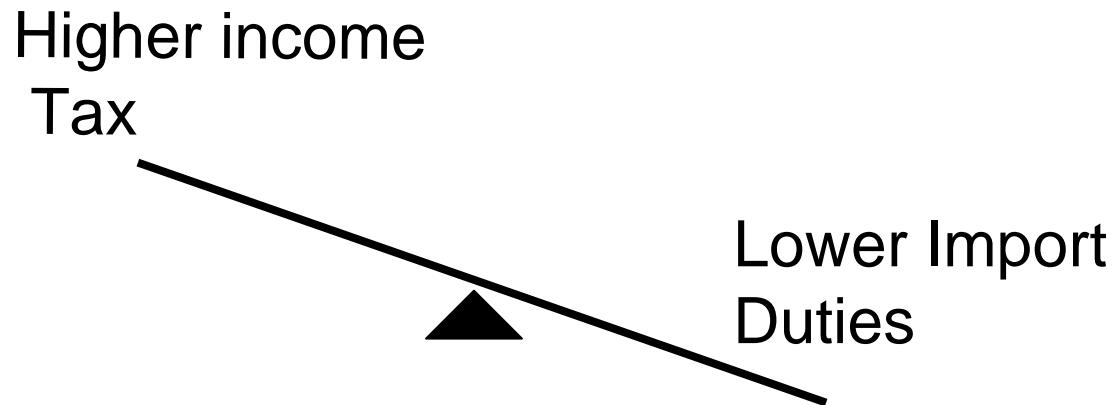
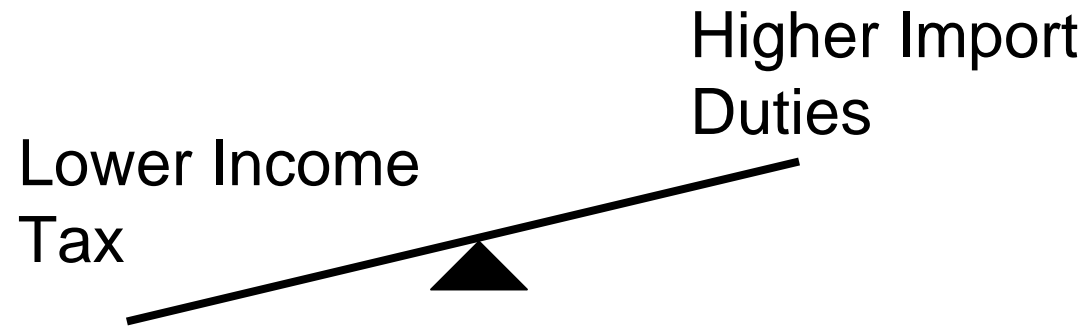
- Heavier Reliance on Value Added Taxes

<u>Destination</u>	<u>Nomenclature</u>	<u>Rate</u>
Cancun	IVA	10%
Dominican Republic	ITBIS	12%*
Jamaica	GCT	15%

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



Tax Trends



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)**

1. Cancun, Mexico	2,818
2. Dominican Republic	2,665
3. Cuba	1,603
4. Bahamas	1,439
5. Jamaica	1,248
6. Puerto Rico	1,090
7. Aruba	683
8. U.S. Virgin Islands	560
9. Martinique	564
10. Barbados	517

Top Destinations in the Caribbean by Room Count

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

Caribbean Tourism Growth Rate

	1992 - 97 Average Annual % increase
World Tourism Visitor arrivals	4%
Caribbean Tourism Visitor arrivals	5.3%



Average Annual Rate of Growth Caribbean Tourist Arrivals by Market Place

1987 - 1997

United States	4.5%
Canada	4.2%
Europe	14.4%



Average Length of Stay

No. of Nights

1. Dominican Republic	10.0
2. Puerto Rico	2.7
3. Cuba	11.4
4. Jamaica	10.8
5. Aruba	7.5

European visitors have longer average stays, thus requiring higher investment in room inventory



Growth Destination:

The “*Riviera Maya*”

Growth of Total Room Count

<u>Year</u>	<u>Rooms</u>
1997	4,918
1999	7,832
2001	14,453
2003	19,866



The “Riviera Maya”

Year 2000 update

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



**Growth Destination:
Punta Cana / Bavaro
(Dominican Republic)**

Year	Passenger Arrivals
1985	4,229
1990	71,231
1995	343,135
1999	650,000



Punta Cana / Bávaro (Dominican Republic)

Year	Passenger Arrivals Jan. - June	% Change
1998	284,225	
1999	330,117	16.1%
2000	463,563	40.4%

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**



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Extent of Investment

- **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

