Back to the future

The Brazilian hotel industry is poised for a good 2009, says JOSE ERNESTO MARINO NETO, President and founder of BSH INTERNATIONAL. Following recent trends within the world's tenth largest economy, he foresees likely growth in the industry, with steady demand and deepening inroads into the US travel market.

Optimistic «state of the union»

When Brazil received investment-grade rating from major agencies during the first semester of 2008, we witnessed also a corresponding spike in activity among financiers examining the national market for solid opportunities.

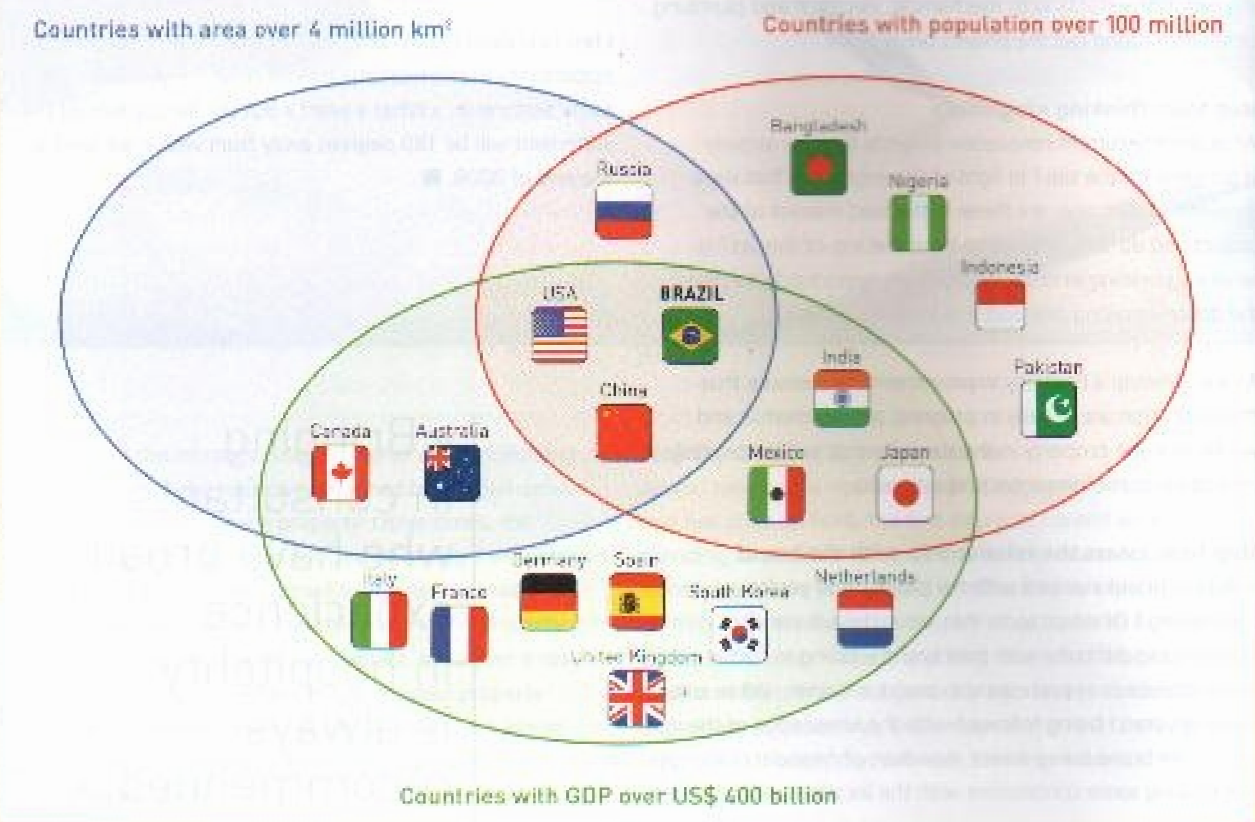
Now only a few months later, the world looks very different, and the internal rate of return of real estate businesses, including hotels, is currently lower than local interest rates.

What can we expect then in 2009? Believe it or not: growth. 2009 is poised to be a good year for the Brazilian hotel industry. Our nation's sheer scope and depth of resources positions us for better-than-average performance, even during a world downturn.

Growth in cities continues apace

During the 1990s, the Brazilian hotel industry experienced a supply boom. Using a law that designates condominiums as a fund-raising vehicle, Brazilians created a syndicated ownership structure for hotels, a move that has benefited the industry with far-reaching effect. However, with unsteady markets worldwide, it appears that the world is again pushing Brazil to work with 100-percent equity financing. This very likely won't be an issue for us, since Brazilians have been working with a worst-case scenario – and thriving in it – for decades.

Brazil - a country of opportunities



Tourism surge sparks development frenzy

Where will all this money go? Big cities are going to continue to see growth and activity. Having put the problems associated with market oversupply behind us, we are already seeing near 10-percent demand increases in São Paulo, Belo Horizonte and Brasilia, and there's no reason to believe this trend will falter.

The case of São Paulo is particularly noteworthy. In 2002, budget properties there were struggling to pay even their operating expenses, with occupancy barely reaching 40 percent. Today large players there, like Ibis and Comfort Inn-branded properties, are steadily achieving 67 percent occupancy. Market watchers are forecasting that São Paulo's ADR will grow at least 10 percent in 2009.

Steady traffic expected in luxury and secondary markets

The outlook for the luxury segment is also good. Fasano, Emiliano and Unique, São Paulo's luxury boutique hotels group, are performing with ADRs close to US $500 and pulling in near-75 percent occupancy rates. (Given that the exchange rate suffered during the financial crisis of late 2008, it's possible to foresee stagnation in 2009, or a slight decrease next year in ADR growth measured in USD.)

Rio de Janeiro built a solid market infrastructure in recent years when it constructed state-of-the-art business and convention properties. As hospitality asset managers, we see Rio de Janeiro as the most mature and least risky hotel market in Brazil.

With rising GDP in secondary markets such as Espirito Santo (about 11 percent per year) and Ceara (about 10 percent) – both excellent examples of how Brazil's economy is being diversified regionally – it's reasonable to expect solid corresponding hotel performance.

The country's largest hotel investor, Funcef, has announced its intention to invest about R$ 150 million in budget properties, mainly located in secondary markets.

Northeastern Brazil used to be known as a beach resort destination only. This is the region with bigger per capita income growth since President Lula took over in 2003. Business hotels in the region are doing well. My colleagues expect urban hotel occupancy to grow seven points in 2009.

We foresee the resort market with steady growth in demand in 2009. « Brazilian Resort 2008, » published by BSH International, shows demand growing about 6 percent per year during the last several years. Although the exchange rate has fluctuated significantly, it won't be enough to keep Brazilians from traveling abroad, and at the same time it shouldn't hinder any increase to the revenue stream brought by foreigners to hotel properties.

A bright forecast: American dollars

2009 is poised to be a good year for the Brazilian hotel industry. Our nation's sheer scope and depth of resources position us for better-than-average performance, even during a world downturn.

To put into context Brazil's long-term investment appeal: Only three countries globally can claim the « trifecta » of more than 100 million inhabitants, an area greater than 4 million square kilometers and a gross domestic product (GDP) greater than US$ 400 billion: the United States, China and Brazil.

Despite the uncertainty of global financial markets, there is a real sign of hope in the Brazilian tourism trade: opening our resort market to the USA. Last year, American Airlines and Delta began operations from Miami and Atlanta into Fortaleza, Recife and Salvador, three very popular resort destinations in the Northeast.

And there is the Brazilian economy itself, resilient through two world wars and similarly shaky periods in history owing to its own internal demand, rich resources and industrious people, who produce food, oil, airplanes, and automobiles on a global scale. Brazil today has strong internal demand, no external debt and sound economic fundamentals. 2009 will be a good year. ■