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# Caribbean Tourism Planning: Good Times Are Not the Time to Relax

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*The past two years have seen the Caribbean tourism market finally shake off the last vestiges of recession symptoms.*

Travelers are spending, airlift is increasing and developers and their backers are investing. The Region's destinations are popular not only for those in close proximity to the islands, but also for travelers from around the world. The recent Caribbean Hotel & Resort Investment Summit (CHRIS) in Miami was characterized by close to unanimous optimism, and with good reason.

However, as we have seen in this industry, market conditions can change in fewer months than it takes to develop a resort, and our industry's players tend to display "herd" behavior, with most investors reading the same reports, agreeing on which markets are currently "hot", and then flooding them with new hotel supply. Panama City was the target and/or victim of such popularity, growing quickly from a 4,000- hotel room market in 2007 to almost four times that today. As a result, it is still difficult to interest investors in the beautiful undeveloped beach destinations on Panama's Pacific and Caribbean coasts, far from Panama City.

As travel to the Caribbean region has increased globally, so has interest in developing new resort projects. In the last year, numerous projects, including some $500 million-plus developments, have been announced for the region; for example, *Caribbean Journal* reported more than 18,000 hotel rooms, 55 new projects, and over $2 billion worth of investments into the hotel pipeline in the Dominican Republic alone.

*Travel Weekly* noted that Royalton Luxury Resorts, of Canada's Sunwing Vacations, will be debuting four new resorts in Jamaica and St. Lucia. Barbados, St. Lucia and Antigua & Barbuda are each in the spotlight due to increased airlift or improved airport infrastructure. Several $100 million to $2 billion resort developments, such as Singulari, Pearns Point and Paradise Found have been announced in Antigua and Barbuda just as the last mega-resort of the Caribbean, Baha Mar, with its 2,000-plus hotel rooms, appears to have found a path to completion in Nassau, Bahamas.

## Traditional Supply and Demand Factors

Both "natural" market forces and "external" forces are responsible for increasing demand to the region. First, the natural forces. Airlift has not only been expanding, but shifting from being dominated by traditional carriers to an increasing presence of "low-cost" carriers from the United States and charter airlines from Canada and Europe. As airlift is the lifeblood of island destinations, this combination of increased access as well as more accessible air fares has a significant impact on stimulating demand.

Another of the natural forces stimulating demand is the improved quality of resort products in the region. The number of new hotel and resort projects, renovations and conversions (to global hotel brands) has been quite large in recent years, further fueling interest in travel to Caribbean destinations, including Cancun, Riviera Maya, and Belize on the western rim of the Caribbean. Significant new projects that include the Aman, Auberge, Capella, Four Seasons, and Park Hyatt brands continue to refresh the luxury appeal of the region. The gradual easing of travel and trade restrictions with Cuba has also sparked renewed attention on the region, and fear in several island markets that a "sleeping giant" may be awakening as a new competitor for U.S. tourism dollars.

## External Factors

Several forces outside of the traditional supply and demand factors present both benefits and threats to the region:

- As Mediterranean resorts have tragically been targeted by random acts of terrorism, Europeans are increasingly seeking the relative "calm" of the Caribbean.
- As several of the world's emerging markets have seen renewed economic volatility after a decade of steady growth, Caribbean safe havens for Dollar- and Euro-denominated investments, whether in vacation homes or in $100 million-plus resorts, are resulting in new hotel and resort development plans that might otherwise not be executed.
- Antigua & Barbuda, St. Kitts & Nevis, Dominica, and Grenada all have Citizenship by Investment programs, by which vacation home purchases at varying investment levels qualify purchasers to obtain residency and local passports. The lure of visa-free travel to from 90 to 130 countries (depending on which of the four islands grants the passport) is very attractive to wealthy individuals in the Middle East, China and Russia. These are not the traditional

source markets for Caribbean vacation home purchases. Many of these units will find their way to AirBnB or VRBO websites as nightly and weekly rental inventory, adding shadow inventory to these islands' hotel and resort markets.

- Fear of Zika virus appears to be having a negative impact on travel to the Caribbean. STR reports that operating results for the April 2016 year-to-date period compared with prior year data showed that region-wide occupancy dropped 3.0 points to 72.9%, average daily rate declined 1.4% to $268.86 and RevPAR dropped by 4.4% to $195.99. For the month of April alone, the decline was more noticeable, with a 9.1% drop in RevPAR from April of 2015 (though Easter fell in April of 2014 but in March of 2015, also negatively impacting April results).

Some of the influencing factors noted above will not be long-lived. Global investors can quickly be distracted from one region or industry to others - very quickly. Resorts and hotels, however, typically have 30- to 50-year or longer lifecycles. Therefore, it is important that some of these temporary stimulants to demand not be the foundation of the feasibility of a resort's development plan.

## Sustainable Development

Unlike Panama, whose economy has been one of the fastest growing in the hemisphere and whose tourism sector constitutes only about 10% of the nation's economic activity, many Caribbean island economies cannot "shake off" an oversupply of hotel and resort industry capacity, or wait for demand to catch up with supply.

While the pending increase in tourism investment will create jobs and increase GDP, initially in construction and later in all areas of tourism infrastructure, the investment will also create even greater dependence on the economic conditions of the visitation source markets of North America and Northern Europe. Strong tourism master plans, along with efforts to diversify economic growth, can assist smaller island nations to better guide their economic destiny in the midst of larger global investment patterns.

For the largest arrival hubs of the region (Cancun, Havana, Punta Cana and San Juan), everything from convention centers to the broad range of large all-inclusive hotels and master-planned resorts become part of the investment mix. However, in smaller markets, care must be taken to identify, develop and nurture selected market segments.

Overbuilding and/or rapid growth in visitation can have long term impacts on small island communities. Through a combination of economics and public policy for example, Anguilla, Turks and Caicos and the British Virgin Islands have managed to attract mid-sized luxury resorts designed for pure relaxation and pristine beaches. Such resorts fit the capacity of these islands' infrastructure and also are aligned in pricing with the high cost of importing the majority of goods and services, and even labor. In another example, Bonaire, Saba, and Roatan's plans would logically be to build on the foundation of SCUBA-related visitation.

The development of Aruba and Curacao over the past two decades shows how differences in airlift patterns can influence not only the pattern of tourism investment but cultural attributes as fundamental as the languages people speak. Both islands share similar geography and cultural roots. In Curacao, where less than 25% of the airlift is from the United States, and a diversity of air links exist with Northern Europe and Central and South American neighbors, local residents generally speak to each other in Papiamento, the local Creole language. In Aruba, where over two-thirds of airlift is from the Unites States, it is more common to hear local residents conversing in English.

While Curacao is actively seeking increased lift from US cities, its five-year plan and advertising message are aligned to specifically target cultural travelers and culinary travelers from the U.S. rather than the mass market. Summer events include a Latin Music Festival, Blues Festival and Jazz Festival, Restaurant Week, Curacao Pride, Flavors of Curacao, etc. Conversely, the island welcomes mass-market or middle-market travelers from the Netherlands, a smaller source market whose size and culture have less potential to disrupt the local community.

While Aruba may be considered more of a tourism "success" story, as it has attracted a greater number of hotels to its Palm Beach and Eagle Beach areas, it takes a bit more effort on the part of the tourist to find authentic Dutch cuisine, well-preserved historical sites or colonial architecture there.

In summary, **the more organization, transparency and focus (on targeted tourism market segments) with which Caribbean islands can present themselves to investors, airlines and consumers, the more they can guide the development of tourism investment and enhance the unique attributes of their local markets.**

Balancing the needs of jobs and economic development with preservation of local cultures within limited geography and small populations is a daunting and controversial challenge. However, as we have seen, changes in airlift and in the scale and type of tourism investment that are promoted can have unintended long term impacts on both local economies and local culture.

Such planning efforts can help to screen long term investments for long term viability and for alignment with local master plan goals, rather than being based on recent, and possibly temporary, aberrations in supply or demand conditions. Therefore, **it is critical that each destination in this diverse region invest in determining its positioning and messaging strategies, so that growth in the tourism industry can be aligned with the destination's unique attributes and culture.**

**WRITTEN BY:**

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Andrew Cohan, MAI, is the Managing Director for Horwath HTL primarily serving Florida and the Caribbean Basin, based in Miami. A seasoned hospitality professional with extensive real estate, marketing and account management skills in North and Latin America, Andrew has consulted for leading branded management companies such as Canyon Ranch, Six Senses, Montage, Solage and Bulgari. He has extensive experience with health and wellness resort properties and has performed numerous feasibility studies for planned resorts in the Caribbean and Central America. He especially enjoys working on greenfield projects, teaming with land planners to determine the optimal resort configuration in order to fit market demand with destination and site attributes. As health and wellness have moved from the margins of the industry to become important components of mainstream hospitality projects, Andrew's expertise has been in demand to conduct an increasing number of assignments for proposed resort properties, particularly as the industry recovery continues to strengthen in Central America, the Caribbean, Mexico and the "sunbelt states" here in the United States.

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