



**Horwath HTL**

*Hotel, Tourism and Leisure*

MARKET REPORT

# Caribbean *Market Update*

JUNE 2020





## Introduction

In December 2019, the world was hit by COVID-19 - a contagious disease which is currently resulting in governmental measures with societal and economic bearings of unprecedented dimensions.

Some of those impacts are already being felt throughout the world, others are looming and very difficult to predict, which leads analysts to a higher than usual level of caution and reluctance when dealing with future numbers. By the beginning of March 2020, the pandemic had arrived in the Caribbean, albeit still at a significantly lower pace of virus spread and number of infected than in the USA or several European countries.

Commonly recognized and known for world-class, tropical beaches, all year sun, cultural and culinary diversity, and its jovial, joyful-friendly island-inhabitants, the Caribbean sources much of its attractiveness from an exclusive, yet diverse image of paradise - a place where foreign visitors are met with envy from home. Beaches, all year sun and adventure in the midst of paradise will always sell - this was the simple, yet effective formula by developers over the last few decades. The natural environments and climatic conditions paired with political stability and fiscal incentives for investors in tourism products have paved the way to steady, healthy growth in the region.

2019 had been characterized by all-time high stay over arrival numbers and a noticeable increase of major new branded hotel projects from leading international hotel chains, including increasingly innovative product types.

Known as one of the most stable and resilient tourism regions in the world, past major crises and adverse events have been regularly followed up by successful bounce backs - although experts unanimously agree that the current pandemic is a whole different animal when compared to past crises in recent history. With 13.9% contribution of tourism to GDP, the Caribbean is considered to be the most tourism-dependent region in the world, although this percentage varies among the destinations and depends to a considerable degree on the size of the country and economy.

This report seeks to diagnose the short/medium-term direction the market can be expected to take.

- Industry performance, KPIs and tendencies before the COVID-19 outbreak;
- Intensifying region specific difficulties and advantages in the light of the current crisis;
- The implications for the future business and what Horwath HTL believes will be crucial for the sector;
- Responses and measures hotel-chains, owners and operators are expected to take and/or being forced into.

## Arrivals 2014 - 2019

For five decades, the Caribbean region has had a 2-3% share of worldwide annual tourist arrivals. Air carriers play a crucial role for the industry's success and the island region is also the most popular cruise destination in the world, recording 30.2 million passenger visits in 2019.

After the region recorded the first y-o-y decrease in stay-over arrivals for more than ten years in 2018, which can partly be attributed to flat numbers in destinations affected by two hurricanes in the prior year - 2019 saw the anticipated rise, reaching an all-time high of 31.5m visitors, equivalent to a y-o-y growth of 5.4%, surpassing the 4.0% growth of worldwide arrivals. A substantial number of hotel properties underwent renovations and came back well prepared for the resurgence in visitor numbers, so that the successful 2019 appears somewhat logical.

The strong 2019 is even more remarkable when taking into account that the two biggest destinations, Dominican Republic and Cuba both reported decreases. Cuba's arrivals suffered under renewed US travel restrictions, while business in the Dominican Republic experienced a dip after temporary negative media reports. This clearly shows that 2019 could have easily been an even more stellar year, considering that the remaining islands more than balanced the lower than expected numbers from the region's by far biggest tourism markets.

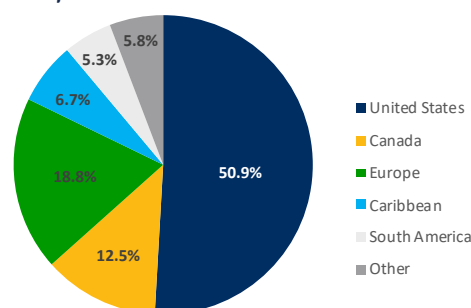
The US as the biggest and most important market with geographic proximity to the Caribbean, was responsible for a record stay over arrivals, making up over 50% of total arrivals in 2019, the strong US economy and high consumer confidence contributed to the explosive 15 percent surge of US visitors after two successive annual decreases.

The negative growth during the two prior years was a result of heavy temporary arrival contractions in popular destinations for US visitors, in particular Puerto Rico, Sint Maarten, US- and British Virgin Islands.

Worldwide and Caribbean Tourist Arrivals, 2004-2019					
Year	World		Caribbean		Caribbean Share in the World
	Tourist Arrivals, Mn	% Change	Tourist Arrivals, Mn	% Change	
2004	754	10.3%	21,7	6.8%	2.9%
2009	893	-4.0%	22,3	2.8%	2.5%
2014	1,142	4.5%	26,6	6.4%	2.3%
2015	1,195	4.6%	28,5	7.1%	2.4%
2016	1,239	3.7%	29,9	4.9%	2.4%
2017	1,323	6.8%	30,6	2.3%	2.3%
2018	1,400	5.8%	29,9	-2.3%	2.1%
2019	1,500	4.0%	31,5	5.4%	2.1%
Total Increase CAGR* Average, 2004-19					
	746	4.46%	9,8	4.17%	2.4%

Source: UNWTO, Caribbean Tourism Organization, Horwath HTL

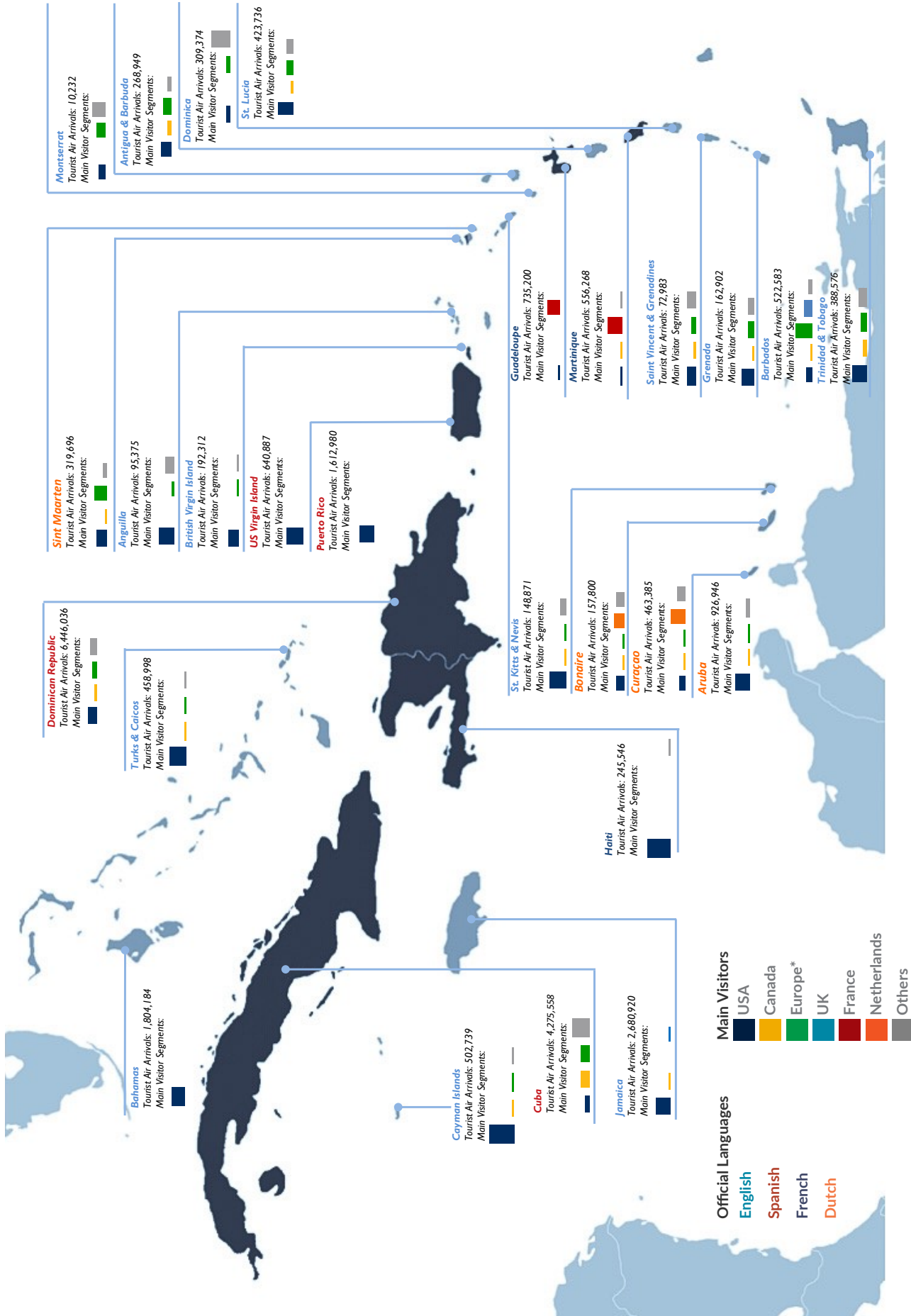
## Arrivals from Main Inbound Markets 2019



Source: Horwath HTL with figures from CTO, National Tourism Boards

Canada as the second biggest North American visitor market recorded a flat increase of 0.4%, while European visitors decreased by 1.4 percent. Even if progress regarding inhibiting issues like the Brexit negotiations could be achieved, a substantial share of European visitors typically travel to Dominican Republic and Cuba, which in 2019 contributed to the slight dip.

The in recent years steadily increasing visitor flow from South America experienced a decrease of 10.4 percent, reflecting the economic downturns and political tensions in important markets like Argentine and Chile. On the other hand, intra Caribbean travel went up 7.4%, benefiting from improving flight connections between some of the island destinations.

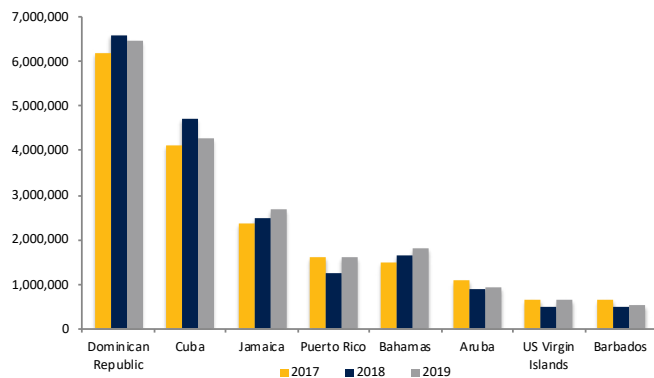


\*Other Europe - UK, France & Netherlands listed separately





**Arrivals to Main Destinations**



Source: Horwath HTL with figures from CTO, National Tourism Boards

In 2019, the “Big 8” islands made up approximately 62% of over-night arrivals to the whole region, contrary to 2018, the Dominican Republic (-1.9%) and Cuba (-9.3%) - the two biggest markets, did not take on the role of the region’s growth driver, this highlights the once again found success in basically all other smaller island destinations.

Puerto Rico (+27.9%) and US Virgin Islands (+30.5%) experienced the anticipated rebound from the flat numbers during the post hurricane 2018, while Aruba (+4.1%) and Barbados (+4.2%) recorded solid y-o-y increases.

The Bahamas suffered substantial damages by the hands of category 5 Hurricane Dorian, but nevertheless finished 2019 with strong stay over arrival increases (+10.5%) and most hotel inventory and tourism products operating. Jamaica recorded another strong year with an 8.4% y-o-y stay-over arrival increase.

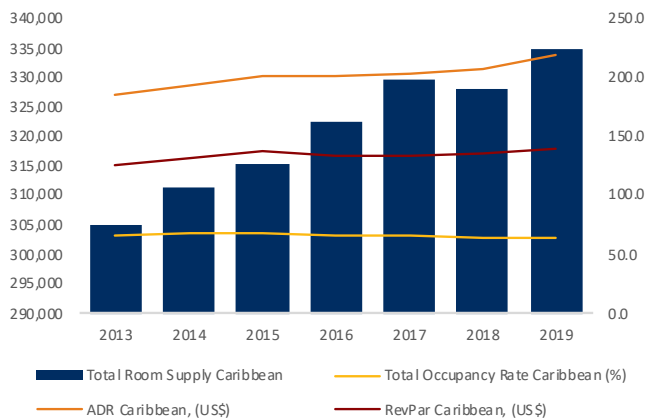
Other remarkable results were achieved in Hurricane recovered Sint Maarten (+80.0%), British Virgin Islands (+57.3%), Antigua & Barbuda (15.0%), Curacao (+7.4%), Saint Lucia (+7.3%) and Martinique (+3.5%). Political and social crisis stricken Haiti continued the expected fall in stay over arrivals (-30.5%).

Cancun, part of the Mexican Yucatan Peninsula and because of its geographical position on the Caribbean Sea often referred to as the Mexican Caribbean, has not been included, considering that the region is directly connected to and legally part of the Mexican territory, thus the effects of COVID-19 on the tourism destination will be subject to the course of the virus on Mexico mainland and actions and measures taken by the Mexican government.





### Hotel Industry Performance



Source: Horwath HTL, Caribbean Tourism Organization (CTO), STR Global.

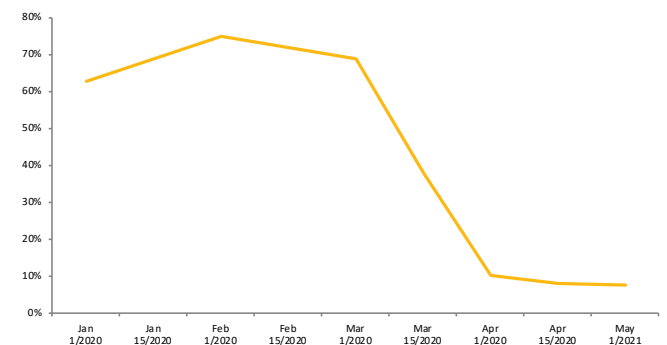
2019 finished with the anticipated rebound and outstanding performance throughout most of the region. With 63.9%, occupancy has been 1.5% below 2018, this must be attributed to additional room supply in particular in the big markets Dominican Republic and Jamaica, but also new properties and renovated, re-opening hotels in destinations like Puerto Rico and US Virgin Islands.

Despite the decrease in occupancy, hotel management could again successfully resist the temptation of lower average daily rates (ADR), which instead increased by more than 5%, reaching an all-time high of US\$219. Revenue per available room (RevPar) increased by 2.8%, with US\$139 also reaching an all-time high figure.

By March 2020, roughly nine weeks after the first identified COVID-19 cases in Wuhan, the spread had officially reached Caribbean destinations and immediate actions including curfew, restrictions of movement and closure of airports have been taken.

As the graph below clearly depicts, the shutdown of air transport deprives the typical Caribbean tourism product from its core business and hotel occupancy took an immediate dive:

### Hotel Occupancy January - April 2020



Source: Horwath HTL, Caribbean Tourism Organization (CTO), STR Global

After displaying the usual patterns of a strong start of the year with high occupancy rates, by the second week of March, rates started to plummet until reaching one digit numbers, currently tumbling at around 8%.





Contrary to past setbacks and crises, hotel industry KPIs are expected to hit a significantly lower bottom. Experts estimate that the impact of the COVID-19 pandemic will be 5 to 6 times greater than the effects of the Worldwide Financial Crisis and hotel management and local experts are prepared to implement new strategies and take extraordinary measures for detaining unnecessary costs and keep as many properties operating as possible.

Among the region specific, intensifying difficulties and also favorable conditions during this critical time are:

- Comparably lower wages and costs especially in the region's bigger destinations, which will enable hotels to bear the cost of keeping the operation going for a longer duration than in various other destinations;
- Low level of seasonality, which will grant higher flexibility in revenue management once the sector will be in the position to reopen;
- Small domestic market, which won't help to balance the missing quantities of visitors arriving from abroad. Only the bigger islands Dominican Republic, Jamaica and Puerto Rico are able to source from a somewhat noteworthy domestic demand;
- Location of many hotels and resorts in coastal beach regions, which leads to a comparably fast deterioration of the physical buildings through exposure to salty water, tropical sun and heavy precipitation.

Hospitality experts agree that there will be periods with losses even if hotels re-open and are still operating on the back of a lower occupancy level, which will lead to an urgent need to restructure agreements. In this regard, it is more than ever the time where owners and operators need to develop a bond to survive this phase of crisis and beyond.

Compared to other regions, by the time of this report, in most of the Caribbean island destinations, the reported number of COVID-19 positives and deaths has been low.

Conversely, in some of the most important Caribbean inbound markets including USA and major European markets, the virus spread has reached significantly higher numbers and governments and health experts remain cautious. Over the course of the last couple of weeks and as a consequence of fallen rates of infection and virus reproduction, in some major European inbound markets, safety measures have been relaxed gradually, including partially reopening borders and easing entry restrictions for non-essential travelers.



## The importance of air connectivity

Available air routes and connectivity are essential for the highly tourism dependent Caribbean economies. The crisis has offset air connections to the region's islands, in turn shutting down the tourism industry, while airlines around the world are currently facing imminent bankruptcy threats as a result of the enormous loss of business.

It bodes well that following latest public announcements, selected regional governments have set dates for reopening airports and tourism as early as June 1st. Eyes will also be on the geographically close USA and how aviation will be developing over there.

According to an IATA survey, 14% of passenger respondents like to travel right away, 46% would wait another month, while 40% are expected to prefer to let pass 6 months before taking flights again. Especially long-haul flights will be depending on the individually perceived financial stability and possibilities to generate household income.

Somewhat surprisingly and despite being on hold for now, some of the largest cruise lines recently reported higher bookings for 2021 than during the same period in 2019, with more than three quarters being new bookings instead of credits and the same or higher price levels.

In homeport destinations, air-traffic is directly impacted by cruise operations. Caribbean airports have had prior experience with healthy concern measures and are in a good position to cope with the changing norms.

Puerto Rico, a US jurisdiction and one of the region's major airport hubs, has been successful in controlling the virus spread and keeping infected numbers low, despite currently having a higher inbound and outbound travel load factor than any other US airport.

The Caribbean has proven over and over again to possess the ability to overcome crises and bounce back from major external shocks and negative events. The region is well equipped for delivering and even surpassing the expectations of the conscious traveler, whom experts expect to grow in importance in a post COVID-19 world.





## Conclusion

Destinations are aware that one of the primary keys to success in re-opening the tourism sector and welcoming foreign visitors to Caribbean islands will be the ability to regain consumer's confidence and trust. Clearly optimistic signs are the displayed nimbleness and leadership by governments, which have taken the necessary aggressive measures while preparing for a gradual reopening.

In addition to monetary support and tax reliefs, this includes actions for ensuring the mandatory level of new standards of cleanliness, sanitary procedures, properly trained personnel, quality and availability of health services, following clearly defined and strictly implemented internationally recognized norms. The answer to the safety concern won't end within the destination's internal borders and hotel facilities, but also address outside trips and restaurants, smaller lodging establishments and other related business, including internal and external aspects – both equally important and indispensable.

Aligned, coordinated measures and partnerships within the whole tourism value chain is the only receipt for paving a sustainable way for the post COVID-19 era. Consistency in the marketing messages and audits of the established safety standards are similarly important.

Due to the fact that lease-contracts are virtually nonexistent in the region, active management contracts will need to be restructured urgently and future agreements will heavily focus on repricing risk and availability of capital. Hotel managers have already started the transition from a fixed to a variable cost structure, those who have successfully implemented lean cost structures will restart with some tailwinds. Major hotel brands are expected to be among the first to adapt to the new norms and maintain their grip over regional competitors.

A new or modified value proposition will have to fit into a slimmer marketing budget. An advantage are the strong and differentiating natural assets of the region, which will continue to be sought after by consumers and can be enjoyed without having to restrain from current and future security distance measures. Hotel managers, tourism ministries and other local players have experience in dealing with flat numbers during and after crises.

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Daniel Stockhammer is Associate Director at Horwath HTL Dominican Republic. Daniel's work includes market and financial feasibility studies, property valuations and land appraisals, hotel chain selection, management contract negotiation, operational reviews, asset management, and destination development strategies for projects throughout the Caribbean and Central America. Daniel is fluent in English, Spanish, French and his native language German. Daniel holds an M.A. in international relations from the University of Hamburg, an MBA from the Joseph Schumpeter Institut, Wels, and a Certificate in Hotel Real Estate Investments and Asset Management from Cornell University, New York.



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Our clients choose us because we have earned a reputation for impartial advice that will often mean the difference between failure and success. Each project we help is different, so we need all of the experience we have gained over our 100-year history.

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# Horwath HTL

*Hotel, Tourism and Leisure*

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