Central American Resort Development: Beyond the Great Recession

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THE CONCORD GROUP

As the world recovers from the Great Recession, tourist-dependent markets across the world face a drastically changed landscape. A slowdown in tourism has impacted demand for hotel rooms and resort real estate, uncertainty in the credit markets has brought many projects to a standstill, and changes in consumer values have shifted the types of experiences for which travelers are looking. Alongside these recent shifts in the supply/demand balance, long-term global demographic trends continue to cast their influence. Now more than ever, resort properties across Central America must focus on their core strengths and differentiators in order to attract the necessary financing and to capture their share of consumer demand.

The Fallout from the Great Recession

After an exceptionally challenging year for tourism, activity has begun to pick up across the entire seven-country Central American region in 2010. International tourist arrivals were up over 6% in the first quarter and 9% through the first half of the year.

This is welcome relief from 2009, when the erosion of consumer and business confidence, combined with the impact of the H1N1 influenza virus, led to a decrease in tourism in virtually all regions of the world. Central America was no exception, as international tourist arrivals decreased by 7% in 2009 versus 2008, affecting nearly all countries in the region.

Change in International Tourist Arrivals (Non-Cruise)
(% change vs prior year)

	2008	2009	2010*
Belize	-2.6%	-5.2%	1.6%
Costa Rica	5.5%	-8.0%	9.6%
El Salvador	3.5%	-21.2%	9.8%
Guatemala	5.4%	-8.8%	12.7%
Honduras	8.2%	-3.3%	3.0%
Nicaragua	7.2%	8.6%	9.7%
Panama	17.2%	-3.7%	10.1%
Total Central America	7.0%	-7.4%	9.1%

* Through first half 2010
Source: UNWTO World Tourism Barometer (August 2010)

Along with the recent uptick in tourist activity, hotel fundamentals across the region have improved through the first half of 2010. Rising occupancy figures have helped increase hotel RevPAR nearly 9%, and an overall hospitality market recovery is projected for 2011.

Despite this recent stronger-than-anticipated growth in tourism, the Great Recession has had a significant impact on tourism and development in the region. Although tourism and hotel fundamentals are improving, they are still likely to end up at or near 2008 levels - representing two years of flat growth. Prior to the downturn, tourism receipts had grown at an annual rate of 10% to 15% in the region (not adjusted for inflation). In 2009, tourists decreased their spending in the region by 7%, and are expected to remain cautious in their expenditures. Continuation of the recent uptick in tourist activity will be especially dependent on consumer confidence in North America, which has exhibited mixed signals. One-third of all Central American tourists hail from the United States and Canada, and tourist-dependent countries such as Belize (68%) and Costa Rica (49%) are even more reliant on these travelers.

	Tourism Receipts ($million)						Compound Annual Growth Rate			
	1990	1995	2000	2005	2008	2009	1990-2000	2000-2008	2008-2009	2009-2010*
Belize	$ 44	$ 78	$ 116	$ 214	$ 281	na	10%	12%	na	0%
Costa Rica	$ 275	$ 681	$ 1,302	$ 1,671	$ 2,285	$ 2,075	17%	7%	-9%	7%
El Salvador	$ 18	$ 85	$ 217	$ 361	$ 425	$ 319	28%	9%	-25%	-2%
Guatemala	$ 185	$ 213	$ 482	$ 791	$ 1,068	$ 820	10%	10%	-23%	0%
Honduras	$ 29	$ 107	$ 260	$ 463	$ 619	na	25%	11%	na	4%
Nicaragua	$ 12	$ 50	$ 129	$ 206	$ 276	$ 346	27%	10%	25%	0%
Panama	$ 172	$ 309	$ 458	$ 780	$ 1,408	$ 1,483	10%	15%	5%	6%
Total Central America	$ 735	$ 1,523	$ 2,964	$ 4,486	$ 6,362	$ 5,911	15%	10%	-7%	4%

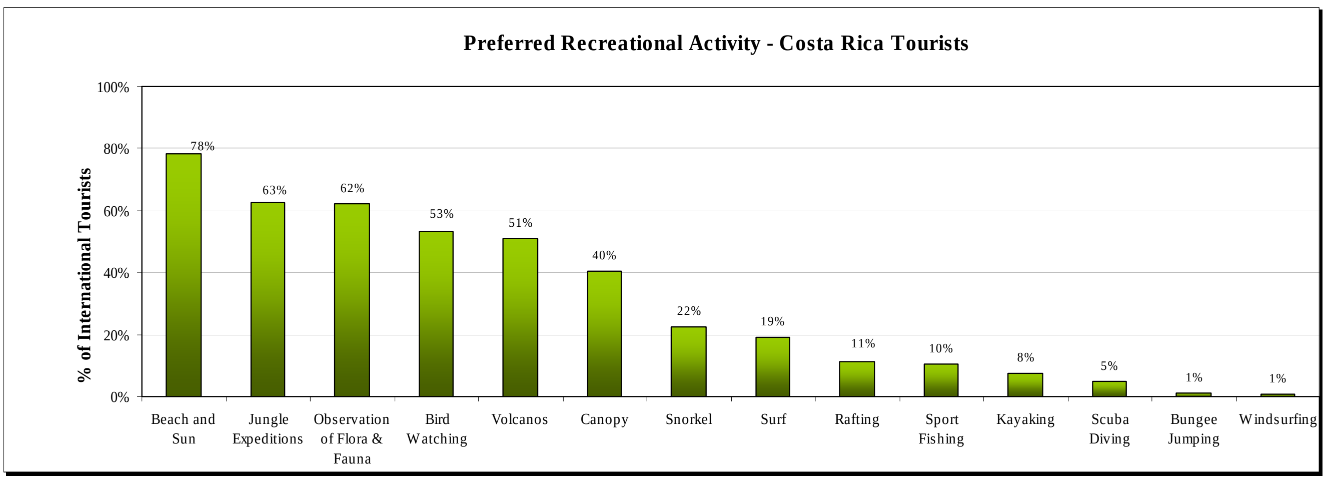
* Forecast based on The Concord Group analysis
Sources: UNWTO World Tourism Barometer (August 2010), TCG

Nervous credit markets and pessimism in North American and European countries has led to difficulty in financing projects. Both cancellations and postponements of hotel projects rose in 2009 while the number of new project announcements declined. Many projects that remain in the planning pipeline have been reconfigured to meet stricter financing hurdles and changing demand projections. This had led to downsizing of initial plans for some projects, or a partial to complete redesign.

Changing Values

Consumers have exhibited a noticeable change in values following the height of the global financial crisis. "Staycations" have kept many tourists near where they live, or focused on destinations that are relatively easy to get to. When they do travel, they are spending less. In Costa Rica, for example, visitors in 2008 spent an average of $1,040 and 10 days on vacation, while in 2009 they spent an average of $855 over 9.5 days. Frugality is clearly in vogue, even at the higher ends of the market. This price-sensitivity has impacted hotel room rates throughout Central America, which have continued to decline in 2010 despite a rise in occupancy rates. Some in Panama City are concerned that room rates there may erode further as a result of a projected increase in the number of hotel rooms by 30%, or 4,100 rooms, by the end of 2011.

"Recession tourism" looks to favor all-inclusive resorts that offer package deals to lure customers. Other travelers will be more willing to "rough it" to save money, and will view this as part of experiencing the region's natural offerings. Faced with these hurdles and stiff competition from Mexico, the Caribbean and South America, Central American resort developments must increasingly focus on the amenities and qualities that make them unique. Tourists in Costa Rica, for example, prefer recreational activities such as jungle and volcano expeditions that create an authentic experience and connect them to their natural surroundings. Guatemala and Honduras have been focusing on attracting the increasing tourist trade to their unique Mayan ruins, while Belize continues to market its proximity to the second longest barrier reef in the world. Ecotourism is one differentiator, and many developments have marketed this to their advantage. Opportunities for this type of development exist in Panama, for example, where condominium projects abound but true planned ecotourist resorts are rare.



Source: Costa Rica Institute of Tourism (ICT)

A rise in "voluntourism" has also coincided with the recent downturn. A term used to describe service-based tourism, this form of vacationing has taken off as consumers look to find more meaning and authenticity in their travel experiences. Historically the realm of religious organizations, voluntourism has expanded to include all types of customer segments, including the luxury market. One example is Ritz-Carlton's "Give Back Getaways" program, where guests can participate in social or environmental projects around the world.

Long-Term Trends

While adjusting to recent changes is critical, understanding the trends and shifts in global demographic patterns may have the largest impact on resort development in the near-term. An ageing population in key Western markets has already influenced the shape of many tourist destinations, and will continue to do so as the last wave of the Baby Boomers, especially in the United States, enter their retirement years. American retirees have weathered the recession better than younger adults, signaling a potential quicker rebound in warmer, more affordable tourist destinations that they tend to favor.

Developments throughout the world have begun to emphasize health and wellness to this key demographic group, and the recent rise of medical tourism is another example of niche opportunities that developers on which are focusing. 1.6 million Americans are expected to leave the country for medical treatments in 2012, more than double the amount of medical tourists from 2007. Rising health care costs are a major driver of this trend, and consumers are showing a desire to obtain treatments in vacation-type settings. Medical costs in Costa Rica, which receives over 20,000 medical tourists a year, are 30% to 40% of U.S. prices. While medical tourism in the region has historically been focused on country capitals and their hospitals, a number of resort projects are planning to include a medical component in their development. For example, large-scale coastal resort developments in Nicaragua, El Salvador, and Belize currently have plans for hospitals, clinics, and treatment centers. These medical "amenities" are not just for plastic surgery either – many are or will be focused on alternative treatments for migraines, cancer, and degenerative diseases, with licensed physicians.

Another component of marketing to an ageing population is capitalizing on multi-generational travel experiences. Increasingly, travelers and retirees want a destination that offers something for everyone in the family. Master planed resort communities have been successful in a number of locations throughout Central America, and many of the region's less developed countries are in the early stages of attracting such developments. The diversity of amenities, mix and segmentation of product types, and ability to create a "sense of place" are a few of the attractive features of these developments that set them apart from their competition.

International hotel brands have had success in the region, and are often integrated with master planned resorts. Although the luxury hotel market has faltered in the recent downturn, sophisticated developers continue to look to these hotel brands to market to their international customers. Brands such as Marriott, St. Regis, Ritz-Carlton, Four Seasons, Starwood and Hilton have made their way into many resorts that are planned or underway, sometimes with associated "branded residences." The brand's name recognition, extensive customer database, and operational expertise are expected to help attract and retain consumers.

A Need for Strategic Focus

Tourism is an increasingly important part of the regional economy, accounting for nearly 10% of total GDP. As the global economy begins showing hints of recovery, developers and investors must be focused on ways to create demand for their projects and capture market share. What amenities and experiences will the next wave of tourists seek? Will emerging markets around the world create new sources of demand? A sound strategy with a focus on a development's differentiating factors and positioning in the local and regional marketplace will be critical to capturing existing and future demand.

	Key Metrics (2009)						
	Belize	**Costa Rica**	**El Salvador**	**Guatemala**	**Honduras**	**Nicaragua**	**Panama**
General							
Land Area	8,805 Sq. Miles	19,560 Sq. Miles	8,000 Sq. Miles	41,865 Sq. Miles	43,201 Sq. Miles	46,430 Sq. Miles	29,340 Sq. Miles
Coastline	240 Miles	802 Miles	191 Miles	249 Miles	510 Miles	565 Miles	1,547 Miles
Population (2010)	307,900	4,253,877	7,185,218	13,276,517	7,833,696	5,891,199	3,360,474
Official Language	English	Spanish	Spanish	Spanish	Spanish	Spanish	Spanish
Others	Spanish, Creole	English	Nahua	Amerindian		English	English
Economy							
Real GDP	$1.34 B	$29.32 B	$21.10 B	$37.30 B	$14.27 B	$6.15 B	$24.71 B
Growth Rate (2008-2009)	*-0.9%*	*-1.5%*	*-3.1%*	*0.6%*	*-2.1%*	*-2.4%*	*2.4%*
GDP at Purchasing Price Parity	$2.56 B	$48.51 B	$43.27 B	$67.87 B	$32.50 B	$16.51 B	$40.81 B
Per Capita	$8,300	$10,900	$7,200	$5,100	$4,100	$2,800	$12,100
Tourism Product (2010) *	$0.41 B	$4.15 B	$1.57 B	$2.90 B	$1.48 B	$0.46 B	$3.52 B
% of Real GDP	*30.7%*	*14.2%*	*7.4%*	*7.8%*	*10.4%*	*7.5%*	*14.2%*
Proj. 10-yr Growth Rate	*4.4%*	*4.5%*	*4.1%*	*4.2%*	*4.4%*	*6.0%*	*4.6%*
Foreign Dir. Invest. **	$0.10 B	$1.32 B	$0.43 B	$0.57 B	$0.50 B	$0.43 B	$1.77 B
% of Real GDP	*7.1%*	*4.5%*	*2.0%*	*1.5%*	*3.5%*	*7.0%*	*7.2%*
Inflation Rate	*0.3%*	*7.8%*	*0.6%*	*1.9%*	*5.9%*	*3.7%*	*2.4%*
Health and Safety							
Hospital Beds per 10,000 ***	12	13	8	6	7	9	22
Safety Ranking** (1 = most safe)**	n/a	26	103	112	125	64	61
Corruption Ranking***** (1 = least corrupt)	n/a	43	84	84	130	130	84

Source for figures is CIA World Factbook, except as noted below:
* World Tourism and Travel Council
** United Nations ECLAC
*** Global Health Facts. US beds/10,000 = 31
**** 2010 Global Peace Index. US ranking = 85. Lowest ranking = 149 (Iraq).
***** 2009 Transparency International Corruption Perception Index. US ranking = 19. Lowest ranking = 180 (Somalia)

About The Concord Group

The Concord Group (TCG) is a leading real estate strategy firm with offices in Newport Beach and San Francisco, California and Boston, Massachusetts. TCG's consultants complete hundreds of assignments annually in the U.S., Europe, Asia and Latin America. Services include land use programming; market, financial and consumer analyses; and asset valuation across all property types, including hospitality, commercial, residential product and land. Recent assignments in Latin America have included multiple analyses of projects in Mexico, Costa Rica, Panama and Belize.

Marta Borsanyi
Principal
949-717-6450
mb@theconcordgroup.com

www.theconcordgroup.com

Newport Beach: 130 Newport Center Drive, Suite 230, Newport Beach, California 92660 | Phone: 949.717.6450
San Francisco: 251 Kearny Street, 6th Floor, San Francisco, California 94108 | Phone: 415.397.5490
Boston: 77 Summer Street, 7th Floor, Boston, Massachusetts 02110 | Phone: 617.451.1100