Prepared by:

John Dean Markunas
Brazil Hotel Industry Consultant
with
Brazil Beach House, Ltda. &
Advanced Hospitality International, LLC.
BRAZIL HOTEL INDUSTRY SNAPSHOT

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I. INTRODUCTION

Brazil is the giant superpower of the South American Continent, with the 7th largest global economy, a population of over 200 million people and is the largest economy in South America.

It is also a remarkably beautiful country with world-class beaches, the magical Amazonian rainforest, iconic cities such as Rio de Janeiro and wonderfully vibrant, colourful and welcoming people.

Despite all its undoubted attraction, Brazil remains a country relatively unexplored by international tourism. The country attracts around 5.5 million overseas visitors per year, a growing but still very small number compared to other nations and cities more firmly established on the global trotting map. For a country of its size, natural beauty, tropical climate and increasing global stature it is woefully underperforming in the global marketplace.

There is untapped potential for Brazilian tourism and related opportunities for investment in the hospitality industry for the medium to long-term future.

The potential arises from 1) a burgeoning Brazilian middle-class who demand and expect better quality hotel standards and services, and 2) an untapped international market that will come to Brazil in higher numbers when given the right incentives.

A lack of supply in overall lodgings; Brazil has just over 10,000 registered hotels for a population of 200 million. *The U.S in contrast* has around 55,000 hotels with less than double the population (319 million).

A greater and more modernized stock of lodgings will be required as demand from the Brazilian middle-class continues to grow and the country attracts ever more foreign visitors.

Herein lies the opportunity for foreign investors and hotel chains to enter Brazil and get a foothold in the hospitality market. The time is especially ripe this year, 2016, as the economy soldiers on in the midst of recession and the Brazilian currency remains in a slump.

Data and statistic sources listed on page 15.
II. HOSPITALITY AND COUNTRY FAST FACTS

- Country population of just over 200 million;

- Approximately 10,500 hotels with just over 500,000 hotel rooms, including independent chain and apartment hotels;

- The U.S. has double the amount of hotels of Brazil, per capita;

- Total Brazil hotel supply; 50% comprises independently run hotels 20 rooms or more;

- Occupancy rate averaged 65% in 2014;

- 83% of the Brazilian hotel market is made up of domestic guests;

- Travel and tourism contributes 9.6% to Brazil’s GDP;

- Urban and condo hotels achieved 10 consecutive years of revenue growth until 2015;

- Poor economic performance, inflationary pressures and rising energy costs have had a negative impact on hotel performance in 2015;

- 2014 saw the highest level of hotel acquisition volume in Brazilian history;

- The hotel sector plans to invest R$12.8 billion over the next six years with 408 new hotels by 2020;

- Increased investment is expected in smaller cities. According to current data, cities with over one million inhabitants account for 59% of the hotels;

- By 2020, the above percentage of 59% will fall to 47%. At the same time, the concentration of projects in municipalities with up to 300,000 will increase from the current 22% to 30%;

- Percentage of chain-affiliated hotels is low accounting for only 10.2% of the hotel market but had 34% of the market in terms of number of rooms. (The chain-affiliated is typically a larger hotel than the independent.);

- RevPar (Revenue per Available Room) sustained 10 years of growth to the year 2014;
Occupancy rates/Average Daily Rate

<table>
<thead>
<tr>
<th>Room Occupancy – Urban Hotels</th>
<th>ADR (Average Daily Rate)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>66%</td>
</tr>
<tr>
<td>2014</td>
<td>65%</td>
</tr>
<tr>
<td>2015</td>
<td>60%</td>
</tr>
</tbody>
</table>

The resorts market is the strongest sector of Brazil's hospitality industry as that market has been tied to the favorable exchange rate for travelers since 2013:

<table>
<thead>
<tr>
<th>Resort Occupancy Levels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
</tr>
<tr>
<td>------</td>
</tr>
<tr>
<td>2014</td>
</tr>
<tr>
<td>2015</td>
</tr>
</tbody>
</table>

Chain-affiliated hotels accounted for only 10.2% of the total hotel market but had 38% of the market in terms of total number of rooms. (The chain-affiliated especially the international is typically a larger hotel than the independent.)

Origin of Guests - 2015

The largest concentration of all guests was found in city hotels with average rates above R$ 440;

54.3% of the guests were foreigners;

Foreign tourists numbered 6.3 million visitors, representing a decrease of 2% since 2014;

Notably, 33% of international guests originated from Argentina while 9% visited from the U.S.
III. TEN REASONS TO INVEST IN BRAZIL’S HOSPITALITY SECTOR

Some important factors that make Brazil a very attractive market for hotel investment in the short to the long-term future.

1. Fabulous tropical environment;

2. All year round warm sunny climate especially in the Northeast of the country;

3. Huge domestic market:

4. Great potential for long term growth internationally;

5. Devaluation of the Brazilian currency creating a definite window of opportunity;

6. Improving accessibility and infrastructure of airports and highways linking the Brazilian coastline;

7. A low percentage of modern, newly built hotels in Brazil.

[The vast majority of hotel establishments are over 15-20 years old and many of them have not been extensively remodelled over the years.]

This provides an opportunity for an investor or hotel operator to buy an existing hotel in a great location at a competitive price and remodel to its specifications and standards, ensuring a great reputation in the market and gaining a competitive edge.

8. Aligned with the general low quality of Brazilian hotel maintenance is a lack of consistency in the quality of hotel management, guest related services and attention to hospitality detail.

[This can apply to all types of hotels in Brazil (budget to luxury) and covers the standard of efficiency in dealing with guests from checking in/out at the front desk to ordering room service to the quality of food, restaurant services etc. This erratic standard of service is mostly caused by the lack of proper training, monitoring and evaluating of staff members and the short term nature of employment contracts with subsequent high turnover of staff. This situation creates another potential opportunity for foreign hotel investors who understand the importance of customer service and]
can train staff to deliver the very best levels of care, courtesy and consistency.]

9. Taxation on Brazilian hotel revenue is relatively low at 16%.

[You are able to repatriate profits overseas after paying this tax and when you decide to sell your hotel you are liable to pay only 6% on the total sales price or as an individual 15% capital gains tax.]

10. As a foreign investor you are able to buy a hotel free and clear without the need for a Brazilian partner/shareholder.

[You can transfer the property, holding company into your name with 100% ownership rights and providing you obtain the relevant licenses, can renovate, expand and rebuild the property without any legal impediment.]

IV. DOMESTIC TOURIST BOOM AS BRAZILIANS STAY IN COUNTRY

As well as leading to much less expensive real estate opportunities the currency devaluation has had a positive impact on the Brazilian tourism industry. 2015 and 2016 saw bumper summer seasons as Brazilian tourists flocked to the famous beach resorts instead of traveling abroad.

Trips abroad were down 40% in 2015, with subsequent uplift for domestic travel and hotel occupancy rates especially in the Northeast of the country.

According to estimates from the State of Ceara Tourism Board, the Northeast State of Ceara received 1.05 million tourists in the high season (December 2015 to February 2016). Hotel occupancy in the three months of high season was expected to be 78.3%. In the period surrounding New Year’s Eve, it was 100%.

In the State of Rio Grande do Norte, the estimate of the Hotel Industry Brazilian Association (ABIH/RN) are 2015 occupancy levels of 93% in the capital City of Natal and 82% in Pipa, one of the most popular state beaches.

In the City of Salvador, State of Bahia, the city with the third largest hotel room capacity in Brazil with 40,000+ beds was expected to reach the Carnival season with 85% occupancy rate.

The average national occupancy rate should remain at around 65% in 2016 with possible exceptions with cities that have a glut of condo-hotels under construction. For example: Belo Horizonte will nearly triple its hotel stock in a few years. This will cause the occupancy rate to fall to lower levels. Other
examples include Barra da Tijuca, in Rio de Janeiro, São Paulo, Ribeirão Preto and Santos have all experienced a lot of development in this condo hotel sector. In Cuiaba and Manaus many projects were built specifically for the World Cup with subsequent demand not keeping a pace after the tournament.

V. FOREIGN INVESTMENT IN BRAZILIAN HOSPITALITY INDUSTRY

The Northeast of Brazil especially has long attracted foreign investors in hotel real estate.

The Portuguese, Spanish and Italian’s are well represented in the most famous tourist resorts and own many of the smaller and larger hotels, restaurants and bars. International hotel chains are also now starting to enter the country, acquiring new outlets and expanding their brands in South America’s biggest market.

Some factors however have proved a barrier in attracting large scale numbers of international tourists up until now; namely, 1) lack of inexpensive flights and volume and variety of travel routes, 2) lack of charter flights and package holiday destinations and to a lesser extent language barriers

However, Brazil is making tangible improvements on all of these fronts. Airports are undergoing privatization and upgrading to accommodate increasing passenger numbers. While the major cities of Rio, São Paulo and the country’s capital city Brasilia have direct connections to all major international cities other regional airports are also now improving routes to Europe, North and South America with the main objective of increasing the tourist industry.

The Northeast in particular has improved its international reach. The coastal region has all year sunshine with average temperature of 28 degrees Celsius, some of the finest beaches in the world and a colorful tropical culture as well as much less expensive real estate prices (compared to the south of Brazil).

South America’s biggest airline conglomerate, LATAM will announce a new international hub for the Northeast of Brazil in late 2016. The hub will be installed in one of three cities; Natal, Fortaleza or Recife with the strategy of relieving congestion in the south and opening up new flight paths. The hub is projected to bring in an additional 80 international flights per week and will likely have a significant impact on the regional tourist market.

Due to these and other favorable factors, international hotel groups have stepped up investment activities both in the Northeast and in the industrial south region of Brazil.
2014 saw the highest level of acquisition volume in Brazilian history:

1. Quantum bought Atlantica Hotels, one of the largest hotel management companies in the country;

2. GTIS acquired roughly 70 percent of the shares of the Brazil Hospitality Group (BHG), including its hotel assets, taking the company private;

3. HSI fund is developing 20 hotels under the Zii brand in several Brazilian cities using a platform called 2.0 Hotéis. The company also acquired Rede Arco Hotéis, a chain of 12 hotels in São Paulo state.

At present only 28% of hotel rooms are chain affiliated but this number is increasing. Marriott has 6 locations in Brazil but will open another 11 hotels within the next 2 years. Marriott’s Vice president development Guilherme Cesari, believes that the current economic downturn is short term; “This pipeline today is a result of the efforts from four years ago, and there’s no reason to slow it down. Although Brazil is struggling now, we believe the economy will recover and that the demand is still strong and has potential to grow in the long term. Marriott is focused on the long term”

Besides international travellers, Cesari noted that Brazil still has a strong domestic market with many local business and other professionals traveling nationally and needing professional-level hotels. He also noted that Brazil has more than 15 cities with more than 1 million residents, which he calls gateway cities.

VI. COMPONENTS OF THE HOSPITALITY MARKET

Luxury Hotel Market In Brazil

The growth and development of new luxury hotels in the main urban centers arose with the entrance into the market of new hotel chains and international brands (notably, Marriott and Hyatt) and with the consolidation of the international hotel chains which were already operating in the Brazilian market (Accor, Starwood, Hilton and Louvre). This emerging presence has been complemented by national hotel chains such as Bourbon, Windsor, Deville.

São Paulo and Rio de Janeiro are the main markets of the urban luxury hospitality supply in Brazil. Salvador, Brasilia and Fortaleza have smaller shares of the market. Other capital cities such as Belo Horizonte, Curitiba and Porto Alegre present an emerging luxury hospitality supply.

The City of Recife, State of Pernambuco (Cabo de Santo Agostinho) should also be regarded as important as it will be the home of two projects (Sheraton
and Four Seasons) which will represent the entrance of luxury hotels in the city.

Other newcomers with projects planned include W, Westin or St. Regis (Starwood), M Gallery (Accor), Dream (Wyndham) along with the arrival of chains and brands that are looking to enter the Brazilian market such as Banyan Tree, Hard Rock and Yoo Hotels. This will be accompanied by the development of more products oriented to the boutique and design niches of the market.

The new trend, towards international investment in the Brazilian hotel industry, is set to continue on an even pace in the coming years.

**Types of Hotels and Performance**

Operational performance – average room rates - of the three main types of Brazilian lodgings (discounting smaller independently run boutique hotels, bed and breakfast establishments and the like):

1. **Hotels** - whether predominantly business or tourist related;

2. **Resorts** - self-contained, purely vacational and defined by size, quality and array of amenities and recreational facilities;

3. **Condo-Hotels** - hotels comprised of individual owned condominium units with a structure for shared rental income.

**1. Hotels**

This classification assumes that the average rates correspond to the level of facilities and services. Overall, each category presents the following characteristics as of 2015:

- **Luxury hotels** (providing an extensive range of facilities and high quality services): average rates above R$440. These hotels had an average of 251 available rooms;

- **Superior hotels** (with mid-scale facilities and services, varying from three to four stars depending on the market): average rates between R$260 and R$440. These hotels had an average of 196 available rooms;

- **Economy** (limited service properties): average rates below R$260. These hotels had an average of 153 available rooms.
2. Resorts

Resorts are hotels located at the beach or countryside with extensive leisure facilities. The data was divided according to the total revenue per occupied room reached in 2014 and was as follows:

- Luxury resorts providing an extensive range of facilities and high quality services: total revenue per occupied room above R$810. These resorts had an average of 379 available rooms;
- Superior resorts with mid-scale facilities and services: total revenue per occupied room under R$810. These hotels had an average of 197 available rooms.

3. Condo-Hotels

Condo-hotels are operationally different from hotels because of the pool rental system and that the Uniform System of Accounts for Hotels is not used. Condo-hotels have an average of 138 rooms in the rental pool system.

Solid, Established Hotel Markets

Brazil is enormous. The Amazon Region alone is bigger than Western Europe. For this reason it is necessary to focus on the most popular areas for tourism and business related activities. [See location map below]

The locations below are based on several important factors; 1) namely population size, 2) quality of infrastructure, 3) airport connectivity, 4) existing tourist demand plus 5) attractiveness for hotel expansion.

Key Cities for Urban Population/Business Hotels

Cities on a price scale with São Paulo being the most expensive:

- **São Paulo**  Population of 21 million: Economic powerhouse of Brazil with the bulk of business related hotels.
- **Rio de Janeiro**  Population of 12 million.  The dream tourist location of Brazil.
- **Salvador**  Population of 2.9 million. Largest city proper in Northeast Brazil and the 3rd largest in Brazil after São Paulo and Rio, with rich culture and fabulous beaches.
- **Fortaleza**  Population of 2.55 million. Brazil’s 5th biggest city, internationally connected, modern, clean with all year round warm sunny climate.
• **Recife** Population 3.74 million. Largest metropolitan area in Northeast Brazil. Important commercial hub on the Northeast coast with much improved hotel stock;

• **Natal** Population 1.5 million. Largest percentage of hotel rooms in Brazil per capita. Sunniest weather in Brazil, great beaches, new privately run international airport.

**Key Coastal Cities for Hotels and Resorts**

Cities on a price scale with Rio being the most expensive:

• Rio de Janeiro;

• Florianopolis (population of 1.1 million, an island city with 42 beaches in the State of Santa Catarina);

• Salvador;

• Fortaleza;

• Natal;

• Recife.

**Key Beach Towns**

**Hotels, Resorts and Smaller Boutique Lodgings**

- with the best infrastructure and airport access -

Towns on price scale with Buzios being the most expensive:

• **Buzios, State of Rio de Janeiro**
  2-hour drive north of Rio. Famous resort, great tourist infrastructure;

• **Praia do Forte, State of Bahia**
  55 kms north of Salvador. Wealthy, high-end resort with some of the top hotel chains already operating;

• **Porto Seguro, State of Bahia**
  700 kms south of the City of Salvador with its own airport. Comprising 3 famous resorts; Trancoso, Arraial DAjuda and Porto Seguro. Large-scale tourism with national reach;

• **Ponta Negra, City of Natal, State of Rio Grande do Norte**
  Urban resort connected to Natal. Ponta Negra is a beachfront beltway with chain hotels and large resorts;

• **Recife, State of Pernambuco**
  Large industrial city of 1.7 million people. Urban and beach hotels.
VII. SAMPLE - HOTELS/RESORTS FOR SALE

1. Mega Hotel-Resort Project - Northeast State of Ceara
   ◆ 210 acres of land area ◆

   Under construction:
   • Hotel with 212 rooms
   • 43 vacation homes
   • 120 apartments
   • 132 apartments
   Total 507 units

2. Beachfront Resort Hotel - City of Fortaleza, State of Ceara

   Situated on the main, prime beachfront strip and tourism area of Fortaleza.
   • 132 rooms
   • unbranded

3. Beachfront Resort-Marina Hotel - City of Fortaleza, State of Ceara

   • 5-star hotel - oceanfront
   • marina
   • 315 keys


   • 4-Star
   • 137 rooms

5. 4-Star Hotel Convention Center - City of Salvador, State of Bahia

   • 4-star convention hotel
   • 224 rooms
   •

6. Downtown Hotel - City of São Paulo

   • 4-Star downtown hotel
   • Located next to 3 metro stations
   • 102 rooms and 2 presidential suites

For more hotel Information, contact:
John Dean Markunas, Brazil Hotel Industry Consultant
E: johndeanmarkunas@gmail.com
- Principals Only -
VIII. COUNTRY LOCATION MAP
Data and Statistic Sources

- EMBRATUR - Instituto Brasileiro de Turismo / Brazil Institute of Tourism;
- “Hotel Investment in Brazil for 2016 - For Foreign Investors Looking at Brazilian Hotel Real Estate”, Author Mike Smith, Hotel Broker, Brazil Beach House, Ltda.;
- Hospitality Advance International, a hospitality and tourism consulting group based in Miami, Florida;
- ADIT Brasil, Associação para o Desenvolvimento Imobiliário e Turístico do Brasil / Brazilian Association for Real Estate and Tourism Development;
- Fórum de Operadores Hoteleiros do Brasil (FOHB) / Brazil Hotel Operators Forum;
- Hotelaria em Números-Lodging Industry in Numbers, Jones Lang LaSalle;
- Secovi-SP, o sindicato de habitação / São Paulo State Housing Syndicate;
- South American Hotel & Tourism Investment Conference (SAHIC).
CONTACT

John Dean Markunas
Brazil Hotel Industry Consultant
E: johndeanmarkunas@gmail.com
Tel USA: +305-290-2764
Cel USA: +347-954-1716
Skype ID: john.dean.markunas