

Caribbean Hotels Profitable In 2005: Region Attracts New Development

2006-07-11

In 2005, Caribbean hotels averaged \$111,414 per available room (PAR) and \$25,541 PAR in profits.

In its first-ever report on the Caribbean hotel industry, PKF Hospitality Research finds that Caribbean hotels continue to be profitable for owners and operators due to increasing rates of travel to the region spurred by a strong U.S. economy. In 2005, Caribbean hotels averaged \$111,414 per available room (PAR) and \$25,541 PAR in profits. The net result was a 22.9 percent profit margin. These observations come from the recently released 2006 edition of Caribbean Trends in the Hotel Industry published by PKF Hospitality Research (PKF-HR), an affiliate of PKF Consulting.

A substantial portion of this profitability can be credited to the tremendous growth in Caribbean travel. Over a three-year period, from 2003 through 2005, the number of visitors to the Caribbean has grown by a total of 19 percent. 'Overall, the strong United States economy has meant good fortune for Caribbean hotel managers,' said Scott Smith MAI, vice president in the Atlanta office of PKF Consulting. 'Hotels there have profited from strong increases in demand, which has produced substantial gains in RevPAR. The region has benefited from an increasingly competitive airline market, as well as increased airlift to and from both traditional and emerging destinations.'

'In a new era of Caribbean tourism, the bar has been raised again, with demands for even higher standards of leisure and luxury,' Smith noted. 'Many Baby Boomers, who currently make up a significant portion of the Caribbean tourism market, are craving unique opportunities for soft-adventure and education that many resorts have begun to offer. These activities have presented hotels with opportunities to create new streams of revenue.'

The 2006 Caribbean Trends in the Hotel Industry report marks the first annual review of Caribbean hotel operations conducted by PKF-HR. This year's sample draws upon year-end financial statements received from hotels all across the Caribbean. Profits are defined as income after management fees, property taxes, and insurance, but before capital reserves, debt service, rent, income taxes, depreciation, and amortization.

Unique Operating Environment

Room's revenue represents 51.4 percent of the total revenue earned by the sample of Caribbean hotels. The relatively low contribution of rooms revenue is attributable to the high representation of resort properties in the Caribbean. The unusually high revenue from Other Operated Departments, which is 18.7 percent of total revenue, reflects the extensive recreational and retail services offered at resorts in the Caribbean. In addition, Caribbean hotels achieve a relatively high percentage of total revenue (8.1 percent) from beverage consumption. 'Given the abundance of rum and tropical fruits, it comes as no surprise that beverage sales would be so high,' Smith concludes.

Most Caribbean islands are small, under-developed, and typically lack a variety of natural resources. This limits the availability of goods and services needed to operate extensive, high-end resorts, which results in a need to rely heavily on imports. In turn, this increases the operating expenses for the food and beverage, maintenance, and utilities departments. The following paragraphs highlight the effect of this unique operating environment on select hotel expenses.

Labor Costs

'In most circumstances, there is an abundance of low-wage labor available on the larger islands,' Smith noted. 'However, on several smaller islands, where labor can be difficult to find due to the higher cost of housing and living, hotel managers are discovering that they have less control over these expenses.'

Utility Costs

In 2005, the cost of utilities was 6.3 percent of total revenue, nearly two percentage points higher than that of similar United States resort hotels. 'The recent jump in energy costs is potentially damaging to the entire chain of Caribbean tourism. Utility costs are already higher than that of alternative destinations, and further increases can considerably damage profit margins for all lodging operations,' Smith said.

Property Taxes

At 0.6 percent of total revenue, property taxes and other municipal charges appear to be low relative to U.S. hotel operating averages. This low expense ratio exists due to the unique economic and investment structure of many Caribbean nations. Many hotels receive government assistance in the form of reduced, or abated, property taxes while consumers pay higher hotel and sales taxes.

Caribbean / U.S. Resort Comparison

To provide some context to the data, PKF-HR compared the performance of Caribbean hotels to a set of comparable U.S. properties. In 2005, the PKF sample of Caribbean hotels recorded 71.3 percent occupancy with an ADR of \$226.22. The set of comparable U.S. properties recorded 72.3 percent occupancy with an ADR of \$211.57. As for total revenue, the Caribbean sample averaged \$111,414 PAR while the U.S. properties earned \$125,200 PAR.

Total operating expenses for the hotels in the Caribbean Trends sample reached 77.1 percent of total revenue in 2005, while the resorts in the U.S. sample fared slightly worse (79.6 percent of total revenue). These numbers convert to \$85,873 and \$99,637 per available room for total costs and expenses of Caribbean and U.S. hotels, respectively. The net result was a profit margin of 22.9 percent for Caribbean hotels versus a 20.4 percent margin for the U.S. properties.

Hot Spot for Development

Looking to the future, PKF Hospitality Research finds that the majority of new Caribbean development has shifted towards upper-scale, luxury resort properties that include a residential component in the form of condominiums, hotel condominiums or fractionals. Rosewood, Four Seasons, and Ritz-Carlton among others are tied to such mixed-use developments that are scheduled to open throughout the region. Turks and Caicos, Anguilla, St. Lucia, and St. Croix, are some of the emerging destinations targeted.

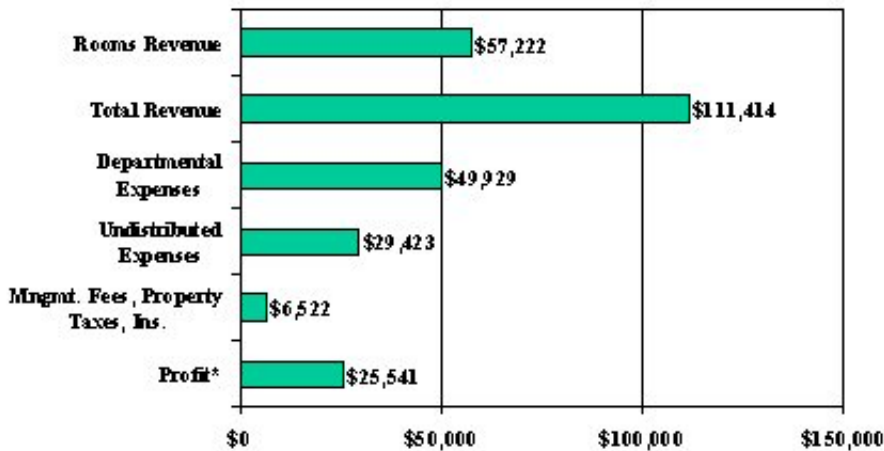
'The residential component generates immediate return on investment for developers; and also increases yearly cash flow to the food and beverage, retail, golf, spa, and other operations of the resort that would otherwise only be used by hotel guests,' Smith noted.

Although there has been a shift away from the development of all-inclusive hotels, there will consistently be a niche for these properties in larger islands such as the Dominican Republic.

PKF Hospitality Research indicated that there continues to be an ample supply of money available for hotel lending and equity investment. 'Many nations and their governments have declared tourism a national priority,' Smith concluded. 'With government implementation of many new business and expansion policies to attract foreign investment, we expect that the hotel transaction market will continue to be active and profitable for both buyers and sellers.'

CARIBBEAN HOTEL PERFORMANCE

Dollars Per Available Room
2005

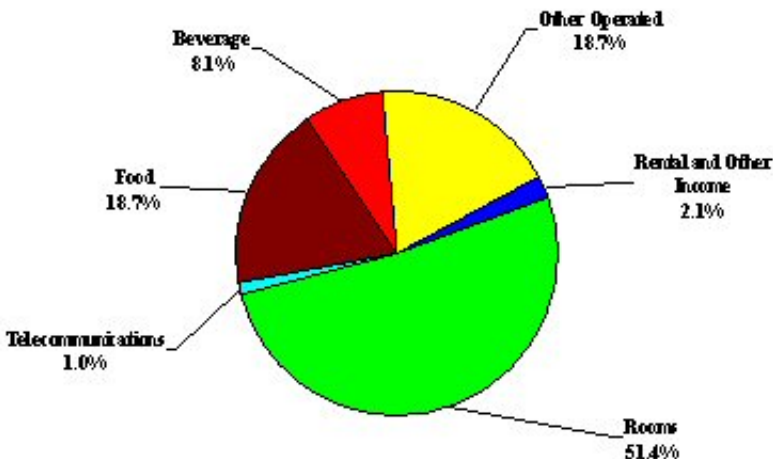


Note: * Before deductions for capital reserve, rent, interest, income taxes, depreciation, and amortization.

Source: PKF Hospitality Research

CARIBBEAN HOTEL INDUSTRY

Mix Of Revenues
2005

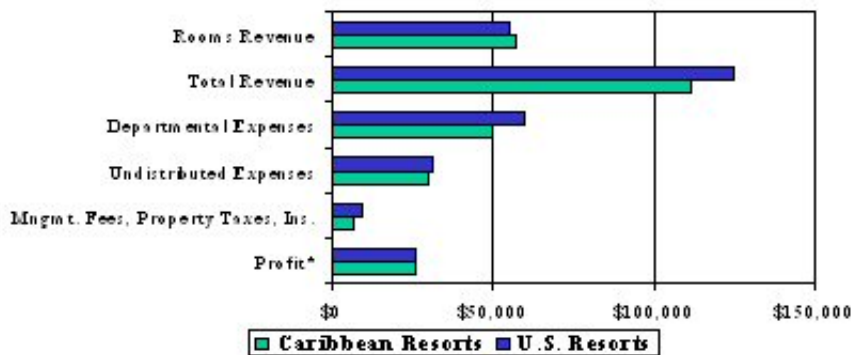


Source: PKF Hospitality Research

CARIBBEAN RESORTS vs COMPARABLE U.S. RESORTS

Dollars Per Available Room

2005



| | Caribbean Resort Sample | U.S. Resort Sample |
|------------|-------------------------|--------------------|
| Room Count | 297 | 321 |
| Occupancy | 71.3% | 72.3% |
| ADR | \$226.22 | \$211.57 |

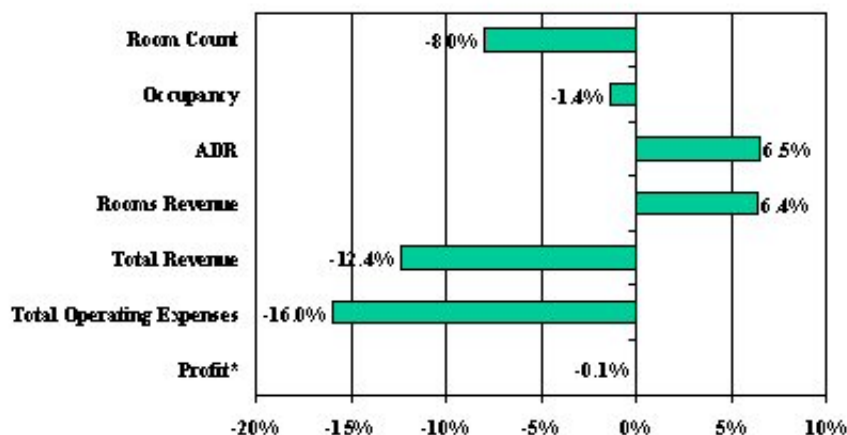
Note: * Before deductions for capital reserve, rent, interest, income taxes, depreciation, and amortization.

Source: PKF Hospitality Research

CARIBBEAN RESORTS vs COMPARABLE U.S. RESORTS

Caribbean Variance From U.S.

2005



Note: * Before deductions for capital reserve, rent, interest, income taxes, depreciation, and amortization.

Source: PKF Hospitality Research

To purchase a copy of the 30-page 2006 Caribbean Trends in the Hotel Industry report in PDF format, please visit the firm's online store at www.pkfc.com/store, or call Claude Vargo or Brandon Culp at (866) 842-8754.

PKF Hospitality Research (PKF-HR), headquartered in Atlanta, is the research affiliate of PKF Consulting, a consulting and real estate firm specializing in the hospitality industry. PKF Consulting has offices in New York, Philadelphia, Washington DC, Atlanta, Indianapolis, Houston, Dallas, Los Angeles, and San Francisco.

This article comes from Hotel News Resource

<http://www.hotelnewsresource.com>

The URL for this story is:

<http://www.hotelnewsresource.com/article23059.html>

© 1998 - 2007 Nevistas and the author.

Brought to you by Hotel News Resource

Distribute your news on our Network

See what all the buzz is about at:

http://www.hotelnewsresource.com/Info-news_account_info.html