

Caribbean Hotels Match U.S. Profitability

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Unique Operating Environment Reduces Some Costs

A recently released report by PKF Hospitality Research on the Caribbean hotel industry finds that Caribbean resort hotels and comparable U.S. properties are equally profitable, but for dramatically different reasons. Both achieve a profit margin of roughly 20.0 percent. However, Caribbean resort hotels pay higher utilities and insurance costs than their U.S. counterparts, which are partially offset by lower labor costs and lower property taxes in the Caribbean. These observations come from the recently released 2007 edition of Caribbean Trends in the Hotel Industry published by PKF Hospitality Research (PKF-HR), an affiliate of PKF Consulting. It is believed to be the only Caribbean-focused financial research report in the industry.

'In general, we found that the amounts paid by Caribbean managers for labor and property taxes were well below the average expenditures encountered by their U.S. counterparts,' said Scott Smith, MAI, senior vice president in the Atlanta office of PKF Consulting. 'However, utilities and insurance cost more in the Caribbean.'

PKF-HR compared the performance of Caribbean resorts located throughout the region to a set of comparable U.S. properties. In 2006, the total revenue for the Caribbean sample averaged \$102,051 per available room (PAR), while the U.S. properties earned \$113,107 PAR. On the bottom-line, Caribbean resorts averaged a net operating income (NOI) of \$20,443 PAR, or 20.0 percent of total revenue, while the U.S. properties achieved an average NOI of \$22,348 PAR, or 19.8 percent of total revenue.

The following paragraphs highlight the Caribbean hotel operating expenses that are most influenced by unique regional factors.

Labor Costs

In 2006, operated department expenditures averaged 44.2 percent of total revenue at Caribbean resorts. This is less than the 47.2 percent average at comparable U.S. properties. Since salaries, wages, and employee benefits comprise over half of these departmental expenditures, the operating efficiencies achieved by the Caribbean resorts can be attributed to lower 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.'

Property Taxes

At 1.1 percent of total revenue, property taxes and other municipal charges are 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 guests pay higher hotel and sales taxes.

Utility Costs

In 2006, Caribbean hotel utility costs averaged 7.3 percent of total revenue, nearly four percentage points higher than that of similar United States resorts. 'The recent jump in energy costs is potentially damaging to the entire Caribbean tourism industry. Utility costs are already higher than that of alternative destinations, and further increases can considerably damage profit margins for all lodging operations,' Smith said.

Insurance

Caribbean hotels paid out 3.2 percent of their total revenue in 2006 for property and general insurance, or \$3,306 PAR. This is 6.3 percent more on a dollar-per-available room basis compared to the comparable U.S. properties. 'This high expense ratio reflects a riskier business location and higher reconstruction costs if there are any unexpected catastrophes in the region. With a more tranquil hurricane forecast for 2007, we expect insurance costs to be flat going forward,' Smith noted.

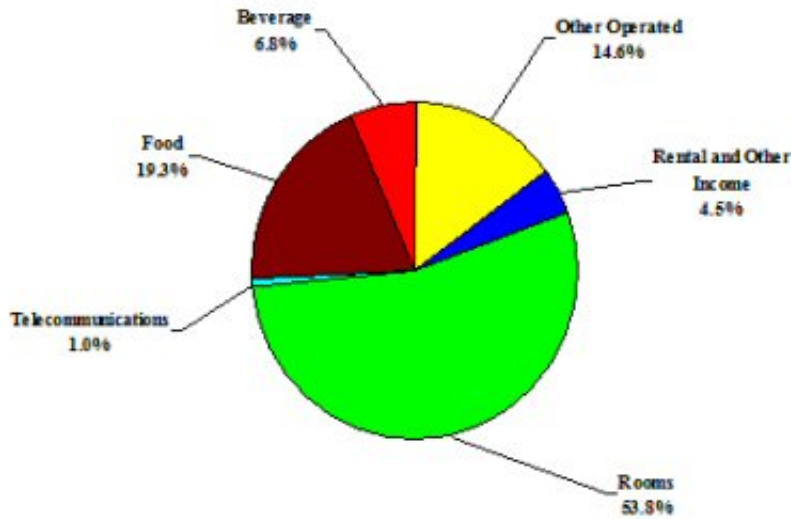
Visitation and Development Activity

In addition to the financial benchmarking data, the 2007 Caribbean Trends in the Hotel Industry report includes commentary on regional visitation patterns and development activity.

Overall, the current Caribbean tourism market continues to outperform historical results. Through the summer of 2007, most Caribbean destinations have enjoyed increased visitor arrivals over 2006 levels. Those nations that have experienced a decline in 2007 visitation can attribute their loss to the resurgence of the Cancun market, which is rebounding strongly from their 2006 hurricane damage. 'Generally speaking, the strong United States economy has meant good fortune for Caribbean hotel managers,' Smith said. 'The region has benefited from an increasingly competitive airline market, as well as increased airlift to and from both traditional and emerging destinations.'

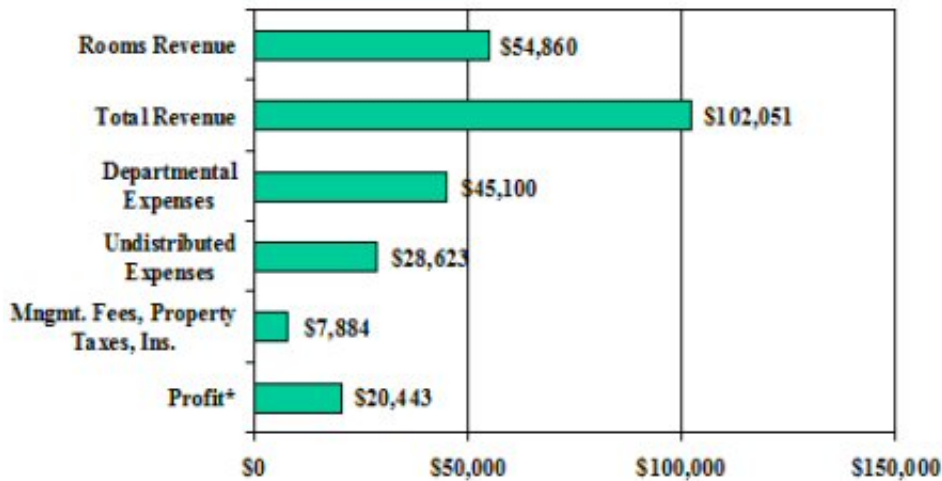
Looking forward, PKF Hospitality Research finds that the majority of new Caribbean lodging development has shifted towards upscale and luxury resort properties that include a residential component in the form of condominiums or fractional ownership units. Rosewood, Four Seasons, and Ritz-Carlton, among others, are tied to such mixed-use developments that are scheduled to open throughout the region. '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.

CARIBBEAN HOTEL INDUSTRY 2006 Mix of Revenues



Source: PKF Hospitality Research

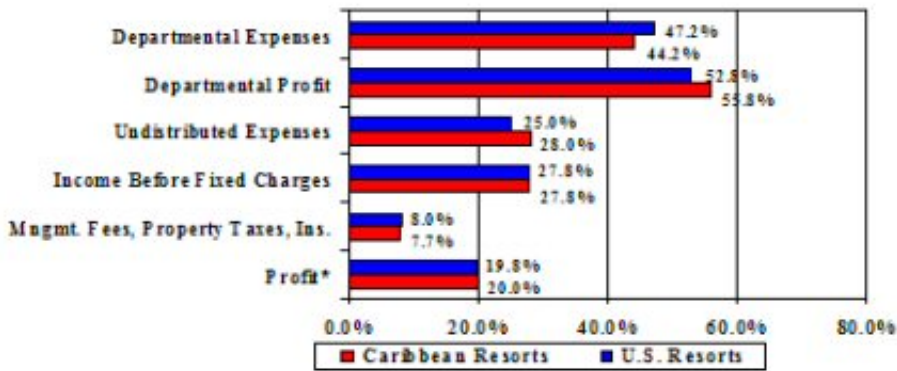
CARIBBEAN HOTEL PERFORMANCE 2006 Dollars Per Available Room



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

Source: PKF Hospitality Research

Caribbean Resorts vs. Comparable U.S. Resorts 2006 Percent of Total Revenue

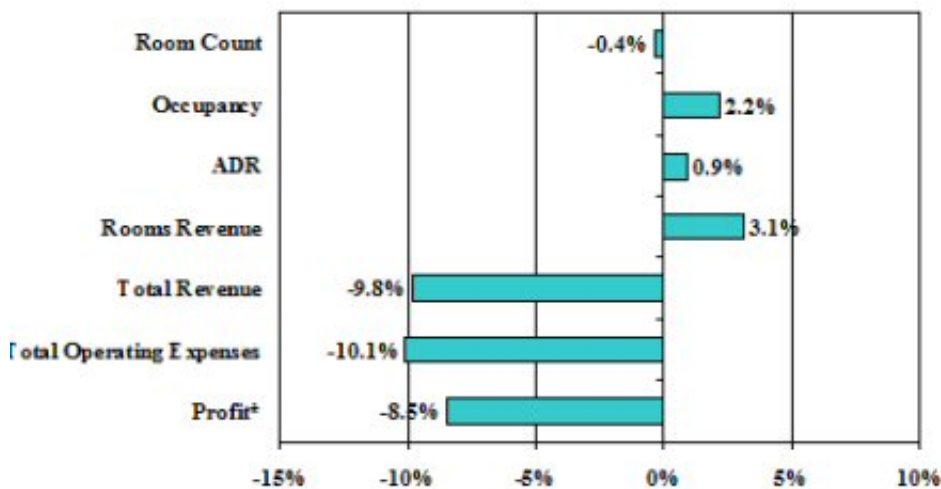


	Caribbean Resort Sample	U.S. Resort Sample
Room Count	257	258
Occupancy	73.5%	71.9%
ADR	\$205.82	\$204.07

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

Source: PKF Hospitality Research

Caribbean Resorts vs. Comparable U.S. Resorts 2006 Variance - Caribbean from U.S.



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

Source: PKF Hospitality Research

To purchase a copy of the 2007 Caribbean Trends in the Hotel Industry report in PDF format, please visit the firm's online store at www.pkfc.com/store, or call (866) 842-8754. The report contains several data tables that allow Caribbean hotel owners and operators to benchmark the financial performance of their property based on size (room count) and ADR groupings.

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 Boston, New York, Philadelphia, Washington DC, Atlanta, Indianapolis, Houston, Dallas, Bozeman, Sacramento, Seattle, Los Angeles, and San Francisco.

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