Caribbean Hotels Face Several Threats In 2008

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PKF Hospitality Research (PKF-HR), an affiliate of PKF Consulting, today announced that it has released its 2008 edition of Caribbean Trends in the Hotel Industry. The report finds that the Caribbean hotel industry faces some strong challenges going forward.

After a soft 2006, most Caribbean destinations saw their visitation rates grow in 2007. In 2008, however, the combination of a slow U.S. economy, increased competition, rising energy costs, and threats of reduced air service could result in lower levels of occupancy and profits for the region’s hotel owners and operators.

’Given the region’s dependence on airlift, the most daunting issues facing the Caribbean hotel industry are the rising cost of airfares and the announced cutbacks in air service,’ said Scott Smith, MAI, senior vice president in the Atlanta office of PKF Consulting. ’Due mostly to the rising cost of fuel, four of the five leading air carriers to the Caribbean have announced cutbacks in service. Puerto Rico and the Dominican Republic could see as many as 26 percent fewer flights in December of 2008 compared to December 2007.’ In an effort to maintain air service, the Puerto Rico Port Authority is offering to reduce airport fees by 45 percent.

Not only is the reduced air capacity a concern, but so are rising airfares. ’The Caribbean has always been attractive to price-sensitive travelers. If airfares continue to rise, hotels may have to reduce their room rates in an effort to maintain the Caribbean’s position as an affordable destination,’ Smith said.

Airlines are not the only mode of transportation impacted by the rise in energy costs. The relatively low cost of Caribbean cruises has made the region the number one cruise market in the world. ’Despite the strength of the market, we have seen shifts in the cruise industry that have been influenced by the rising cost of fuel. Cruises to more remote ports in the southern Caribbean, such as Aruba, are being cut from itineraries due to the length of the trip and fuel required to get there,’ Smith noted.

Energy Costs

The rising cost of energy is not only impacting transportation, it has perpetuated the high cost Caribbean hotels have to pay for utilities, as well. Utility costs for the average property in the Caribbean Trends sample were 7.3 percent of total revenue, or $8,341 per available room in 2007. This compares to just 3.6 percent, or $3,868 per available room, for comparable U.S. resorts.

In an effort to offset the rising cost of energy, some Caribbean hotels have instituted energy surcharges. Most people believe this is not a permanent solution. The buzz word in the region is to ’go green.’

’To preserve the natural beauty of the region, Caribbean resorts have had a long history of being environmentally friendly,’ Smith commented. ’Hotel operators are now parlaying this experience into energy conservation. In addition to installing cost-cutting equipment, such as efficient light bulbs, showers, toilets, sinks, and air conditioning, Caribbean hoteliers are working with their local energy providers to develop new sustainable technologies. This will not only reduce the cost of operations, but improve the overall economy of the island on which they operate.’

New Competition

Another challenge to Caribbean hotels is the anticipated growth in competitive supply predicted over the next few years. Most major international brands have extensive plans to increase their presence in the region. The World Travel and Tourism Council estimates that more than $100 billion has been committed to the development of new hotels in the Caribbean over the next five to six years.

’If you profile the hotel projects that are currently under construction there, you’ll find a preponderance of luxury and upper-upscale properties,’ Smith observed. ’Like the recent trend in the United States, most of these projects are resorts with a significant residential component and first-class spa.’

Caribbean properties will not just face new competition from within the region. Hotel construction is flourishing throughout Latin America. ’Belize and Costa Rica are two markets that are becoming increasingly competitive with the Caribbean as a vacation destination for U.S. citizens, as well as travelers from Europe and South America,’ Smith said.

Operating Costs

For the third consecutive year, PKF-HR compared the financial performance of Caribbean hotels with comparable U.S. resorts. The observations continue to be consistent.

’Historically, Caribbean hotels have enjoyed the benefit of paying their employees relatively low salaries and wages. However, due to rising standards of living among the islands, we have started to see a closing of the gap between U.S. and Caribbean labors costs,’ Smith noted. Caribbean hotels continue to pay less property taxes than their U.S. counterparts. This is attributable to the level of government subsidies tourist-related businesses frequently receive.

Utility costs are not the only expense that is extraordinarily high for Caribbean hoteliers. 'Because of their isolated locations, hotels in the Caribbean need to import the majority of their food and beverage items. Accordingly, the profit margins in this department are lower than would be expected within the United States,' Smith observed. 'In addition, Caribbean insurance costs continue to exceed the U.S. average due to the constant risk of hurricanes.'

To purchase a copy of the 2008 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.