

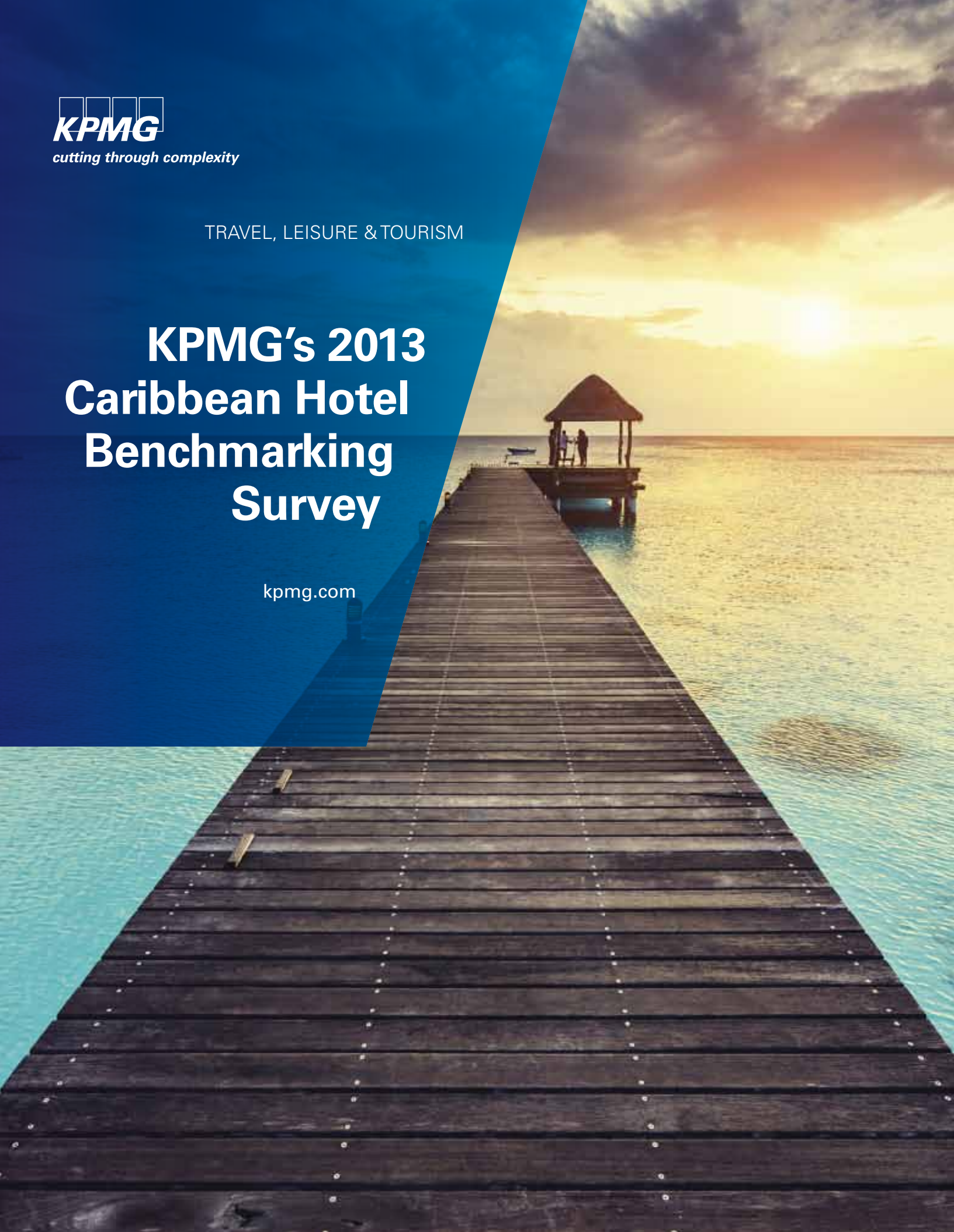


*cutting through complexity*

TRAVEL, LEISURE & TOURISM

# KPMG's 2013 Caribbean Hotel Benchmarking Survey

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Dear Reader:

KPMG's Caribbean Travel, Leisure and Tourism group is pleased to present the results of KPMG's 2013 Caribbean Hotel Benchmarking Survey, which has been designed to provide owners, operators, lenders and investors with a better understanding of the profile and performance of hotels in the Caribbean.

While still challenging, the operating landscape for regional hotels appears to have improved since we released our last survey in 2011. For example, the number of visitors to several Caribbean destinations has stabilized and even grown in some cases and hotels surveyed are experiencing improvements in certain key performance indicators such as ADR and RevPAR. Although overall occupancy fell slightly for survey respondents, the aforementioned improved rates coupled with successful implementation of cost containment measures resulted in 2012 profitability indicators showing signs of improvement when compared to 2011.

Bolstered by the general expectation that meaningful market growth will arrive by 2015, more than two-thirds of survey respondents have expansion plans for the next 18 months. Our Survey results indicate airlift, the impact of new taxes such as VAT and the ability to secure financing are currently issues of critical interest to hoteliers.

We take this opportunity to say a special thank you to our Survey participants (who will also receive a more detailed analysis of the financial results separately). We welcome participation from additional properties for future surveys.

If you have any questions concerning the Survey please contact us or your local KPMG office listed on the back page.

Sincerely,



**Charlene Lewis-Small**  
**Director**  
KPMG in The Bahamas



**Gary Brough**  
**Managing Director**  
KPMG in The Turks and Caicos Islands

## Overview

### Methodology

KPMG's Travel, Leisure & Tourism practice in the Caribbean conducted benchmark surveys into the region's hospitality industry. Financial information for 2011 and 2012 was collected from hotel properties in various Caribbean jurisdictions.

This Survey is based on the survey data collected. Financial information was analyzed on a consolidated basis and is based on a non-weighted average (mean) of the number of properties.

Each line is calculated independently. The average amount and percentage shown for each revenue and expense line item will only represent the average amount and percentage for those hotels that contributed data for that line item. For example, for those hotels which did not make contributions to replacement reserves the percentage of total revenue of all other line items will be impacted to the extent there has been a percentage of total revenue allocated to a line item that they did not incur, in this example an allocation to replacement reserves. This impact is inevitable as revenue and expense categories vary across the Survey population. Wherever possible, responses were reclassified according to the tenth edition of the Uniform System of Accounts for the Lodging Industry (USALI) where necessary. Financial information from the Survey is presented in accordance with USALI.

Where there is a discrepancy between the key performance indicators (KPIs) provided by a participating hotel and the underlying data provided by that hotel, the underlying data has been assumed to be correct and the KPI has been recalculated based on that underlying data.

The KPIs shown are based on the simple average of responses from survey respondents. Accordingly, such simple average KPIs may not necessarily appear to reconcile to certain source data. For example, the impact on survey results of the occupancy of a hotel with a very large number of available rooms is quite different if a simple average approach is taken rather than a weighted average approach, particularly if that hotel's occupancy is unusually high or low.

Where a participating hotel's calculation of a KPI does not agree to the standard industry norm of calculating that KPI (for example  $\text{RevPAR} = \text{ADR} * \text{occupancy rate}$ ), the standard industry norm has been used.

Percentages of Total Revenue have been based on Total Departmental Revenue except for Departmental Expenses which are shown as a percentage of the associated Departmental Revenues.

The Survey responses were not audited.

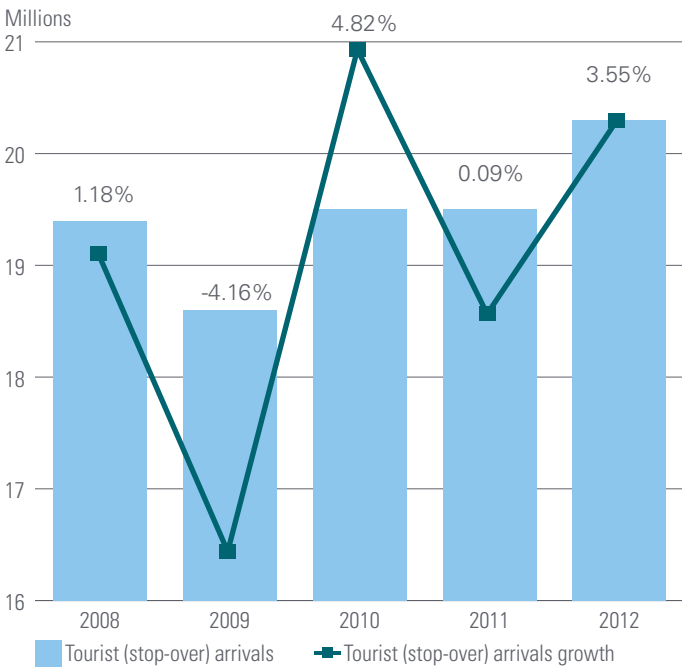
Differences between the Survey and other reports may result from differences in the profiles of respondents.



### The state of Caribbean tourism

Exceeding 20 million tourists, the number of Caribbean stop-over visitors grew by 3.55% in 2012, having fluctuated widely over the last five years.

#### Total Caribbean tourist (stop-over) arrivals



Source: Caribbean Tourism Organization

We have observed some emerging trends that represent cause for optimism for the region.

#### Affluent travellers

The number of affluent households in the US is expected to grow from 10.5 million in 2011 to 20.5 million by 2020 and their total wealth is expected to grow from US\$39 trillion to US\$87 trillion. Luxury hotels and resorts dominate the preferences of affluent Americans when it comes to vacation accommodation. Furthermore, it is estimated that in 2013 affluent travellers will increase their spending on vacations by 10%.

### Gaming

During 2010-15, the global casino industry is expected to achieve a compound annual growth rate (CAGR) of 9.2%, growing to a market size of US\$182.8 billion in 2015. The gaming industry (measured in terms of "wins") grew at a CAGR of 3.9% in the US for the period 2010-2012. Nearly one-third of the US adult population gambled in casinos during 2012, with total consumer spending at commercial casinos increasing by 4.8% in 2012, reaching a total of US\$37.3 billion.

### Business travellers

Business travel spending is expected to experience strong growth in the next 10 years with a CAGR of 5.5% in the US and 6.9% in the Caribbean. In 2012, US businesses spent US\$34 billion on international travel and US\$225 billion on domestic travel, supporting 3.7 million jobs and generating US\$35 billion in taxes.

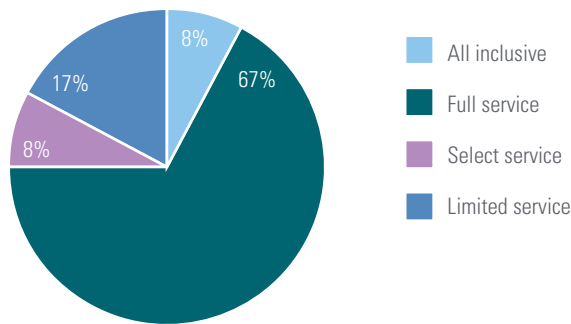
The question is, how can the Caribbean best capitalize on these emerging trends to help diversify, stabilize and strengthen our tourism market?

Sources: Resonance Report – 2012, State Gaming Regulatory Agencies, American Gaming Association, GBTA Report – US Travel Outlook (July 2013), International Trade Administration (2011), US Travel Association, KPMG International research

### Profile of Survey respondents

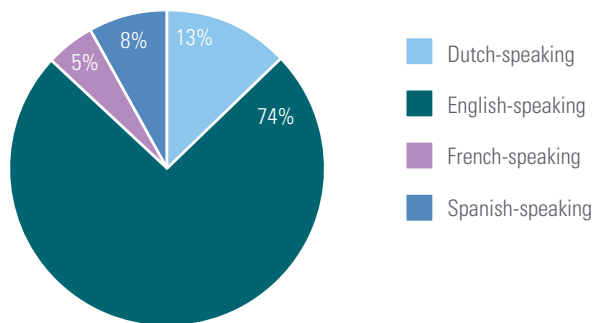
The typical profile of our Survey respondents is that of a full service resort with less than 100 rooms in an English speaking jurisdiction. Respondents overwhelmingly cater to the leisure sector and North America remains by far the largest guest market. The number of available rooms increased by 3.9% in 2012 and the number of full-time employees increased by 4.4%.

#### Property type



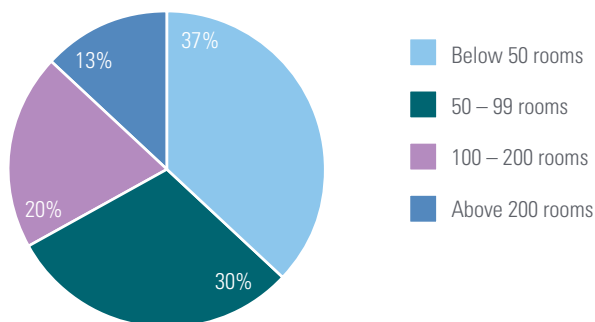
Source: KPMG International, KPMG's 2013 Caribbean Hotel Benchmarking Survey

#### Caribbean location



Source: KPMG International, KPMG's 2013 Caribbean Hotel Benchmarking Survey

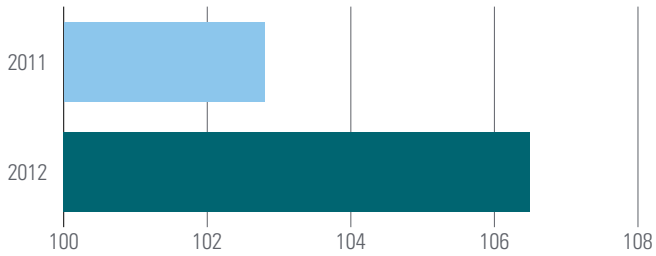
#### Hotel size



Source: KPMG International, KPMG's 2013 Caribbean Hotel Benchmarking Survey

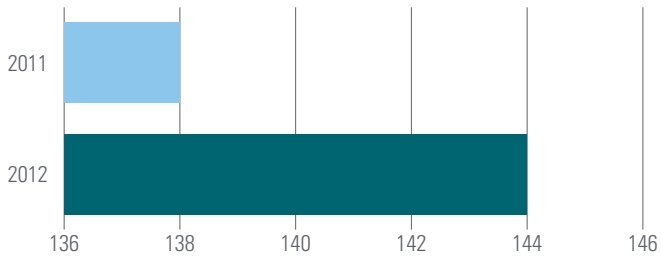


**Average number of available rooms**



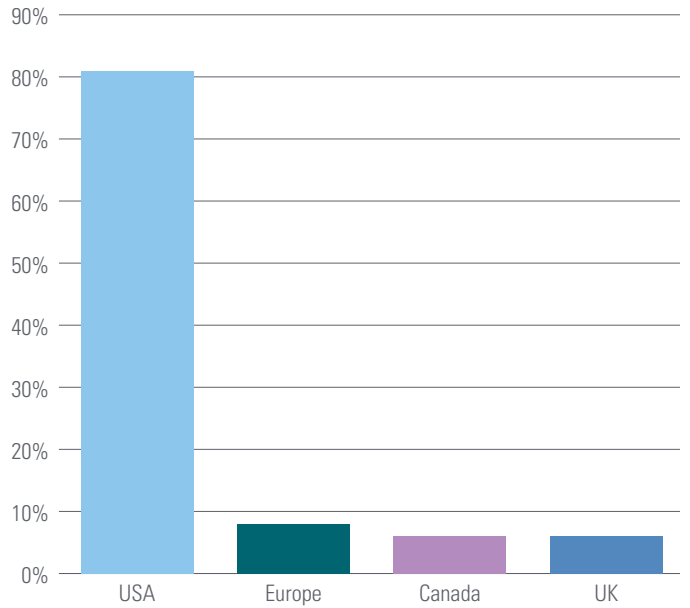
Source: KPMG International, KPMG's 2013 Caribbean Hotel Benchmarking Survey

**Average number of full time employees**



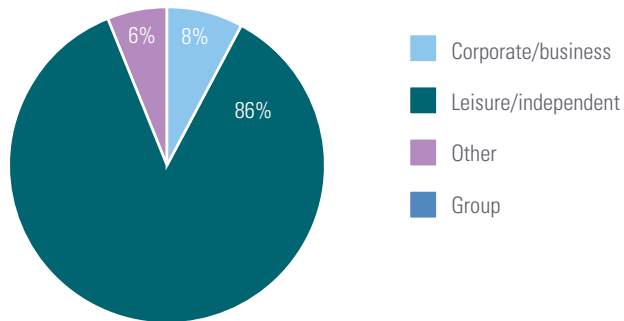
Source: KPMG International, KPMG's 2013 Caribbean Hotel Benchmarking Survey

**Primary guest market**



Source: KPMG International, KPMG's 2013 Caribbean Hotel Benchmarking Survey

**Primary guest segment**



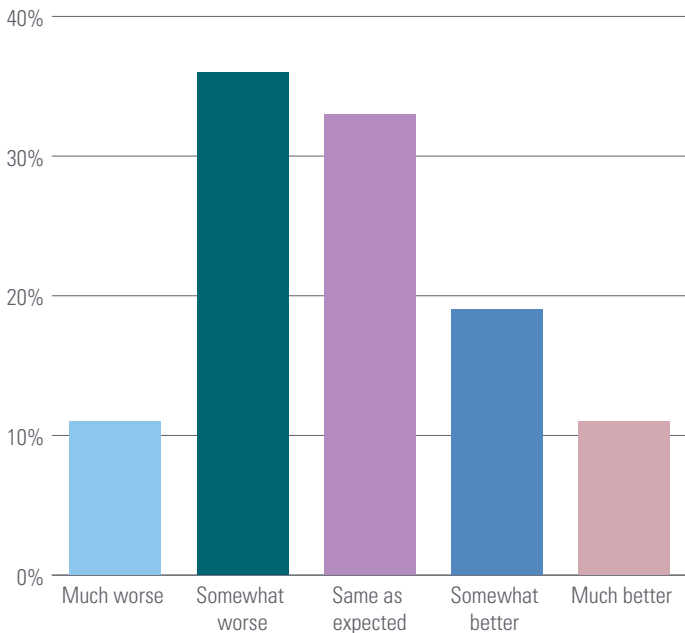
Source: KPMG International, KPMG's 2013 Caribbean Hotel Benchmarking Survey

## Our key findings

### Benchmarking results

Nearly two-thirds (64%) of participating hotels reported that 2012's performance met or exceeded budget.

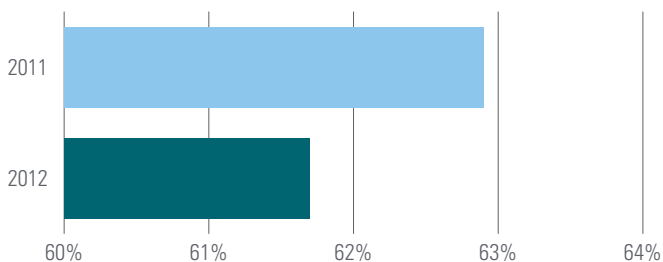
#### How did 2012's performance compare to budget?



Source: KPMG International, KPMG's 2013 Caribbean Hotel Benchmarking Survey

Whilst average occupancy fell from 62.9% in 2011 to 61.7% in 2012, ADR increased from US\$376 to US\$395 and RevPAR from US\$229 to US\$233. This is an encouraging sign as it suggests that resorts no longer need to "buy" occupancy and that healthy room rates may be returning.

### Occupancy



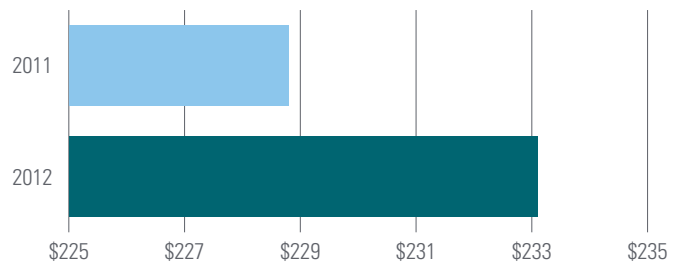
Source: KPMG International, KPMG's 2013 Caribbean Hotel Benchmarking Survey

### ADR (US\$)



Source: KPMG International, KPMG's 2013 Caribbean Hotel Benchmarking Survey

### RevPAR (US\$)



Source: KPMG International, KPMG's 2013 Caribbean Hotel Benchmarking Survey

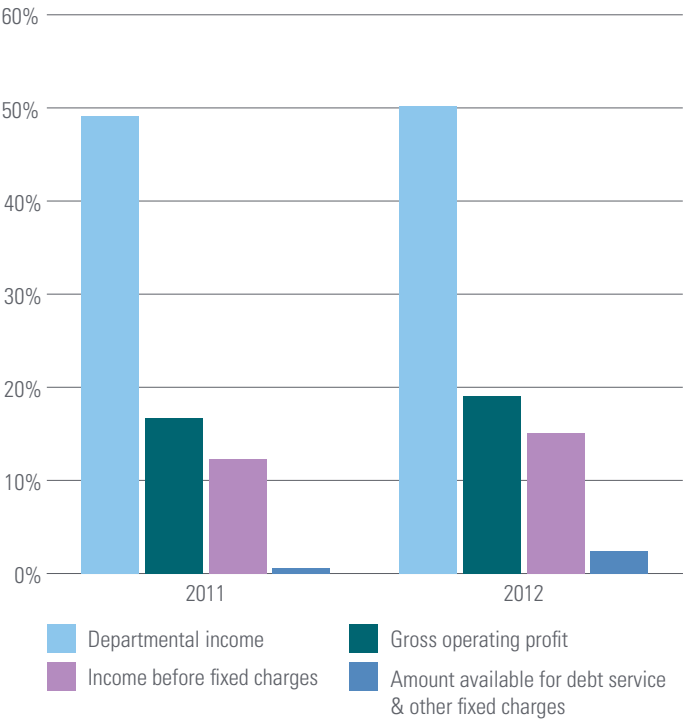






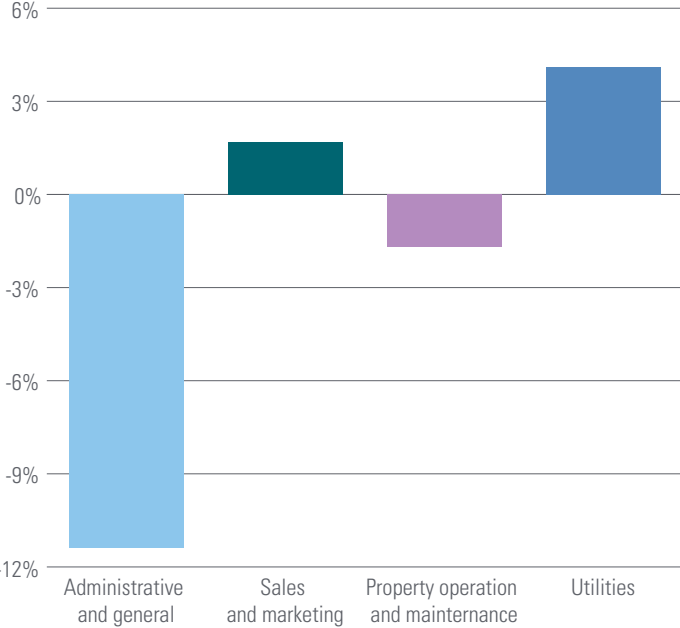
Respondents' 2012 profitability showed some improvement when compared to 2011 despite the mixed results of KPIs. A modest increase in departmental income was accompanied by a significant reduction in administrative and general expenses which suggests that cost cutting disciplines learnt during the recession are paying off. Utility costs do, however, remain a concern increasing by over 4% and such costs clearly represent a major challenge and burden for survey participants. Sales and marketing costs increased modestly, such costs having previously been cut back during the recession.

**Profitability (as % of total revenue)**



Source: KPMG International, KPMG's 2013 Caribbean Hotel Benchmarking Survey

**Change in undistributed expenses as a percentage of total revenue 2012 vs 2011**



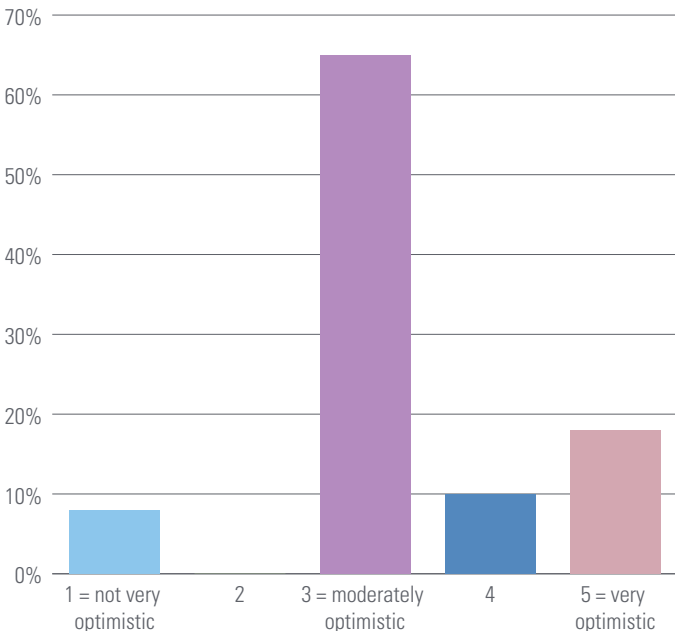
Source: KPMG International, KPMG's 2013 Caribbean Hotel Benchmarking Survey

On average, reporting hotels posted positive net operating income with the average room rate holding steady over the period while operating costs fell, as stated above.

## Outlook

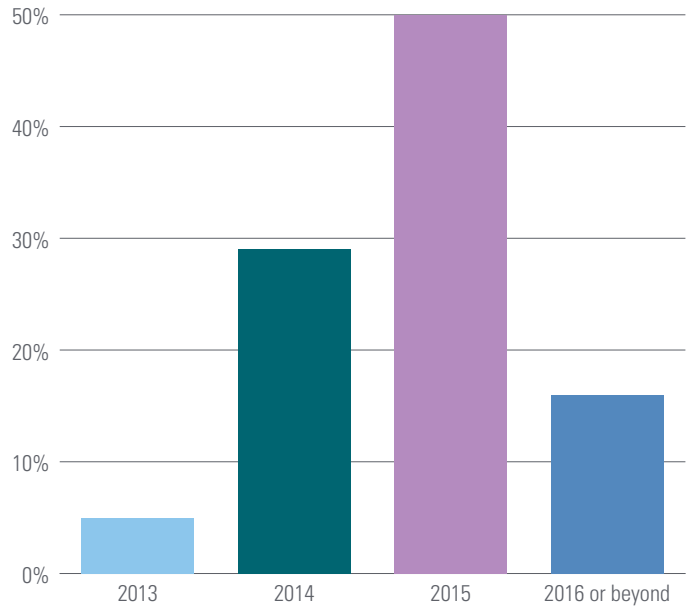
As a sign of increasing optimism, most participating hotels believe 2013 will be better than 2012 but meaningful growth will not return until 2015 or beyond.

### Will 2013's performance be better than 2012's?



Source: KPMG International, KPMG's 2013 Caribbean Hotel Benchmarking Survey

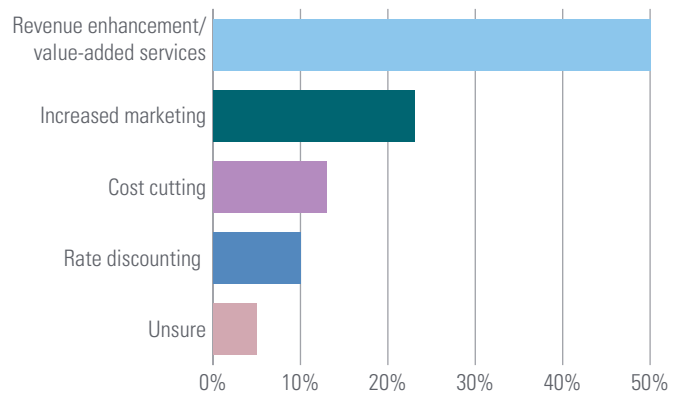
### When will growth return?



Source: KPMG International, KPMG's 2013 Caribbean Hotel Benchmarking Survey

In an effort to maintain or improve rates and occupancies, half of the hotels surveyed are using revenue enhancement as their primary performance improvement tool for 2013. Increased marketing was the second most popular performance improvement measure, being used by nearly one quarter of respondents.

### Primary performance improvement tool for 2013

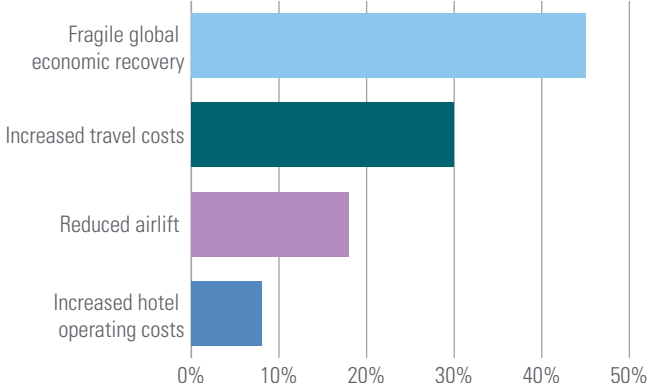


Source: KPMG International, KPMG's 2013 Caribbean Hotel Benchmarking Survey



Uneven economic recovery, particularly in the main source markets for visitors, is seen as the primary hindrance to a rebound in the Caribbean tourism industry. As such, nearly 50% of hotels surveyed believe that a turnaround in the global economy will be the main indicator of a return to growth.

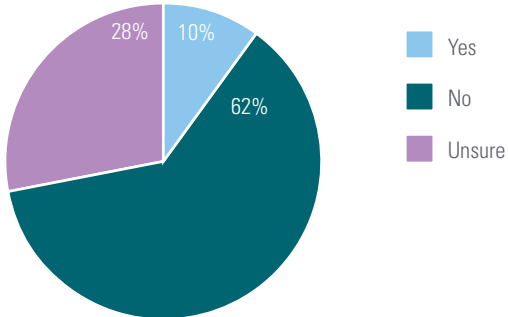
**Challenges to growth**



Source: KPMG International, KPMG's 2013 Caribbean Hotel Benchmarking Survey

Many governments in the region face financing "challenges" and have to look at new revenue streams. A number of jurisdictions have introduced, or are contemplating introducing, VAT for example. They are, however, keen to ensure that this does not have a negative impact on tourism. A majority of reporting hotels do not believe that new revenue streams such as VAT will be implemented successfully in the region. The overwhelming opinion is that such measures may ultimately act as a deterrent to inward investment.

**Are you confident that new government revenue streams...**



Source: KPMG International, KPMG's 2013 Caribbean Hotel Benchmarking Survey

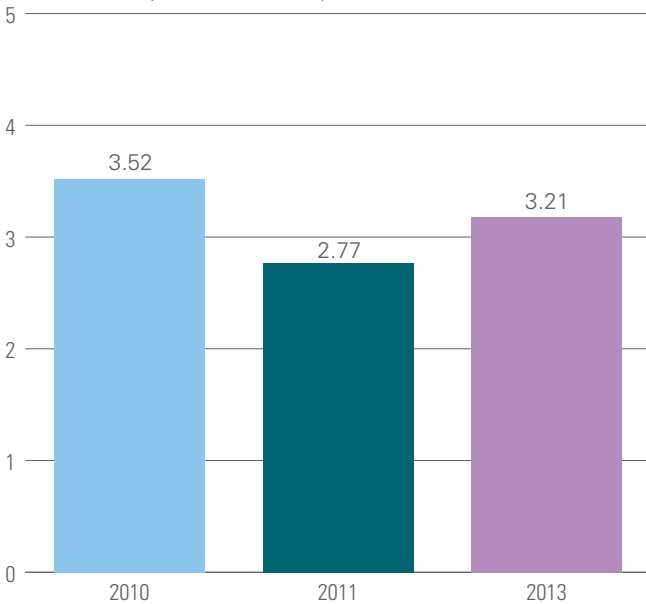
## In conclusion

### Confidence

Below we compare the results of respondents' confidence in the industry against that of survey respondents as reflected in our previous Caribbean Hotel Benchmarking Surveys:

#### Caribbean Hotel Confidence Barometer

Confidence level (1 bearish – 5 bullish)

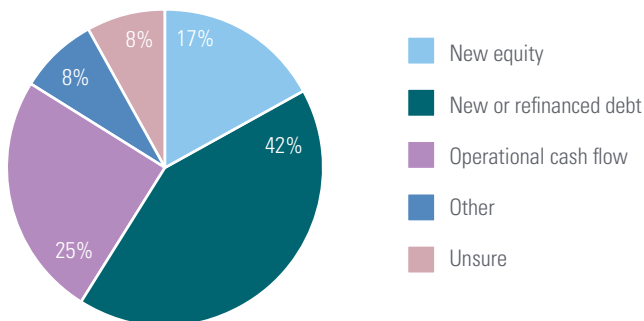


Note: The Survey was not conducted in 2012.

Source: KPMG International, KPMG's 2013 Caribbean Hotel Benchmarking Survey

Building on this increased confidence, more than 40% of hotels indicated that they intend to expand within the next 18 months, albeit with more non-debt financing in their capital structure:

#### Funding of expansion plans



Source: KPMG International, KPMG's 2013 Caribbean Hotel Benchmarking Survey

## What hotels are saying:

"Growth is visible again."

"You don't need eyes to find the solution. You need vision."

"You have to be an optimist to be in this business to begin with."

"The various governments have placed tourism high on their agenda."

"We support the implementation of a 'game changer' for our region..."

"We believe direct airlift is crucial to all Caribbean destinations since the costs associated to getting here are so high."

"We are concentrating our sales efforts on the Latin America and Caribbean markets."

"Airlift is vital to the growth of tourism. The airport experience is also important."

"The overall US economy is improving and we have seen a positive uptick in the spending patterns of the affluent consumer."



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Overall, while there are certainly some positive and encouraging signs of a return to growth, “the jury is still out” in terms of whether the industry has truly turned the corner and is on the path to sustainable growth. Given the critical importance of tourism to our region, we certainly hope this is the case. Our next Caribbean Hotel Benchmarking Survey should certainly make for interesting reading. Stay tuned!



## KPMG's Caribbean Travel, Leisure and Tourism Contacts

Please contact the KPMG firm represented in your country if you have any questions. KPMG firms are represented in more than 20 countries in the Caribbean region, and have a specific knowledge and understanding of the business, cultural, economic and political facets of conducting business in each country.

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