NEWSRELEASE From the Research Affiliate of PKF Consulting, Inc.

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For Immediate Release

Caribbean Hotel Profits Hit Hard By Economic Recession

ATLANTA, Ga., August 10, 2009 – PKF Hospitality Research (PKF-HR), an affiliate of PKF Consulting, announced today that, according to its newly released 2009 edition of *Caribbean Trends® in the Hotel Industry,* the average Caribbean hotel saw bottom-line profits decline 16.0 percent in 2008. The report concludes that the global economic recession was the primary driver of the double-digit profit decline. Given the poor market conditions observed this year, further profit deterioration is expected in 2009.

To combat the effects of the recession, many Caribbean hotels are implementing a variety of marketing strategies in an attempt to boost revenue. These include the offering of incentive packages, as well as pin-pointed advertising in specific target geographies. Concurrently, in an effort to offset the falling revenue, hotel management has struggled to control costs.

In the report, PKF-HR tracked the changes in operating revenues and expenses for Caribbean hotels from 2007 to 2008. Due mostly to the economic recession, visitation to the Caribbean decreased by 4.0 percent in 2008. In turn, hotel revenues fell by 4.5 percent. "Even though Caribbean hotel managers were able to cut expenses by 1.1 percent in 2008, it was still not enough to offset the 4.5 percent decrease in total revenue," said Scott Smith, MAI, senior vice president of PKF Consulting. "The net result was an average 16.0 percent decline in unit-level profits for the typical Caribbean hotel in 2008."

Utilities and insurance costs remain a major concern for Caribbean hoteliers. Unfortunately, hotel managers have relatively little control over these costs compared to other hotel operating expenses. In 2008, utilities and insurance expenses increased by 9.1 percent and 6.3 percent, respectively.

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Caribbean Hotel Construction

Not only has the economic recession impacted the operations of existing hotels, but it also has forced planned hotels to either delay or stop construction. Several proposed Caribbean hotels have not been able to obtain the financing they need in order to proceed with construction. In the past, many Caribbean mixed-use projects have relied on deposits received from the pre-sale of residential units to help finance the construction of the lodging component. "Deposits from residential buyers are no longer sufficient enough to cover the financing of hotels. This business model is no longer viable," Smith said.

In addition to proposed projects, the solvency of existing hotels also has been impacted. For example, the Four Seasons Great Exuma has been forced to close due to the economic downturn.

According to the *Latin America Q1 2009 Construction Pipeline Summary* from Lodging Econometrics, there are 105 projects (22,136 rooms) under development in the Caribbean so far in 2009. Of the 105 projects, 54 projects (51.4 percent) are under construction. It is suspected that the remaining 51 projects will be delayed until the economic situation improves.

Operating Costs

Like they have in the past, Caribbean hotel managers have begun to reduce expenses in an effort to offset the declining revenue. Compared to hotel operations in the US, Caribbean hotel managers face a different operating environment and some unique challenges. "Because many of the Caribbean islands are small, they lack the natural resources, goods, and services necessary to operate the extensive, high-end resorts that are prevalent throughout the Caribbean region," Smith suggested. "In general, this serves to increase operating costs."

Like US hotels, labor costs are the biggest expense item for Caribbean hotels. Therefore, during economic recession, hotel managers frequently implement staff cuts or reduce salaries and wages as the first step to reduce expenses. Fortunately, wage rates in the Caribbean are typically lower than those paid to hotel workers in the United States. The favorable combination of an abundant available workforce in some destinations, plus relatively low wages, helps to lighten the labor expense ratio at Caribbean properties.

Property taxes and other municipal charges are also relatively low compared to US hotels. In the Caribbean, these expenses averaged just 0.7 percent of total revenue in 2008 versus 3.7 percent for all US hotels. In several Caribbean nations, tourism is the number one industry. In an effort to support the travel business, Caribbean governments frequently subsidize or waive the property taxes of hotels.

Caribbean hotels must deal with higher utility and high insurance costs compared to the US. "Going green has become a cost saving trend in the Caribbean" Smith explained. "Investing in sustainable energy has become very important to hotels in the region. While utility costs in the Caribbean may be high right now, I expect that the use of sustainable technologies will help reduce energy costs in the future."

Caribbean Resorts vs. Comparable US Resorts

The 2009 Caribbean *Trends*® report contains a comparison of the performance of Caribbean resorts to comparable properties in the United States. PKF-HR targeted a specific group of US resorts that are similar in size, occupancy, and ADR to the Caribbean survey sample. From a revenue standpoint, the Caribbean resorts in this sample achieved slightly more revenue (4.9 percent) than the comparable US resorts. This can be attributed to the greater volume of revenue earned from Other Operated departments, such as recreation and casinos. On the other hand, Caribbean resorts' expenses were 12.8 percent greater than the US resorts. At the bottom-line, Caribbean hotel profits were 18.0 percent less than those achieved at the comparable US resorts.

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To purchase a copy of the 2009 *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 Atlanta, Boston, Bozeman (Montana), Dallas, Houston, Indianapolis, Los Angeles, Miami, New York, Philadelphia, Portland (Maine), Sacramento, San Francisco, Seattle, and Washington, D.C.

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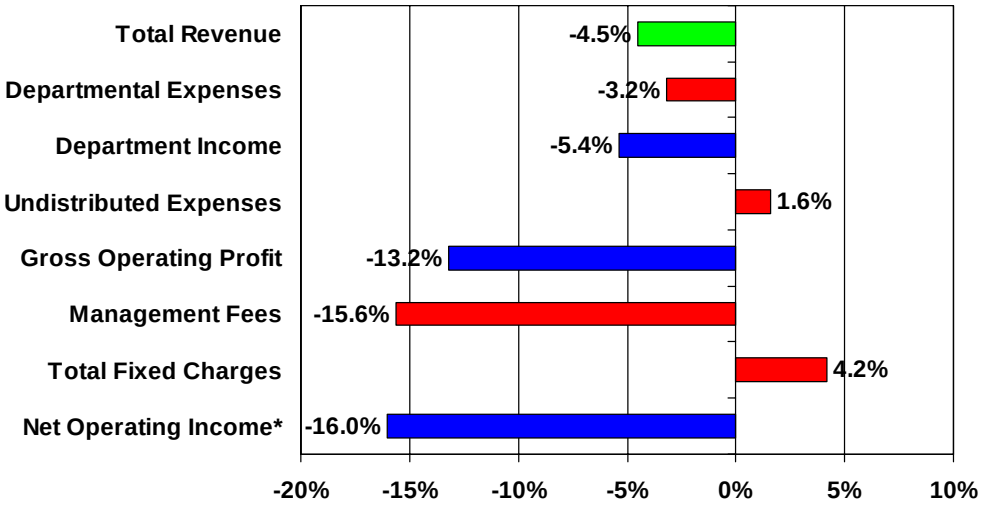
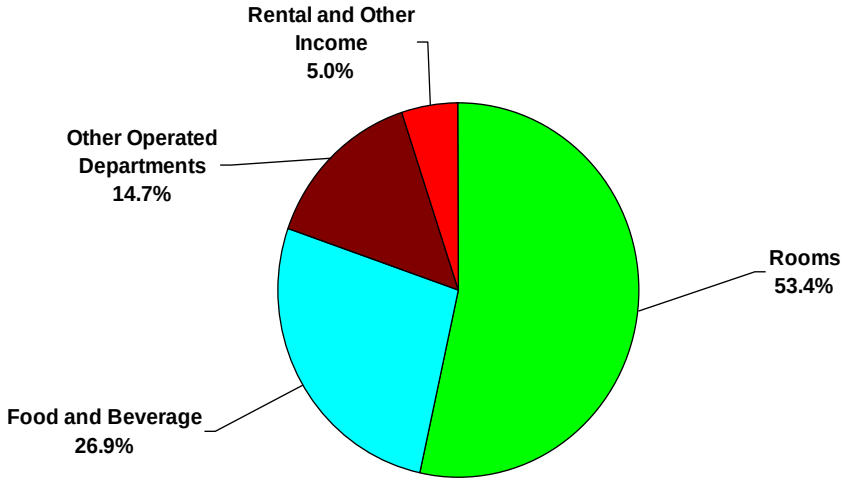
Caribbean Hotels
Change in Unit-Level Performance - 2007 to 2008



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

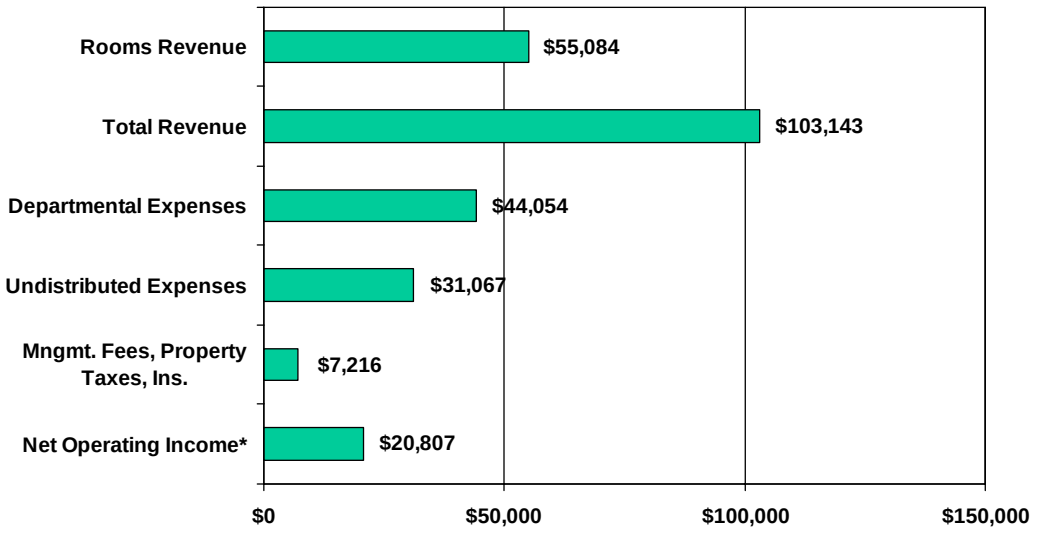
Source: PKF Hospitality Research, 2009 *Trends® in the Caribbean Hotel* Industry report.

Caribbean Hotels
2008 Mix of Revenues



Source: PKF Hospitality Research, 2009 *Trends® in the Caribbean Hotel* Industry report.

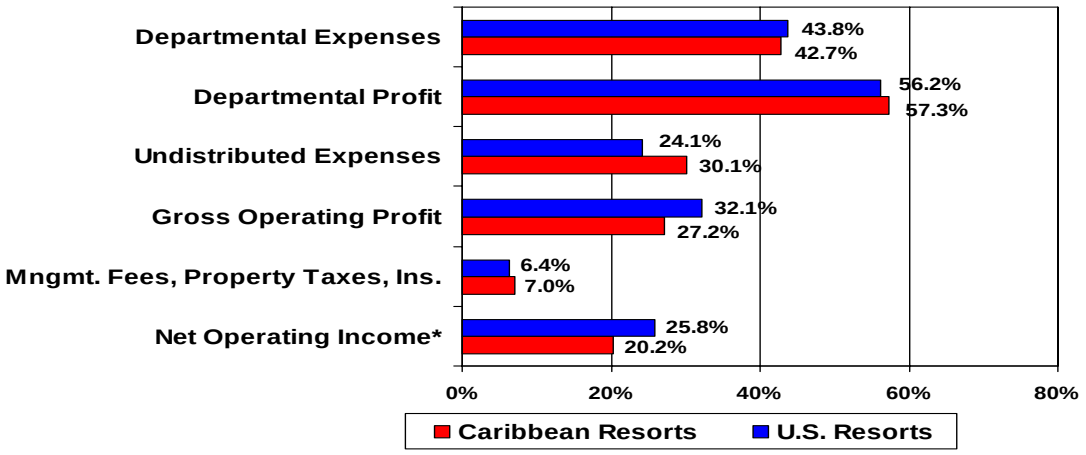
Caribbean Hotels
2008 Dollars Per Available Room



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

Source: PKF Hospitality Research, 2009 *Trends® in the Caribbean Hotel* Industry report.

Caribbean Resorts vs. Comparable U.S. Resorts
2008 Percent of Total Revenue



	Caribbean Resort Sample	U.S. Resort Sample
Room Count	312	320
Occupancy	68.0%	70.1%
ADR	$221.28	$224.24

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

Source: PKF Hospitality Research, 2009 *Trends® in the Caribbean Hotel* Industry report.