Impact of economic transformation on Latin America's lodging industry

Hotels & Hospitality Group | May 2016

An industry white paper update and expansion

Welcome to the second edition of the Latin America lodging industry white paper which updates and expands our analysis of the economic transformation, long-term nature of, and trends shaping the region's hotel industry.

As you browse through this white paper, you will find a selection of notable economic indicators and their impact on hotel supply growth trends and a summary of key findings for each country profiled. In addition to our four original markets, we expanded our research to include two new countries - Chile and Argentina.

We trust you will find this publication relevant, concise and insightful.

Enjoy the read.

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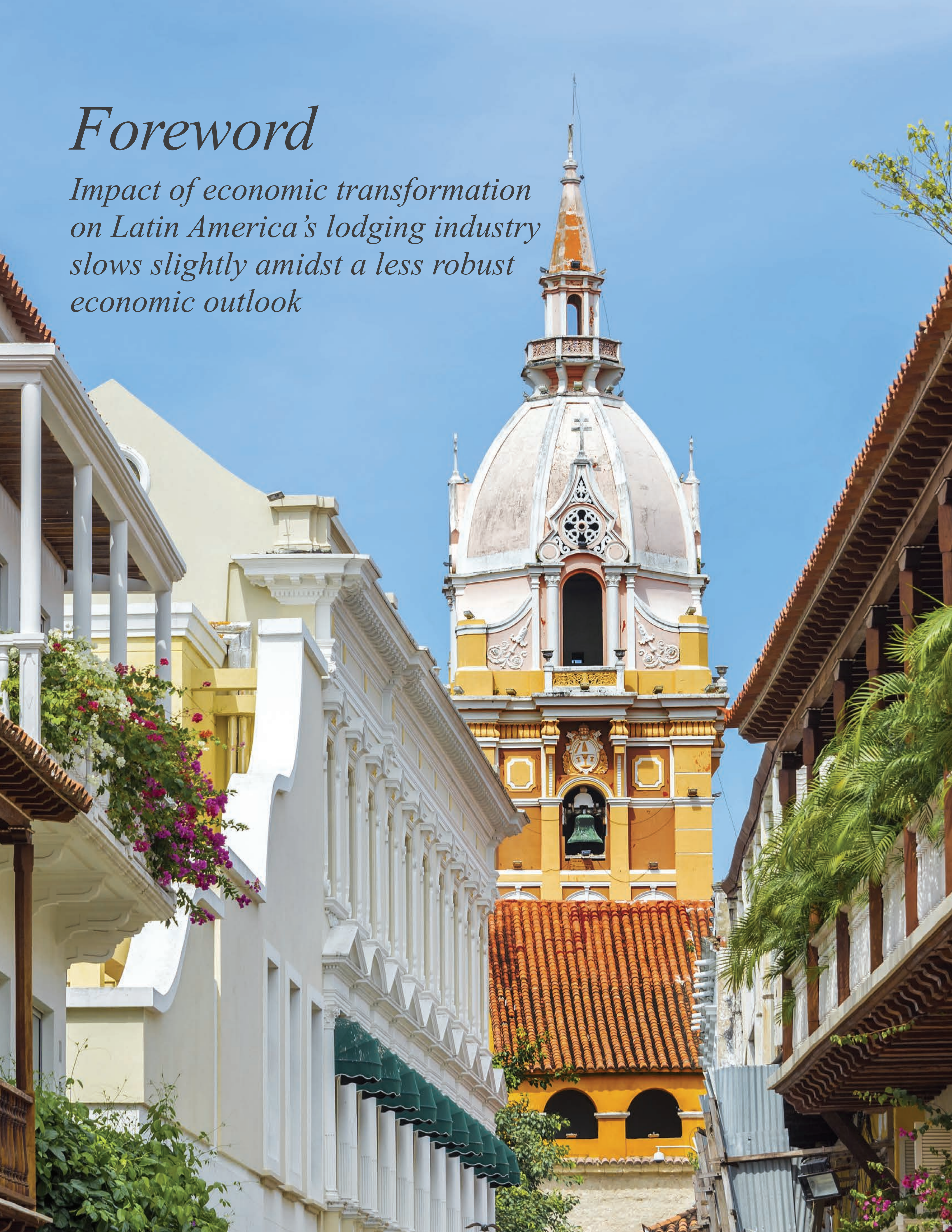
Foreword

Impact of economic transformation on Latin America's lodging industry slows slightly amidst a less robust economic outlook



The following report is an update and expansion to our original white paper that was published in 2013, which, in turn, was predicated upon the general thesis that key Latin American countries were in the midst of an economic transformation similar to that which had been experienced decades earlier by the world's more advanced economies, and that this transformation would have a significant and enduring impact on the demand for lodging in these countries. The original white paper developed a 'bottoms-up' micro analysis of supply and demand trends in four target countries to test and expand upon the general thesis that the structure of a country's economy affected level and nature of type of its lodging demand and, hence, the composition of its hotel industry. This general thesis and analytical framework was posited by Professor Paul Slattery in his book, *The Economic Ascent of the Hotel Business, Second Edition*. Specifically, the white paper demonstrated that these countries' transformation from agro-industrial to increasingly services- and experience-based activities, combined with decades of pent-up demand stemming from historic macroeconomic instability and immature capital markets, resulted in outsized demand for greater and more sophisticated lodging product.

The actual situation in, and economic outlook for, the world's emerging economies has shifted significantly during the three-year period since the publication of the original white paper. Dramatic decreases in oil and other commodity prices – still a significant source of hard currency exports in most emerging countries - together with profligate public sector spending and macroeconomic mismanagement in certain countries, caused the opinion of the global capital markets to sour with respect to emerging market investment. Moreover, economic prognosticators who had previously predicted the imminent dominance of the BRIC nations (i.e., Brazil, Russia, India and China), now wrote of the intractable structural impediments likely to hinder the sustained economic advancement required to attain such dominance.

Given these dynamics and other significant changes in the Latin America region, Wyndham Hotel Group – the lead sponsors of the original white paper – approached JLL about updating and expanding the research publication. Recognizing the validity of such an effort, global companies Accor Hotels, Hilton Worldwide and Interstate Hotels & Resorts joined JLL as additional sponsors, while FT Confidential Research also leaned in with its considerable economic research capabilities. Lastly, particular gratitude is still due to Mr. Paul Slattery, as the general "economic transformation" thesis behind the macro-analytical methodology used in this white paper was left unchanged. Rather, the current white paper was expanded to include Argentina and Chile and updated to reflect on current research conducted in support of our micro analysis of economically-justified new lodging supply; specifically: 1) new information regarding 2012 to 2015 actual additions to existing lodging supply and the anticipated pipeline of new hotel rooms; and 2) our analysis of updated information provided by FT Confidential Research regarding the economic drivers of lodging demand across a variety of market types in each of the targeted countries.

Again, the sponsors' goal in preparing this updated and expanded white paper was to help industry participants better understand and articulate the future lodging development potential of Latin America in light of the significant changes in the region's long term economic outlook. At the highest level, our research indicated that, while the expected annual growth rate of new, economically-justified lodging supply in the six targeted countries has decreased for a variety of reasons, the decrease was less pronounced than the projected GDP growth for the region. Moreover, the results varied considerably from country to country. Brazil and Colombia were most adversely affected by larger than expected increases in actual supply during the 2012 - 2015 period, and a worsened economic outlook, while Peru and Mexico generally maintained the most positive outlook. Chile's outlook was broadly consistent with an investment safe haven within the region, while Argentina's reflected a sense of hope tempered by a reticence based on experience. Lastly, our research indicated that strategic capital is leveraging currency advantage and local knowledge to identify opportunity amidst the adversity in the acquisition, consolidation and improvement of regional hotel operating platforms.

In conducting our research, we were once again humbled by the depth and complexity of the subject matter. We recognize that this is but an additional advancement on initial stake in the ground achieved with respect to this complex research question. Of course the usual disclaimers apply: the research, findings, analyses and conclusions presented in this white paper should not be a substitute for proper due diligence, research and analysis required for any strategic development plan or specific development project. We hope you find the content to be both interesting and worthwhile.

Sincerely,

Clay B. Dickinson
Managing Director - Latin America
JLL | Hotels & Hospitality Group

Highlights

2015

population
476M

2025

population
520M

Average Annual Real GDP Growth (2015 - 2025):
2.4%

Lodging Supply CAGR (2015 - 2025):
4.6%

Existing supply 2015 **795,300** rooms

\+ Gross projected supply* **449,500** rooms

= Estimated supply 2025 **1,244,900** rooms

** Includes pipeline under construction*

Executive summary

The economic outlook of the world's emerging countries has become decidedly less optimistic due to the decrease in commodity prices, especially oil and gas, and lower expected aggregate global demand. This deterioration in economic outlook has been further aggravated by significant devaluations in local currencies, as both demand for commodity exports and foreign portfolio and direct investment has abated. As lodging demand is directly correlated to economic activity, it only stands to reason that these trends would have an adverse impact on the quantity of hotel rooms that could be supported over the medium to long term.

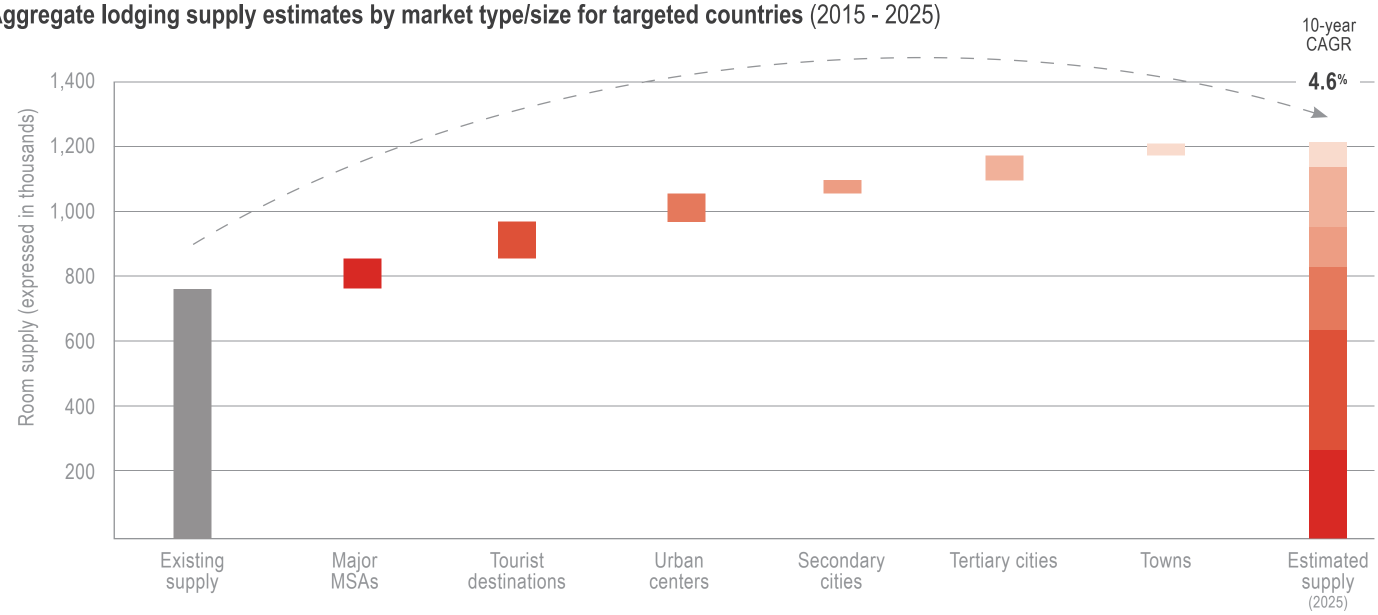
Therefore, in light of this new economic reality, the primary goal of this white paper was to update the estimates of supportable lodging development in the originally targeted countries of Brazil, Colombia, Mexico and Peru and to expand its scope to include Argentina and Chile. It is important to note that in updating and expanding the white paper, we were able to confirm and leverage the general thesis and specific projection methodologies that established the foundation of original research, which may be found on our website at: www.jll.com/latam-whitepaper.

The principal thesis underlying the original white paper, published in 2013, was that social, political and economic reforms and the general globalization of the world's economy were combining to produce an economic transformation in emerging economies not unlike that had been experienced by the most advanced economies some three to five decades previous. Evidence of this economic transformation was manifested in an expanding middle class, significant investment in human and physical infrastructure, and unprecedented level of domestic and foreign private investment in industry, manufacturing and all manner of services. This transformation, together with decades of pent up demand and under supply, led to the conclusion that the target countries and, indeed, Latin America in general, would register disproportionate demand growth, creating an outsized opportunity for hotel development over a ten-year period.

The research behind this white paper has shown that, while the less optimistic outlook of the target countries revealed a number of structural impediments that may threaten the pace of change and decrease the volume of public and private sector investment expected over the 2015 to 2025 period, the general economic transformation marches on inexorably. Indeed, one of the key findings of the updated research is that the four countries profiled in 2012 showed a level of growth in hotel supply over the last three years that exceeded the pace required to fulfill the estimated opportunity then envisaged. This was particularly true in the cases of Brazil and Colombia where during the period between 2012 and 2015 the number of hotel openings significantly exceeded the 'under construction' pipeline that had been estimated in 2012.

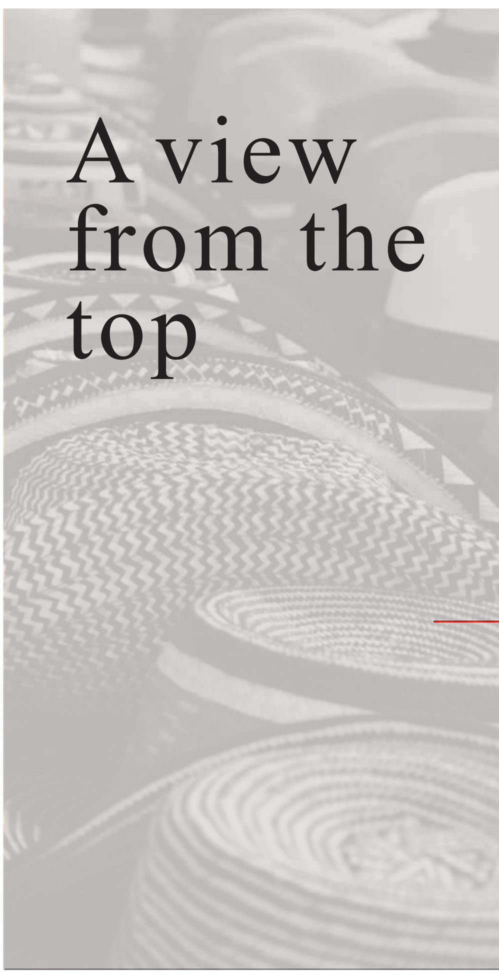
Other evidence that, despite the generalized economic downturn in Latin America, the basic transformation of the key economies continues, albeit at a slower pace, is based on a detailed investigation of the public and private investment in infrastructure, industry, manufacturing and services. The research confirmed that investment in the profiled countries did come to fruition over the last three years and, more importantly, that the number of new projects, both public and private infrastructure projects and Foreign Direct Investment (FDI), will continue to fuel demand growth to support further supply growth for the next decade. More than 1,500 projects, with a total of more than US$ 1.0 trillion in investment, were examined to base our research.

Aggregate lodging supply estimates by market type/size for targeted countries (2015 - 2025)



Note: Targeted countries include Argentina, Brazil, Chile, Colombia, Mexico and Peru.

Source: JLL



A view from the top

The aggregate compound annual increase in the net total supportable supply in the target countries was estimated to be 4.6% for, against an estimated 2.4% growth of aggregate GDP. With the exception of Colombia, all countries show an average annual increase in supportable supply that is significantly greater than the expected GDP growth for the 10-year period. Peru shows the highest at 8.3%, partly as a result of a nominally low base of supply. At 5.3% and 5.0%, respectively, Chile and Mexico follow Peru. Chile's expected increase reinforces its status as the most 'transformed' of the target countries with the greatest access to relatively low cost capital, while Mexico's is at least partially a function of modest recent supply growth juxtaposed against a comparatively robust economic outlook and strong growth in tourism visitation.

While Argentina's estimate reflects promise, Colombia's 3.9% is more cautious and is broadly in line with forecast economic growth. Brazil's 3.8% annual increase is the lowest of the target countries given the significant supply additions since 2012, aggressive pipeline growth and long-term economic growth prospects for the country.

"Estimated growth of supportable supply decreased, even as the gap between supportable supply and economic growth rates widened - reflecting pent-up supply constraints in some countries and robust tourism and commercial demand growth in others."

Clay B. Dickinson

Managing Director - Latin America
JLL | Hotels & Hospitality Group

Macro-level projections

	Argentina		Brazil		Chile		Colombia		Mexico		Peru		Targeted Countries (Aggregate)	
	Number of Rooms	HSR (per population of 1,000)	Number of Rooms	HSR (per population of 1,000)	Number of Rooms	HSR (per population of 1,000)	Number of Rooms	HSR (per population of 1,000)	Number of Rooms	HSR (per population of 1,000)	Number of Rooms	HSR (per population of 1,000)	2015	HSR (per population of 1,000)
Existing Supply 2015	58,200	**1.3**	316,100	**1.5**	27,800	1.5	45,200	**0.9**	326,700	**2.6**	21,300	**0.7**	795,300	**1.7**
Under Construction Pipeline	1,900		30,200		2,000		4,000		8,600		1,100		47,800	
Net Supportable Rooms	*30,000*		*114,000*		*16,900*		*17,300*		*198,600*		*25,000*		*401,700*	
Estimated 2025 Supply	**90,100**	**1.9**	**460,300**	**2.1**	**46,700**	**2.4**	**66,500**	**1.3**	**533,900**	**3.8**	**47,400**	**1.3**	**1,244,900**	**2.4**
CAGR 2015-2025	4.5%		3.8%		5.3%		3.9%		5.0%		8.3%		4.6%	
Average Real GDP % Change 2015-2025	2.4%		1.6%		3.0%		3.5%		3.0%		3.8%		2.4%	

Based upon our research and analysis of the revised macroeconomic outlook, including the addition of Argentina and Chile to the profiled countries, we estimate that a total of approximately 449,500 new hotel rooms could be supported in the six target countries over the 2015 to 2025 period. Based upon the estimated relative economic impact of more than 1,500 investment projects, these hotel rooms will be dispersed across more than 300 local lodging markets of varying size and type. In the aggregate, the estimated total number of supportable hotel rooms over the next decade represents an absolute increase of more than 57.0% and compound annual growth of 4.6%, considerably greater than the projected 2.4% increase in the aggregate GDP of the six targeted countries.

To estimate the total net new supportable hotel rooms, we deducted 47,800 hotel rooms categorized as Under Construction to derive a figure of 401,700 new rooms that can be added in the next decade to equal the total number of supportable hotel rooms by 2025. Should the actual number of hotel rooms added over the next decade equal the estimates presented in this white paper, the Hotel Supply Ratio (HSR) equal to number of hotel rooms per 1,000 population, would increase from an aggregate of 1.7 in 2015 to 2.4 in 2025. While this increase is not trivial, is remains significantly below the 15.1 HSR the United States had in 2012.

In aggregate terms, of the original four target countries, only Mexico and Peru showed an absolute increase in the overall number of supportable hotel rooms, while Colombia essentially remained steady. Brazil was the only country where the absolute combination of an increase in supply in the last three years and a decrease in projected investment volume resulted in a lower overall opportunity. This is in line with the recent political and economic challenge that led the country to a deep recession and negative GDP growth.

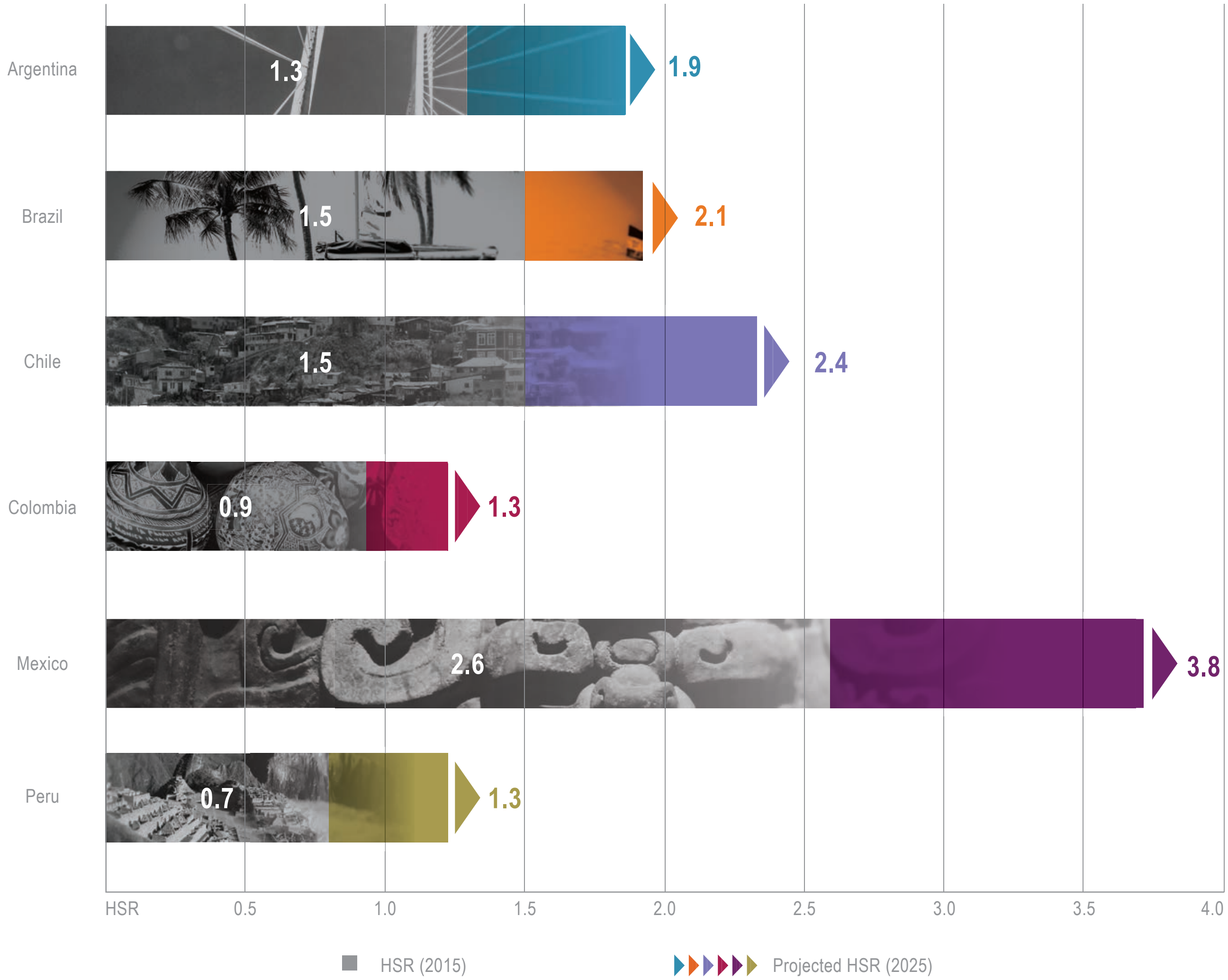
As for Argentina and Chile, the recent political changes in Argentina immediately led to a positive scenario for hotel development growth, while Chile shows a tremendous volume of investments but a limited overall opportunity in the overall number of rooms due to the country size itself.

Brazil shows the most robust pipeline under construction, fueled by the supply expansion in Rio in preparation for the Olympics and the condo-hotel surge up to 2014, before the economic downturn. Colombia also registered a greater than anticipated supply increase during the 2012 - 2015 period and a strong pipeline under construction due primarily to incentives for new hotel development. These two countries are expected to peak towards fulfilling their opportunity in the next two years, slowing down afterwards as the impact of supply pressures, increased regulation and the phasing out of incentives are felt.

On the other hand, Argentina and Peru show a timid pipeline under construction (in absolute terms) considering the size of the opportunity, but all three have a number projects in earlier stages of development that should materialize in the upcoming years. In particular, Argentina's pipeline may prove to be understated as more than a decade of pent up demand, increased investor interest and a diversified base of leisure and commercial demand drivers combine to increase the attractiveness and reduce the cost of hotel development.

HSR estimates by country (2015 - 2025)

With an existing HSR higher than the projected 2025 HSR of the other five targeted countries, Mexico continues to be the most advanced in terms of its lodging industry. Chile, with a 2.4 HSR, and Brazil, with a 2.1 HSR, are the only other countries with an HSR above 2.0. That is consistent with both Mexico's positive economic outlook and Chile's disproportionate level of investment relative to its size.



Hotel supply ratio explained

We measure lodging industry penetration by calculating the hotel supply ratio (HSR). The HSR is derived by dividing the total estimated number of relevant hotel rooms in a country by each 1,000 inhabitants.

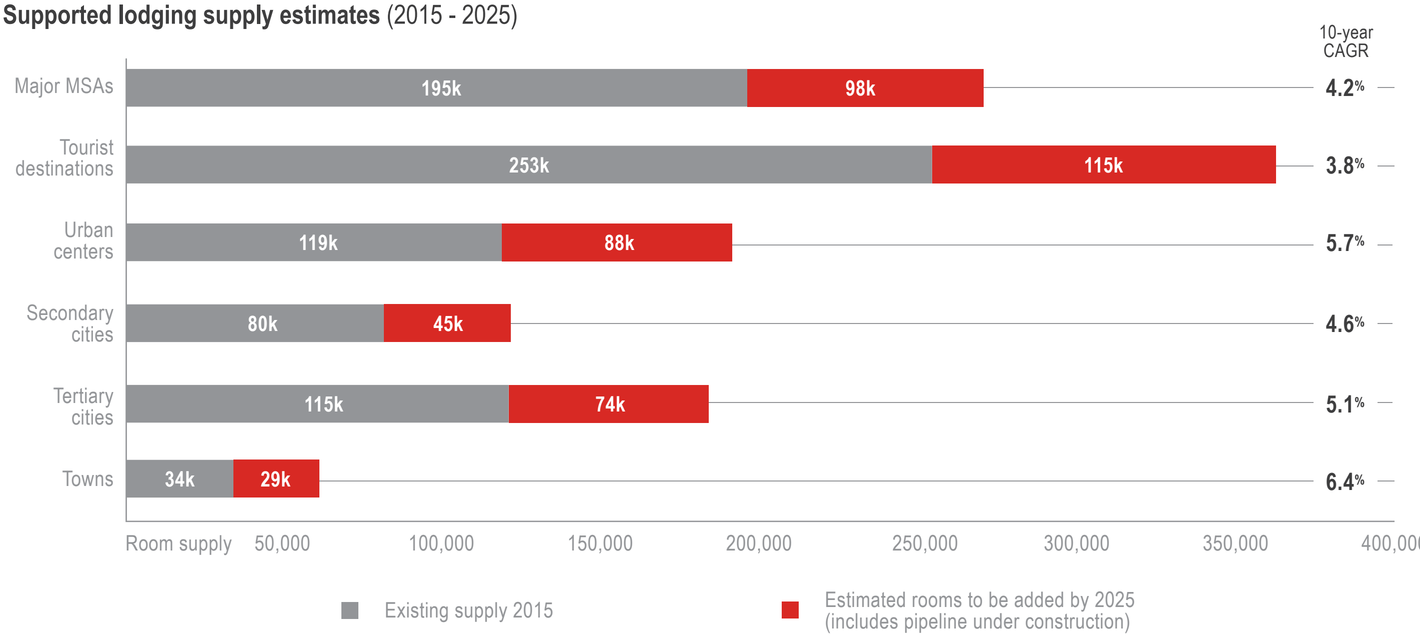
For example, approximately 5.0 million hotel rooms and 324.1 million inhabitants exist in the United States (2015). Dividing the 5.0 million hotel rooms by 321,400 (represents 321.4 million inhabitants divided by 1,000) equals an HSR of approximately 15.7 in the United States. This ratio is used as the key metric of the relative degree of development of the hotel industry at any level, country or market.

$$\text{HOTEL SUPPLY RATIO (HSR)} = \frac{\text{Total hotel rooms}}{\text{Country population per 1,000}}$$

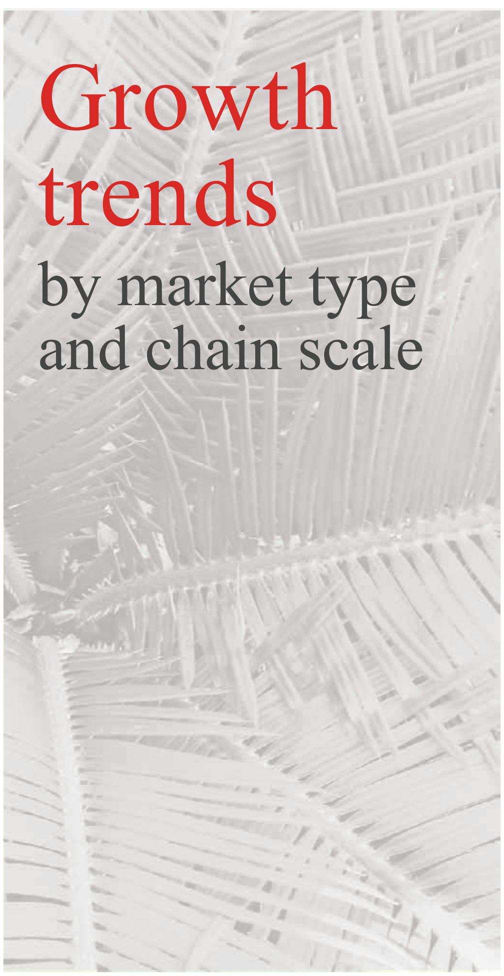
$$\text{15.7 HSR} = \frac{\text{U.S. room inventory } 5{,}038{,}500}{\text{U.S. population } 321.4 \text{ million}}$$

Sources: JLL, STR, Oxford Economics

Supported lodging supply estimates (2015 - 2025)



Source: JLL



Growth trends

by market type and chain scale

Although major metropolitan cities and tourist destinations continue to show large numbers in terms of their absolute future lodging supply potential, the relative growth potential remains predominately concentrated in urban centers, secondary and tertiary markets, as well as towns, where the general impact of economic decentralization and the specific effects of major public and private sector investments - infrastructure-related and other - is greatest.

Based on our research of the supply growth between 2010 and 2015 for the Sponsor hotel companies* and their presence in the six countries profiled, as a proxy for global chain and product development trends, we observe that towns registered a 55.0% CAGR in the Midscale chain scale segment for the five-year period; tertiary markets witnessed a 47.0% CAGR in the Upper Midscale chain scale segment; and secondary markets observed a 16.4% CAGR in the Upscale chain scale segment.

Evidently, as markets become increasingly more sophisticated and receive more investment, the growth in higher-quality lodging supply also increases.

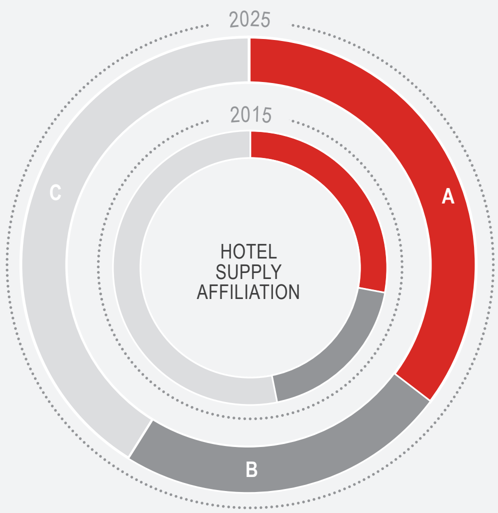
Research highlights:

CAGR (2010 - 2015) by chain scale segment and market type*

	Luxury - Upper Upscale	Upscale	Upper Midscale - Economy
Major MSAs	12.0%	6.5%	7.3%
Tourist destinations	-0.8%	15.2%	13.7%
Urban centers	-8.6%	14.2%	13.7%
Secondary cities	-	16.4%	12.1%
Tertiary cities	38.3%	29.8%	18.2%
Towns	-	8.5%	24.2%

**Total Sponsors' room supply (rounded to nearest hundred): 42,100 rooms (2010); 70,700 rooms (2015)*
Chain scale segments are based on STR Global's 2015 Chain Scale Classification; includes full-service and select-service product.
Sponsors: Wyndham Hotel Group, Hilton Worldwide, AccorHotels

Lodging supply composition
(presented as a percentage of total supply)



A
Global
27% 2015 → **35%** 2025

B
Regional
19% 2015 → **24%** 2025

C
Independent
54% 2015 → **41%** 2025

The proliferation of branded hotel supply is increasingly evident in the target countries, and branded products are expected to surpass independent products by 2025. This growth can be observed both in Global brands, as well as Regional brands. As the hotel markets mature and the hotel business becomes more sophisticated, the importance of brand recognition, distribution channels and international standards become more evident, underscoring the value-add branded hotel companies are perceived to bring to an increasingly demanding emerging market consumer.

The increase in branded hotels was evident not only in the new supply, but also in a number of conversions. For example, in Brazil there were approximately 11,000 room conversions and in Mexico approximately 10,000 room conversions that occurred between 2012 and 2015, including both change of brands and conversions from independents to branded product. Given the obstacles associated with converting much of the older existing supply, a contributing factor to the pronounced increase in the recent rate of conversions is believed to have been, increasingly, a function of the combination of a) increased flexibility among the global brands in terms of “tropicalized” standards; and b) the greater relative ‘convertibility’ of recently added ‘Next Generation’ supply, which may have been intended as independent or locally branded product, but was, nonetheless, suitable for rapid conversion to an international brand.

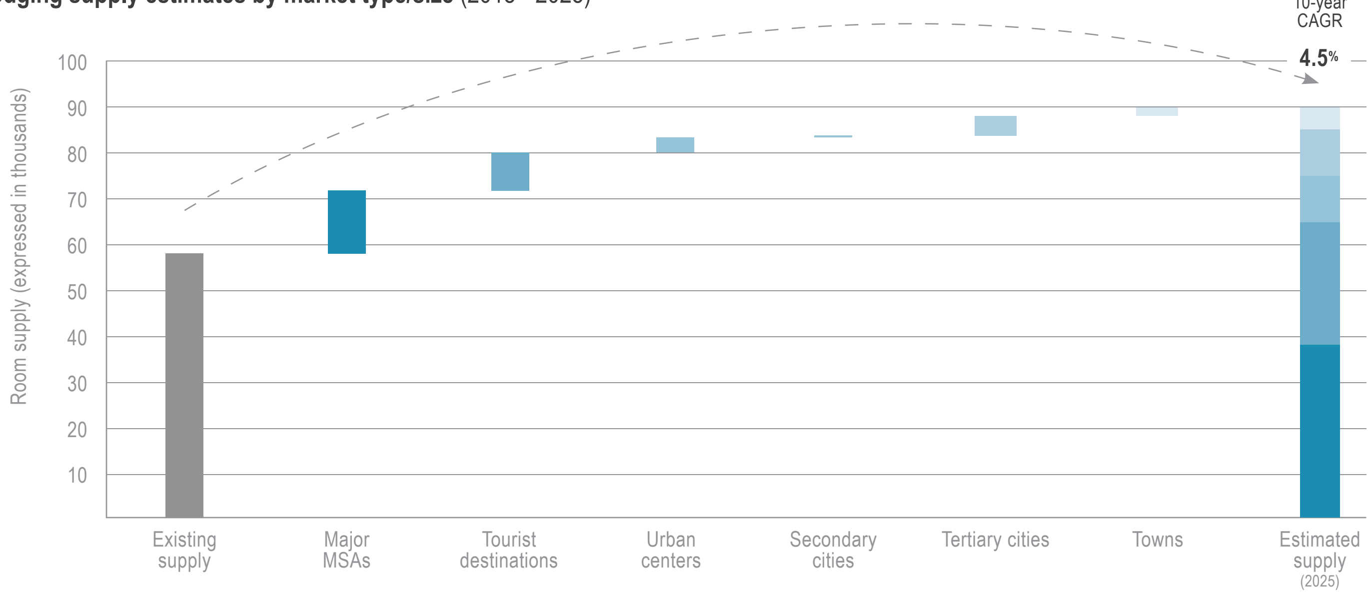
Another trend observed in the past few years included the closure of independent hotels or repurposing of condo-hotels to residential as a result of increasing competition from new branded supply. Evidently, the arrival of sophisticated technology and global distribution channels has compelled an increasing number of independent hotels to consider brand affiliations or professional hotel management services as means to remain competitive in the region’s evolving lodging industry.

Three major trends in the region demonstrate and further support the growth opportunity for professional hotel management companies: (1) investment of private equity funds in regional management companies; (2) consolidation and growing sophistication of regional independent management companies as preferred third-party operators of major global brands; and (3) the strategic direction adopted by regional independent hotel management companies to operate different brands and chain scales across various global brand families.

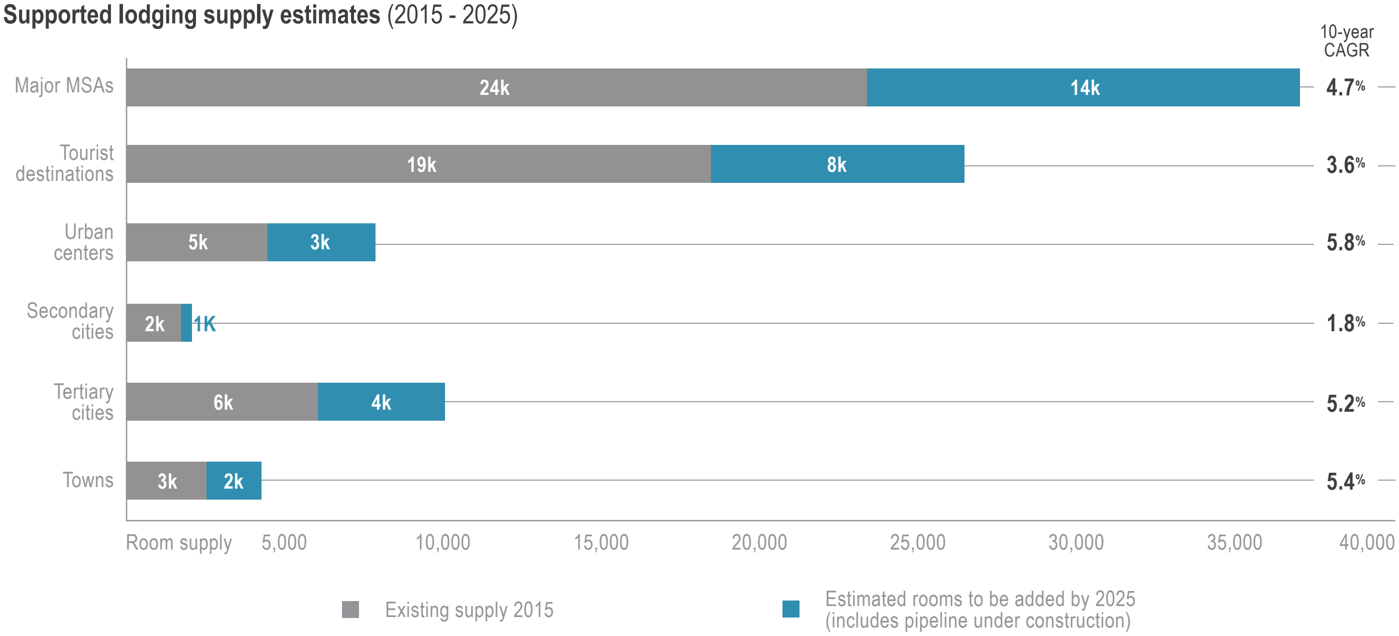
Argentina

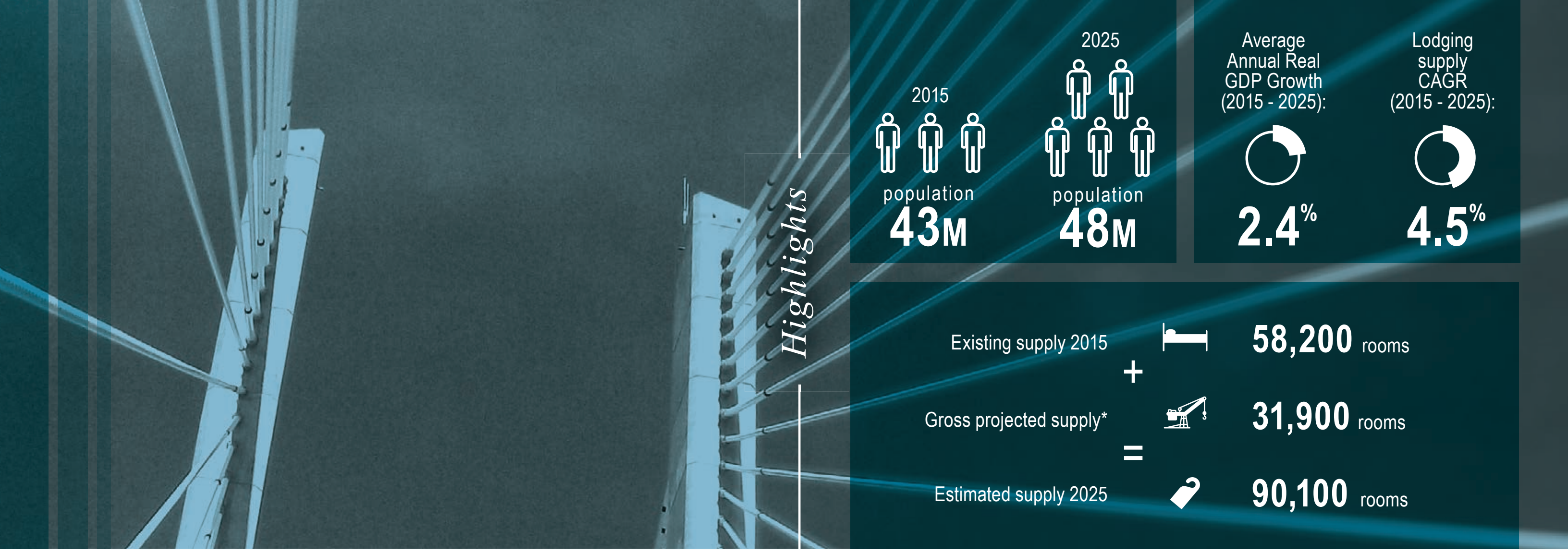
Argentina benefits from rich natural resources, a highly literate population, an export-oriented agricultural sector and a diversified industrial base. Investment activity, particularly foreign, has been muted for the past five years due to the questionable macroeconomic policies and perceived unfavorable investment environment under the previous administration. The election of Mauricio Macri has ushered in a reversal in the economic and political environment of the country and, as such, is expected to unleash pent-up domestic and international investment interest. The effect of new monetary and fiscal policy is being experienced presently. Nonetheless, the new political scenario is giving way to increasing optimism that the country is on the correct path to recovery and new opportunities of investment. The country has already successfully accessed international capital/debt markets. An expected 4.5% annual increase in supportable hotel supply reflects the historic realties and future potentials in terms of a tepid level of supply additions and current pipeline and a more optimistic number of new hotel rooms expected to be required by future economic growth.

Lodging supply estimates by market type/size (2015 - 2025)

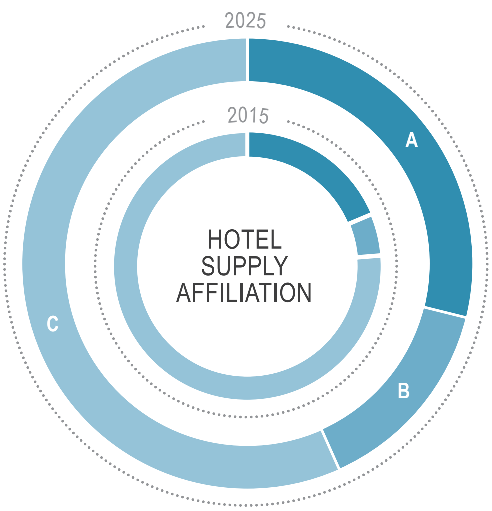


Supported lodging supply estimates (2015 - 2025)





Lodging supply composition
(presented as a percentage of total supply)



A
Global
19% 2015 → **29%** 2025

B
Regional
8% 2015 → **17%** 2025

C
Independent
73% 2015 → **54%** 2025

Key findings

1 Net growth in quality lodging supply, supported by economic growth between 2015 and 2025, is estimated to increase at an annual average of 4.5%. This growth almost doubles the projected 2.4% increase in real GDP over the same period, reflecting a dearth of historical supply growth, ongoing infrastructure investments and anticipated improvement in new domestic and foreign private sector investment.

2 Despite the political and economic challenges of recent years, Argentina shows a solid investment volume for the next decade, heavily concentrated in oil & gas (49%) and infrastructure (30%).

3 Regional chains' supply should increase by over four-fold in the future decade, equivalent to a compound growth of 11.6% per year, which surpasses the rest of the profiled countries. In addition, we expect that global brands' share will increase markedly, as they seek to penetrate one of Latin America's markets with attractive economies of scale.

4 Argentina has the third largest existing supply of quality hotel rooms, but a comparatively limited pipeline of projects under construction. However, the recent changes in government have created a positive scenario for new investment and there is a significant number of hotel projects in the development phase that should materialize in the next two to three years, much of which will be branded.

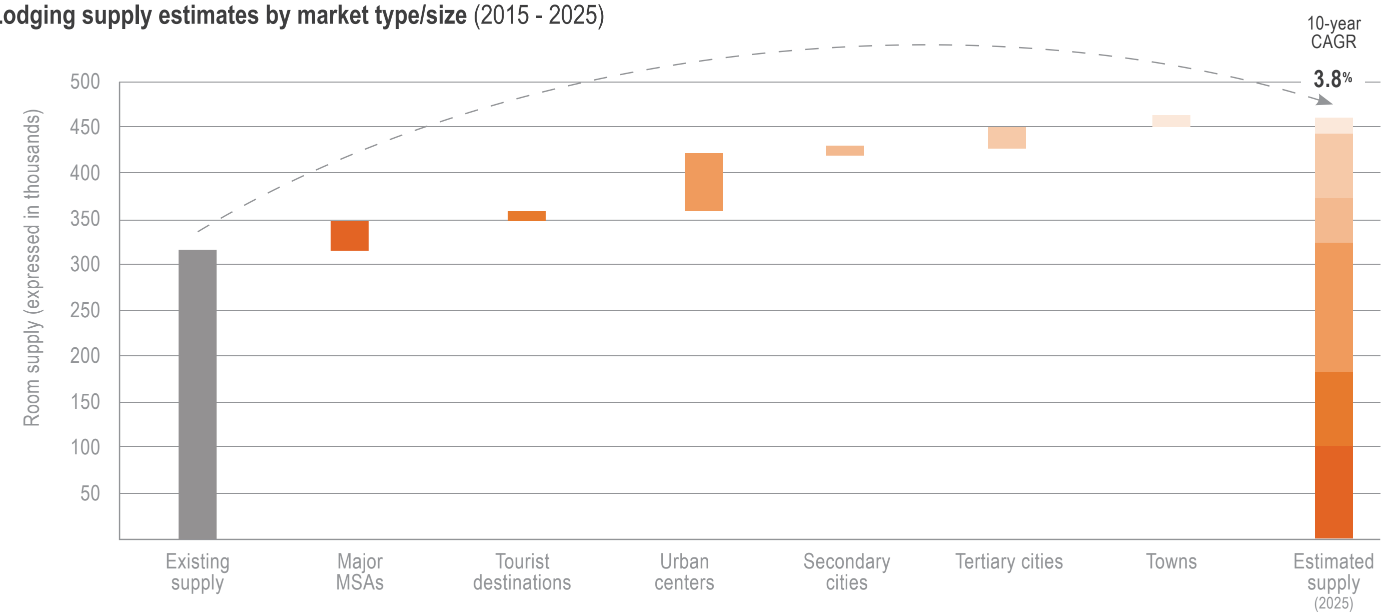
5 In terms of absolute numbers, Buenos Aires, the country's capital and Major MSA, presents the highest growth opportunity with 14,000 rooms to be added over the next decade. Noteworty growth opportunities also exist in tourist destinations such as Mendoza and Puerto Iguazu; in total, tourist destinations are anticipated to support an estimated 8,000 new rooms over the next ten years.

**Includes pipeline under construction.*
Sources: JLL, STR, Oxford Economics

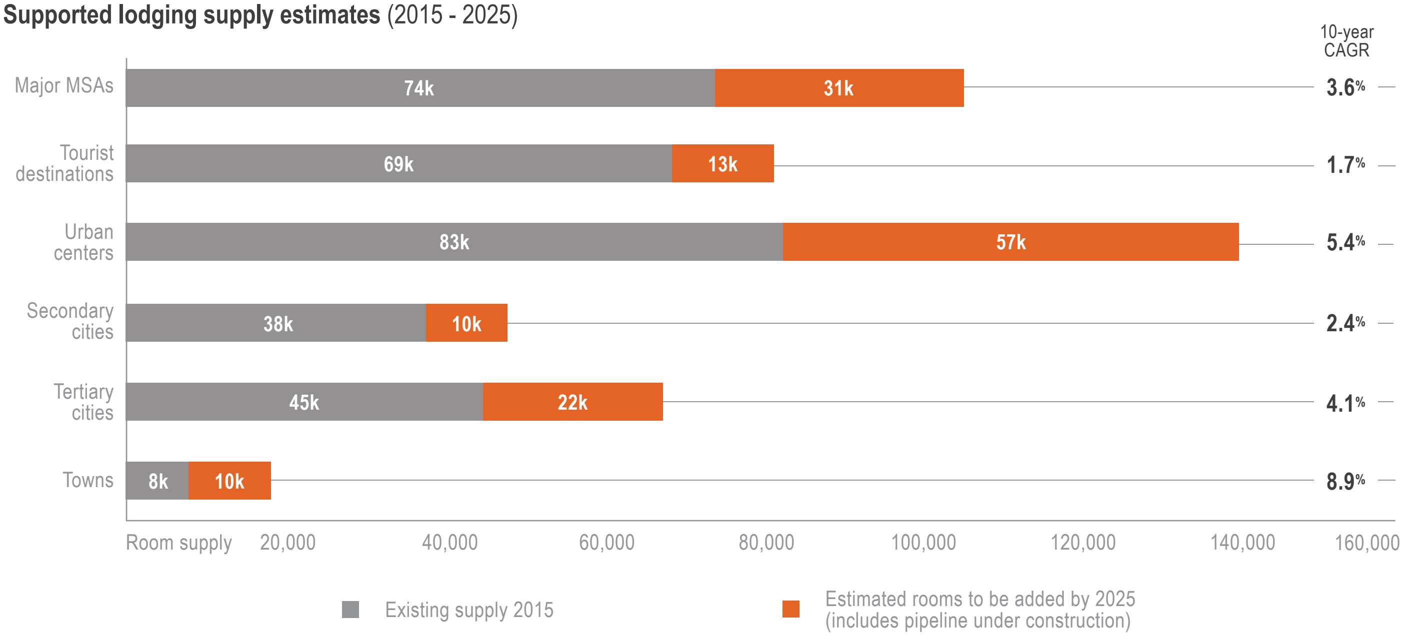
Brazil

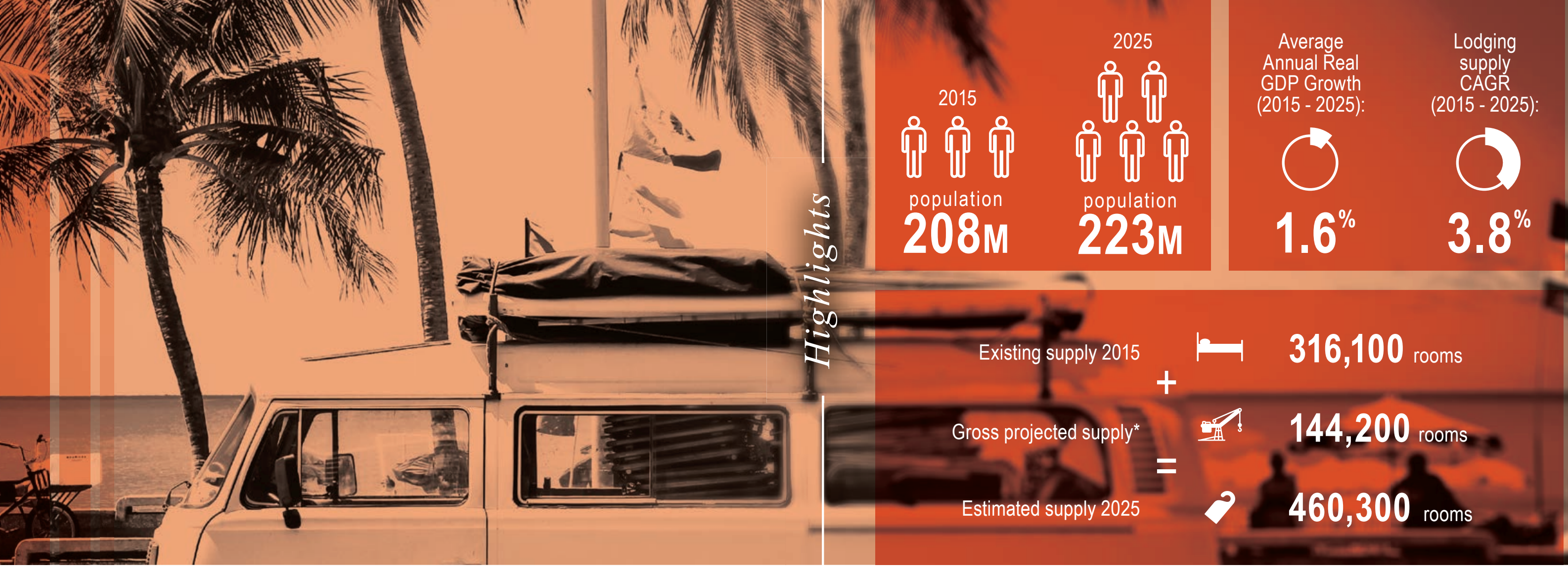
Robust economic growth resulting from previously enacted political and economic reforms, high commodity prices and major global sporting events - 2014 FIFA World Cup and 2016 Olympic Games – generated greater than expected increases in supply during the period 2012 - 2015. However, current challenges within these areas have diminished anticipated demand for new rooms over the next decade. Political scandals, corruption investigations, currency devaluation, downgraded credit rating and a deep, enduring economic recession have all combined to produce a significantly less robust outlook. Nonetheless, major infrastructure projects have been completed, while numerous existing ones continue (in public and private sectors), and the agro-industrial sector is booming. When all is said and done, Brazil has, by far, the largest and most diversified economy in Latin America and, as such, remains attractive to strategic foreign direct investment. Experts have indicated that Brazil's response to the current crisis could be more important than the crisis itself in terms of its impact on the long term economic outlook.

Lodging supply estimates by market type/size (2015 - 2025)

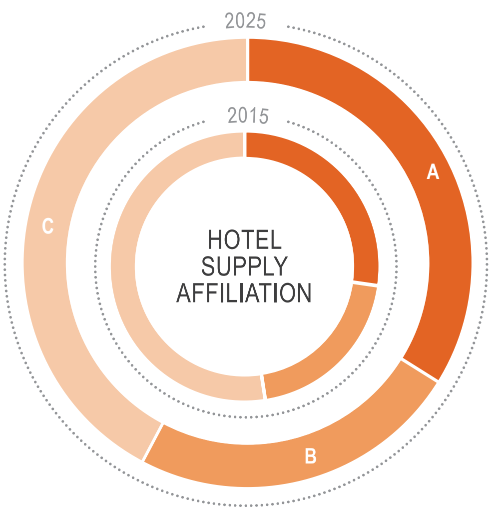


Supported lodging supply estimates (2015 - 2025)





Lodging supply composition
(presented as a percentage of total supply)



A	B	C
Global	**Regional**	**Independent**
26% 2015 → **33%** 2025	**20%** 2015 → **24%** 2025	**54%** 2015 → **43%** 2025

Key findings

1. Overall Brazil was the only country that showed a significant decrease in the investment volume over the next decade. Although infrastructure projects still comprise almost 80% of the future investments analyzed, several major private sector projects have been abandoned, completed or are close to completion, including automobile plants, oil and gas projects and refineries. Other projects have been postponed or significantly reduced (in terms of investment), including projects such as the Comperj complex in Rio de Janeiro.

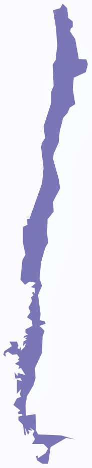
2. Net quality lodging supply supported over the next decade is estimated to increase by a 3.8% compound annual growth rate, significantly surpassing the projected 1.6% increase in the country's real GDP.

3. In a reflection of economies of scale and the attractiveness of long-term investment opportunity, the share of domestic and globally branded supply is expected to grow to greater than 50% over the 2015-2025 period.

4. Brazil observed an actual increase in new supply in the 2012-2015 period significantly greater than the pipeline under construction identified in 2012. Some of this momentum continues with a current pipeline of 30,200 rooms under construction, resulting in a net additional 114,000 rooms that can be supported over the next decade. While still a robust number, this increase is less than previous expectations.

5. Urban Centers continue to be the major focus of future growth, comprising an estimate of 40% of the total, as economic decentralization, including that of service activities, continues to accelerate. Driven by growth of agro-industrial projects, and related infrastructure, another 30% of the country's future hotel rooms are projected to be required in towns, as well as secondary and tertiary cities.

**Includes pipeline under construction.*
Sources: JLL, STR, Oxford Economics

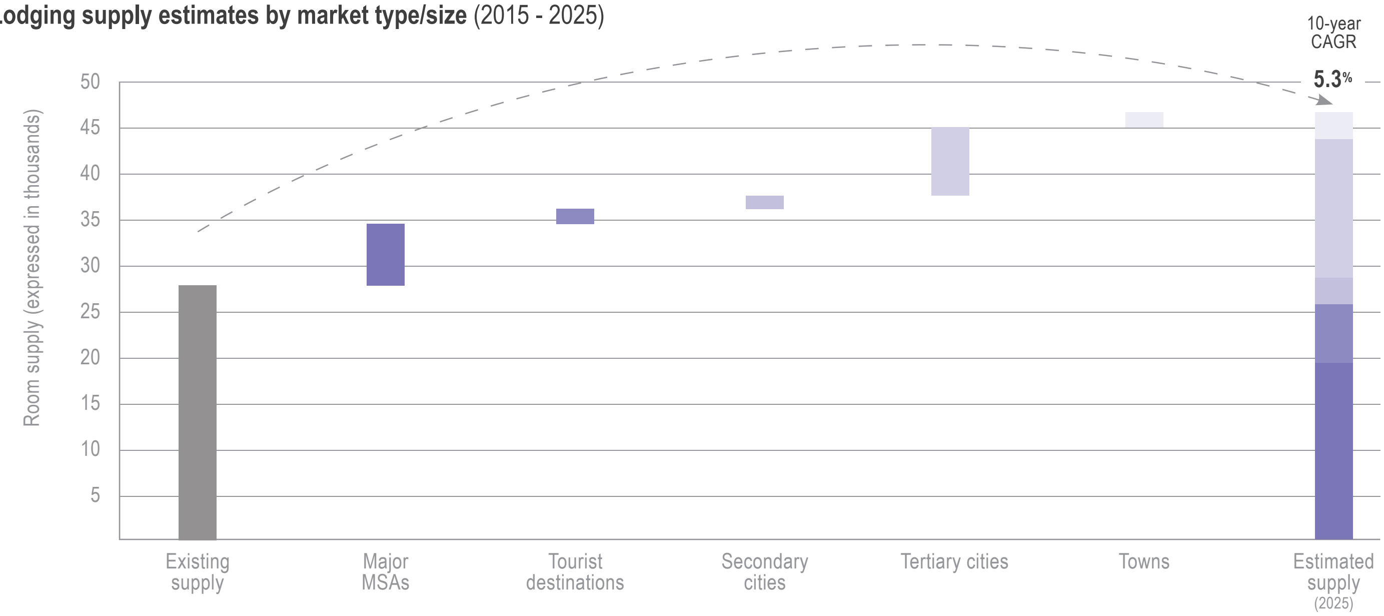


2.4
HSR
in 2025

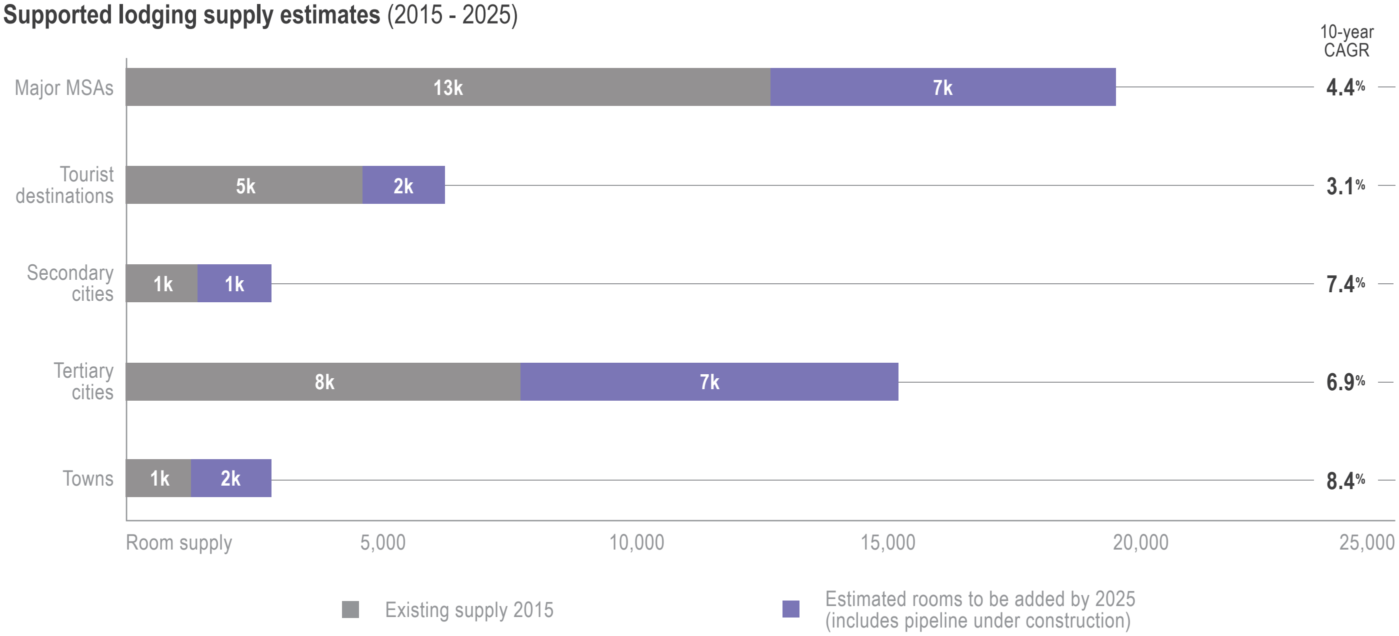
Chile

Despite its relatively small population, Chile has long been regarded as one of Latin America's most stable economies and, as such, has received more than its fair share of foreign direct and portfolio investment. This, in turn, has created comparatively deep and sophisticated capital markets, a manifestation of which can be observed in Chile's projected 2.4 HSR, the second highest ratio among the profiled countries, after Mexico. Chile's existing lodging supply is a further reflection of the relatively advanced status in its transformation towards a predominantly service-based economy. Although not immune to global declining commodity prices, Chile continues to attract long-term investment, especially in the energy and mining sectors. Tourism growth prospects are bright, as well, in the wake of increased international visibility gained after events like Copa America (2015). These phenomena are reflected in the estimated 5.3% average annual increase in supportable future lodging supply which, although concentrated in the Santiago MSA, will grow most robustly in tertiary cities and be chain-affiliated.

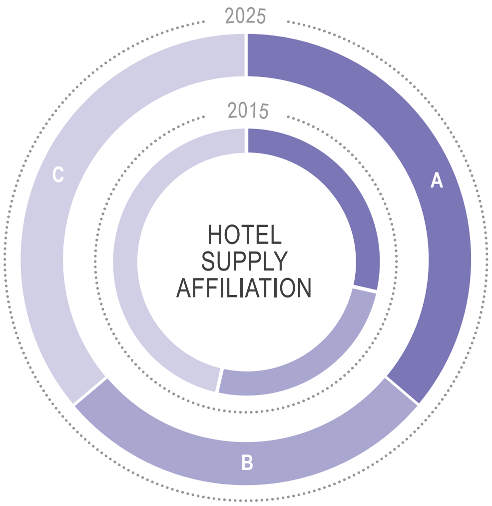
Lodging supply estimates by market type/size (2015 - 2025)



Supported lodging supply estimates (2015 - 2025)



Lodging supply composition
(presented as a percentage of total supply)



A	B	C
Global	**Regional**	**Independent**
29% 2015 → **36%** 2025	**25%** 2015 → **28%** 2025	**46%** 2015 → **36%** 2025

Key findings

1. Net quality lodging supply should increase at a 5.3% compound annual growth rate over the next decade, surpassing the projected 3.0% increase in real GDP.

2. Chile shows a tremendous amount of future investment concentrated in the energy (48%) and mining (41%) sectors. The country has the second highest number of reported infrastructure projects (425) in 2015, surpassed only by Mexico (510), an impressive statistic given the relative size of the two countries.

3. Chile's population is the smallest among the profiled countries; with a stabilized economy and robust investment volume, Chile is the country with the second highest projected HSR (after Mexico). Although the country has a small pipeline under construction with nearly 2,000 rooms, many high-profile, planned projects are expected to materialize in the next two to three years.

4. Chile's proportion of quality lodging supply affiliated with global and regional chains is already the highest in Latin America, with 54% of existing total supply affiliated with a chain. With a vast majority of new, branded supply entering the market, this ratio is expected to grow to 64% by 2025, approaching proportions similar to those of the world's most advanced economies.

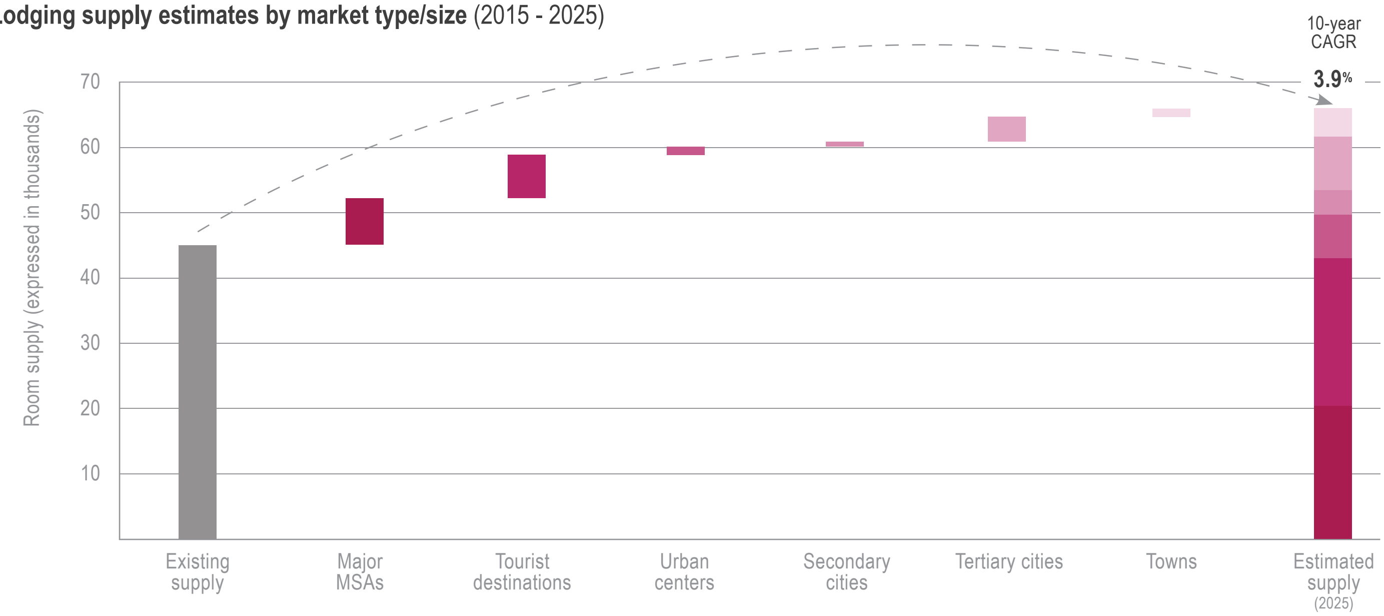
5. Santiago is Chile's main MSA and comprises almost 50% of the country's existing lodging supply. While future growth will continue in Santiago, considerable future opportunities lie in tertiary cities such as Antofogasta, Copiapó and Calama, which are all expecting large investment volume in the energy and mining sectors.

**Includes pipeline under construction.*
Sources: JLL, STR, Oxford Economics

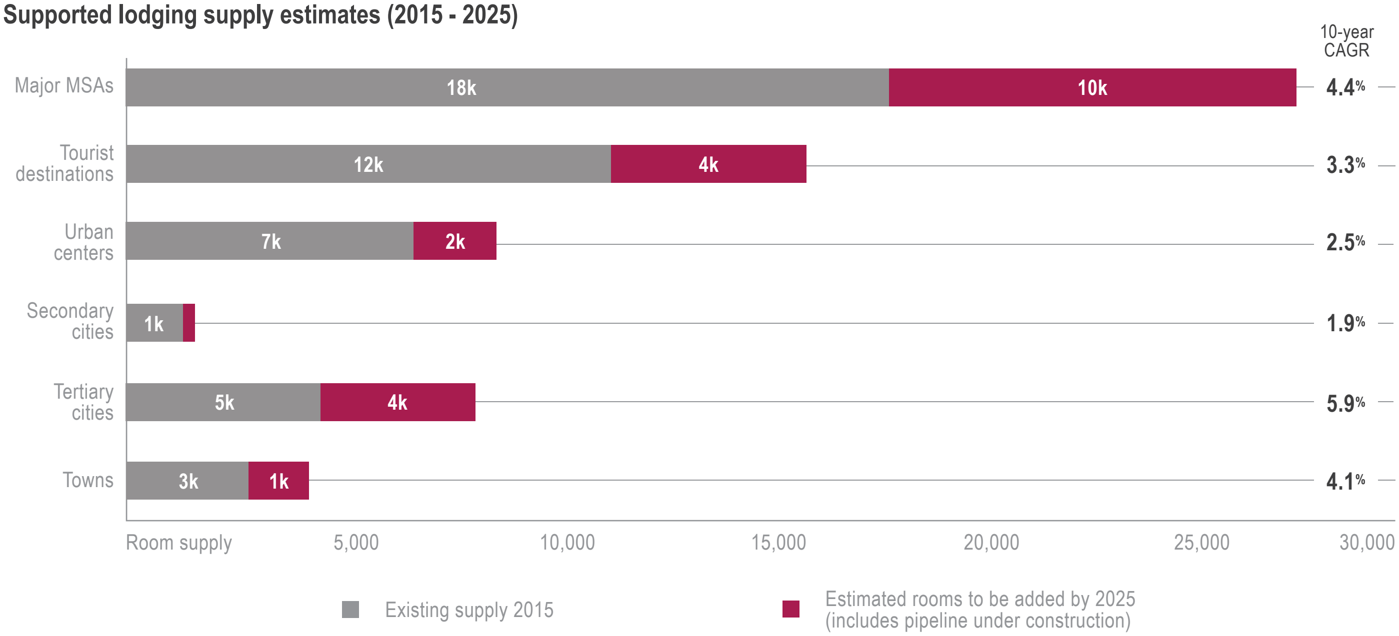
Colombia

Driven by robust economic growth and, at least in part, by tax incentives targeted at stimulating growth in hotel investment, Colombia observed a considerable growth in supply since 2012. Even though a dramatic decrease in oil and other commodity prices have slowed economic growth in Colombia, the absence of political and corruption-related scandals, combined with the prospects for a peace treaty with FARC and positive economic prospects overall, have resulted in generally healthy estimates for total supportable lodging supply in 2025. Despite a sharp devaluation of the Colombian Peso, favorable labor market conditions and declining unemployment rates have economists projecting strengthening macroeconomic indicators, allowing Colombia to continue to be one of Latin America's top performers. This steady growth in commerical lodging demand, combined with Colombia increasing attractivness as a tourist destination and the extension of tax incentives for this lodging industry should continue stimulating lodging supply growth across key markets.

Lodging supply estimates by market type/size (2015 - 2025)



Supported lodging supply estimates (2015 - 2025)

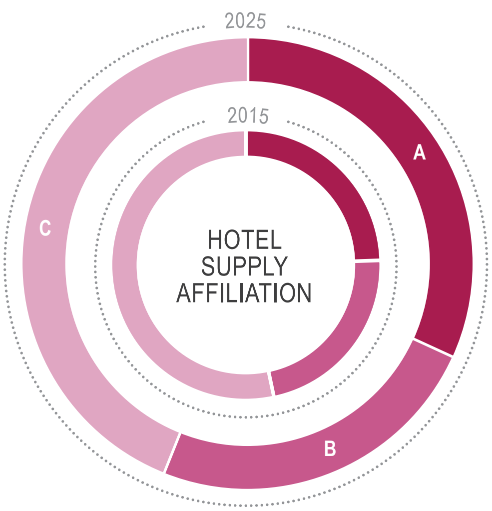


Highlights

2015	2025	Average Annual Real GDP Growth (2015 - 2025):	Lodging supply CAGR (2015 - 2025):
population 48M	population 52M	3.5%	3.9%

Existing supply 2015 45,200 rooms
+
Gross projected supply* 21,300 rooms
=
Estimated supply 2025 66,500 rooms

Lodging supply composition
(presented as a percentage of total supply)



	A Global	B Regional	C Independent
2015	24%	22%	53%
2025	33%	24%	43%

Key findings

1. Colombia is expected to register a relatively steady amount of investment volume over the next decade. Infrastructure projects analyzed represent an estimated 60% of the overall investments analyzed. Several road infrastructure projects across the country are anticipated to improve intraregional connectivity, spurring lodging growth along major transportation corridors.

2. Attractive government tax incentives for hotel real estate developers stimulated tourism and lodging supply growth nationwide. In a three-year period (2012-2015), approximately 4,000 new rooms were added to the market.

3. An estimated 4,000 additional rooms are currently active in the pipeline (under construction), as developers aim to complete the required percentage of their hotel projects prior to the expiration of tax incentives expiration date.

4. Quality lodging supply net growth is estimated to increase at a 3.9% compound annual growth rate over the next decade, largely in line with but slightly surpassing the projected 3.5% increase in the real GDP. The future increase is moderated by actual historic and pipeline additions, which equates to a roughly 20% increase since 2012.

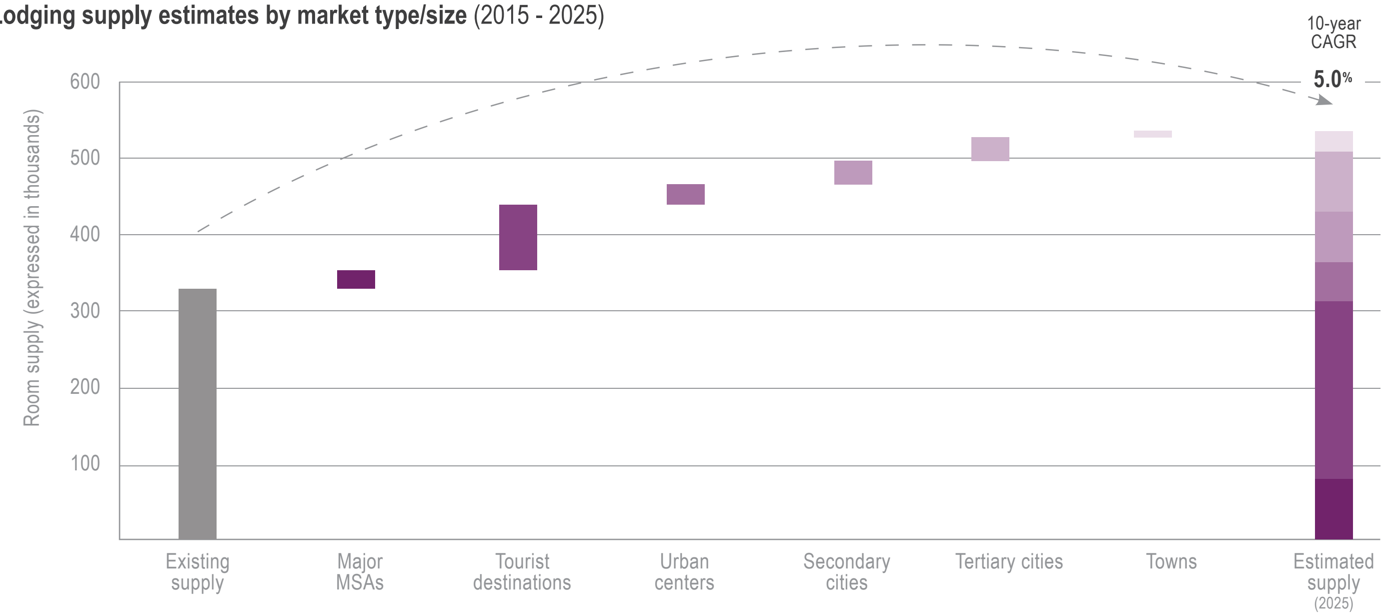
5. Bogotá and Medellín, the two largest MSAs in Colombia, are estimated to support the addition of approximately10,000 new rooms over the next decade. While the remaining number of supportable rooms are spread across the country, growth opportunities in tourist destinations like Santa Marta and Cartagena are particularly noteworthy, as well as tertiary cities such as Villavicencio.

**Includes pipeline under construction.*
Sources: JLL, STR, Oxford Economics

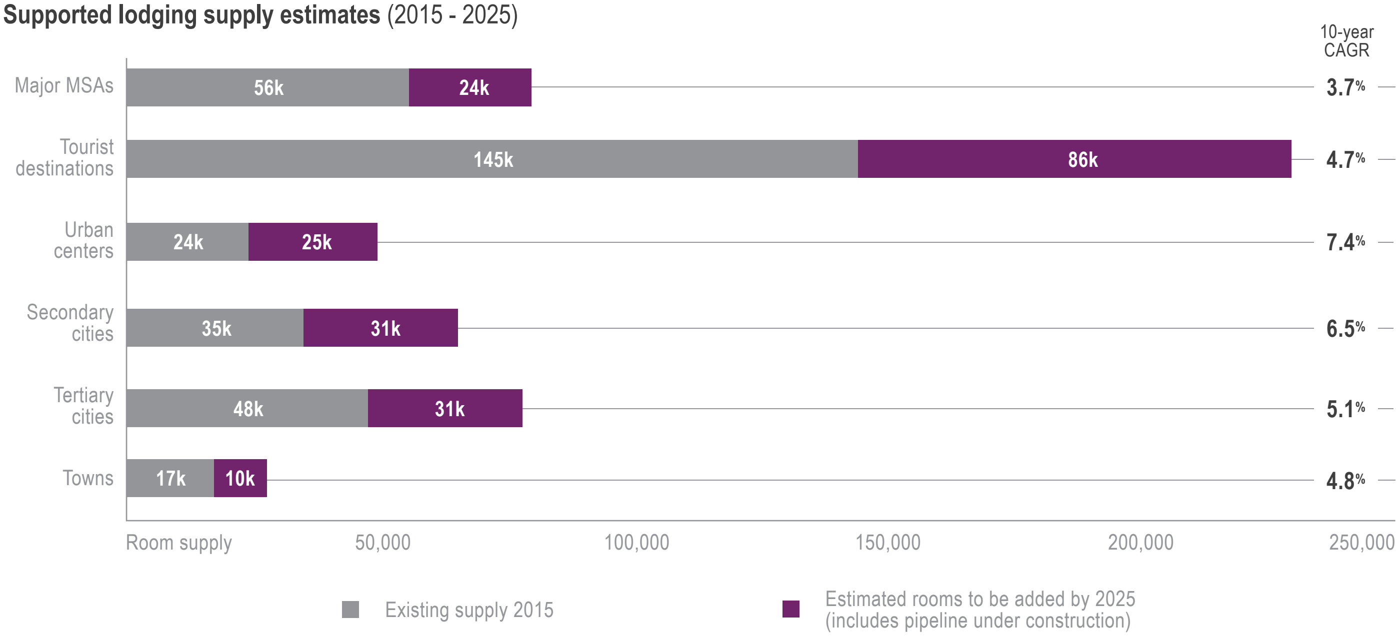
Mexico

While Mexico's economic outlook over the next five years has moderated slightly, it remains relatively promising compared to its Latin American counterparts. As a result, Mexico's estimated HSR is double that of Colombia and Peru and higher than the rest of the region. Mexico has been able to weather the economic downturn due primarily to its proximity to and special relationship with the US. Economic growth derived from the relative health of the US, together with increasing factor costs in China, have generated steady increase of FDI, robust demand, falling unemployment rates and stable oil and commodity costs. Moreover, government-led economic and political reforms have stimulated further investment and dismantled monopolies in the energy and telecommunications sectors. Advanced manufacturing is expected to continue attracting foreign investment given robust demand from source markets and favorable foreign exchange-driven cost dynamics. Pent-up demand, improved connectivity and tourism product, are expected to drive record visitation, particularly in established destinations such as Cancun/Riviera Maya.

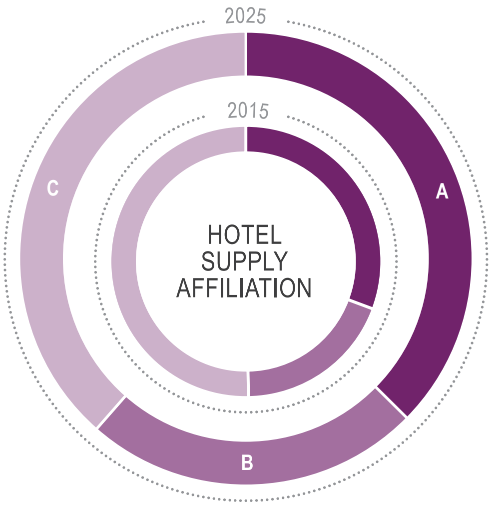
Lodging supply estimates by market type/size (2015 - 2025)



Supported lodging supply estimates (2015 - 2025)



Lodging supply composition
(presented as a percentage of total supply)



A	B	C
Global	**Regional**	**Independent**
31% 2015 → **37%** 2025	**19%** 2015 → **24%** 2025	**50%** 2015 → **39%** 2025

Key findings

1. Net quality lodging supply should increase at a 5.0% compound annual growth rate over the next decade, surpassing the projected 3.0% increase in the real GDP.

2. Mexico shows a steady volume of investments for the next decade, less concentrated in infrastructure (25%) than the other profiled countries, and more diversified among private sector investment in the automotive (17%) and oil and gas (36%) sectors.

3. Of all the countries profiled in this white paper, Mexico is expected to attain the highest overall HSR by 2025 (3.8), significantly greater than Chile in second place (2.4) and demonstrating the robust growth opportunities in the country. As a result, the ratio of chain-affiliated (global and regional) to independent lodging supply is expected to grow to 61% by 2025, approaching proportions similar to those of the world's largest and most sophisticated economies.

4. Approximately 14,000 new rooms were added to the quality lodging supply since 2012, and the current pipeline under construction is estimated at 8,600 rooms. Combined, this 7.3% increase is considered to be manageable given the volume of existing lodging stock and the relatively positive economic outlook for Mexico.

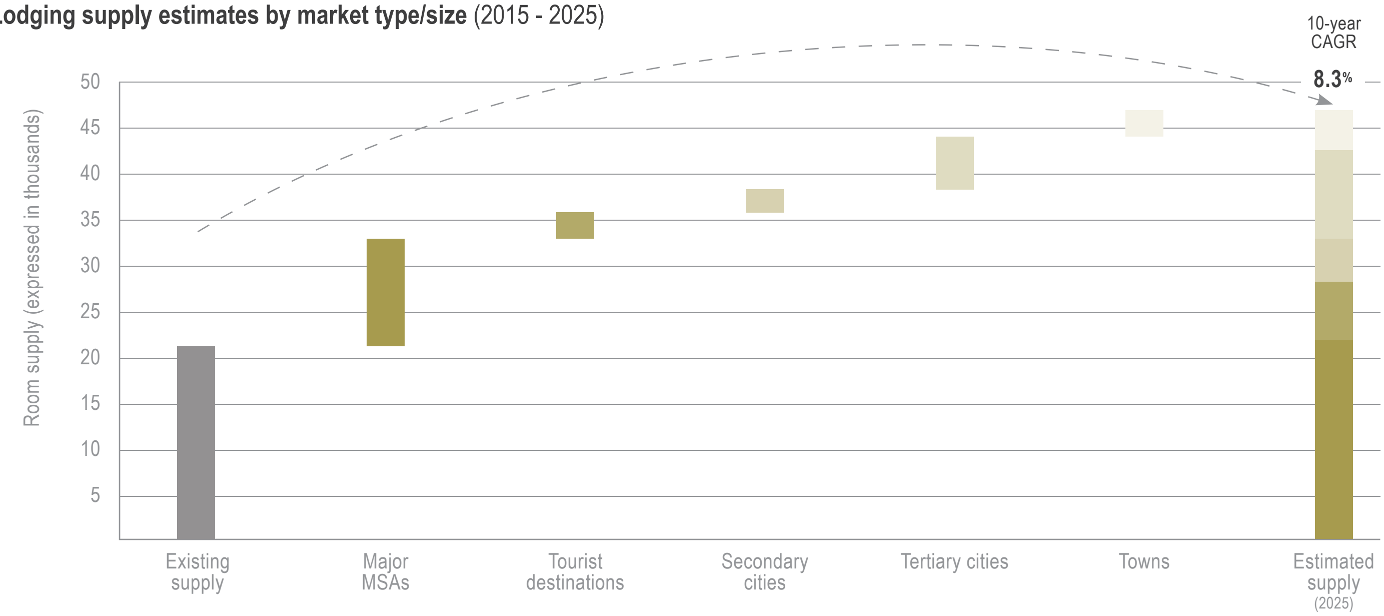
5. Tourist destinations continue to be the primary focus on new supply, with Cancun/Riviera Maya achieving record international arrivals year over year. Secondary cities with substantial amounts of manufacturing investment will follow; growth is expected to be led by the automotive industry in cities like Aguascalientes, Guanajuato, San Luis Potosí and Querétaro.

**Includes pipeline under construction.*
Sources: JLL, STR, Oxford Economics

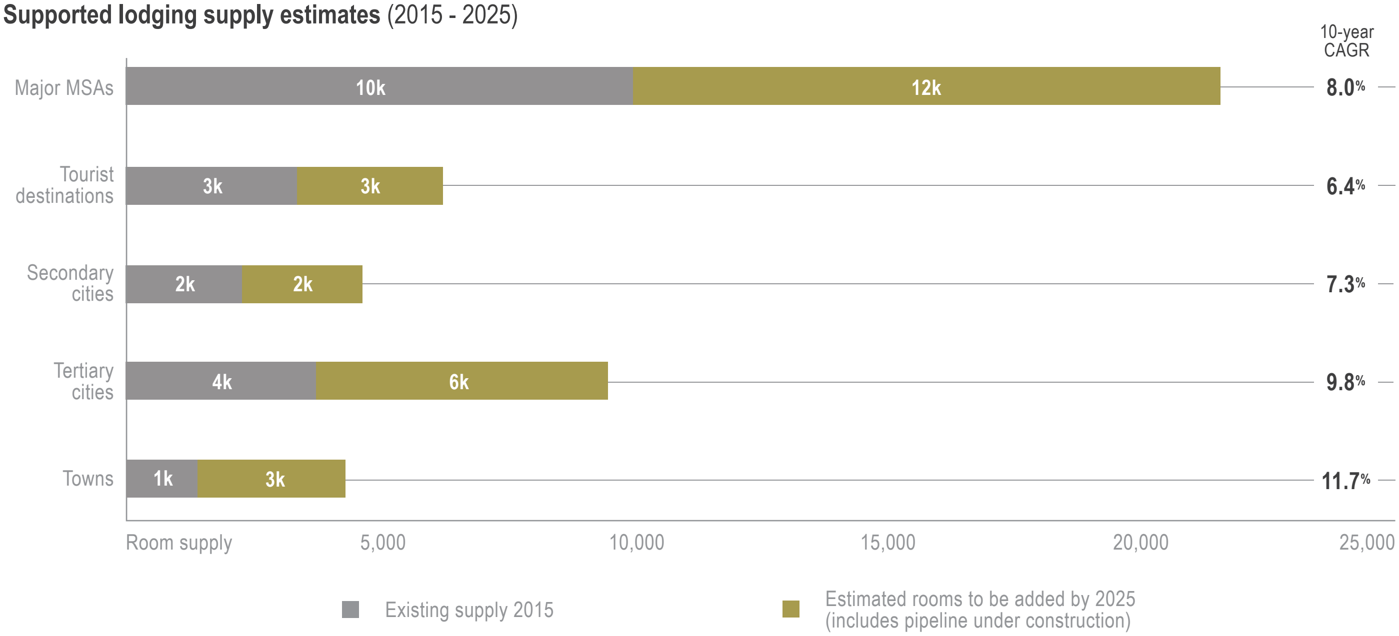
Peru

Similar to other countries in the region, Peru's economic growth has been negatively affected by decreasing commodity prices. Nonetheless, recent fundamental economic transformation and growth has been set in place by sound macroeconomic policy, low public sector debt, a receptive investment environment and corresponding rising levels of investment and consumption. Investment volume has increased substantially in the past decade, and ongoing projects continue in mines, ports and key infrastructure and tourism projects. These improvements are expected to enhance connectivity, bolster Lima's status as a major hub and grow Peru's tourism potential, leveraging its cultural and culinary assets to drive lodging demand. Peru is expected to register the highest average annual increase in new supportable lodging supply of the targeted countries that significantly exceeds its projected GDP growth rate over the next decade. Highly concentrated in Lima, new supply will drive the shift toward majority branded supply by 2025.

Lodging supply estimates by market type/size (2015 - 2025)



Supported lodging supply estimates (2015 - 2025)

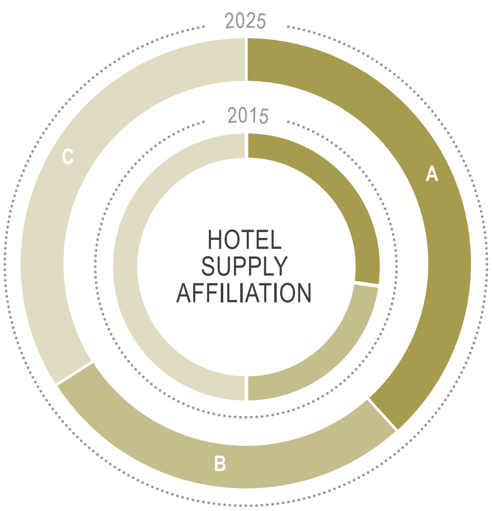


Highlights

2015	2025	Average Annual Real GDP Growth (2015 - 2025):	Lodging supply CAGR (2015 - 2025):
population 31M	population 35M	3.8%	8.3%

Existing supply 2015	21,300 rooms
+ Gross projected supply*	26,100 rooms
= Estimated supply 2025	47,400 rooms

Lodging supply composition
(presented as a percentage of total supply)



	A Global	B Regional	C Independent
2015	24%	24%	52%
2025	38%	28%	34%

Key findings

1. Peru shows the highest growth rate among the profiled countries with an 8.3% compound annual growth rate in the number of quality lodging supply over the next decade, surpassing the projected 3.8% increase in the real GDP.

2. Peru had a significant increase in the estimated investment for the 2015-2025 period, which in proportion to its limited existing supply, resulted in the robust growth. The majority of the investment is concentrated in infrastructure (50%) and mining (30%), many of which include the expansion of existing mining sites.

3. As the country's only major MSA, Lima has the largest base of existing hotel supply and remains the focus of new additions, the vast majority of which will be internationally branded. Driven by mining and infrastructure projects in remote locations, tertiary cities also show strong potential. Still, it is Lima's emergence as a major destination that will drive Peru's lodging growth and its transformation to a global brand dominated hotel supply over the next decade.

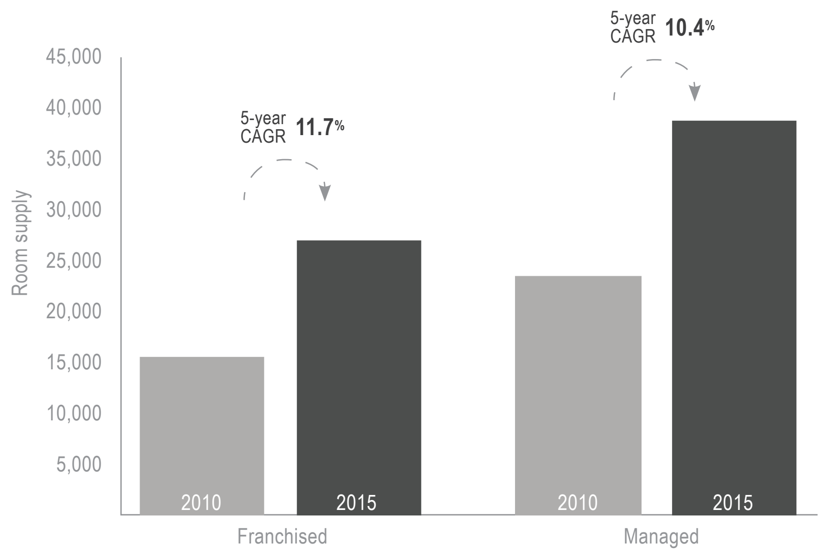
4. The growth opportunity in Peru remains incipient, as only an estimated 1,800 rooms were added between 2012 and 2015 and the current pipeline is a modest 1,100 rooms.

*Includes pipeline under construction.
Sources: JLL, STR, Oxford Economics

Management opportunities

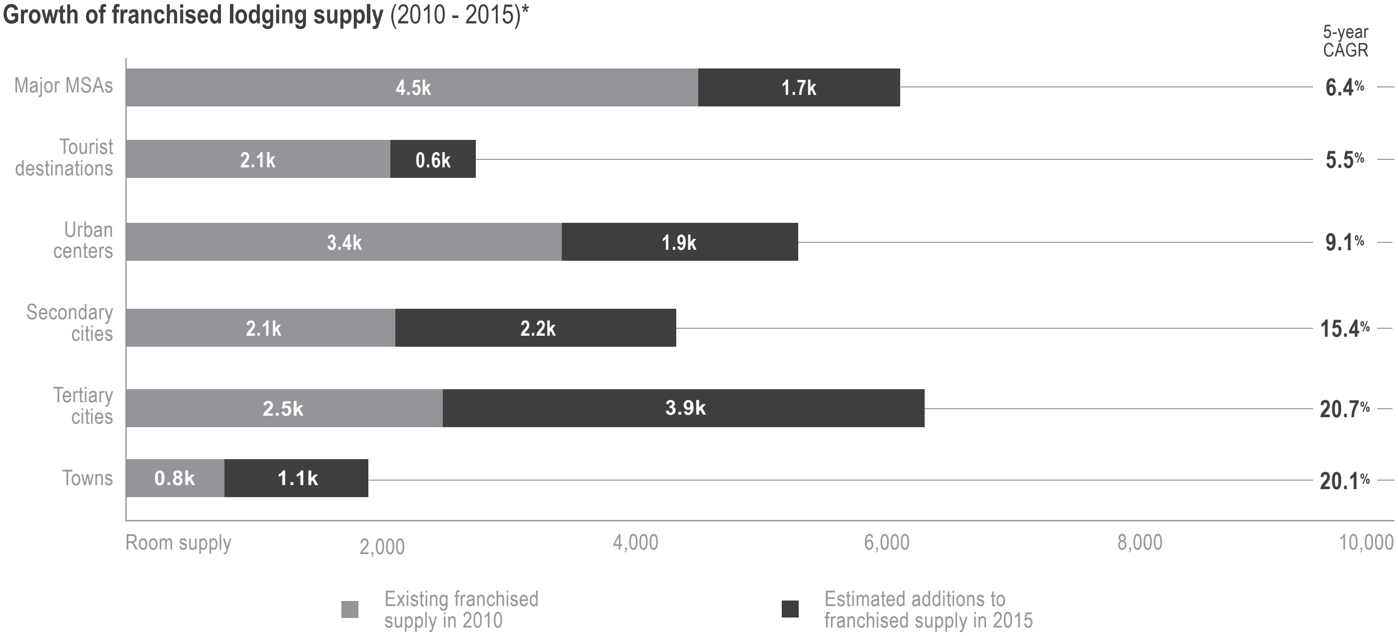
The demand for and expected expansion of branded lodging product in Latin America opens the horizon for the growth of experienced, hotel management companies. Decades ago, global brands had limited operating structures in the region. Further, their ability to grow via franchise was constrained by relative lack of professional, independent operating companies capable of managing global brands and facilitating aggressive expansion. Consequently, global companies found it necessary to create robust operating platforms, perhaps larger than originally envisaged, in order to propel growth of their brands, particularly in the select-service space, that are traditionally franchised in markets such as the US. Along that same growth trajectory, the industry is witnessing an increasing number of regional, independent platforms that have emerged over the last several years, which is facilitating franchise growth, as evidenced by the number of franchised hotel rooms that grew at a CAGR of 11.7% between 2010 and 2015 in the region. During this same period, the number of brand-managed hotel rooms also grew at a CAGR of 10.4%.

Growth of franchised versus managed lodging supply (2010 - 2015)*



Consistent with the experience in more mature markets, franchise growth opportunities have been most pronounced with select- and limited-service product in secondary and tertiary cities and towns. Here, the role of a qualified, regional management company becomes particularly important given the relatively high costs of dedicated brand operating platform against the need for less complex operations and local knowledge.

Growth of franchised lodging supply (2010 - 2015)*

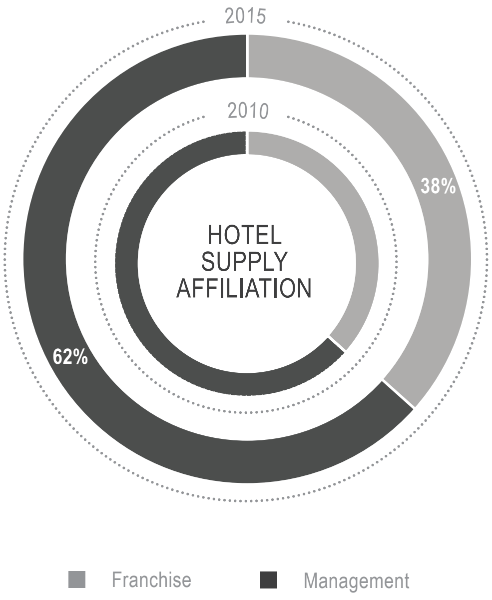


Highlights

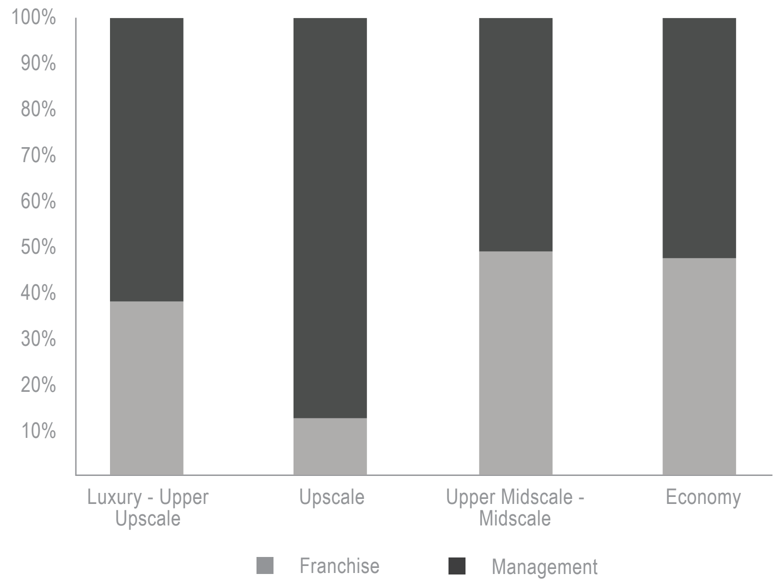
Three major trends in the region underscore the growth opportunity for professional hotel management companies:

1. investment of private equity funds in regional management companies;
2. consolidation and growing sophistication of regional independent management companies as preferred third-party operators of major global brands; and
3. the strategic direction adopted by regional independent hotel management companies to operate different brands and chain scales across various global brand families.

Lodging supply composition
(presented as a percentage of total supply*)



(presented by chain scale and as a percentage of total 2015 supply*)



Key findings

1 Recent acquisitions in the market are signaling the growth opportunities for management companies through consolidation or private equity investment. Relevant examples include the private equity acquisitions or investments in Atlantica, BHG, Fen Hotels, Apple Leisure Group and Decameron Hotels & Resorts.

2 The chain scale positioning analysis among our sample set* indicates that unlike mature markets like the US, where franchises dominate the Economy through Upscale segments, the limited presence of professional hotel management companies in Latin America has compelled major hotel companies to directly operate their hotels as means to expand their portfolio in the region.

3 Growth in regionally-based independent companies and multi-brand operating platforms: With the increased sophistication of the region's lodging markets, local hotel companies are retiring or co-branding their proprietary brands and embracing 'multi-brand' strategies with one or more global brands and families. While GHL and Hoteles Talbot in Colombia and Chile, respectively, have long been examples of this, more recent examples like OXOHotel, Hoteles Presidente and Hoteles Cosmos underscore the aforementioned point. Meanwhile, the Hilton is teaming with Atlantica to grow its Hilton Garden Inn brand in Brazil.

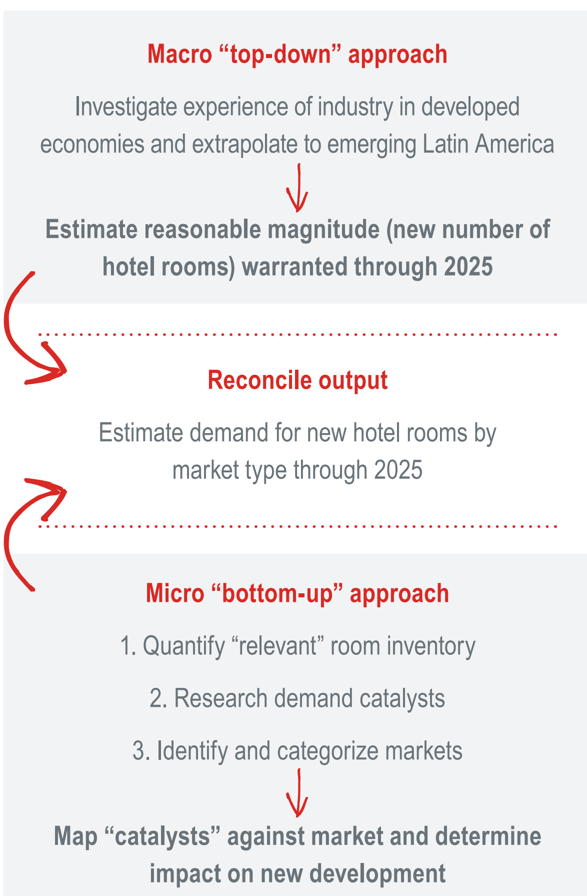
**Total Sponsors' room supply (rounded to nearest hundred): 42,100 rooms (2010); 70,700 rooms (2015)*
**Sponsors: Wyndham Hotel Group, Hilton Worldwide, AccorHotels*
Source: JLL, Sponsors, STR Global 2015 Chain Scale Rating System

Definitions and methodology

Hotel supply ratio (HSR): Metric to measure lodging industry penetration. The HSR is estimated by dividing the total estimated number of relevant hotel rooms in a country by each 1,000 inhabitants. For example, there are approximately 4.9 million hotel rooms and 308.7 million inhabitants in the United States. Dividing the 4.9 million hotel rooms by 308,700 (represents 308.7 million inhabitants divided by 1,000) equals an HSR of approximately 15.5 in the United States. This ratio is used as the key metric of the relative degree of development of the hotel industry at a country or market level.

Methodology of hotel supply growth potential calculations

The research analysis comprised macro "top-down" and micro "bottom-up" approaches to quantifying the magnitude of hotel supply that will be warranted during the next 10 years. At a macro level, we sized the overall lodging development opportunity by developing a preliminary estimate of the magnitude of hotel and vacation ownership development requirements over the 10-year forecast horizon using a variety of checks and benchmarks. From a micro perspective, we substantiated the results of the macro analysis by providing a market perspective of supply and demand growth over the period.



Macro "top-down" approach

In order to estimate the total number of hotel rooms that would be required to be developed to satisfy demand growth over the next 10 years, several factors were taken into consideration: economic growth; growth of the middle 'consumer' class, structural changes to the economy, growth in foreign visitation, the supply of hotel rooms classified as 'under construction' by Smith Travel Research and the removal of functionally obsolete supply.

Micro "bottom-up" approach

The micro "bottom-up" approach was comprised of a detailed sequence of three steps, namely the calculation of relevant existing room inventory, classification of pertinent new demand catalysts and categorization of future demand growth potential based on market classification.

1. Quantify "relevant" room inventory

First, we quantified the "relevant" hotel room inventory in each of the six countries, broadly defined as follows:

- Both branded and independent hotels with 25+ hotel rooms
- "International quality," generally referring to hotel stock of two or more stars
- Hotels with an online website presence and online booking capabilities

Sources utilized included official tourism sources, Smith Travel Research, national hotel associations, online travel agencies and JLL's proprietary databases. Obtaining reliable, consistent estimates of lodging supply in Latin America is challenging and the classification systems are not uniform among the countries or even from period to period. Due to our quality threshold, our database generally yielded a lesser number of existing rooms supply than that shown by local hotel associations and official tourism entities, but we believe our figures to appropriately represent the relevant universe of quality lodging supply for this white paper.

2. Research demand catalysts

Further, we included an identification and categorization of more than 1,500 individual future demand catalysts including public and private airports, roadway and seaport infrastructure projects, major minerals mining, oil and gas and other extractive projects, major oil, sugar and ethanol refineries, steel mills, and electrical generation projects, automobile, aeronautical and other major manufacturing projects, as well as large scale commercial and residential real estate developments.

The investment projects evaluated in this research were provided by our industry research partner, Financial Times (FT) Confidential Research, and further expanded on through our wide range of data sources including, among others, government ministries, national and regional development banks, federal, state and municipal public sector entities, industrial and/or export promotion agencies, multilateral financial institutions, including the Inter-American Development Bank, the Export-Import Bank of the United States, Banamericas, and the World Bank; industry sector specific trade magazines and publications; general business and financial publications; and the web sites of major private sector international and domestic private sector companies known to be active in the region.

Once aggregated, the investment projects were further classified by a variety of dimensions, including:

- Project name – the name used to identify the project in data sources
- Developer/entity – the company, agency or other entity responsible for executing the project
- Sector – classified into economic areas such as power, transportation, mining, retail, and renewables, manufacturing, industrial and other. These were further divided into manufacturing and industrial subsectors where appropriate and, in the case of roadways, the beginning and ending points were also catalogued
- Investment amount – listing the total U.S. dollar amount of the project
- Location – relative to the city or market area nearest to the project
- Status – categorized in accordance with general development status such as Preparatory, Under Construction and In Operation

3. Identify and categorize markets

Once having classified the projects, we categorized them by magnitude in order to assess the likely impact they would have on lodging demand within nearby market areas. In order to ensure that the categorization of the projects was in proper relationship to the country in which they were located, we divided them into five categories from largest to smallest:

- Mega projects – top quartile of projects within a target country;
- Major – second quartile within a target country;
- Medium – third quartile within a target country;
- Small – bottom quartile within a target country;
- None – meant to capture the potentially negative effect on lodging demand of a market area that has no specific demand generator located nearby.

Next, from an initial list of over 900 towns and cities, we identified and categorized over 300 market areas in the target countries based upon a number of factors including population, existing rooms supply, and/or proximity to a specific demand generator. By including market areas proximate to specific demand generators, we were able to identify rapidly emerging towns that would otherwise not have been selected based upon the aforementioned criteria. Having determined the total universe of relevant market areas, we further categorized those into five types based upon population, plus one for tourist destinations as depicted in the following table.

City size categorization

Market type	Population	Examples
Town	0 - 100,000	Iguatu, Villeta, Tuxpan, Salaverry
Tertiary city	100,001 - 500,000	Betim, Armenia, Campeche, Iquitos
Secondary city	500,001 - 1,000,000	Campo Grande, Cúcuta, Aguascalientes, Trujillo
Urban center	1,000,001 - 3,000,000	Porto Alegre, Barranquilla, Puebla
Major MSA	3,000,001 - Up	São Paulo, Bogotá, Mexico City, Lima
Tourist destination	N / A	Foz do Iguaçu, Cartagena, Los Cabos, Cusco

Source: JLL

The outputs of the macro and micro analysis were reconciled with adjustments in each as necessary to derive a final estimate of total number of required hotel rooms without violating either reasonableness or consistency tests within both methodologies.

About the lead sponsors

About JLL

JLL (NYSE: JLL) is a professional services and investment management firm offering specialized real estate services to clients seeking increased value by owning, occupying and investing in real estate. A Fortune 500 company with annual fee revenue of $5.2 billion and gross revenue of $6.0 billion, JLL has more than 230 corporate offices, operates in more than 80 countries and has a global workforce of more than 60,000. On behalf of its clients, the firm provides management and real estate outsourcing services for a property portfolio of 4.0 billion square feet, or 372 million square meters, and completed $138 billion in sales, acquisitions and finance transactions in 2015. Its investment management business, LaSalle Investment Management, has $56.4 billion of real estate assets under management. JLL is the brand name, and a registered trademark, of Jones Lang LaSalle Incorporated.

JLL's Hotels & Hospitality Group

JLL's Hotels & Hospitality Group has completed more transactions than any other hotels and hospitality real estate advisor over the last five years, totaling more than $68 billion worldwide. Between negotiating the world's most extraordinary, enticing, and profitable property deals, the group's 350-strong global team also closed more than 4,400 advisory, valuation and asset management assignments. Investors worldwide turn to JLL to shape their strategies, tailor their portfolios and maximize the value of their assets. We are recognized as the global leader in real estate services across hospitality properties of all shapes and sizes. Our expert advice is backed by industry-leading research. We apply our broad spectrum of hotel valuation, brokerage, asset management and consultancy services through every phase of the hotel lifecycle. We have helped more hotel investors, owners and operators achieve high returns on their assets than any other real estate advisor in the world. Whether you are looking for a hotel or you're ready to sell, we'll use our capital markets expertise, hospitality industry knowledge and global relationships to put the right parties together and execute a bespoke deal that exceeds your objectives.

jll.com/hospitality

About Wyndham Hotel Group

Wyndham Hotel Group is the world's largest hotel company based on number of hotels. As both a leading hotel brand franchisor and hotel management services provider, the company's global portfolio consists of over 7,800 properties and 678,000 rooms in 72 countries. Headquartered in Parsippany, N.J., with offices around the globe in London, Shanghai, Dubai and other cities, the company employs more than 9,000 associates worldwide.

From the upscale offerings of its namesake Wyndham Hotels and Resorts® brand, to the distinctly comfortable and familiar properties of its globally recognized Days Inn®, Super 8® and Howard Johnson® brands, Wyndham Hotel Group prides itself on providing guests and franchisees with exceptional customer service, great value and the most lodging choices around the world.

All hotels are independently owned and operated excluding certain Wyndham, Hawthorn Suites by Wyndham and TRYP by Wyndham hotels, as well as certain Ramada, Days Inn and Super 8 hotels outside of the United States, which may be managed by one of the affiliates of Wyndham Hotel Group.

Wyndham Hotel Group is one of three business units of Wyndham Worldwide Corporation (NYSE: WYN), one of the world's largest hospitality companies providing hotels, timeshare resorts, vacation rentals and timeshare exchange.

wyndham.com

Industry sponsors

About AccorHotels

AccorHotels is a Group united by a shared passion for hospitality and driven by a shared promise to make everyone Feel Welcome. Over 190,000 women and men in 3,900 AccorHotels establishments look after thousands of guests every day in 92 countries.

AccorHotels is the world's leading hotel operator and offers its customers, partners and employees: Its dual expertise as a hotel operator and franchisor (HotelServices) and a hotel owner and investor (HotelInvest); a large portfolio of internationally renowned brands covering the full spectrum, with luxury (Sofitel, Pullman, MGallery by Sofitel, Grand Mercure, The Sebel), midscale (Novotel, Mercure, Mama Shelter, Adagio) economy (ibis, ibis Styles, ibis budget, adagio access and hotelF1) establishments; a powerful marketplace and loyalty program Le Club AccorHotels; almost half a century of commitment to corporate citizenship and solidarity with the PLANET 21 program. Accor SA shares are listed on the Euronext Paris exchange (ISIN code: FR0000120404) and traded in the USA on the OTC marketplace (Code: ACRFY).

accorhotels-group.com

About Hilton Worldwide

Hilton Worldwide (NYSE: HLT) is a leading global hospitality company, comprised of more than 4,660 managed, franchised, owned and leased hotels and timeshare properties, with nearly 765,000 rooms in 102 countries and territories. For 96 years, Hilton Worldwide has been dedicated to continuing its tradition of providing exceptional guest experiences. The Company's portfolio of 13 world-class global brands includes Hilton Hotels & Resorts, Waldorf Astoria Hotels & Resorts, Conrad Hotels & Resorts, Canopy by Hilton, Curio - A Collection by Hilton, DoubleTree by Hilton, Embassy Suites by Hilton, Hilton Garden Inn, Hampton by Hilton, Tru by Hilton, Homewood Suites by Hilton, Home2 Suites by Hilton and Hilton Grand Vacations. The Company also manages an award-winning customer loyalty program, Hilton HHonors®. Hilton HHonors members who book directly through preferred Hilton channels have access to benefits including free standard Wi-Fi, as well as digital amenities that are available exclusively through the industry-leading Hilton HHonors app, where HHonors members can check-in, choose their room and access their room using a Digital Key.

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About Interstate Hotels & Resorts

Interstate Hotels & Resorts is the leading global hotel management company. Hotel owners, developers and guests discover the Interstate difference in our 435 hotels with 77,000 rooms located throughout the U.S. and around the world. Interstate is a wholly-owned subsidiary of a joint venture between Thayer Lodging Group and Jin Jiang Hotels.

Our rich history spanning 55 years of innovation, consistency and success is unmatched in the hospitality industry, making Interstate the preferred hotel management company of major global brands. It also allows our associates to consistently deliver results for real estate investors, ownership groups, publicly-traded REITs, privately held companies, and private equity funds today and in the bright future to come.

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Research Partner

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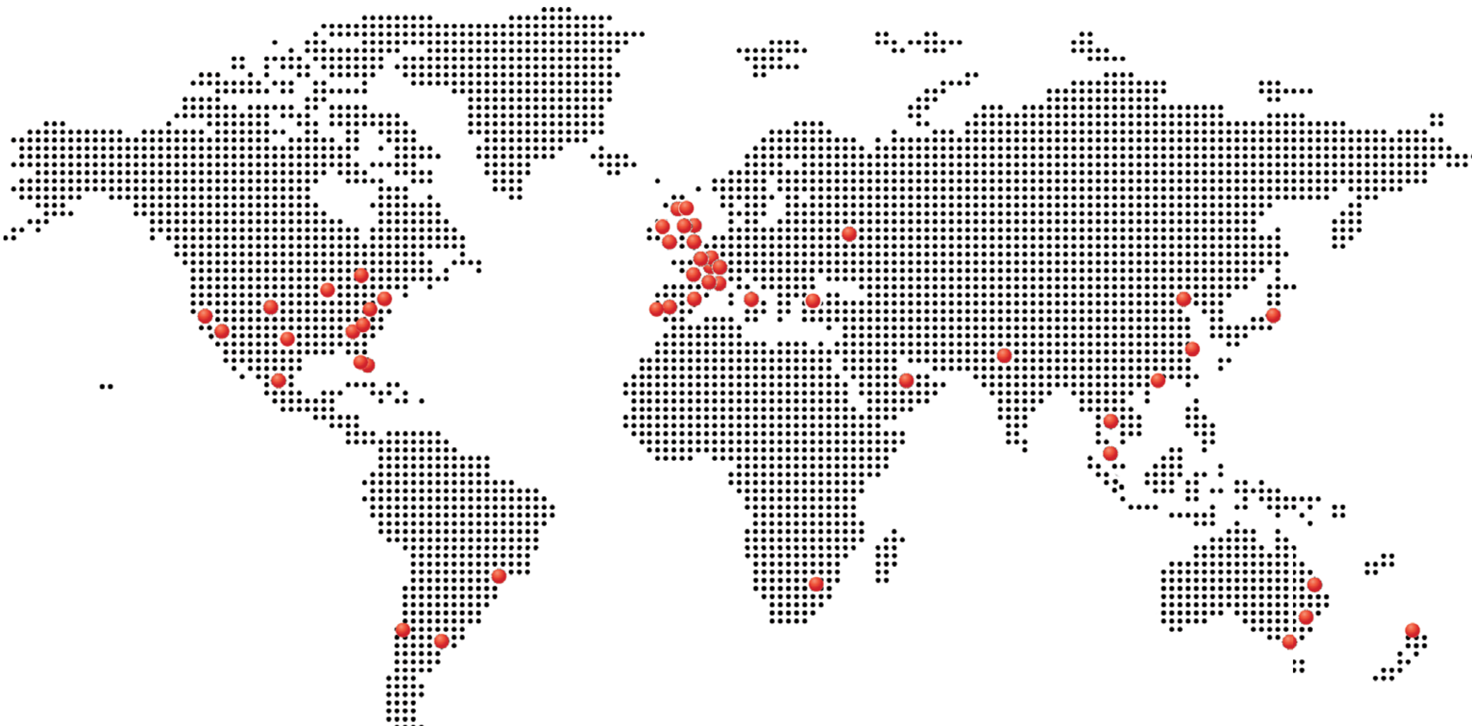

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