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Hotels & Hospitality

Puerto Rico

One of the top performing lodging markets in the United States



Puerto Rico

is one of the best performing U.S. lodging markets in the country that presents attractive hotel investment opportunities. The market's top attributes include:



Top RevPAR levels – Puerto Rico's July 2021 RevPAR of $234 is leading the RevPAR posted by country markets in the rest of the Americas and the highest market in the U.S. for YTD July 2021 with RevPAR totaling $157. Furthermore, **RevPAR performance for the San Juan market over the last 20 years (2000-2020) recorded an average of $131, trailing only behind New York City ($187) and Oahu Island ($136)**.



RevPAR stability – Over the last 20 years (2000-2020), San Juan's RevPAR growth ranked as the fourth most stable when compared to the top-25 U.S. markets. Moreover, since the pandemic, San Juan ranks fourth among top-25 U.S. markets in being quickest to recover, with YTD July 2021 RevPAR only 9.9% below the same period in 2019.



Strong demand – Puerto Rico posted 28.0% year-over-year occupancy recovery resulting in YTD July 2021 occupancy of 63.9%, exceeding all the top-25 U.S. markets like Phoenix, Los Angeles, and Atlanta, except for Tampa (71.2%) and Miami (68.9%). Furthermore, over the past 27 years, average occupancy in San Juan (the largest submarket in Puerto Rico) has equaled 74.7%.



Controlled supply – Over the last two decades, supply has increased at a compounded annual growth rate (CAGR) of 0.5%, which equates to approximately 35 new rooms per year.



Puerto Rico is a liquid hotel investment market – When comparing the total number of hotel rooms that sold over the last five years as a proportion of average five-year existing supply, Puerto Rico outperforms most other top-25 U.S. markets.



Easily accessible U.S. destination – Puerto Rico benefits from strong airlift with 10 primary and secondary markets in mainland U.S. offering direct flights to Luis Muñoz Marin International Airport (SJU). In 2019, passenger traffic increased 12.0% to reach a record-breaking 9.4 million passengers. For YTD August 2021 the airport reported year-to-date traffic of 6.5 million passengers, reflecting 0.2% gap to record levels reported for YTD August 2019.

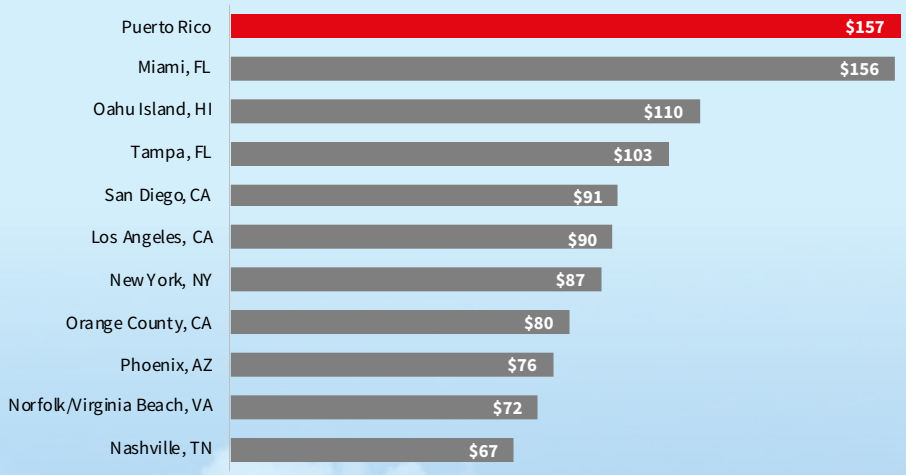


Favorable taxation environment – Tourism and hospitality investors enjoy a variety of tax benefits including 90.0% exemption on property taxes as well as tax credits of up to 40.0% for capital improvements.

In the pages that follow, we highlight the primary reasons why hotels in Puerto Rico present an attractive investment opportunity.

When comparing Puerto Rico to the markets that achieved the top-10 highest RevPAR levels across the U.S. for YTD July 2021, Puerto Rico ranks first.

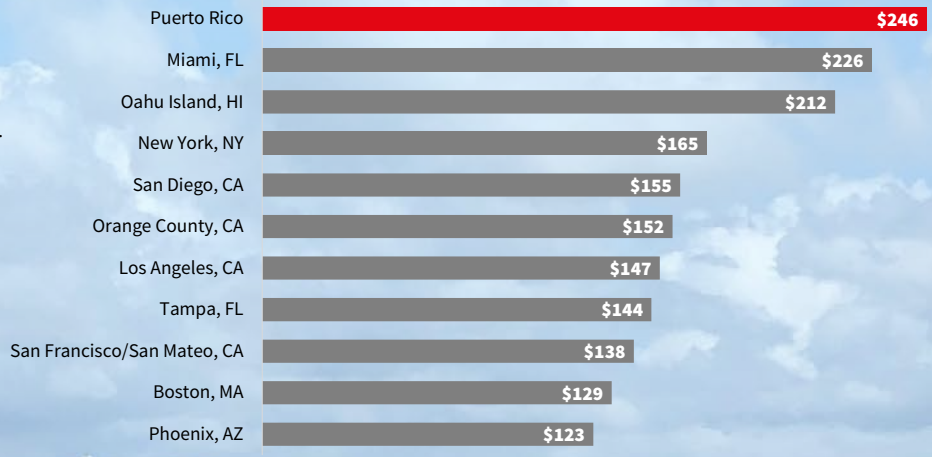
Top-10 U.S. Markets per 2021 YTD July RevPAR vs Puerto Rico



Source: JLL, STR

When comparing Puerto Rico to the markets that achieved the top-10 highest ADR levels across the U.S. for YTD July 2021, Puerto Rico ranks first.

Top-10 U.S. Markets per 2021 YTD July ADR vs Puerto Rico



Source: JLL, STR

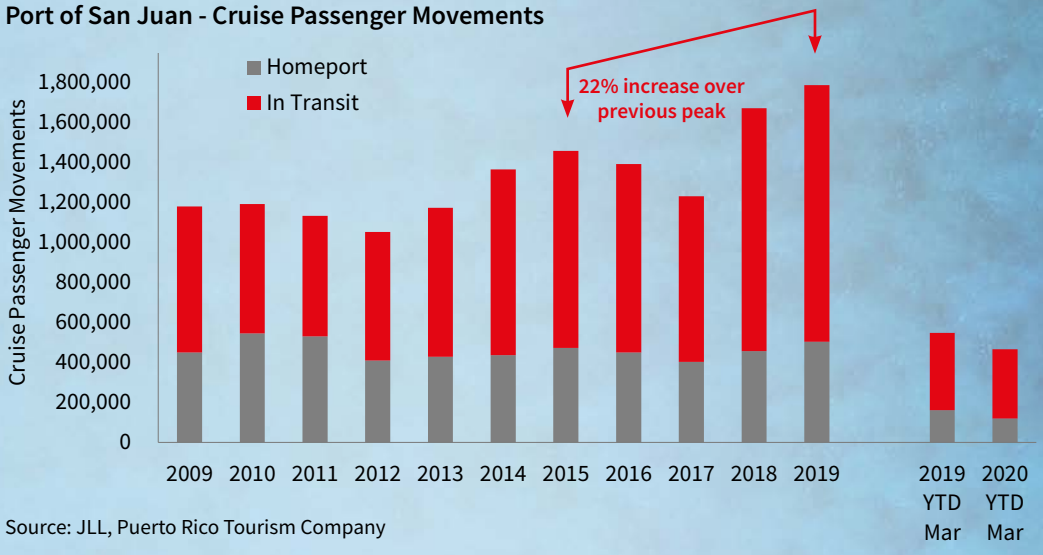
Hotel demand in Puerto Rico has been historically supported by strong cruise ship and airline passenger volume

Puerto Rico's lodging market posted swift post-COVID recovery by outperforming 23 of the top-25 U.S. markets in terms of occupancy. This remarkable performance was recorded despite the COVID-19 pause in cruise operations, which in 2019 recorded over 500,000 passengers setting sail from San Juan. This disruption was overcompensated by a strong airlift at San Juan's Luis Muñoz Marin International Airport of 6.5 million passengers for YTD August 2021, which is in line with 2019 record-breaking pre-pandemic levels.

The positive momentum of airline passenger demand has benefitted significantly from the marketing efforts of Discover Puerto Rico, the Island's first-ever destination marketing organization that has successfully transformed the market's reputation and incentivized travel. Specifically, Discover Puerto Rico has enhanced meetings and conventions business and revamped its digital platform to effortlessly connect with travelers.

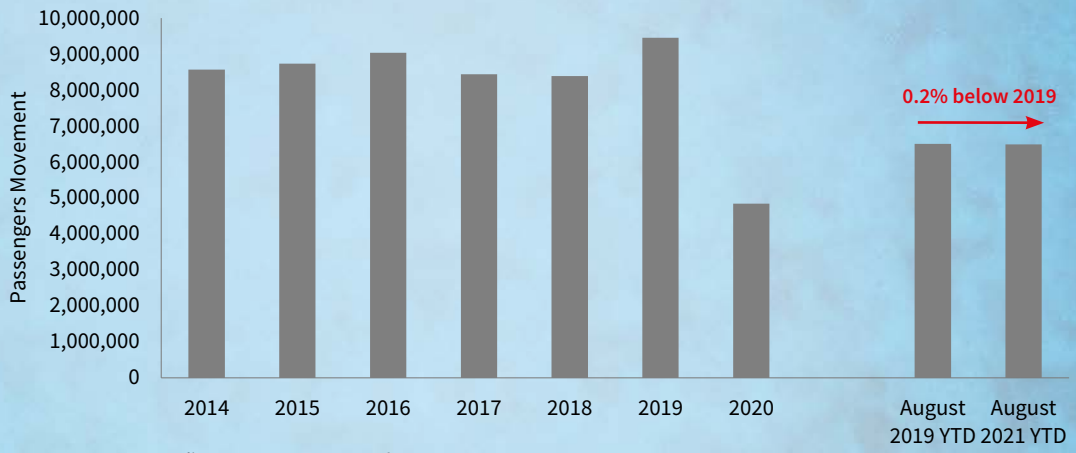
Moreover, the Port of San Juan was selected to debut the Ritz-Carlton Yacht Collection, a voyage that will elegantly bring the brand's luxury lifestyle to yachting passengers through elevated dining, exclusive amenities, and personalized service. The high-end cruise will feature six homeports in San Juan starting in Q1 2022, further positioning Puerto Rico as a world-class destination.

Port of San Juan - Cruise Passenger Movements



Source: JLL, Puerto Rico Tourism Company

San Juan Luis Munos Marin International - Passenger movements



Source: JLL, Luis Muñoz Marin International Airport



Puerto Rico is a domestically driven market with 93% of demand originating from mainland U.S.

Visitation to Puerto Rico and subsequently lodging demand in the market is overwhelmingly sourced from domestic U.S. feeder markets, as Puerto Rico is one of the most accessible destinations in the Caribbean. In fact, 10 primary and secondary markets in mainland U.S. offer direct flights to Luis Muñoz Marin International Airport. U.S. mainland citizens can also easily travel to the island without the need of a passport.

Mainland U.S. residents comprised 91.2% of total hotel registrations in Puerto Rico in pre-pandemic 2019 and 93.0% in 2020, with visitors from Florida and New York representing the lion's share of demand. Moreover, per a recent Economics/YouGov poll, only 37% of American adults have a valid US passport which underpins Puerto Rico's position as a destination of choice for American travelers especially given hesitancy for long-haul travel post-COVID over the medium term which bodes well for the market's continued growth.



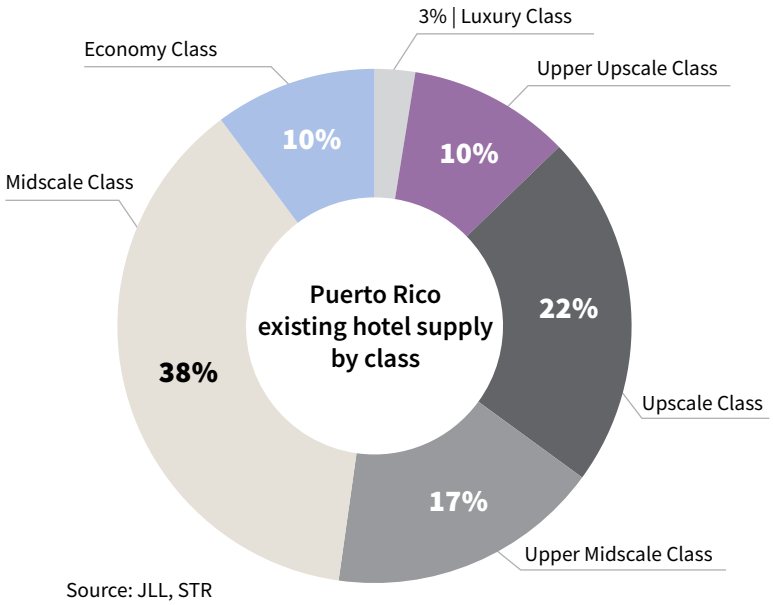
Source: Puerto Rico Tourism Company
Based on Puerto Rico Hotel Registrations in 2020

Puerto Rico's existing hotel supply has observed anemic supply growth over the last 20-years

Over the last two decades, hotel supply posted CAGR of 0.5% in Puerto Rico, ranking second among the U.S. top-25 markets for lowest annual growth over the analyzed period. This level of growth equates to approximately 45 new hotel rooms a year.

The Puerto Rico lodging market consists of 157 properties totaling 14,488 hotel rooms with approximately 10.0% of room supply categorized as upper upscale class. Only 3.0% of the rooms are luxury product, which represents an opportunity for investors looking to expand the market's offerings in the segment through new development or conversions.

Puerto Rico's subdued hotel supply coupled with strong demand fundamentals translated to resilient RevPAR performance over the last two decades.



Source: JLL, STR

157 properties

14,488 hotel rooms

3.0% are luxury product

0.5% Supply CAGR over the last two deacdes

2nd Lowest supply CAGR in any U.S. market

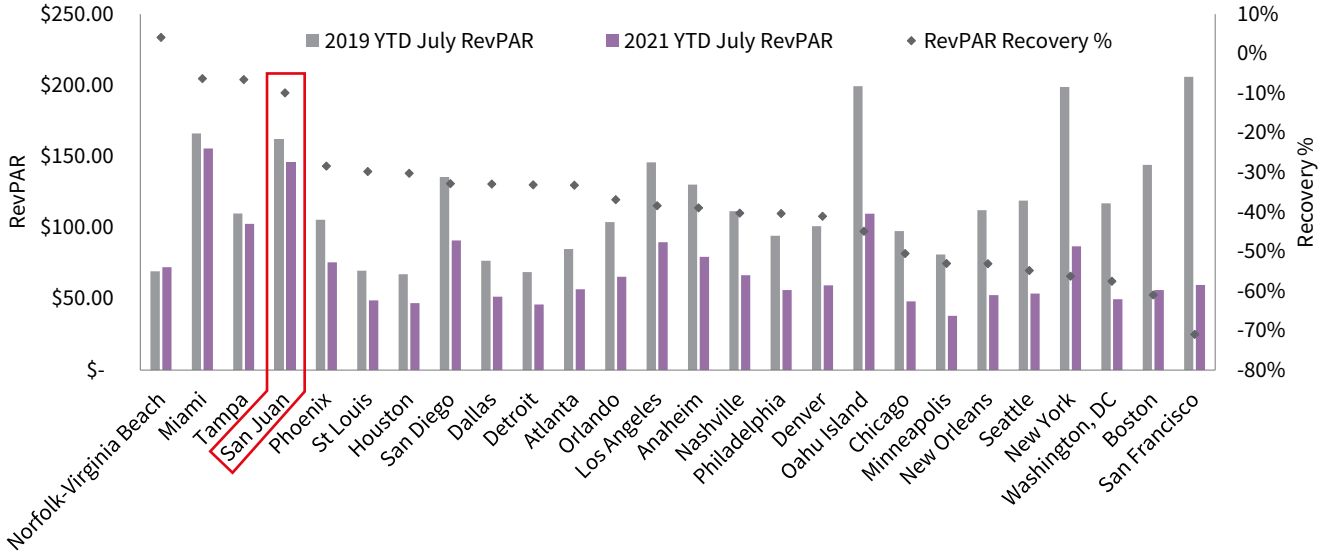


San Juan's RevPAR performance is one of the most stable in the U.S. and outperforms the majority of the top-25 markets nationally

San Juan is one of the most stable and resilient lodging markets in the U.S. enjoying a pre-pandemic RevPAR CAGR of 1.8% since 2010. This performance was accomplished despite disruptions that stemmed from the Zika Virus in 2016 and Hurricane Maria in September of 2017.

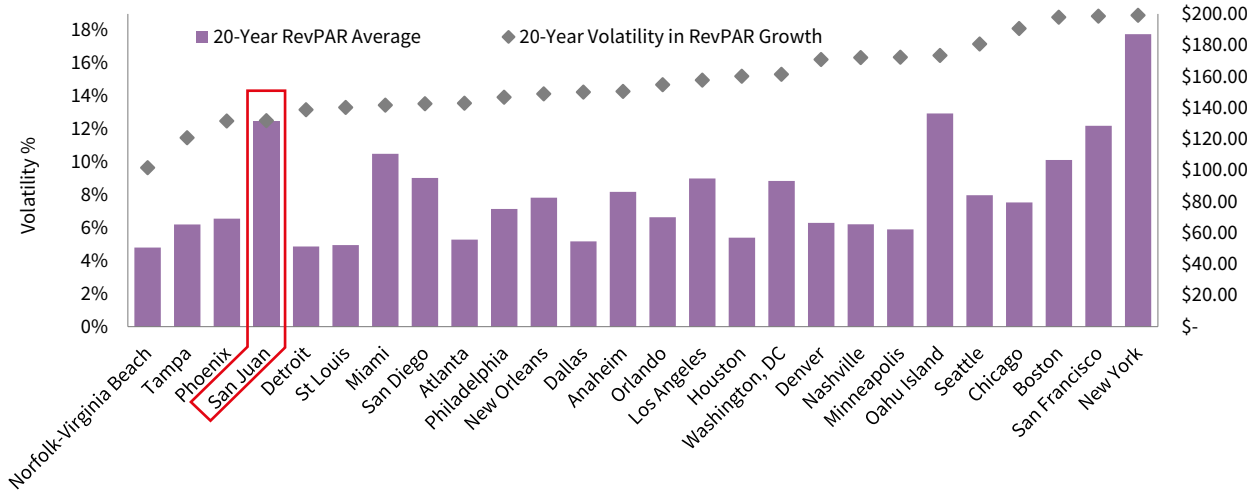
RevPAR performance for the San Juan market over the last 20 years (2000-2020) recorded an average of $131, trailing only behind New York City ($187) and Oahu Island ($136). San Juan achieved this performance off the back of stable RevPAR growth over the past 20-years. In fact, San Juan boasts one of the lowest RevPAR volatility rates, when compared to the other top-25 U.S. markets. Moreover, since the pandemic, San Juan has been the fourth quickest market to recover versus top-25 U.S. markets with YTD July 2021 RevPAR of $145.74, which is only 9.9% below 2019 performance.

San Juan offers similar RevPAR levels to top markets like Los Angeles and Boston but with stonger recovery from pandemic disruptions



Source: JLL, STR

San Juan's 20-Year RevPAR offers lower volatility from peak to trough than most top 25 U.S. markets

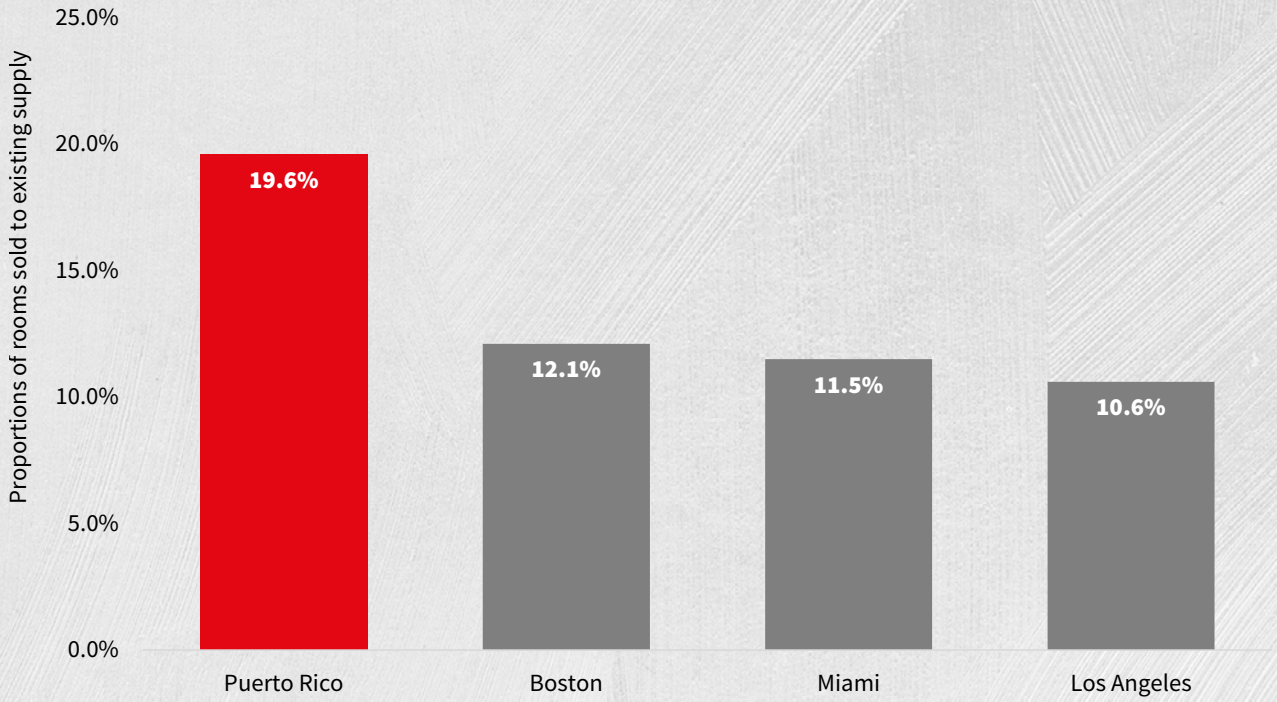


Source: JLL, STR

Puerto Rico is an **active** hotel investment market

When analyzing the total number of rooms that sold between August 2016 and YTD August 2021 as a proportion of the average five-year existing supply across U.S. markets, Puerto Rico outperforms. This is particularly the case when comparing Puerto Rico's proportion to markets across the U.S. that achieved similar pre-pandemic 2019 RevPAR levels. This points to the market's impressive liquidity. Investors are attracted to Puerto Rico given the variety of tax benefits the market offers, including a 90.0% exemption on property taxes as well as tax credits of up to 40.0% for capital improvements and market fundamentals translated to resilient RevPAR performance over the last two decades.

Proportion of Rooms Sold in the Past Five Years to 5-Year Average Existing Supply: Puerto Rico vs Top Markets



Source: JLL Research
Note: Analysis pertains to only single-asset transactions across all markets compared. Existing hotel supply represents a five-year average from August 2016 to August 2021 for each market.



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