



# **PUERTO RICO LODGING MARKET SITUATION ANALYSIS MARCH 2021**

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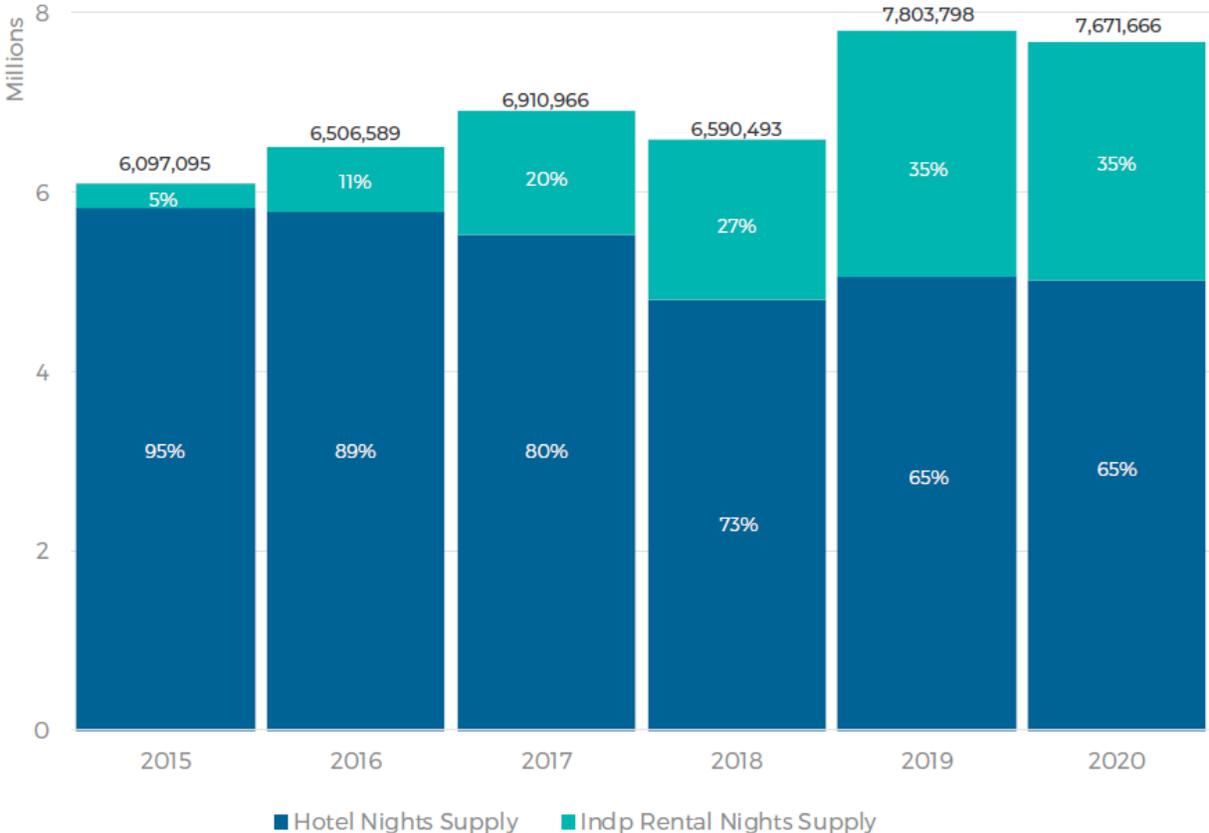
## Puerto Rico Lodging Market Situation Analysis - March 2021

The lodging market in Puerto Rico has changed considerably since 2015, attributable both to changes in supply following Hurricane Maria as well as growth in the independent rental market worldwide to accommodate changing consumer sentiment.

**Note:** The information presented herein related to inventory supply and demand is based upon total cumulative days, which captures the full extent of inventory changes. To understand this on the basis of an annual average, the numbers presented can be recalculated by dividing the numbers presented by 365. *Please addendum schedule for this information.*

In 2015, independent rentals only accounted for 5% of total lodging. In calendar year 2017, independent rentals had grown to 20% of the available lodging nights in Puerto Rico and reached 35% in calendar year 2019. While some of the growth is attributable to the closure of hotel properties, the number of rental units grew by 16% from the months before Hurricane Maria to the end of 2020.

### Puerto Rico Lodging Supply 2015-2020

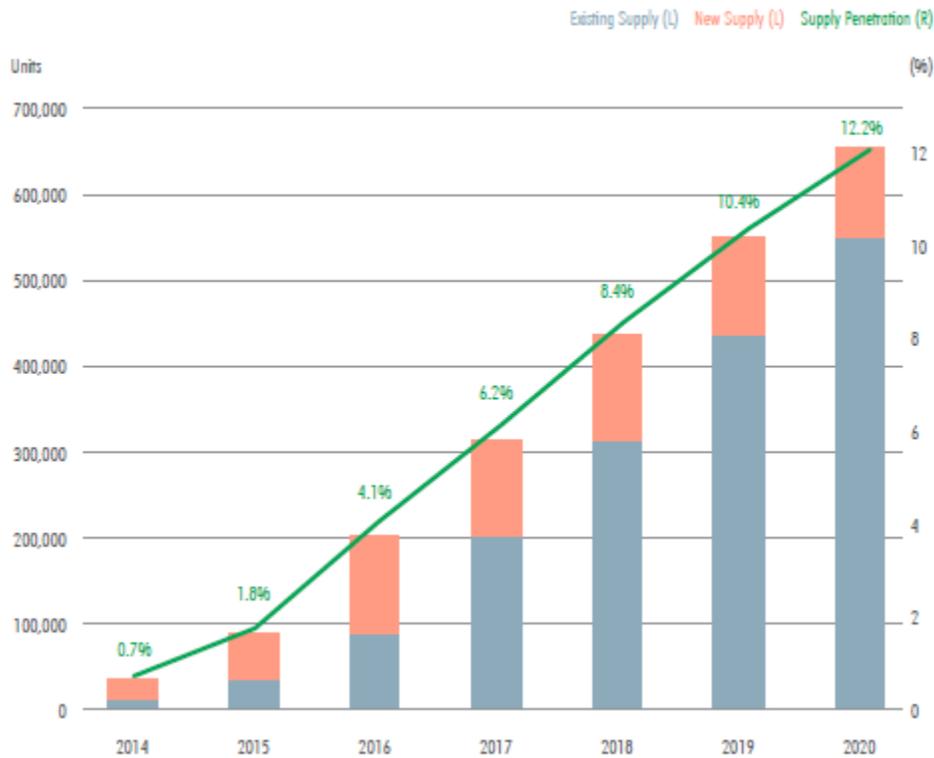


	2015	2016	2017	2018	2019	2020
<b>Hotel Nights Supply</b>	5,815,937	5,787,774	5,527,284	4,796,254	5,060,834	5,016,644
<b>Indp Rental Nights Supply</b>	281,158	718,815	1,383,682	1,794,239	2,742,964	2,655,022

Source: STR & AirDNA

The growth in the independent rental market in Puerto Rico aligns with performance across the rest of the U.S. CBRE Research’s 2020 report *Short-Term Rentals: The Maturing U.S. Market & It’s Impact on Traditional Hotels* found that rentals in the U.S. have grown more than 75% since 2017.

## U.S. Average Rental Daily Supply Growth 2014-2020

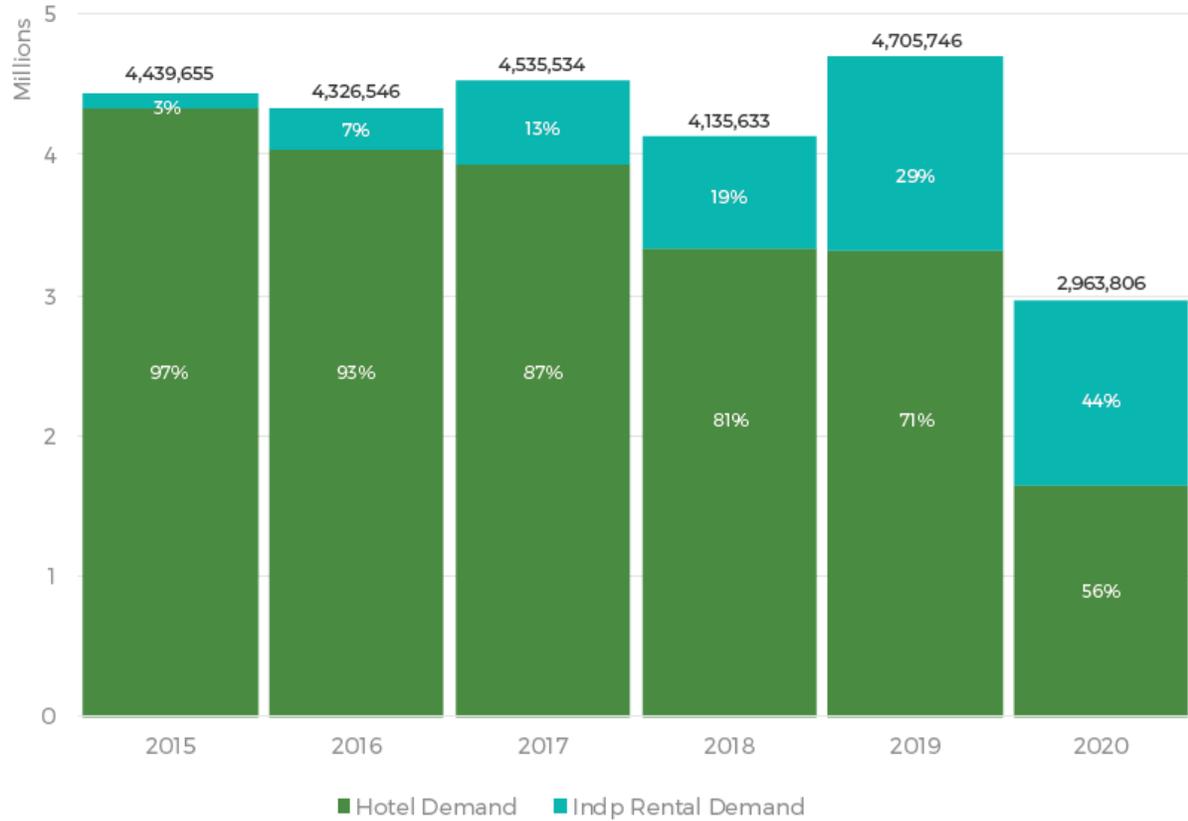


Source: CBRE Research

What is unique to Puerto Rico is the portion of the lodging supply rentals consume. According to CBRE Research, on average, rentals make up 10.4% of lodging supply. The two markets with the largest rental penetration, Los Angeles and Miami, supply penetration is 22.3% and 19.2% respectively. In Puerto Rico, independent rentals made up 35% of the available lodging supply in both 2019 and 2020.

With increases in rental supply has come a shift in consumer demand. In 2017, rentals made up 13% of occupancy in Puerto Rico, which rose to 29% in 2019. Given COVID-19's influence on the travel industry in 2020, the year is considered an outlier as destinations worldwide saw consumers choosing rentals as a safe way to remain isolated while traveling. With this, the shifts in demand are reflective of the changing supply.

## Puerto Rico Lodging Demand 2015-2020



	2015	2016	2017	2018	2019	2020
Hotel Nights Supply	4,326,297	4,032,335	3,927,872	3,330,946	3,325,303	1,653,501
Indp Rental Nights Supply	113,358	294,211	607,662	804,687	1,380,443	1,310,305

Source: STR & AirDNA

Given the reduction in hotel supply since 2017, it is not clear that increases in the independent rental market come at the expense of the hotel occupancy. The CBRE report explains that “many factors motivate consumers to choose [rental] accommodations, including local interaction, home-like amenities, more space and/or unusual experience. Price and location, however, remain the primary motivators.” It’s also important to note that independent rentals are granted a lower rental transaction tax rate (7%) than hotels (9%-11%).

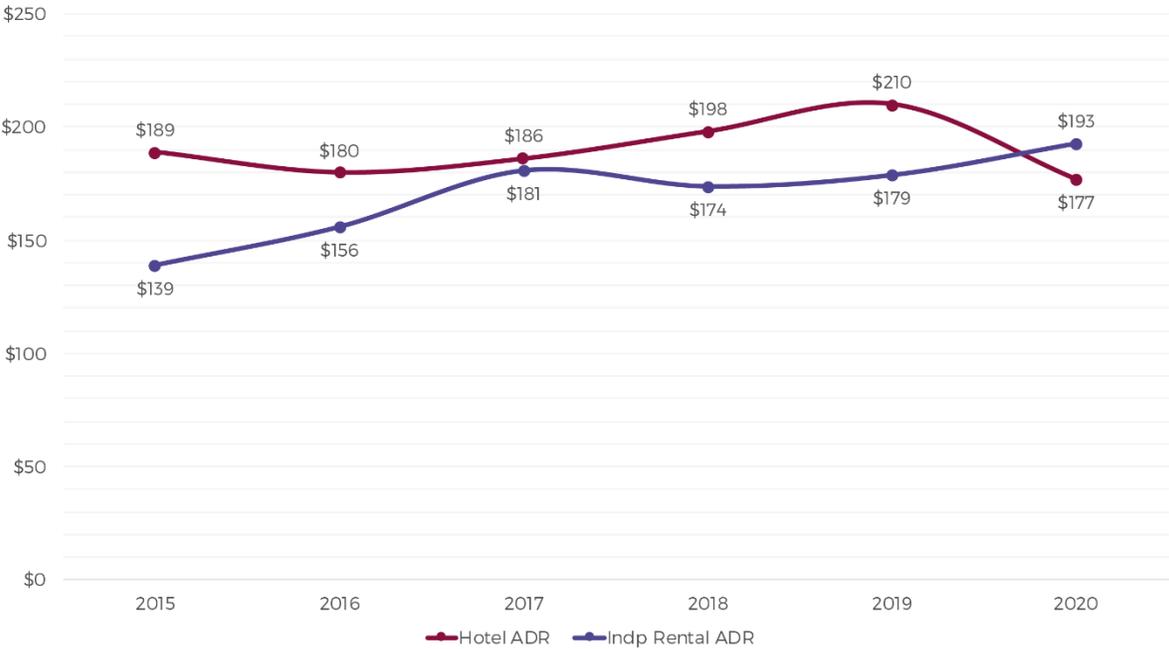
With this, CBRE Research finds that hotels are most impacted through the depressing of the Average Daily Rate (ADR). In the 30 markets evaluated by CBRE, the average one bedroom or studio rental rate was 5% lower than a hotel.

In the markets with the biggest differential, Myrtle Beach, SC and Nashville, TN, the average rental rate was 24.4% and 18.0% lower than the average hotel rate.

While the impact of increased independent rentals on hotels is debatable, it's clear that tourism in Puerto Rico enjoyed explosive growth in 2019, with total transient rental nights reaching an all-time record. Despite this record pace of recovery, 2019 hotel demand remained well below pre-Maria levels. This presents a unique challenge which is also a huge economic opportunity for the Island: in 2015, Puerto Rico hosted 4.4 million transient nights with a supply of 6.1 million available nights; in 2019, Puerto Rico hosted 4.7 million transient nights (+7% vs 2015) with a supply of 7.8 million nights (+28% vs 2015).

In Puerto Rico, the average rental ADR in 2019 was 15% lower than the hotel rate. However, this accounts for all size units. When just comparing the average rate for one bedrooms and studios, the ADR for rentals was 50% lower than hotels in 2019.

### Puerto Rico Hotel & Rental Average Daily Rate 2015-2020



Source: STR & AirDNA

Notable is that Puerto Rico hotel ADR grew 6% in both 2018 and 2019. With this, the hotel ADR in 2019 was above both pre-Hurricane Maria and pre-Zika levels. Comparatively, according to the hotel industry's leading data provider STR, the average daily rate in the rest of the U.S. grew just 2% in 2018 and 1% in 2019.

This increase in ADR points to room for both hotels and rentals in the Puerto Rico lodging market given adequate demand. The record-setting total lodging demand of 2019 is indicative of the kinds of results Puerto Rico could continue to see with adequate funding for tourism marketing. However, the budget available in Puerto Rico is far below that of other competitors, especially when considering marketing dollars per visitor.

### Tourism Marketing Budgets 2020

									
	PUERTO RICO	COSTA RICA	DOM REP	JAMAICA	PANAMA	BAHAMAS	BERMUDA	ARUBA	HAWAII
ANNUAL BUDGET - TOURISM MARKETING	\$25.5M	\$55.0M	\$43.5M	\$48.7M	\$25.0M	\$39.6M	\$39.2M	\$36.5M	\$70.0M
MARKETING \$ PER VISITOR	\$4.69	\$17.52	\$6.68	\$11.27	\$9.66	\$5.46	\$48.52	\$18.69	\$6.71

Source: World Economic Forum, Local Tourism Bureaus, Ministries and Authorities

This marketing opportunity combined with the record growth experienced in 2019 might overshadow a hard truth that must not be overlooked. Prior to the creation of a DMO, Puerto Rico invested an average of \$53 Million annually in tourism marketing.<sup>1</sup> The maximum annual budget awarded to the DMO is \$25 Million, 47% less than pre-DMO budgets.

So, Puerto Rico's off-island tourism promotion budget has been reduced by 47% in recent years, while inventory has grown 26%. More inventory and reduced marketing does not usually lead to success.

<sup>1</sup> Act 2017-17, page 5 reveals Puerto Rico Tourism Company invested \$53 Million annually.

## ADDENDUM SCHEDULE:

<b>PUERTO RICO LODGING 2015-2020</b>					
<b>Year</b>	<b>Hotel Nights Supply (annual total)</b>	<b>Hotel Supply (average daily inventory)</b>	<b>Indp Rental Nights Supply (annual total)</b>	<b>Indp Rental Supply (average daily inventory)</b>	<b>Total Transient Supply (average daily inventory)</b>
2015	5,815,937	15,934	281,158	770	16,704
2016	5,787,774	15,857	718,815	1,969	17,826
2017	5,527,284	15,143	1,383,682	3,791	18,934
2018	4,796,254	13,140	1,794,239	4,916	18,056
2019	5,060,834	13,865	2,742,964	7,515	21,380
2020	5,016,644	13,744	2,655,022	7,274	21,018