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Cuba, the Next Frontier for Asian Hotel Groups


 Wimindra Jangnin - Feb 23, 2017, 7:42 AM in [Features, Hospitality Investments](#) 0


Last December, Singapore-based Banyan Tree opened its first property in Cuba. This will be the first resort operated in Cuba by an Asian company. The property will carry the Dhawa brand and will feature 516 rooms. This first development is the opening step of Banyan Tree's strategy into Cuba. An Angsana-branded resort will follow in December this year, also in partnership with Gaviota, the tourism arm of Cuba's ministry of defense. But according to PHG's sources, other Asian groups in Indonesia, India, Singapore and Hong Kong are expected to follow this trend into Cuba.

Cuba is probably the hottest hotel market in the world, that is, the market with the highest imbalance between hotel supply and travelers' demand. With 65,000 hotel rooms, this island is double the size of near-by Dominican Republic and has half the number of hotel rooms per square kilometer and 30% less tourist arrivals. From a hotel operator perspective, the country is currently dominated by Spanish hotel groups (they hold 40% market share) so the Cuban government is very eager to welcome new entrants into the market and Asian brands have built a solid reputation for service excellence. By the end of 2017, the number of tourist arrivals would have reached 4 million, out of which 25% come from Canada and 12% are already originated in North America. Actually, the US cultural visa policy is making UNESCO-protected cities of Havana, Cienfuegos and Trinidad, extremely popular. In bearing with the increasing number of US cultural tourists, Airbnb has already reached 4,000 private houses in Cuba, out of the 18,000 private houses that are thriving in the market, due to the scarcity of hotel rooms.

But why is Cuba becoming increasingly attractive for Asian hospitality groups?

1.- Growing air lift from the United States American Airlines, Jet Blue, Swiftair and Sun Country Airlines, which have recently announced scheduled flights into Cuba, have really been flying into Cuba for years now, using charter licenses, and have been landing in Cuban international regional airports such as Cienfuegos, Trinidad and Santiago de Cuba. These regional airports seem to cater reasonably well for the tourist traffic that these cities are increasingly attracting through the US visa cultural programme. Miami is the main entry point into Cuba for all these flights.

2.- It's a numbers game Full-year breakouts are not available yet for 2016, but Josefina Vidal, Cuba's chief negotiator in talks with the United States, said recently that the combined total of visits by U.S. travellers (including Cuban-Americans) last year was 614,433, a 34% increase versus 2015. So the US is already the second nationality arriving in the country after the one million Canadians that reach Cuba every year. After Canada and the US, Europeans follow (Germans, British, Spanish, Italian, etc.). If one thinks that Canada has 1/10 of the population of the U.S. or that Dominican Republic has a penetration of US tourism of 45% (versus 12% in Cuba), the potential number of North Americans arriving into Cuba is huge. Asian groups, of which some are already present in North American gateways, should be able to leverage these synergies between Cuba and the North American market.

3.- Virgin leisure real estate market Up to the passing of the new Foreign Investment Law 118 of March 2014, only companies that had 100% Cuban capital could sell real estate to foreign buyers in Cuba. Most of this real estate inventory was located in Havana but the experience was not terribly successful. However, through law 118, the government has cleverly decided to involve foreign partners in the deployment of leisure real estate sales operations. From now on only JVs between Cuban companies and foreign companies will be able to sell real estate to foreign buyers. The format of the products will be leasehold for life. The opportunity for Asian real estate developers to develop hotel branded residences concepts, is tremendous.

Judging by the profile of US visitors that come to Cuba under the cultural visa programme (senior couples with no children and no mortgages) and considering the US\$3 billion that are injected annually back into Cuba in remittances by the 1.5 million Cubans residing abroad, it is easy to see why the leisure real estate market is a phenomenal opportunity. In the South coast of Cuba, more popular with US visitors that wish to visit the cultural heritage of the island and its colonial architecture, European tour operators are already feeling the squeeze generated by the US and are willing to invest in the acquisition of the apartment units being developed by these new joint ventures, for fear of running out of stock to accommodate their clients. Private homes are already widely used by these tour operators for lack of suitable hotel inventory.

4.- Under-developed leisure market The opportunity in the hotel sector extends also into the cruise segment, the golf sector or the marina business. The Varadero Golf Club is the only golf course in the island, while Dominican Republic has 26 golf courses. The newly inaugurated Varadero marina is the only marina in the country built with modern international standards. Spanish ferry company Balearia plans to triple its traffic between Cuba and Miami compared with its traffic between Freeport (Bahamas) and Miami. Carnival Cruises prices for Cuba are double of its prices to Dominican Republic.

5.- Investment is the way to go As American and European hotel operators have already experienced first-hand, and Banyan Tree is about to discover, management contracts only qualify as such when

The manager of the property has full responsibility and control on staff recruiting and training, F&B supplies, energy supplies and capex. Although it is not necessarily a negative thing, in Cuba this is not the case. As Meliá and Iberostar have proven, setting up JVs is the way to maximise returns. Joint ventures allow the sourcing and importing of construction materials, F&B supplies, the selection of skilled staff and a more business oriented management of hotel projects and properties. Moreover, for those hotel companies that extend their business into leisure real estate, the JV model allows the development and commercialization of hotel branded residences that play a dual role of adding valuable and scarce quality hotel supply to the project, while improving the financial returns of the development through the commercialization of these units to individual foreign investors (under a for life leasehold format).

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