

Next stop:

CUBA

Will U.S.-Cuba travel and trade rules bring American brands now, or later?

When President Obama announced that the U.S. and Cuba were restoring diplomatic relations this past December, U.S. hotel companies took notice. Then in January, the U.S. Departments of Commerce and Treasury released new rules allowing U.S. citizens to visit Cuba without special permits.

While most U.S.-based hotel companies are playing their cards

very close to the vest and will not publically talk about the moves they are making to prepare themselves for a potential big development opportunity, a few industry experts have shared their views on what it will take.

“There will be strong expectations in regards to performance in Cuba,” says Steve Joyce, CEO, Choice Hotels International, Rockville, Maryland. “Miles of untouched real estate will become incredibly competitive and

we want to have properties underway as soon as possible after the trade embargo is lifted and the door is truly open.”

THE RULES

As of mid-January, here are the rules in the U.S. for travel to Cuba:

Most U.S. travelers will still be required to travel to Cuba on “supervised group trips,” but now almost any U.S. company or organization can embark on trips without the paperwork and inspections that were required for several decades.

Although major airlines are interested in flying from the U.S. to Cuba, commercial flights will not be available until the governments agree on treaty terms.

According to the U.S. Department of Commerce, only about 170,000 authorized Americans traveled to Cuba in 2014. However, if the ban is ultimately lifted, qualified travelers would be able to make arrangements much more easily and quickly through any service provider that complies with the U.S. Department of Treasury’s Office of Foreign Assets Control regulations governing travel services to Cuba.

CHALLENGES TO ENTRY

However, before American hoteliers set their sights on Cuba, several obstacles stand in the way. Alex Zozaya, CEO of Apple Leisure Group, Philadelphia, explains that building a presence in Cuba is a multi-faceted challenge.

“If U.S. hotel companies were able to do business in Cuba freely, with similar rules of engagement to the ones we have

in most countries in the Caribbean or in Mexico, then the challenge would only be time,” Zozaya says. “But in Cuba, there is also a need to improve the infrastructure to take care of the high-end market from the U.S. If the doors truly open, alternatives for financing should and would increase.”

Ivar Yuste, founding partner of consultancy PHG Hotels & Resorts, Madrid, says U.S. hotel companies will have to start working on building a supply pipeline in Cuba. Given that hotel supply currently government-owned, this presents challenges for foreign companies hoping to develop in Cuba.

“By far, the most resource-absorbing task is winning one of the contracts that is available from the government,” Yuste says. “Depending on the size of the hotel company, this task can take months or even years.”

Joyce anticipates there will be development challenges and competition in Cuba. “It will be important for us to not only act quickly, but show Cuban investors and owners that the Choice Hotels franchise has achieved great success developing in the Caribbean and that we are committed to embracing the culture of the islands, while maintaining outstanding service and high standards,” Joyce explains. He adds that he sees

tremendous opportunity. “Cuba has many miles of unspoiled beaches and a rich Caribbean history. We see it as a destination that will be embraced by U.S. travelers,” Joyce says.

OPERATIONAL CONCERNS

Once American hoteliers’ boots are on the ground, a new set of operational challenges will arise. Yuste explains that once the hotel has been assigned to the operator and the parameters of the contract are clear, the next phases includes capital expenditure and human resources.

“If the hotel is an existing asset, the operator will have to negotiate what capital expenditures can be added, if any, to the expense of the government,” he says. “In most instances this will not be possible and the operator will have to incur expenses in opening and a facelift of the property.”

When the hotel is ready, another challenge before opening will be training the staff. “With the exception of the general manager and other cluster positions, the entire staff is local and managed by government companies,” Yuste adds. “This again is up for negotiation and will vary with the degree of leverage of the operator in Cuba.”

Given other countries’ tourism in Cuba, Zozaya is confident that the nation is ready to welcome the U.S. Currently, European hotel giant Accor has two Cuban properties in Varadero and Havana. Meliá Hotels International has a whopping 28 Cuban properties in Cayo Coco, Cayo Guillermo, Cayo Largo, Cayo Santa Maria, Havana, Holguin, Santiago de Cuba and Varadero.

“Cuba has not only one of the highest and best educated populations in Latin America and the Caribbean, but they also have the experience of many years of taking care of tourists from Europe, Canada and Latin America,” Zozaya says.

Cuba’s socialist government will provide another set of challenges

but doesn’t present a roadblock large enough to preventing business growth. Many North American business groups have established communication and are discussing opportunities of expanding to Cuba.

“Even if the government is socialist, as long as there is clarity, goodwill and the right legal frame and protection for the investors, there



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**— Choice Hotels International
CEO Steve Joyce**

are always opportunities to invest and conduct business in Cuba,” Zozaya says. “Having a partnership with the government is not new.”

Since the Cuban government already has a tendency to switch hotel operators with somewhat high

frequency, Yuste says it is “very likely” that American management companies with credible records of success will be offered a contract more easily than an existing operators.

“What the Cuban government is looking for is increasing the receipt of U.S. dollars,” Yuste explains. “To the extent that American companies have greater penetration into the U.S. customer base, I think American hotel groups will be more than welcome.”

MEETING EXPECTATIONS

The key question for American companies should indeed revolve around the large amounts of traffic that the U.S. will send to Cuba, the country that was off limits for many years. “I think there will clearly be a learning curve but eventually American groups will catch up,” Yuste says.

According to the United Nations World Tourism Organization, Cuba received 2.8 million tourists in 2012. The Dominican Republic, half the size of Cuba and now a relatively comparable destination for travelers, received 4.7 million tourists in 2013. With a population of 300 million people, a third of which own a passport, the U.S. will most likely make a considerable footprint in Cuba.

However, the shake-up will most likely not happen overnight. Zozaya believes cruise ships will be the first big hospitality engines to take advantage of the new travel region while hotels will use the existing infrastructure and reflag with franchises then implement new management.

“We can expect to see in Cuba a growth similar to the one we have seen in Punta Cana in the Dominican Republic or in the Riviera Maya in Mexico,” Zozaya adds. “Cuba could grow 5,000 rooms per year over the next 10 years. I think Cuba can capture part of this growth the same way Cuba already does in other markets, like Canada or Europe.”

— By Brittany Farb, associate editor