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# A World Wonder, The Panama Canal – History & Impact on Trade, Hospitality & Tourism


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# Agenda

US Port Cities Development and Financial Impact

Overall Supply Chain Affect US

Hospitality Specific Case Studies

Global Trade Opportunities

Increased Competition

# Panama



Panama Canal has a 3rd lane being added set for completion in 2014 that will double its capacity. Originally built in 1914, an impressive 5.25B was spent on this upgrade of 100 year old locks.

# Post Panamax

- “Panamax” in effect since the canal opened in 1914
- Mega Vessels can carry as many as 15,000 containers and only 13 crew members (now they can accommodate ships with only 4,000 containers)
- Construction costs @ US$145,000,000+
- Silicone paint is applied to the ships bottom and reduces water resistance and saves 317,000 gallons of diesel per year
- Vessels have been operational worldwide since 2006

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# US Port Cities Development

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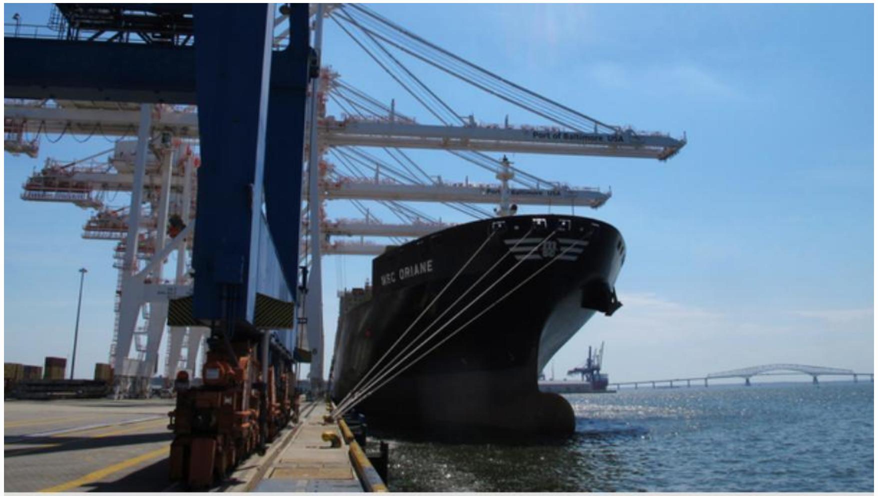
## Baltimore – 250M



The Port of Baltimore recently completed a major expansion, which included building a 50-foot berth and dredging the channel. It's in anticipation of increased traffic following the completion of a project to widen the Panama Canal.


- Four new, 400’ tall, supersized cranes installed to accommodate faster unloading of bigger cargo vessels
- Already completed a major expansion including a 50’ berth and dredging of the canal
- Currently only competition for post-Panamax ships is Norfolk

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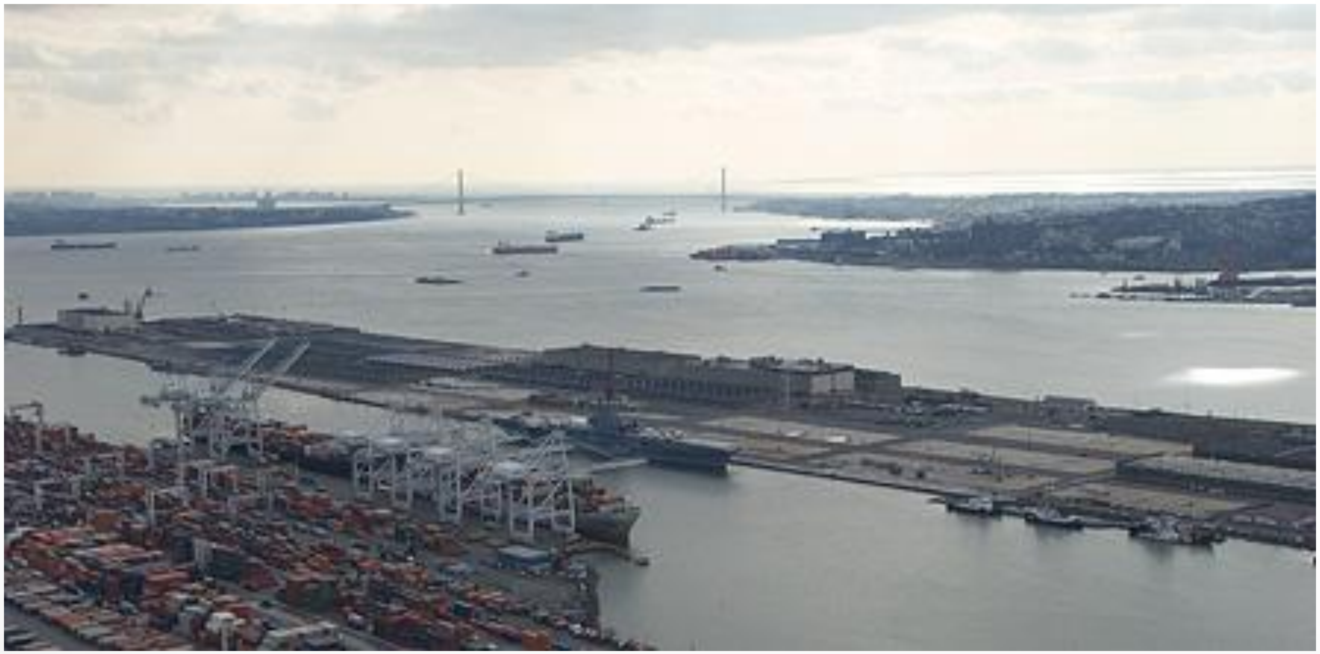
# US Port Cities Development

## New York and New Jersey - $3B Combined




- Investing in rail infrastructure @ ports including an 18 track expansion on 84 acres
- NYC adding a container berth which will increase it’s capacity to 950,000 boxes
- One terminal invested 400M to accommodate four 10,000foot trains on-dock track
- Bayonne Bridge is being modified to 215 feet to allow the bigger ships under the bridge

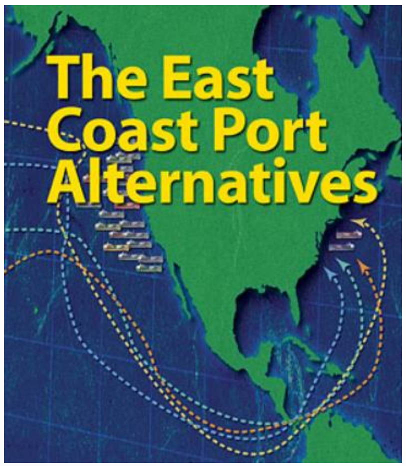
# US Port Cities Development

**Miami $112M**

- ➢Deed Dredge Project underway by USACE to deepen the channel to 52feet
- ➢Increased volume is estimated to add 33,000 jobs locally & double cargo output
- ➢In downtown Miami & the 2nd largest revenue producer in Miami Dade County
- ➢Revenue growth expected to $34B up from $27B
- ➢Currently estimated to provide 270,000 jobs from port business throughout US

# Overall US Supply Chain Affect

## Shift in Supply Chain



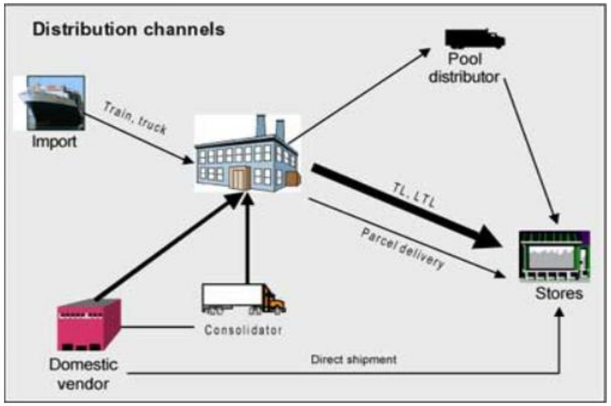



"Arms Race" between ports across the country East vs. West & Miami

Traditional "dead" spots with no industry for freight will shift and transit rates will have a fundamental change.

# Overall US Supply Chain Affect

## Shift in Supply Chain




More inventory on hand due to longer transit to reduce costs. Real estate demand near port areas for warehouses and storage spaces will increase


Port of LA and Long Beach currently account for 75% of all Asian imports

Shippers will rethink their supply chain to make use of new routes and facilities and limit risk of port strikes on west coast.

# Hospitality Specific Case Study

**Gulf Port & Miami**

| **Orlando 500 Rooms 42 Containers of Case goods** | |
|---|---|
| Via Long Beach Truck to FL | $231K |
| Via Long Beach Rail to FL | $161K |
| Via Miami Truck to Orlando | $25K |
| ***Savings vs. Truck = $170K** | |
| ***Savings vs. Rail = $100K** | |

| **Houston 214 Rooms 11 Containers of Case goods** | |
|---|---|
| Via Long Beach Truck to TX | $39K |
| Via Long Beach Rail to TX | $27K |
| Via Houston Port to TX | $4K |
| ****Savings vs. Truck = $28K** | |
| ****Savings vs. Rail = $16K** | |

Cost to Owner = additional 2-3 weeks lead time on case goods shipping

•36k increased ocean cost
** 7k increased ocean cost

# Hospitality
# Specific Case Study

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## East Coast Ports

| New York 565 Rooms<br>26 Containers of Case goods | DC Area 214 Rooms<br>11 Containers of Case goods |
|---|---|
| Via Long Beach Truck to NY $156K<br>Via Long Beach Rail to NY $110K<br>Via NY Port to NY $13K<br>***Savings vs. Truck = $101K**<br>***Savings vs. Rail = $55K** | Via Long Beach Truck to DC $66K<br>Via Long Beach Rail to DC $46K<br>Via Norfolk Port to DC $13K<br>****Savings vs. Truck = $35K**<br>****Savings vs. Rail = $15K** |

Cost to Owner = additional 2-3 weeks lead-time on case goods shipping

*42k increased ocean cost
** 18k increased ocean cost

# Increased Competition

## Another Panama Canal


The region will transform from one of the poorest countries with the development. Tens of thousands of jobs expected to the country and fueling an economic boom that would mimic the prosperity of nearby Panama and its U.S.-built canal

The Nicaraguan congress has granted a Chinese tycoon the exclusive right to develop a multi-billion dollar rival to the Panama Canal. The bill grants the investor 50 years of control over the potential shipping route.

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# A World of Wonder, the Panama Canal

## History & Impact on Trade, Hospitality & Tourism

Ricardo Mader Rodrigues, ISHC | October 3, 2013

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# Panama Canal: Impact on Trade, Hospitality & Tourism

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## Development of Panama Canal and Lodging Market Moving Hand-in-Hand

- Panama Canal set stage for development of hotel sector
- First, a shipping and logistics hub; today increasingly a financial hub
- Increased leisure tourism as well given demand generators such as beaches
- Unparalleled airlift
- Panama's hotel sector has grown to 13,000+ quality hotel rooms, with approximately 4,000 rooms added during the past five years alone

# Panama Canal: Impact on Trade, Hospitality & Tourism

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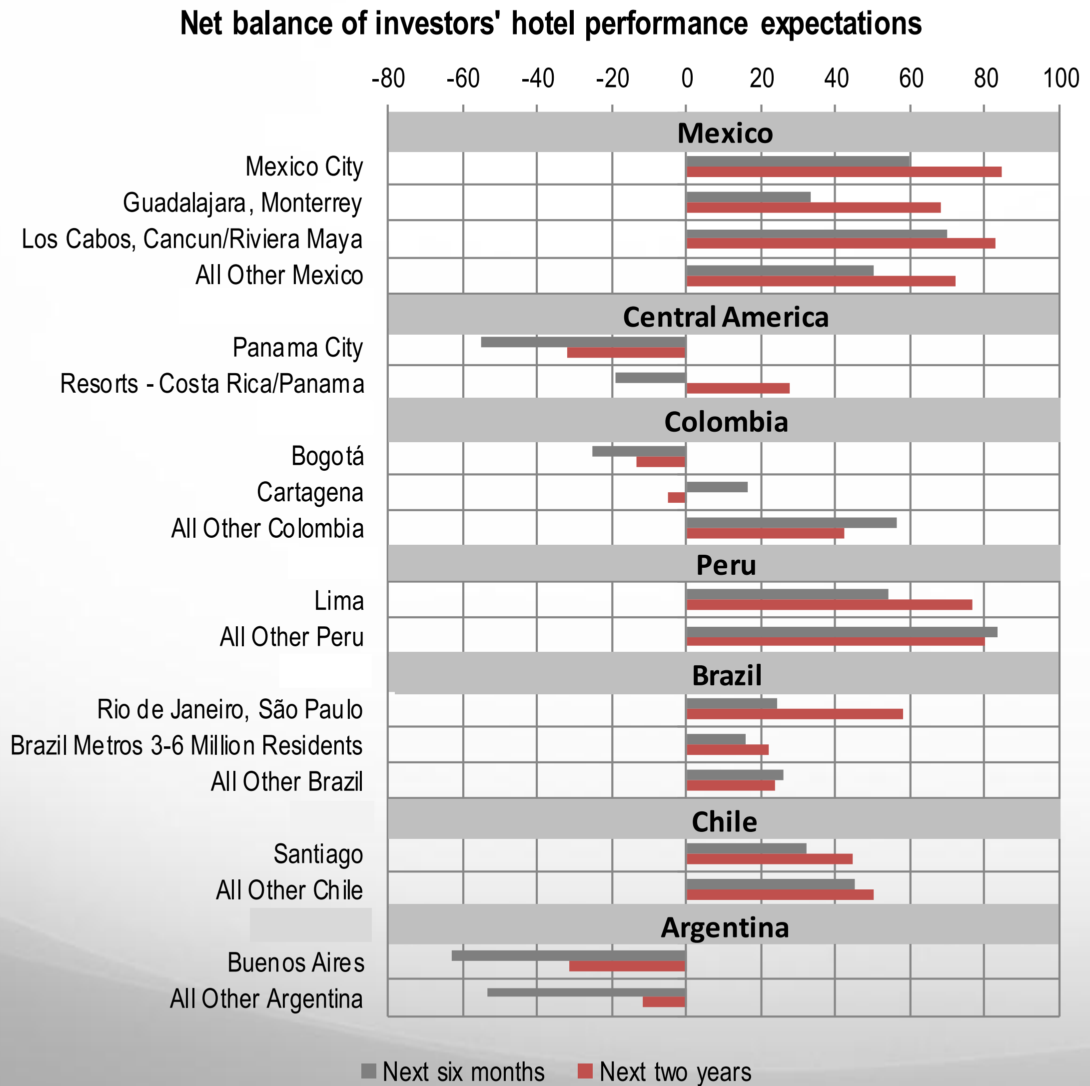
## At Present, Room Supply Pressures Weighing Down Sentiment…




Source: Jones Lang LaSalle

- Market-wide occupancy has suffered during the past several years due to increased room supply
- Investors currently have more tempered performance expectations compared to a number of other markets in region

Data is from Hotel Investor Sentiment Survey and depicts the net balance of investors' hotel performance (RevPAR) outlook for the next six months, and the next six months. The higher the %, the greater the number of investors who have a positive outlook.
Source: Jones Lang LaSalle

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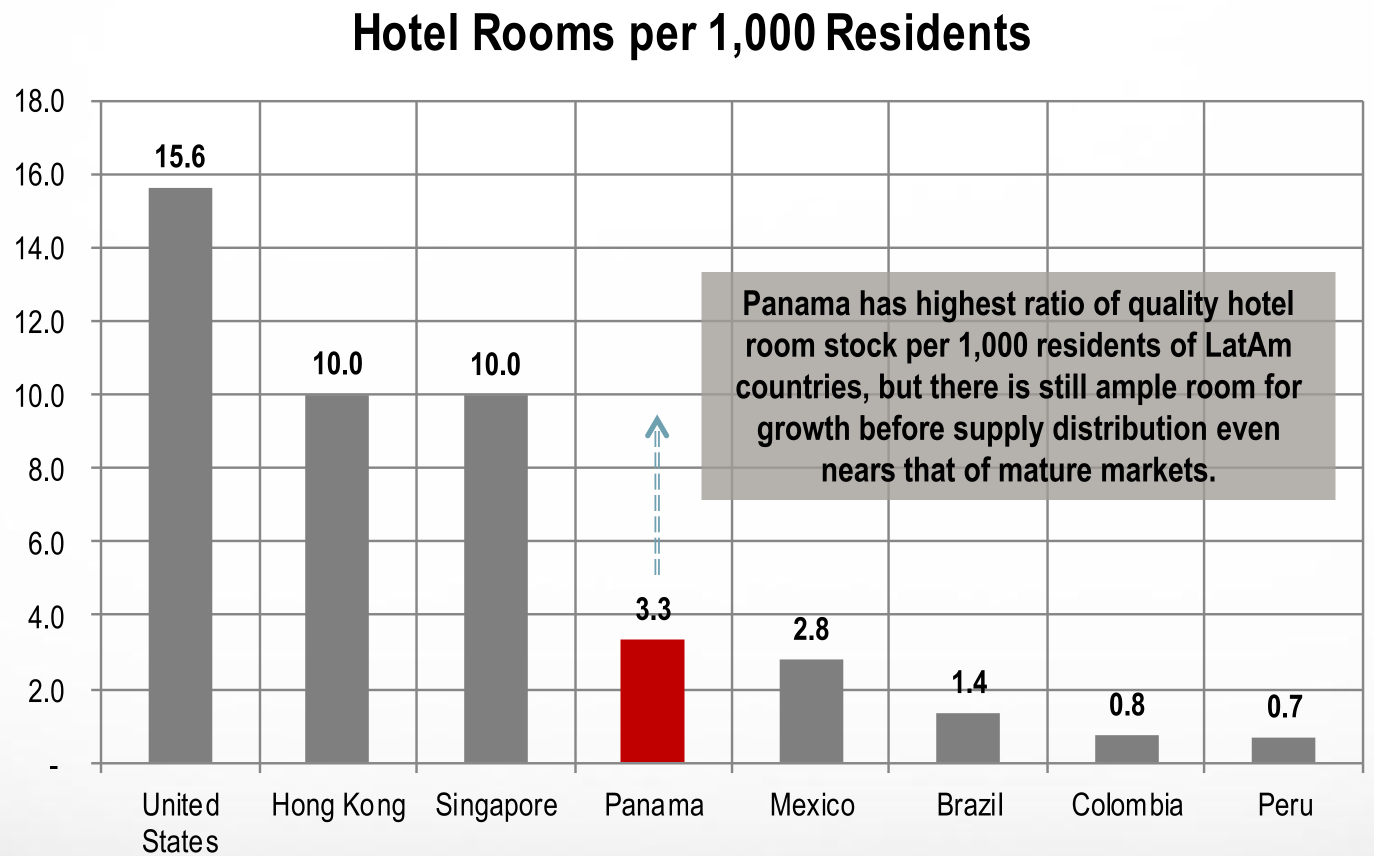
## …However the Future Potential is Bright, and Opportunity is Vast




Panama already benefits from more established hotel room stock in terms of its population compared to other major Latin American economies. However, benchmarking of hotel supply density suggests ***vast further growth potential***.

Source: Jones Lang LaSalle, Smith Travel Research

# Panama Canal: Impact on Trade, Hospitality & Tourism

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## Panama Boasts Lower Risk Profile Compared to Other Countries in Region

**Debt Market and Country Risk Overview**

| Country | Local Availability of Debt Financing for Hotels | Unleveraged Return Expectations | Foreign Currency Sovereign Credit Rating | Ease of Doing Business Rank (within LatAm) | JLL Real Estate Transparency Index rank | IHS Global Insight Country Risk Rank |
|---|---|---|---|---|---|---|
| **Mexico** | Limited | 14-18% | BBB+ | 8 | 43 | Medium |
| **Colombia** | Limited | 16-19% | BBB- | 4 | 82 | Medium |
| **Peru** | Very limited | 15-19% | BBB | 3 | 79 | Medium |
| **Chile** | Available | 14-17% | A+ | 1 | 45 | Low |
| **Brazil** | Very limited | 14-18% | BBB | 28 | 27 | Medium |
| **Panama** | Available | 14-17% | BAA2 | 7 | 75 | Moderate |
| **Argentina** | None | 20-23% | B | 26 | 58 | Significant |
| **Sources** | Jones Lang LaSalle | Jones Lang LaSalle | Fitch | World Bank Group | Jones Lang LaSalle | IHS Global Insight |

- Across a variety of metrics, Panama stacks up particularly favorably; factors that combine to make the market more attractive for domestic, intra-regional and off-shore investment.

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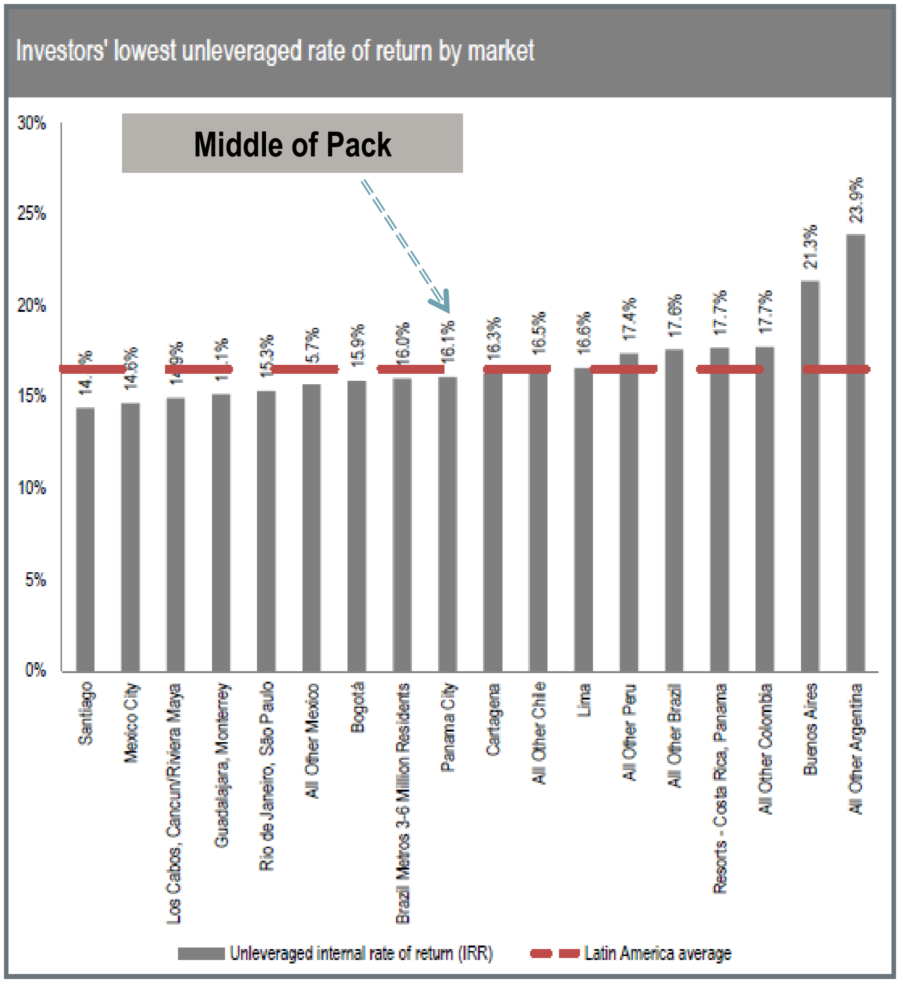
## Panama City Ranks in Middle in Terms of Investors' Return Expectations




Note: pertains to institutional-grade full service hotel assets
Source: Jones Lang LaSalle

- Given the recent increases in room supply, investors' unleveraged internal rate of return (IRR) expectations for Panama City are somewhat higher than for other gateway cities such as Santiago and Mexico City, but they stack up favorably nonetheless due to Panama's economic and political stability.

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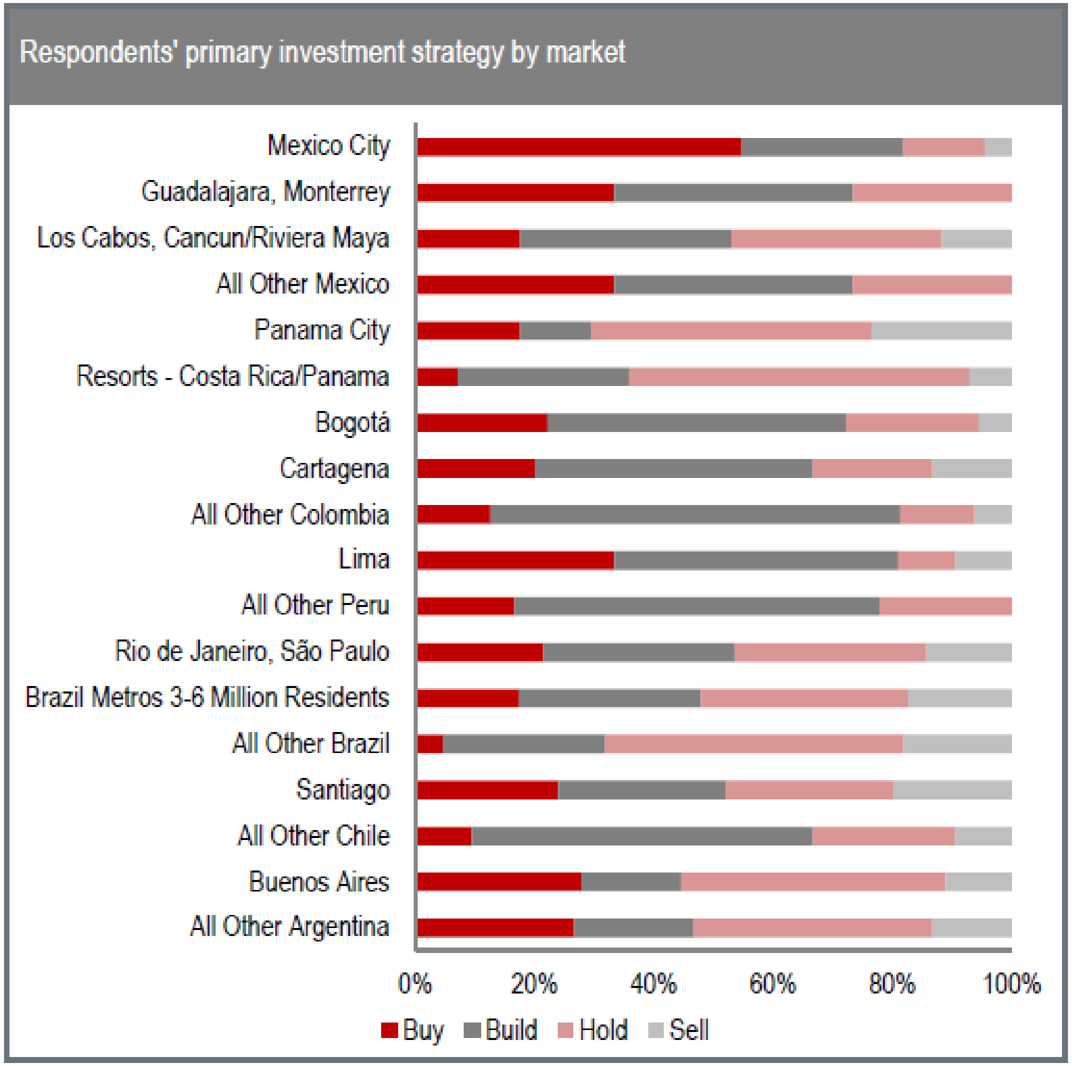
## What is Hotel Investors' Target Strategy for Panama in Near Term?

- Based on JLL's survey of active investors in the region, the dominant sentiment for Panama City is to 'hold' assets, given the recent supply increases.
- That said, 'build' sentiment is expected to increase 3-7 years from now as the expanded canal drives further economic development.




Source: Jones Lang LaSalle

# Panama Canal: Impact on Trade, Hospitality & Tourism

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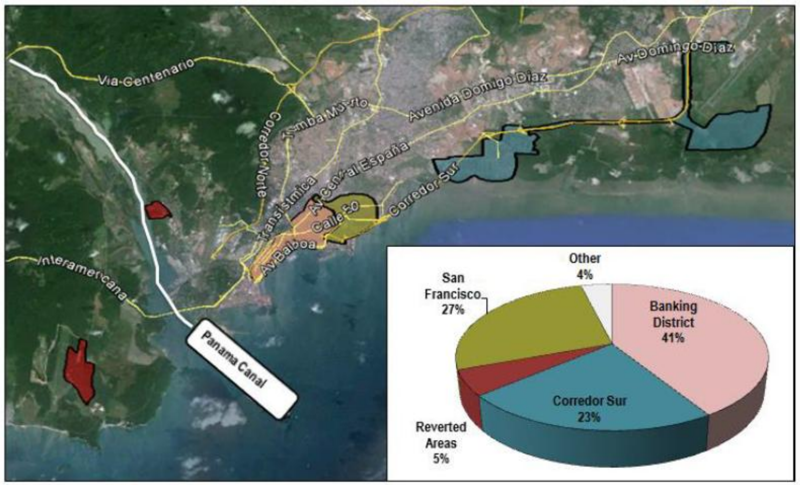
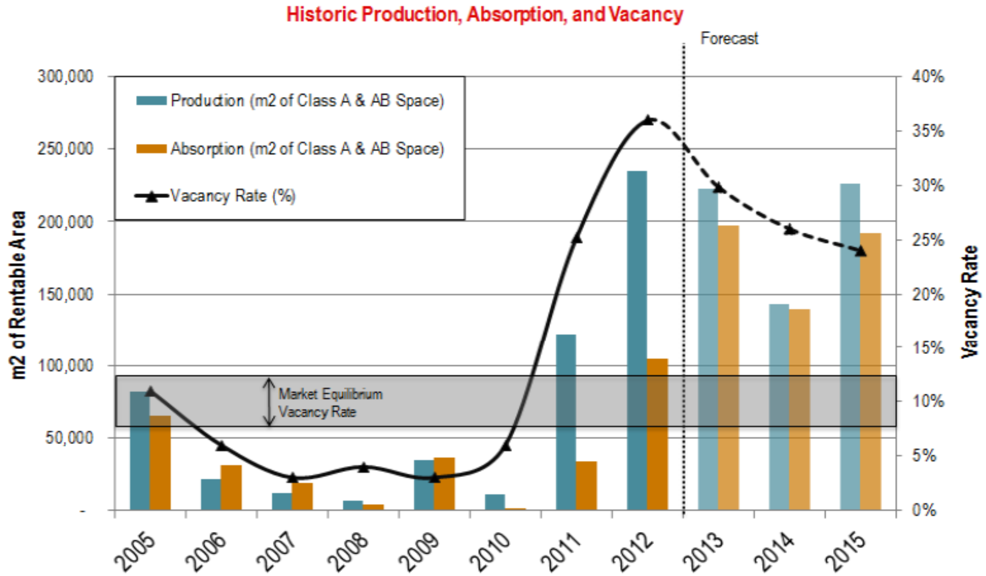
## Panama City Has one of Most Established Office Markets in Latin America; Serves as Considerable Demand Driver for Hotels




Source: Jones Lang LaSalle

- Due to vast increases in supply, office vacancy rate has hit a cyclical high in 2012. However, as more space gets absorbed, the rate is expected to fall.
- Additionally, as more office space gets leased, this will underpin performance in the hotel sector.

# Panama Canal: Impact on Trade, Hospitality & Tourism

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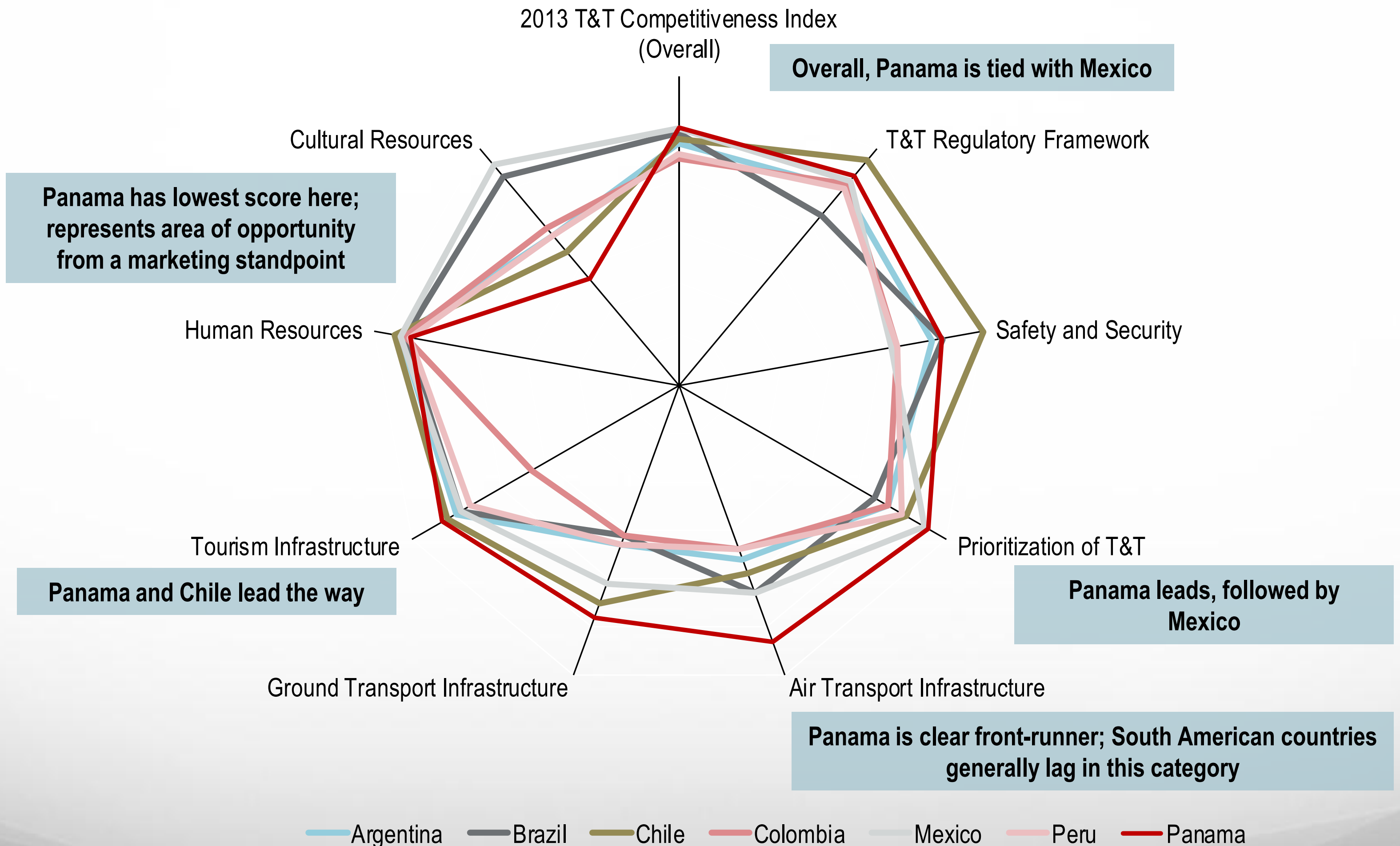
## Culmination of Favorable Factors Underpins Attractiveness for Lodging Investment

**The Travel & Tourism Competitiveness Index**




Source: The Travel & Tourism Competitiveness Report 2013 from World Economic Forum

# Panama Canal: Impact on Trade, Hospitality & Tourism

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## Panama: Implications and Outlook for Hotel Investments

- Supply pressures to remain prevalent over medium-term, but longer-term outlook is exceedingly favorable given strong economic growth projections and expanded Panama Canal.
- Market may serve as springboard for luxury and lifestyle brands to enter region due to Panama's more "core" and secure perception.
- Tight correlation between airlift and hotel demand expected to stay intact; Panama's continued emergence as a regional air transit hub will solidify this.
- Panama has historically seen a very limited amount of hotel transactions but market liquidity should open up during next 3-5 years as developers seek to exit their investments.

# Contacts

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