



# Data Underscoring Competitive Challenges Facing Bahamas Tourism Industry

April, 2014

# High Price Impacts Competitiveness and Reduces Visitor Arrivals....

*SmithTravel Research Comparative Caribbean Hotel Performance Data; CTO Arrivals Data - 2013*

Destination	Average Room Rate	Occupancy Rate	2013 Stopover Arrivals vs. 2012
Aruba	\$236.66	65.8%	Up 8.3%
Bahamas	\$264.28	58.6%	Down 5.7%
Barbados	\$334.82	63.4%	Down 5.5%
Dominican Republic	\$114.21	70.9%	Up 2.8%
Jamaica	\$185.17	68.1%	Up .7%
US Virgin Islands	\$305.36	68.8%	Down 5.5%
Cancun	\$175.91	65.8%	Up Est 11%

# A Reduction or Increase in Visitor Arrivals Has a Corresponding Impact On....

- *Tax Revenue – Customs Duties, Room Tax, Departure Tax, Business License Tax, Casinos Tax*
- *Dollar Multiplier – Affecting most businesses*
- *Employment Levels*

# Hotel Room Tax Increases...

- *Room Tax Increases from Six to Ten Percent in 2010*
- *Government Revenue Increases by Over \$19 Million in 2013, \$53 Million in 3 Years*



Source: Bahamas Government

# *Departure Tax Increases for Air and Sea Travelers*

- Air Departure Tax Jumps \$15 to \$25 since 2010
- Sea Departures Effective Rate Jumps from Estimated \$7-8 to \$13-\$14
- More Than 80% of Collections Attributed to Visitors
- Government Collects \$46 Million More in 2013 than 2010; \$211M More in 3 Years



# ***Annual Business License Tax Revenue for Hotels Rises This Year***

- **Expected to Generate Up to \$15 Million in Government Revenue**
- **Turnover Tax for Small Hotels Increases 50%**
- **Large Resorts See 250% Annual Increase**

# Taxes, Particularly on Tourism Industry Go Up...

## *While Stopover Visitor Arrivals Decline*

### BAHAMAS STOPOVER ARRIVALS

Year	# Stopover Arrivals
2007	1,527,726
2008	1,462,404
2009	1,327,005
2010	1,370,135
2011	1,346,372
2012	1,431,341
2013	1,363,487

Source: Caribbean Tourism Organization

# Price Major Factor in Stopover Visitor's Decline...

*Bahamas Decline Largest...Lower Cost Rivals See Dramatic Increases*

## STOPOVER VISITORS BY KEY CARIBBEAN TOURIST DESTINATIONS

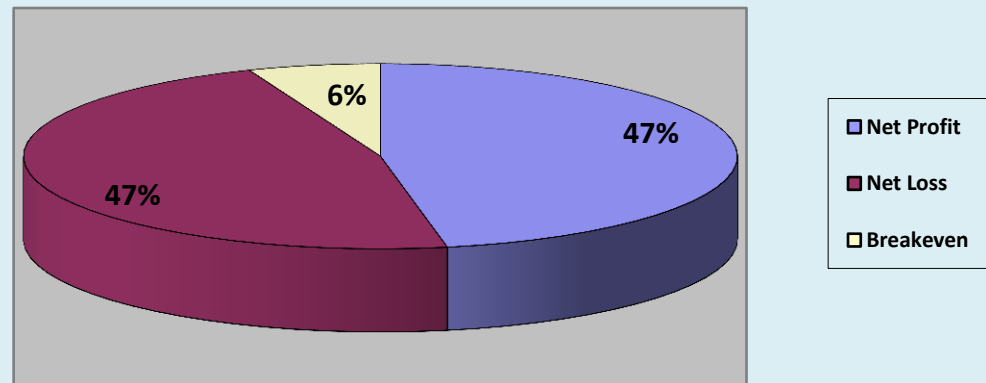
Country	2007	2008	2009	2010	2011	2012	2013	% Change
Aruba	772,073	826,774	812,623	824,330	868,973	903,934	979,256	<b>Up 27%</b>
Bahamas	1,527,726	1,462,404	1,327,005	1,370,135	1,346,372	1,431,341	1,363,487	<b>Down 11%</b>
Barbados	572,937	567,667	518,564	532,180	567,724	536,303	508,520	<b>Down 11%</b>
Cuba	2,152,221	2,348,340	2,429,809	2,531,745	2,716,137	2,838,169	2,850,135	<b>Up 32%</b>
Dominican Republic	3,979,582	3,979,672	3,992,303	4,124,543	4,306,431	4,562,606	4,689,770	<b>Up 17%</b>
Jamaica	1,700,785	1,767,271	1,831,097	1,921,678	1,951,752	1,986,084	2,008,409	<b>Up 18%</b>
Puerto Rico	1,356,470	1,321,505	1,300,783	1,369,197	1,448,710	1,569,472	N/A	<b>Up 16%</b>
US. Virgin Islands	693,372	683,294	666,051	691,194	678,962	737,651	702,963	<b>Up 1%</b>

Source: Caribbean Tourism Organization



# BHTA Annual Industry Performance Report Shows:

- *Profit Picture Down in 2013 as 47% Report a Net Loss; Up from 33% Reporting a Loss in 2012*
- *Reverses four year profitability improvement trend - up from 33% Reporting Loses in 2012, 41% in 2011 and 51% in 2010*
- *Key factors affecting profitability are high utility costs, ongoing capital spending, and competitive constraints on ability to raise rates*



# Cost Realities: Operating a Hotel in The Bahamas

## Comparative Operating Costs

### Nassau vs. Comparable Hotels in Jamaica and Chicago

Source: \*Tourism Industry Trade Liberalization Report

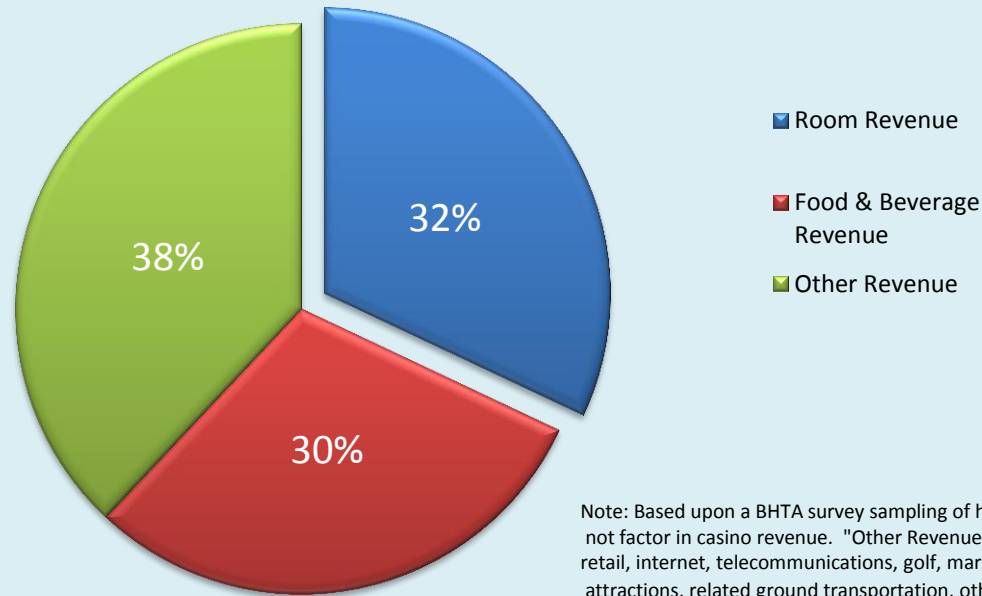
	<u>Nassau</u>	<u>Caribbean</u>	<u>North America</u>
Room Occupancy	70%	72%	71%
Average Room Rate...	\$131	\$129	\$115
<i>Nassau Difference.....</i>		+2%	+14%
<b>Gross Operating Profit</b>	<b>9%</b>	<b>22%</b>	<b>35%</b>
Room Payroll.....		+40%	+17%
Food & Beverage Payroll		+25%	+17%
Food & Beverage Expenses		+21%	+183%
General & Administrative		+27%	+75%
Power, Mechanical & Utilities		+36%	+114%
Information Technology		+25%	+25%

Source: \*Conducted in 2003. Comparison still valid. Compared similar sized properties for same brand with same accounting systems.

# Critical Paradigm Shift with VAT Equation

## *68% of Revenue to be Taxed on Activities Previously Not Taxed or Subject to Lower Tax*

**Bahamas Hotel Revenue Sources**



Note: Based upon a BHTA survey sampling of hotels. Does not factor in casino revenue. "Other Revenues" include: retail, internet, telecommunications, golf, marina, spa, attractions, related ground transportation, other.

# *Regional Typical Air and Hotel Costs for Two....*

<b>Destination</b>	<b>Average Room Cost – 4 Nights</b>	<b>Average RT Airfare for Two</b>	<b>Total Air/Room/ Ground Transfer</b>
<b>Aruba</b>	<b>\$947</b>	<b>\$1,000</b>	<b>\$1,987</b>
<b>Bahamas</b>	<b>\$1,057</b>	<b>\$1,000</b>	<b>\$2,097</b>
<b>Barbados</b>	<b>\$1,337</b>	<b>\$1,300</b>	<b>\$2,677</b>
<b>Dominican Republic</b>	<b>\$445</b>	<b>\$1,100</b>	<b>\$1,585</b>
<b>Jamaica</b>	<b>\$741</b>	<b>\$1,100</b>	<b>\$1,881</b>
<b>US Virgin Islands</b>	<b>\$1,222</b>	<b>\$1,200</b>	<b>\$2,484</b>
<b>Cancun</b>	<b>\$704</b>	<b>\$1,100</b>	<b>\$1,844</b>

Source: Smith Travel Research for Rates; Internet Search for Airfare

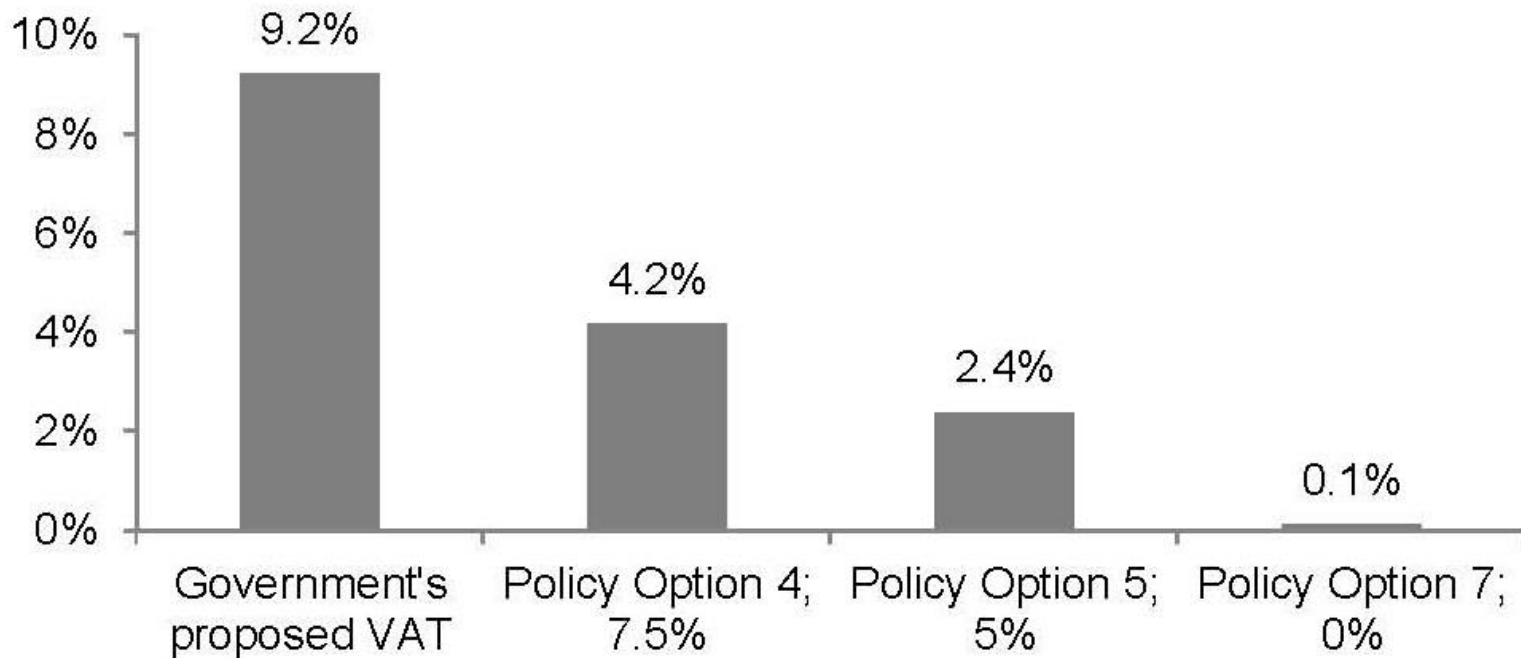
# VAT As Originally Proposed Raises Food, Beverage and Other Costs....

## *Price Variance with South Beach Widens as Well*

Travel Costs for a Single Person pre VAT (average daily costs, B\$)						
	ADR	Room tax	Total nightly cost	Food	Other	Total cost of stay
Bahamas	\$294.95	\$29.50	\$324.45	\$38.24	\$102.49	<b>\$465.18</b>
Peer group	\$289.90	\$26.96	\$316.86	\$46.23	\$82.47	<b>\$445.55</b>
South Beach	\$242.00	\$21.78	\$263.78	\$51.94	\$129.03	<b>\$444.74</b>

Travel Costs for a Single Person with the Government's Proposed VAT (average daily costs, B\$)						
	ADR	VAT	Total nightly cost	Food	Other	Total cost of stay
Bahamas	\$294.95	\$29.50	\$324.45	\$43.98	\$117.86	<b>\$486.28</b>
Peer group	\$289.90	\$26.96	\$316.86	\$46.23	\$82.47	<b>\$445.55</b>
South Beach	\$242.00	\$21.78	\$263.78	\$51.94	\$129.03	<b>\$444.74</b>

## Ernst and Young Study Points to Estimated Percentage Change in Price of Tourism Under Government's Originally Proposed VAT vs Select Policy Options



# Increasing Rates to Cover Higher Taxes and Operating Costs Will Impact Sales

Independent consumer research conducted by MMGY Global for the Nassau Paradise Island Promotion Board in 2013 measured consumer sensitivity to price shifts for a vacation. 500 respondents from the New York and Miami/FLL DMAs (250 each) participated in an online survey of the cost of air transportation to the Bahamas

The respondents:

- Were 35 to 54 years of age
- With a minimum annual household income of \$85,000
- Took at least one leisure trip/vacation during the past 12 months
- Had not visited the Bahamas during the past two years
- Interested in visiting the Bahamas and/or the Caribbean during the next two years
- Reside in one of our major markets

They were asked: ***How much are you willing to spend for you and one companion on a 4 night air inclusive vacation package [including air transportation, airport transfers and lodging ] to the Bahamas or the Caribbean?***

# Competitors Have Clear Price Advantage on Vacation Transportation and Hotel Package Cost....

## *Reducing Potential Market Share Bahamas Can Draw On*

