



## ***GHN Market Report: British Virgin Islands***



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### **British Virgin Islands Market Overview**

The British Virgin Islands (the “BVI” or “Territory”) is a self-governing Overseas Territory of the United Kingdom comprised of approximately 60 islands, rocks and cays scattered over the north-eastern Caribbean Sea. The BVI is located to the west of Anguilla, adjacent to the U.S. Virgin Islands on the east, and covers a land area of 57 square miles. The Territory enjoys a subtropical weather that records an average temperature of 82°F with moderate rainfall of 40 inches per year. Tortola is BVI’s largest island and the most populated. Road Town, Tortola’s capital city, is BVI’s seat of government. Three additional islands make up the largest group of the archipelago. Located to the east of Tortola is the island of Virgin Gorda which is known for its upscale resorts and yacht harbors. Jost Van Dyke, named after an early Dutch settler and former pirate, is located to the northwest of Tortola. The island is relatively undeveloped but largely considered a major yachting and sailing hub in the Caribbean. Lastly, Anegada, is the only coral island of the archipelago.

Historically the Territory has been linked to North American and European markets as major drivers of economic activity. Following the global recession of 2009, the BVI faced difficulties to stimulate its own economy, highly dependent on the tourism sector. Although visitation to the Territory has experienced a positive trend since 2010, the economic growth has been modest and remained constrained by unfavorable conditions such as airlift and a weakened European economy, to name a few. Despite these challenges, the outlook appears promising, fueled by a recovery of the U.S. economy (the BVI’s main feeder market for tourists) as well as a number of initiatives undertaken by local authorities to improve tourism infrastructure, to enhance product offering and to become a more competitive destination.

### **Economy and Demography**

According to 2013 estimates from the BVI’s Central Statistics Office (CSO), the BVI has a total population of 28,514, growing at an annual rate of 1.6 percent since 2004. The island of Tortola alone accounts for 85 percent of the BVI’s total population with approximately 24,000 people followed by Virgin Gorda with nearly 4,000 people. By 2020, the CSO estimates population in the BVI will reach 31,435, a 10 percent increase over 2013 estimates. Over the last 10 years,



immigration has been at the helm of population growth in the BVI primarily in order to meet the shortage in local labor supply. As a result, 67 percent of the Territory's labor force, estimated at 18,198 people, is comprised of foreigners according to 2012 figures from the CSO. The Government is the Territory's largest employer where approximately 33 percent of the labor force is employed, followed by hotels and restaurants with 20 percent.

The BVI's economy has evolved from an agricultural-based to a service-based over the last 50 years with a strong dependence on tourism and financial services. In 2013, the Territory's GDP stood at approximately \$916 million of which 30.4 percent and 16.6 percent were contributed by tourism and financial services, respectively. The growth experienced in these two sectors has allowed the expansion of others, such as real estate, construction, wholesale and retail trade. Over the last decade the economic growth of the BVI was positive and primarily marked by a Compounded Annual Growth Rate (CAGR) of approximately 11 percent between 2004 and 2007. In 2008 and 2009 however, the BVI economy contracted as a result of the downturn in the global economy.

Looking ahead, the economic outlook for the BVI is positive. The Territory's GDP has maintained a stable growth trend since 2010 and in 2013 recorded one of the highest GDP per capita in the Caribbean (\$32,111). Inflation levels are low (1.5 percent) compared to other countries in the region and the unemployment rate stands at 3.1 percent, also one of the lowest among Caribbean countries. The tourism sector has also entered a path of recovery evidenced by the improved visitation trends experienced by the destination since 2010 and through the first 10 months of 2014 (further addressed in following sections of this report) according to the most recent statistics.

## **Air Transportation**

The BVI is served by three airports and various helipads which are owned and operated by the BVI Airports Authority (BVIAA), a government organization incorporated in 2005. Prior to 2005, the Department of Civil Aviation in the Ministry of Communication and Works performed both the regulatory and the operational functions at the Territory's airports. The BVI's main airport, the Terrance B. Lettsome International Airport (EIS), is located on Beef Island and connected to the main island of Tortola by Queen Elizabeth II Bridge. The Taddy Bay Airport in Virgin Gorda and the Auguste George Airport which operates as an international airport in Anegada, are serviced primarily by charter flights originating from EIS.

One of the main challenges faced by air travel to the BVI is the fact that there are no direct flights from the U.S., Canada, Europe or South America. Instead, travelers need to connect through other Caribbean airports such as San Juan, Puerto Rico or Atingua, making the destination less appealing to visitors relative to other Caribbean Countries that offer the convenience of direct flights. In addition, EIS does not meet the airfield infrastructural needs required to accommodate larger aircrafts, which coupled with the airlift challenges experienced by the region in the last few years, have gradually eroded the number of passenger arrivals from



a high of 164,867 in 2006 to 87,721 in 2013, a 47 percent decrease over the seven-year period. Other external factors such as the high departure tax associated with economy class travelers flying from the UK (the BVI's second largest feeder market after the U.S.) to the Caribbean have also impacted air travel to the Territory.

### **EIS Airport Statistics**

Passenger Arrivals (2006-2013)

| Year | Arrivals | % Change |
|------|----------|----------|
| 2006 | 164,867  | -        |
| 2007 | 147,449  | -10.6%   |
| 2008 | 132,047  | -10.4%   |
| 2009 | 104,729  | -20.7%   |
| 2010 | 109,076  | 4.2%     |
| 2011 | 92,995   | -14.7%   |
| 2012 | 85,945   | -7.6%    |
| 2013 | 87,721   | 2.1%     |

Source: BVI Central Statistics Office

Local authorities have realized the need to make the BVI more accessible to North American and Western-European markets (the largest feeder markets to the Territory and most of the Caribbean countries). As a result, they engaged on a bid solicitation process in 2013/2014 for the proposed expansion of EIS's facilities. According to the BVAA, the project contemplates the expansion of the existing runway by approximately 2,100 feet as well as an extension of the terminal building to accommodate an increased number of passengers (both from departures and arrivals). An extension of the airport's existing apron is also planned as a result of the estimated growth in aircraft movements. The project is being coordinated by BVI's Ministry of Natural Resources and Labor and the BVIAA is currently undergoing the receipt and review of bids for the operation of the airport in line with a concession model. The bids for the runway extension phase of the project were received in May 2014 and reportedly ranged between \$154 million and \$194 million.

Although no specific timeframe has been announced for the completion of the project, the BVIAA expects direct commercial air service between Miami and the BVI to commence once the extension materializes. Despite the fact that the Caribbean continues to struggle with airlift challenges across the region, the BVI's airport expansion is anticipated to improve the Territory's connectivity with the hopes of making it more accessible and appealing to foreign visitors.

### **Cruise Industry**

Beyond the evident decrease in cruise travel as a result of the downturn in the global economy, the ongoing restructuring within the Caribbean cruise industry has resulted in the withdrawal of smaller vessels, which has negatively affected those regional destinations lacking the facilities to cater to the new megaships cruising Caribbean routes. The impact of these developments has



been evident in the BVI which has experienced a gradual decrease in passenger arrivals since 2008. 2014 was recorded as the year with the worst performance in the last decade as only 269 cruise ship calls and approximately 361,000 passenger arrivals were registered by the destination. According to government officials, the decline in cruise ship passenger visitation had been attributed precisely to the Territory's inability to accommodate larger cruise ships and the government's numerous past failed attempts to expand the existing cruise ship infrastructure.

In response to such deteriorating performance and after finally receiving approval to move forward with the project in mid 2013, the BVI Ports Authority (BVIPA) engaged in the solicitation of proposals for the expansion of the Tortola cruise ship pier. Reportedly, the BVIPA secured a \$35 million loan from the First Caribbean International Bank in July 2014 that is being used to fund the \$53 million redevelopment project. Work began in May 2014 and the scope includes the extension, strengthening and widening of the existing pier, the development of a boardwalk as well as the enhancement of the excursion dock facility. In addition, the redeveloped pier will also feature an adjacent five-acre Pier Park that will include restaurants, shops and green spaces, significantly improving the existing product offering of the BVI. The cost of the pier expansion is estimated at \$30 million while \$23 million will be spent developing the Pier Park. Of that \$23 million, approximately \$17 million is being raised through share offerings to the BVI public to be completed and closed by March 2015.

### **BVI Ports of Call**

Cruise Ship Arrivals and Passenger Volume (2004 - 2014)

| Year | Cruise Ship Arrivals | % Change | Number of Passengers | % Change |
|------|----------------------|----------|----------------------|----------|
| 2004 | 447                  | -        | 466,603              | -        |
| 2005 | 405                  | -9.4%    | 459,250              | -1.6%    |
| 2006 | 398                  | -1.7%    | 443,987              | -3.3%    |
| 2007 | 442                  | 11.1%    | 575,211              | 29.6%    |
| 2008 | 408                  | -7.7%    | 571,868              | -0.6%    |
| 2009 | 539                  | 32.1%    | 530,327              | -7.3%    |
| 2010 | 372                  | -31.0%   | 501,451              | -5.4%    |
| 2011 | 387                  | 4.0%     | 484,715              | -3.3%    |
| 2012 | 397                  | 2.6%     | 390,579              | -19.4%   |
| 2013 | 384                  | -3.3%    | 367,362              | -5.9%    |
| 2014 | 269                  | -29.9%   | 360,891              | -1.8%    |

Source: BVI Central Statistics Office

According to officials, the project is expected to be completed in April 2015. However, it has already begun to reap benefits for the BVI cruise industry as the BVIPA announced agreements with Disney Cruise Line and Norwegian Cruise Line which are estimated to increase passenger traffic by 425,000 during the 2015-2016 cruise season. As with the airport expansion, the cruise ship pier project is anticipated to enhance the image of the BVI as cruise destination, improve its



competitiveness in the region and ultimately, increase the passenger arrivals and remittances to the Territory.

## Tourism and Visitation

As previously noted, tourism is an integral part of the BVI economy. The destination’s seclusion, crystal clear waters, and white sand beaches have positioned the Territory as a popular destination for water sports enthusiasts and visitors seeking for a peaceful vacation. Compared to its water-based tourism, the BVI’s land-based tourism is relatively small. Offering sheltered waters with minimal tidal currents, few unmarked hazards, line-of-sight navigation and short hops to new destinations, sailing is the BVI’s strongest tourism offer. The Territory also has an extensive yacht charter industry and one of the largest fleets in the world. In fact, according to the CSO, the number of visitors to the BVI arriving by boat (private or charter) increased from 168,046 to 186,240 or approximately 11 percent during the 2010-2013 period.

### Visitation Statistics

Overnight Visitors (2007 - YTD 2014)

| Year                    | Total BVI | % Change | Caribbean <sup>(1)</sup> | % Change |
|-------------------------|-----------|----------|--------------------------|----------|
| 2004                    | 303,756   | -        | 14,989,137               | -        |
| 2005                    | 337,135   | 11.0%    | 15,698,692               | 4.7%     |
| 2006                    | 356,271   | 5.7%     | 16,115,526               | 2.7%     |
| 2007                    | 358,056   | 0.5%     | 16,326,621               | 1.3%     |
| 2008                    | 346,034   | -3.4%    | 16,500,815               | 1.1%     |
| 2009                    | 308,793   | -10.8%   | 16,168,421               | -2.0%    |
| 2010                    | 330,343   | 7.0%     | 16,786,714               | 3.8%     |
| 2011                    | 337,773   | 2.2%     | 17,442,677               | 3.9%     |
| 2012                    | 351,404   | 4.0%     | 18,232,079               | 4.5%     |
| 2013                    | 366,108   | 4.2%     | 18,485,823               | 1.4%     |
| YTD 2013 <sup>(2)</sup> | 300,465   | -        | 15,187,825               | -        |
| YTD 2014 <sup>(2)</sup> | 312,304   | 3.9%     | 15,538,184               | 2.3%     |

<sup>(1)</sup> Excludes Cancun, Mexico and countries that have not consistently reported visitations statistics for all years

<sup>(2)</sup> YTD figures through October

**Source:** BVI Central Statistics Office, Caribbean Tourism Organization

Visitation to the BVI, as measured by the number of overnight visitors to the destination, has experienced a significant recovery following the global economic downturn that began in 2008. In 2013, the Territory recorded 366,108 visitors to the destination, representing a 4.2 percent increase over 2012 and surpassing the peak levels achieved in 2007 (358,056). From 2010 to 2013 the BVI has experienced a visitation CAGR of 3.5 percent and a cumulative growth of 10.8 percent. Even more encouraging is the fact that this upward trend has remained relatively stable and continued into 2014. Year-to-date statistics through October of last year indicated that visitation to the BVI was approximately 4 percent higher than the levels experienced during the same period in 2013. The recovery is primarily attributed to the improved economic activity of



the U.S. which has historically contributed with approximately 66 percent of the overall visitation to the BVI.

Compared to the Caribbean, BVI’s visitation performance has experienced a consistent trend, particularly when the visitation CAGR recorded in the region was 3.3 percent from 2010 to 2013, just below that of the Territory’s. Indeed, the tourism industry continues to face challenges at the local and regional level such as airlift or the economic difficulties experienced by European feeder markets in the recent past. However, the BVI has embarked on a number of infrastructure upgrades and continues to encourage private investment and public-private partnerships, paving the road for a sustained recovery and consolidation of the tourism sector.

### Caribbean and BVI Lodging Performance

Following the downturn in the U.S. economy in late 2008 and the corresponding negative impact on the lodging industry in the U.S. and the Caribbean resort destinations through 2010, the lodging industry in the Caribbean region has experienced a stable recovery trend. Such performance improvement has been largely marked by increases in Average Daily Rates (ADR) which have increased approximately 20 percent and recorded a CAGR of 4.8 percent since 2010. According to Smith Travel Research (STR), demand to the region, measured by the number of occupied room nights, increased 2.4 percent in 2014 while supply increased only by 0.8 percent. In fact, STR estimates that the Caribbean has only 15 confirmed hotel construction projects with another 25 in planning stages. These trends have boded well for Caribbean hotels which have been able to maintain occupancies relatively stable and even reach pre-recession levels in 2014, which coupled with the ADR growth experienced has resulted in Revenue per Available Room (RevPAR) CAGR of approximately 8 percent since 2010. These RevPAR results have allowed hotels improve their profitability as according to PKF, 2013 Net Operating Income across Caribbean properties increased 18.6 percent compared to 2012.

#### Caribbean Lodging Market

Lodging Performance Indicators (2007 - 2014)

| Year | Occupancy | % Change | ADR      | % Change | RevPAR   | % Change |
|------|-----------|----------|----------|----------|----------|----------|
| 2007 | 72.6%     | -        | \$237.52 | -        | \$172.44 | -        |
| 2008 | 68.0%     | -6.3%    | \$221.28 | -6.8%    | \$150.47 | -12.7%   |
| 2009 | 63.9%     | -6.0%    | \$183.32 | -17.2%   | \$117.14 | -22.1%   |
| 2010 | 60.2%     | -5.8%    | \$163.29 | -10.9%   | \$98.30  | -16.1%   |
| 2011 | 61.9%     | 2.8%     | \$169.54 | 3.8%     | \$104.95 | 6.8%     |
| 2012 | 66.3%     | 7.1%     | \$175.62 | 3.6%     | \$116.44 | 10.9%    |
| 2013 | 67.1%     | 1.2%     | \$186.55 | 6.2%     | \$125.18 | 7.5%     |
| 2014 | 68.0%     | 1.3%     | \$194.66 | 4.3%     | \$132.37 | 5.7%     |

Source: Smith Travel Research

Although ADR is yet to reach the pre-recession levels recorded in 2008, it remains to be seen how much longer the region can sustain rate growth. The question becomes more relevant as the Caribbean readies for a sharp increase in supply with the anticipated opening of the \$3.5 billion



Bahamar project which alone will add over 2,000 rooms to the market in the spring of 2015. Added to the potential opening of Cuba (although its anticipated impact may be difficult to assess at this point), Caribbean lodging markets will be pressured to remain competitive and face the need to shift strategies in order to continue to drive demand, which may ultimately result in more balanced approach towards RevPAR growth.

The BVI lodging supply is relatively small compared to other Caribbean destinations offering a total of only 1,300 available rooms mostly in the midscale and upscale segments. With the exception of two properties accounting for 11 percent of the room inventory, the rest of the hotels are unbranded. Furthermore, the Rosewood Little Dix Bay is the only property that caters to the luxury guest, a segment of the market that is currently underserved in the Territory, particularly when considering that this type of customer is less rate sensitive and more destination/service driven in their selection of accommodation.

Consistent with the lodging performance trend of the Caribbean, a review of a set of BVI hotels that report their results to STR shows that properties in the Territory have also benefited from strong increases in RevPAR driven by ADR growth, while occupancies have remained relatively stable. From 2011 to 2014, the BVI properties recorded a 19 percent cumulative growth in ADR and a CAGR of approximately 6 percent. Conversely, demand has only increased 2.7 percent over the three-year period, growing at an annual rate of approximately 1 percent.

### BVI Lodging Market <sup>(1)</sup>

Supply and Demand Trends (2011 - 2014)

| Year | Available Room Nights | % Change | Occupied Room Nights | % Change | Occupancy % | % Change | ADR      | % Change | RevPAR   | % Change |
|------|-----------------------|----------|----------------------|----------|-------------|----------|----------|----------|----------|----------|
| 2011 | 101,167               | -        | 52,987               | -        | 52.4%       | -        | \$474.29 | -        | \$248.41 | -        |
| 2012 | 102,815               | 1.6%     | 53,869               | 1.7%     | 52.4%       | 0.0%     | \$499.16 | 5.2%     | \$261.53 | 5.3%     |
| 2013 | 103,295               | 0.5%     | 56,519               | 4.9%     | 54.7%       | 4.4%     | \$512.97 | 2.8%     | \$280.68 | 7.3%     |
| 2014 | 101,562               | -1.7%    | 54,441               | -3.7%    | 53.6%       | -2.0%    | \$563.87 | 9.9%     | \$302.25 | 7.7%     |

<sup>(1)</sup> Includes performance results of the three BVI hotels reporting to STR in addition to one USVI hotel

Source: Smith Travel Research

Unlike other Caribbean markets, BVI lodging properties face a unique challenge related to the large charter boat industry that exists in the Territory. Although BVI hotels have been able to command stable rate increases (which at some point may also contribute to the stalled occupancy levels experienced), the number of visitors that make use of hotel accommodations relative to charter boats for overnight stays is low. According to CSO figures, only 30 percent of visitors stay at hotels while 51 percent spend the night at a charter boat or yacht. Certainly, visitation numbers have increased over the past four years but such increase has not translated into higher occupancies for lodging properties. In addition, air passenger arrivals have trended downwards in prior years (with the exception of 2013), further diluting the potential demand for hotel rooms. Supply on the other hand, as more fully explained in the next section, has not seen any major developments since 2010, allowing hotels to capture just enough demand and compensate any gaps through increases in rate.



## **Additions to the Lodging Supply**

The positive visitation and lodging performance experienced by the BVI has not yet translated into major development projects for the destination. Although debt financing continues to be a major challenge for the region, developers interested in building new resorts also cite the lack of airlift to the Territory as one of their main investment concerns, reportedly. The last major lodging project to get off the ground in the BVI was the Scrub Island Resort, Spa & Marina which opened in 2010 and was subsequently affiliated to Marriott's Autograph Collection. The property includes a total of 52 hotel-condominium units and a 55-slip marina among other services and amenities.

Prior to the global economic downturn, a number of large resort developments had been planned for the BVI. These included the Raffles Tortola Resort, which was proposed to include 100 hotel rooms, and the Beef Island Resort to be developed by Interlink Group, a resort residential developer out of Puerto Rico which was anticipated to include a luxury resort and spa, a marina and a number of resort residential products. However, the two projects were halted following the global recession and their current status is unknown.

According to the BVI Tourist Board, there are no plans for new hotel openings in the foreseeable future and the only addition to the lodging supply that has taken place in the recent past includes a small seaside project that opened in early 2015 located at Carrot Bay, on the northwest side of Tortola. It is known as Ke Villas and offers a total of eight guestrooms.

Although the full impact of the EIS expansion remains to be seen, the BVI appears to be moving in the right direction to stimulate interest in the investor community and promote lodging development in the destination. Access to debt financing may continue to be challenging but if the expansion project successfully improves airlift, it may also help ease some concerns in the capital markets and increase the flow of investment funds to the Territory.

## **Closing Remarks**

As with other countries in the Caribbean, the BVI has encountered difficulties in consolidating its economic recovery following the global recession. The modest growth experienced by the Territory has been accompanied with declining air and cruise ship passenger arrivals over the last few years. However, an improved U.S. economy has initiated an upward trend in visitation to the BVI marked by year-over-year increases since 2010. In addition, the airlift and cruise ship challenges currently faced by the Territory may be at the brink of a significant turnaround following the major infrastructure projects embarked by the government over the last 12 to 18 months. Finally, the local lodging market continues to enjoy improved performance and no pressure from additional supply. These trends and developments appear to be paving the road for the BVI to position itself as a more competitive destination, to improve investor confidence and to drive significant growth to tourism, one of the major pillars of its economy.

*Alvarez & Marsal is a member of GlobalHotelNetwork.com and [GHN's Investment Committee](#).*