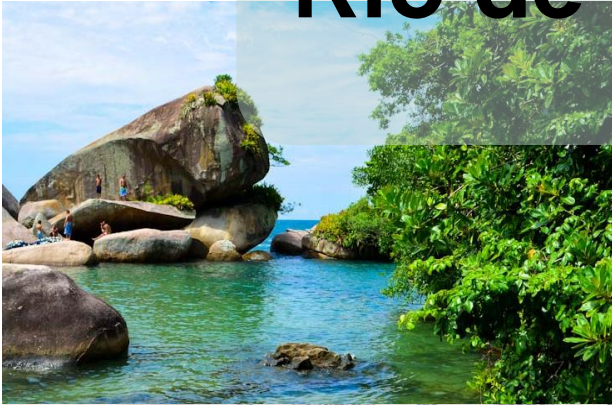




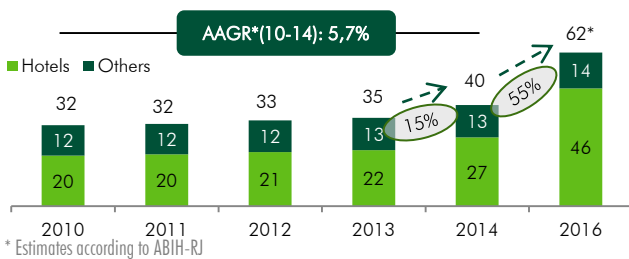
# Rio de Janeiro



Between 2010 and 2016, Rio de Janeiro has witnessed the construction of about 60 new hotels, increasing its hotel offer close to 60,000 apartments. This important growth represented an added challenge in a period of economic and social difficulties in the city. Although there is an unquestionable negative impact on the performance of the market, it is also true that this new hotel supply and increase market competitiveness, fueled a strong industry transformation that we are seeing.

The airports flow in recent years has been around 25-27 million passengers. After the World Cup year, there has been a drop - a fact influenced especially by the economic moment that the country has been going through. Even in the Olympics year, it is observed an important contraction in passenger flow. However, we can observe that the year of 2017 already presents a soft recovery, which is also consistent with the beginning of the economic recovery of the country.

### Hotel supply in Rio de Janeiro (2010-2016 estimates, thousands of rooms)

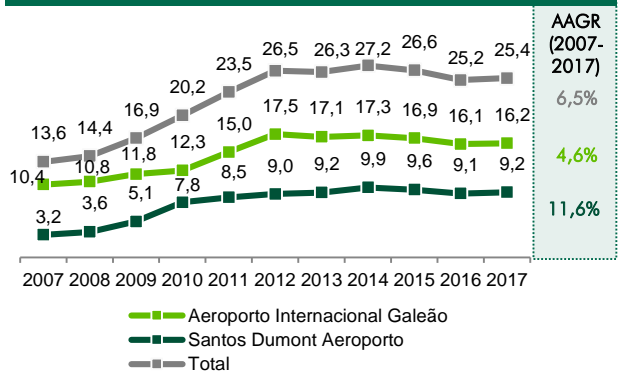


This transformation happens in two levels. First, the new hotel supply and the strong investments in the revitalization of existing hotels have greatly improved the quality of the products presented by Rio de Janeiro. In addition, the large investments received by the city in terms of infrastructure and transportation, along with the operational efficiency provided by this new supply, have reinforced the consolidation and competitiveness of the destination in the medium and long term.

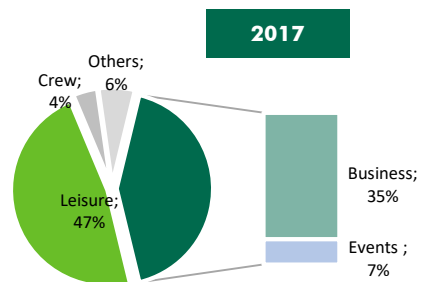
Secondly, we also have a new geographical organization of supply, observing "areas of specialization" in the city, as well as a strengthen of the city center and the Porto Maravilha, Botafogo and Barra. Although these regions have their challenges, they have come to transform new tourist centers and to offer alternatives to South Zone's supply, where has always been concentrated.

Although all regions seek to attract various segments, Barra offers a competitive product in the segment of events and conferences; the Center area, Porto Maravilha and Botafogo have a privileged position in regards to airports and corporate market. The South Zone remains the core of the hotel offer in the city of Rio.

### Passengers Flow – Airports of Rio de Janeiro (2007-2017; million)



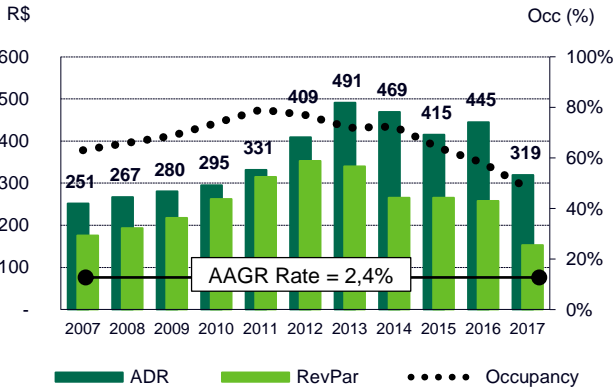
Although hotels in Rio de Janeiro receive a relatively high international flow when compared to other cities in Brazil, the economic downturn in recent years decreased the proportion of international hotel guests.



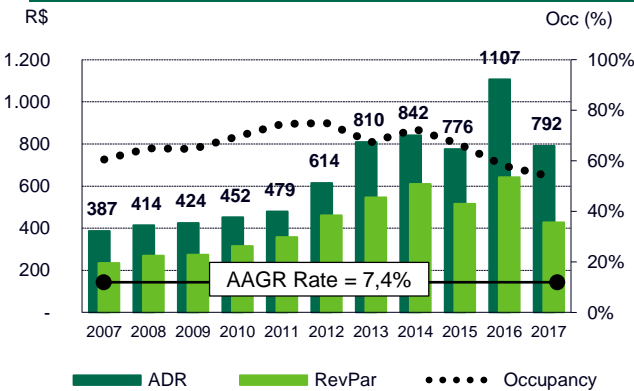
The main motivations of guests to RJ city have remained stable in recent years and distributed with a balance between the Leisure and Corporate segment.

This distribution of demand reduces the operational risk through market diversification, which makes the city of Rio de Janeiro greatly attractive in the tourism sector, even in a period with greater market difficulties.

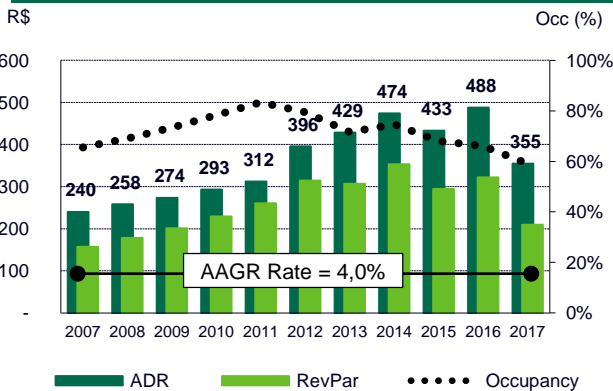
**Hotel Performance – General - Rio de Janeiro (2007 - 2017)**



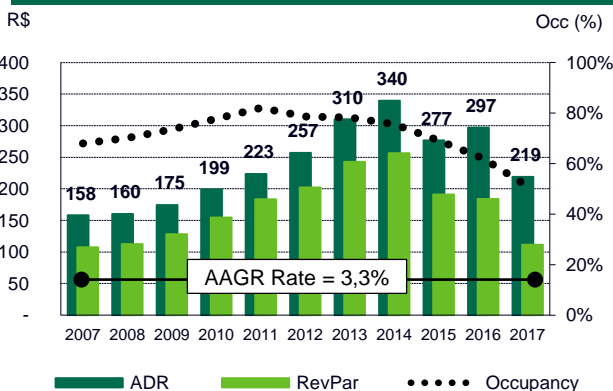
**Hotel Performance - 5\* - Rio de Janeiro (2007 - 2017)**



**Hotel Performance - 4\* - Rio de Janeiro (2007 - 2017)**



**Hotel Performance - 3\* - Rio de Janeiro (2007 - 2017)**



From a general market perspective, occupancy rates have gradually increased from 2007 to 2011, and thereafter come dropping down year after year. However, it is important to note that even with a systematic decline since 2012, occupancy rate has achieved its minimum point around 50% in 2017. This decline has also been accompanied by a decline in average daily rate, which caused a greater impact on the performance of the hotel sector.

Considering that the year 2016 is an outlier given to the Olympics, we observed that the luxury segment was the least negatively impacted in regards to its performance in 2017. Despite having a drop in occupancy, the average rate of 2017 had a positive growth when compared to 2015. The resilience of this segment is also due to the fact that the city has received a smaller amount of new supply in this segment, as well as by the concentration of luxury hotels in the region of the South Zone of the city – the most preferred area of all tourism segments.

In the 4 and 3 star segments, we have seen a stronger impact after the Olympics. In 2017, the 4-star market had a negative result of almost 30% relative to 2015 – consequence of the drop in both, occupancy and ADR.

The segment of 3 \* hotels was the one that has showed the most struggle in maintaining performance in the year after the Olympics when compared to the other segments. The large amount of new supply in this segment was one of the main reasons for a decrease in the daily rate, and especially in occupancy rate of the economic market.

Despite the troubled scenario that the city of Rio de Janeiro has been facing, it is important to note that the crisis period of recent times has affected in different ways each hotel segment and each region of the city. The hotel units with higher quality, located in the traditional regions (especially the South of Rio) and with a sophisticated level of management, pass through this crisis with less intensity and are better prepared for this period of a potential recovery. The market is in a deep transformation and it opens up a lot of opportunities for players who know how to make the best and most informed decisions.