

## A question of balance

Condominium developments are booming in Barbados, but do we know enough about their potential long-term effect on our tourism plant?

In Barbados today, there are about 2,000 privately owned second homes, mostly luxury villas on the West Coast, that have cost their affluent American, British and European owners anywhere from US\$500 thousand to US\$50 million to build or buy.

The demand for these second homes remains extremely strong. Several real estate developments, with golf courses and polo fields attached, are in the pipeline, and the residences that will be built on these developments are likely to cost US\$5 million and up.

This luxury villa or second home market has become an extremely important plank in the island's tourism and hospitality platform. Luxury villa owners, and the equally affluent visitors to whom they rent these homes for several months of the year, pump millions of dollars worth of valuable foreign exchange into the island's economy.

For example, while they are being built or renovated, these homes create jobs in construction and for a host of associated craftsmen and tradesmen. Once they are finished, most of them then provide jobs for a permanent staff along with budgets for taxes, repairs and maintenance. Their occupants spend generously with the island's restaurants, car rental agencies, supermarkets and a variety of retail businesses.

Indeed, this market has become an integral part of the "Barbados model" when it comes to visitor accommodation, and many other island destinations, hoping to achieve similar success, are beginning to copy it.

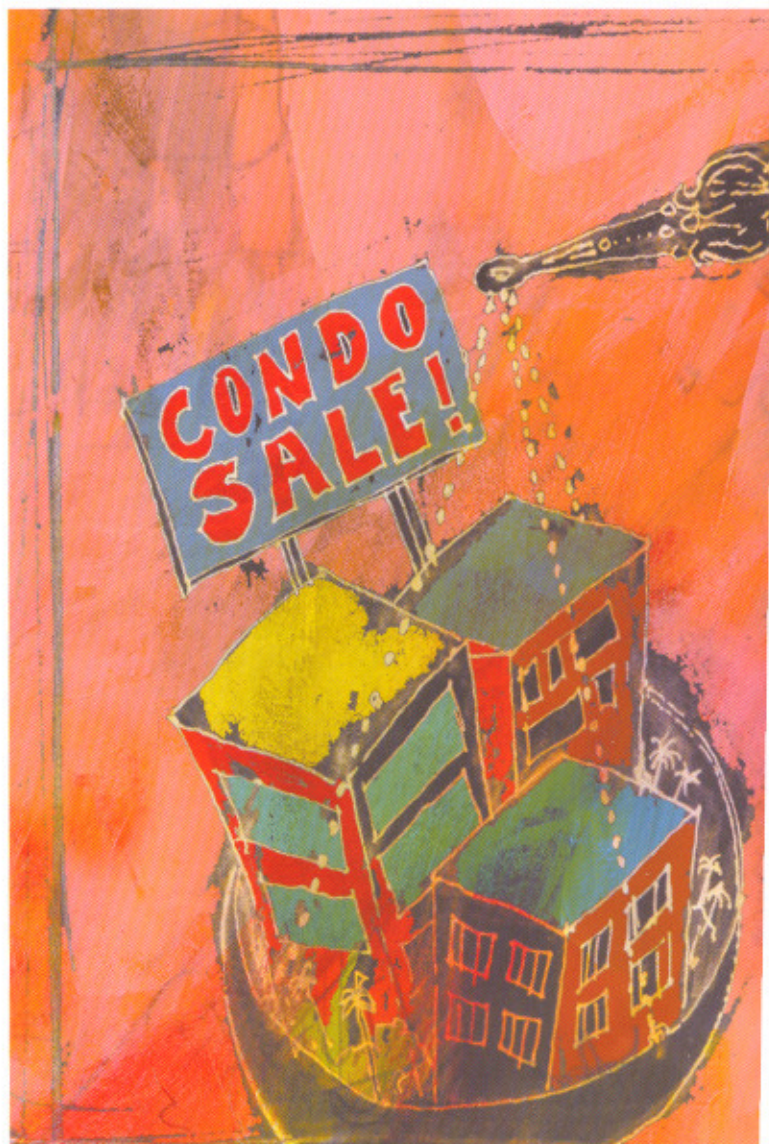
Traditionally, however, the "Barbados model" has also included a healthy mix of hotel accommodation. That mix ranges from luxury resorts to guest-houses, with a choice of excellent boutique hotels in between.

But there is a trend developing in the second home market that some industry observers believe might undermine the traditional hotel mix, which has worked well, and throw the "Barbados model" out of balance for years to come. That trend is the recent boom in condominiums and, in particular, the conversion of existing small hotels to condominiums.

Brian Robinson, a partner with PricewaterhouseCoopers' Advisory Services and part of its Leisure and Hospitality Practice, acknowledges the short-term benefits of the current condo boom, particularly for developers, small hotel owners, construction companies and realtors. But he is not convinced that enough thought has been given to the long-term impact that this trend may have on the island's hotel plant and, by extension, on the entire hospitality sector's ability to provide steady employment and earn the level of foreign exchange needed by government.

"Hospitality is the island's largest foreign exchange earner, and traditionally has provided solid employment for locals," says Robinson. "On top of this, it provides revenue to government through a variety of taxes, including hotel sales taxes and the VAT that is paid by hotel guests who eat in restaurants,

**"When we take the long view, we need to ask ourselves if this is the best use of our limited coastal land. There may be appropriate sites available inland, but the viability of country hotels and resorts in Barbados is still unproven."**



rent cars and shop in stores. When you take a hotel, whose occupants are contributing to the economy in this way, and you convert it into condo-style second homes, it is bound to have some impact on the economy. I don't believe we have analysed that impact fully."

The PwC partner fully appreciates why the condo conversion trend is gaining momentum. In Barbados, the costs of inputs, financing and maintenance are relatively high for small hotels, while opportunities to increase revenues are limited. As a result, many small hotels struggle to achieve significant profits, and investor patience wears thin.

"The situation is such that there is far greater value in the real estate than in the earnings from



Illustration: Ewan Atkinson

accommodation, and the easy solution for the owner is to sell it for a condo development, pay off his debts and walk away with a decent return," says Robinson.

Sue Springer, executive vice president of the Barbados Hotel and Tourism Association, also has concerns about the condo trend. One of her main fears is that conversions of small hotels to "pure" condominiums will eat into the island's already stagnant hotel room stock.

"The number of hotel rooms in Barbados has hovered at around 6,000 for the past 10 years, and if it starts shrinking rather than growing, issues such as how to increase airlift to the island and exploit new markets to attract more visitors become academic," she says.

**"There needs to be a vibrant rental pool operating at these condominiums, with hotel-type services and professional management involved. We have to be sure that what we are developing here is something we can be proud of and which will create sustainable jobs for Barbadians."**

The other potential problem she identifies, which has occurred in holiday destinations such as Spain and Portugal, is that condo owners may only occupy their units during peak holiday times, leaving them empty for the rest of the year. This means the units generate no foreign exchange, no rental revenue, no visitor spending or VAT and little by way of employment.

"If that were to happen to us – for example, condo owners coming here for Christmas and Easter holidays only – our West and South Coasts could end up looking like ghost-towns."

Springer believes that condominium conversion developments in Barbados must be multi-use – in effect, retain some aspect of hotel-type accommodation – if the island wants to accommodate more visitors and provide continued employment for graduates in the hospitality industry.

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