



Mexico's Luxury Lodging Segment: Opportunity for Growth

The luxury hotel market in Mexico has been somewhat overshadowed by other market segments. Here we shed light on its potential

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March 2009

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Mexico's ancient Mayan pyramids and Aztec temples, fusion of European and Meso-American cultures, and exotic subtropical forests and beaches are among its chief enticements. Travelers from the United States, Canada, Europe, and Latin America annually descend en masse upon iconic destinations such as Acapulco and Cancún. Over the past 15 years, Mexico's economy has risen on the shoulders of structural economic changes and a steady trend of foreign direct investment. Tourists are drawn to hotels of all sorts, including European Plan and all-inclusive resorts operating under domestic and international brands. Business travelers likewise visit a wide selection of properties tailored to their needs.

Tourism to Mexico has been on the rise, and while the worldwide economic decline may temper growth in the short term, tourism levels are expected to rebound with the economy. In 2008, Mexico received 22.6 million international tourists, a 5.9% gain from 2007, in over 10,400 hotels accounting for more than 430,000 guestrooms. The domestic market also drove significant demand for hotels in Mexico in 2008, with 62 million domestic tourists, a gain of 1.4% over 2007.

Bearing in mind the size of the market and the high level of traffic, it might be surprising to learn that Mexico has a well-established and growing luxury segment. The global recession and financial crisis have adversely impacted the upscale and luxury hotel markets. However, as economic and market conditions evolve, this segment is expected to offer significant business opportunities for developers, investors, and hotel chains.

An Established Market with Room to Grow

The luxury lodging market in Mexico is well established, yet generally receives less overall attention than larger, more visible market segments. Mexico's lodging market consists of more than the large all-inclusive hotels that cater to families and spring breakers. Select luxury hotels in Mexico have garnered recognition in the United States as premier leisure destinations for affluent travelers and celebrities. Nonetheless, the broad, diverse array of luxury hotels in Mexico, as well as the potential for growth in this segment, remains largely unsung.

The following list of selected existing luxury lodging supply gives a picture of what Mexico currently has to offer. In terms of the total number of hotels, the luxury segment appears substantial. Yet these hotels comprise an inventory of slightly more than 4,500 rooms, a number well below that of other luxury markets worldwide.

Selected Luxury Lodging Supply in Mexico

Property	Location	Key Count
Luxury Collection Hacienda Santa Rosa	Santa Rosa	11
Luxury Collection Hacienda Uayamon	Uayamon	12
Villa Maria Cristina	Guanajuato	13
Luxury Collection Hacienda Puerta Campeche	Campeche	15
Luxury Collection Hacienda San Jose	Tixkokob	15
Hacienda San Gabriel de Las Palmas	Amacuzac	19
La Casa Que Canta	Zihuatanejo	24
El Hotelito Deconocido	Careyes	24
Luxury Collection Hacienda Temozon	Temozon Sur	28
Quinta Real Huatulco	Huatulco	28
El Tamarindo Golf Resort	Puerto Vallarta	29
Hotel Esencia	Playa Del Carmen	29
The Tides Riveria Maya	Riviera Maya	30
Casa de Sierra Nevada, Orient-Express	San Miguel de Allende	31
Las Mananitas	Cuernavaca	32
Hotel Habita	Mexico City	36
El Careyes Beach Resort	Costa Careyes	48
Quinta Real Zacatecas	Zacatecas	49
Esperanza	Los Cabos	56
Capella Ixtapa	Ixtapa	59
Rosewood Las Ventanas Al Paraiso	San Jose Del Cabo	61
Orient-Express Maroma	Riviera Maya	65
The Tides Zihuatanejo	Zihuatanejo	70
Quinta Real Acapulco	Acapulco	74
Quinta Real Guadalajara	Guadalajara	76
Zoetry Paraiso de la Bonita	Cancun	91
Camino Real	Oaxaca	91
St. Regis Punta Mita	Punta de Mita	120
Ceiba del Mar	Puerto Morelos	126
Rosewood Mayakoba	Playa Del Carmen	128
Mandarin Oriental	Playa Del Carmen	128
Banyan Tree Mayakoba	Riviera Maya	132
Grand Velas	Nuevo Vallarta	161
Quinta Real Monterrey	Monterrey	165
Four Seasons Punta Mita	Bahia de Banderas	170
One&Only Palmilla	San Jose Del Cabo	172
Occidental Royal Hideway Resort	Playa del Carmen	200
Le Meridien Cancun	Cancun	213
JW Marriott	Mexico City	229
W Mexico City	Mexico City	237
Marquis Los Cabos	Los Cabos	238
Four Seasons Mexico City	Mexico City	240
Ritz-Carlton	Cancun	365
Fairmont Mayakoba	Solidaridad	401
<i>Total</i>		<i>4,541</i>

Most of the hotels listed above operate on a European Plan, with the exception of a few all-inclusive properties. European Plan hotels have a common association with the luxury segment, as the majority of luxury hotels in North America are European Plan properties. We have therefore chosen not to include a comprehensive list of all-inclusive luxury hotels given this propensity of many hotel brands and developers to build European Plan hotels. Also note that many of Mexico's luxury independent or boutique hotels, especially in the colonial cities, operate with ten guestrooms or less. While such properties offer excellent lodging alternatives, we've focused our list on properties with more than ten rooms. Several larger independent and chain-affiliated hotels offer high-quality lodging and add to the rich diversity of the market, but are not consistently cited as luxury hotels in third-party publications and do not therefore appear in our list.

Geographic and Product Diversity

Luxury hotels in Mexico are concentrated among three types of locale: along the country's vast Pacific and Caribbean coasts, in key business centers, and in the diverse landscapes of Mexico's interior regions. Certain markets, including Los Cabos and the Riviera Maya, have numerous luxury hotels. The following map illustrates the geographical distribution of luxury hotels throughout Mexico.

Location of Luxury Hotel Supply in Mexico



(1) Rosewood Las Ventanas Al Paraíso, One&Only Palmilla, Esperanza, Marquis Los Cabos (2) El Tamarindo Golf Resort, Grand Velas, Four Seasons Punta Mita, El Hotelito Desconocido, St. Regis Punta Mita (3) Quinta Real Zacatecas (4) Quinta Real Monterrey (5) Quinta Real Guadalajara, El Careyes Beach Resort (6) Casa de Sierra Nevada, Orient-Express, Villa Maria Cristina (7) Four Seasons Mexico City, Las Mañanitas, JW Marriott, W Mexico City, Hotel Habita (8) Hacienda San Gabriel de Las Palmas (9) Luxury Collection Hacienda Santa Rosa (10) La Casa Que Canta, The Tides, Capella Ixtapa (11) Quinta Real Acapulco (12) Quinta Real Huatulco, Camino Real Oaxaca (13) Luxury Collection Hacienda Uayamon, Luxury Collection Hacienda Puerto Campeche (14) Luxury Collection Hacienda San José (15) Luxury Collection Hacienda Temozon (16) Zoëtry Paraíso de la Bonita, Ritz-Carlton, Le Meridien (17) Orient-Express Maroma, Rosewood Mayakoba, Tides Riviera Maya, Ceiba del Mar, Fairmont Mayakoba, Hotel Esencia, Mandarin Oriental, Occidental Royal Hideaway Resort, Banyan Tree Mayakoba

Mexico is a prime location for luxury hotels, with people coming from all areas of the world to experience the country's rich attractions. There is a broad correspondence between a luxury market's location and the origin of its patrons. For example, the Pacific coast of Mexico receives large numbers of travelers from the western United States and Canada, with the Caribbean coast receiving high volumes of travelers from Europe and the eastern U.S. Domestic travelers also play a powerful role in driving Mexico's luxury lodging market. Luxury hotels are primed to host domestic meeting and group business, as well as affluent travelers seeking a getaway.

A Diverse Luxury Offering

As in the United States, individual properties in Mexico are often classified as luxury based on their average rate. Select luxury properties in Mexico are able to achieve average rates ranging from US\$400 to US\$700. One notable hotel achieves an average rate in excess of US\$1,000.

However, in Mexico's lodging industry, average rate is not the sole determinant of a luxury designation. Certain domestic and international brands are recognized as luxury hotels in Mexico, even if their average rates are somewhat lower than those noted above.

Luxury classification is also influenced by location. The vast coastlines of Mexico pose as premier oceanfront locations for luxury hotels, and colonial cities provide a unique and historically rich experience for hotel guests. These distinct locations provide a different set of criteria for the classification of luxury properties.

In beach destinations and select locations in the interior, properties developed within amenity-rich master-planned developments also enjoy a luxury status. Examples of common amenities for luxury resorts include oceanfront views, full-service spas, private plunge pools in each guestroom, 18-hole championship golf courses, and fine-dining restaurants. For hotels located in colonial cities and in the country's interior, a luxury property may be defined as one with strong historical associations or a unique architectural design.

As with luxury hotels the world over, a high level of service is a factor indispensable to the luxury designation in Mexico.

More Development to Come

Mexico's proximity to the United States and Canada, its many attractions, and a favorable exchange rate add up to solid positioning for mid- to long-term demand growth. Improved infrastructure and airline service will further aid the expansion of Mexico's luxury lodging market. The current economic situation suggests a conservative view of these markets in the near term; however, the outlook for the market is positive over the longer term.

In recent months, Mexico has received highly visible media attention in connection with drug trafficking crimes. Local, state and federal authorities are involved in the improvement of law enforcement intended to materially reduce such incidents, which are concentrated in a limited number of northern cities that border the United States, and do not generally affect resort markets or Mexico's main business centers. The Mexican tourism ministry is closely monitoring the effect of this

negative publicity for the country, and there has been no serious impact on investment or leisure travel to date. The Swine Flu outbreak, which originated in Mexico in late April of 2008, is expected to negatively affect the country's tourism industry. At the time of this article, the scope and severity of the outbreak was still unclear, but reduced travel to Mexico will be one of the immediate outcomes. The World Health Organization and other agencies are coordinating with the Mexican government to identify and contain the outbreak, after which normal travel to the country should resume.

Given the strong interest in luxury travel to Mexico from the U.S. and Canada, and the tendency of U.S. and Canadian travelers to stay at brands they associate with a certain market positioning, there is a premium opportunity for new branded developments in this market. Top brands such as St. Regis and Banyan Tree have recently entered the market, and many other highly reputed brands are actively exploring entry in many different formats. We note that current conditions in the global economy and financial markets have slowed new development, lengthening the timetable for these projects to come online. Nevertheless, the market remains active with new properties under construction and preparing to open. While financing is currently scarce, developers, hotel chains, and financial institutions continue to review projects and prepare pipelines with the expectation that global economic conditions and the availability of financing will improve.

Luxury chains seeking to enter or expand their presence in Mexico will find several means of doing so. They may seek to acquire and reposition existing properties with particularly attractive features, or approach new-build situations on free-standing sites or within master-planned hotel and resort-residential communities. Mexico is at the vanguard of such development, spurred by talented local and international developers seeking to capitalize on the country's appeal to tourists and second-home purchasers and retirees. While current economic conditions have had an adverse impact on the market, mid- to long-term prospects remain promising, and the likelihood of a gradual return on investment for luxury hotel projects in Mexico is high.

About the Authors



Laura Kalcevic works as an Associate with the HVS Mexico City office on assignments spanning the United States, Mexico, and the Caribbean. She specializes in hotel valuations, residential development programs, market studies, feasibility reports, and investment counseling. Laura has been active in the tourism and hospitality industry since 1996.

Laura has an extensive background in research and planning, notably receiving a prestigious international award from the Travel and Tourism Research Association for an urban revitalization project. She began her career working for the U.S. Environmental Protection Agency, Global Programs Division, in Washington, D.C. Prior to joining HVS, she completed various market studies and consulting projects for local, state, and federal agencies in the United States and Australia.

Laura earned her Bachelors degree in Geography from California University of Pennsylvania and her Masters of Business in International Travel and Tourism Management from the University of Queensland. While attending graduate school, she received training in tourism and hospitality consulting from the World Tourism Organisation. She also worked closely with the Chair of the World Tourism Organisation's Education Council to form a student body, the TEHL Student Association, to enhance professional development and educational opportunities at the University.



Richard Katzman is Managing Director for HVS Mexico City, which was established in 2007. He has been active in Mexico and other Latin America countries since 1992. During this period, Richard formed Grupo Inmobiliario Inova, a real estate advisory boutique that merged in 2001 with Insignia/ESG, then among the most prominent real estate service companies in the world. In 2003, following the merger between Insignia/ESG and CB Richard Ellis, Richard elected to reestablish an independent platform prior to joining HVS in 2007.

During his real estate advisory career in Mexico, Richard has offered support to corporations, financial institutions, and private groups in the analysis and execution of a broad range of matters.

Richard's previous professional experience included positions with Laventhol & Horwath (now Horwath Consulting), where he prepared hotel feasibility studies for projects in the United States, Latin America and the Caribbean, and with Fischer-Macleod Associates, a New York based developer of regional shopping centers. Subsequently, Richard

joined The Yarmouth Group (now Morgan Stanley), where he executed a total of US\$650 million in acquisitions of office buildings, regional shopping centers, and hotels and managed real estate portfolios on behalf of US and Japanese institutional clients. As a Senior Vice President of Yarmouth, Richard was responsible for establishing the firm's presence in continental Europe, opening an office in Paris and overseeing investment and asset management assignments in Germany, Spain, and the United Kingdom.

Richard serves on the Board of Trustees of The American School Foundation, A.C. This 118-year-old non-profit, independent school has an enrollment of 2,450 and is reputed to be among Mexico's finest.

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