

## ARDA 2010 Convention & Exposition

# DOING BUSINESS IN MEXICO

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## DOING BUSINESS IN MEXICO

THE EVOLUTION OF THE VACATION REAL ESTATE  
MARKET IN MEXICO

THE MANAGEMENT PERSPECTIVE



## DOING BUSINESS IN MEXICO

### MEXICO'S COMPETITIVE ADVANTAGES IN VACATION REAL ESTATE

- Over 2,000 miles of border
- 6,900 miles of coastline
- Huge natural resources good weather
- Great variety of tourism attractions
- Culture
- Great Food
- Capable, trained and welcoming Human Resources with natural service orientation
- Internal market with over 100 million inhabitants and growing
- Excellent hotel facilities and infrastructure
- Good communication infrastructure (air and roads)
- Extraordinary tourism infrastructure in FONATUR's resorts
- Strong brand positioning: "Mexico", "Cancun", "Cabo", "Riviera Maya", "PV", etc.



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### NOTWITHSTANDING ITS COMPETITIVE ADVANTAGES, MEXICO HAS SEVERAL AREAS OF OPPORTUNITY:

- Three Government tourism entities not coordinating.
- Bias of investment and promotion towards "sun and beach"
- Growing safety PERCEPTION problems
- Lack of "punch" in tourism promotion
- Volatility of the Mexican peso against the US dollar
- Inflation in real estate development costs
- Oversupply in some markets
- Heavy dependency on tour operators
- Limited access to development financing, which now has ceased to exist



## DOING BUSINESS IN MEXICO



## DOING BUSINESS IN MEXICO

### MEXICO HAS SUCCESSFULLY DEVELOPED ALL THE RANGE OF VACATION REAL ESTATE PRODUCTS

- Accustomed to working with many market segments
- Mega-developments with all products for one or several markets:
  - Golf
  - Marinas
  - Commercial
  - Restaurants, Bars and Discos
  - Traditional Hotels
  - All-inclusive Hotels
  - Condo Hotels
  - Homes
  - Condos
  - Towns and support cities



## DOING BUSINESS IN MEXICO

### MEXICO HAS SUCCESSFULLY DEVELOPED ALL THE RANGE OF VACATION REAL ESTATE PRODUCTS (CONTINUED...)

- Development of successful sales and marketing teams for various ownership and use systems
  - Traditional real estate
  - Hotels
  - Fractional ownership
  - Right-to-use timeshare (weeks)
  - Vacation clubs (points)
  - Shopping malls
  - Independent restaurants



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### REGIONS WITH GREAT INVESTMENT GROWTH POTENTIAL

In Mexico multi-million dollar investments have been made in these destinations:

- Cancun
- Riviera Maya
- Los Cabos
- Vallarta
- Vallarta-Punta Mita corridor

There are large investments and/or excess infrastructure capacity:

- Ixtapa
- Loreto
- Huatulco
- Cozumel



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### REGIONS WITH GREAT INVESTMENT GROWTH POTENTIAL (CONTINUED...)

Destinations with large investments but lacking adequate infrastructure:

- Puerto Peñasco (Rocky Point)
- Mar de Cortés (San Jose-La Paz corridor)

New development poles:

- Riviera Nayarit
- Acapulco-Ixtapa corridor

Traditional destinations need modernizing:

- Acapulco
- Veracruz



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### REGIONS WITH GREAT INVESTMENT GROWTH POTENTIAL (CONTINUED...)

Interior cities (some authentic colonial jewels), with vacation real estate and hotels development potential:

- San Miguel de Allende
- Guanajuato
- Oaxaca
- Puebla
- Cuernavaca
- Zacatecas



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### PERSPECTIVE AND TRENDS



## DOING BUSINESS IN MEXICO

### THE MAIN TRENDS IN MEXICO'S VACATION REAL ESTATE DEVELOPMENT BEFORE THE DIFFICULT WORLDWIDE ECONOMIC SITUATION WERE:

1. Large investments:
  - a) Spanish investment in hotels of over 700 rooms for all-inclusive in the Mayan Riviera
  - b) Domestic and US capital in golf courses and top quality second homes for the US market in Cabo, Sea of Cortes and the Vallarta-Punta Mita Riviera
  - c) Single family vacation homes for American middle class in Puerto Peñasco
  - d) Second homes for middle and high segment, mainly foreign in Cancun
  - e) Vacation homes (mainly condos) for the domestic market in Acapulco, Vallarta, Ixtapa and other destinations oriented to the domestic market



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2. Fractional product developments
3. Continuous growth of supply and sales of timeshare product for the domestic and the foreign market
4. Increasing product and amenity quality
5. Growth in new hotel chains through acquisition and renovation of existing assets with international investment fund money and availability of financing at attractive rates and terms with high LTV ratios
6. Price explosion in some destinations focused towards the US generated by the American real estate bubble
7. Loss of profitability for products geared towards the domestic market caused by construction cost inflation not reflected in sales prices



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### SHORT-TERM PROSPECTS ARE NOT OPTIMISTIC:

1. Upon the bursting of the financial bubble prices are falling and there is an oversupply of real estate product, which means that many projects will not be completed and others will change hands once the banks foreclose on them
2. Fractional ownership does not have the necessary market depth and will not be the panacea for all marketing and sales problems
3. Hotels will continue suffering with downward occupancy and rate pressures, but will be affected less severely than second home investments
4. Although timeshare sales have been affected also, the hotels with a timeshare or vacation club product will be able to better cope with the crisis (mixed use)



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### SHORT-TERM PROSPECTS ARE NOT OPTIMISTIC: (CONTINUED...)

5. Opportunities to acquire unfinished projects are multiplying with a recovery not expected before 3 more years
6. CASH IS KING!



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### IN THE MEDIUM AND LONG TERMS PERSPECTIVES ARE GOOD OR EXCELLENT DEPENDING ON THE PRODUCT AND THE DESTINATION:

1. Reasonable price and cost structure
2. Financing and venture capital will come back with deeper and stricter underwriting
3. The tourism market will recover first and the real estate market will recover at the end
4. Only the good projects and with solid capital structure will have survived and will be highly profitable in a less competitive environment



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### MANAGEMENT CHALLENGES

- All the important hotel brands are represented in the country
- Mexican timeshare developers have developed their own brands, some with very strong distribution and some heavily dependent on vacation club and tour operator reservations (keep in mind that with a very few exceptions there are no HOA's and timeshare is a vacation and not a real estate product)
- Few companies have the capabilities to manage fractional ownership and mixed-used resorts
- Fractional products are very small and unattractive for management by top brands, except when they are the developers



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### MANAGEMENT CHALLENGES (CONTINUED...)

- The market requires strong independent management companies that:
  - Have an efficient systems platform
  - Have cutting-edge technology (standards, manuals, training)
  - Develop local talent
  - Are flexible
  - Understand all the components of the various vacation ownership products and a complex mixed-use resort
  - Can develop strong rental and traditional hotel sales distribution platforms without depending on heavily discounted electronic channels and tour operator flows



## DOING BUSINESS IN MEXICO

### Questions

- In working in Mexico are there any key things one needs to be alert to?
  - My answer
    - Condominium Laws
    - Timeshare Laws
    - Labor Laws
    - Familiar with Unions
    - The role of the Notario (Notary)
- What key cultural differences are there that stand out in working or managing in Mexico?
  - In the USA, Americans work to live
  - In Mexico, everyone lives to work
  - Great Family Orientation values
  - High moral values in general
  - Incredible work ethic
  - Love to be part of a winning team that looks after its employees

