

The "New" Mexico – Part II

By Brett K. Ellsworth

While the Mexican resort areas of Acapulco and Mazatlan have been important tourist destinations for Americans since the 1950's, new markets and new product types are changing the face of the Mexican resort industry. It wasn't until the 1980's and 1990's that today's top three tourism destinations began to flourish. In order of foreign visitor and air arrivals, Cancun, Puerto Vallarta and Los Cabos are clearly the top three Mexican tourism destinations that continue to evolve even today, two to three decades later.

As a resort destination, Cancun has grown to include the Riviera Maya, the tourist corridor that runs south from Cancun to Tulum. Up until now the region had been characterized as an "all-inclusive" market dotted with large hotels (300 to 2,000 rooms) catering to the European and American market segments. The Riviera Maya now has almost as many hotel rooms as Cancun and will soon have more. In 2002 the luxury operator Orient Express acquired an interest in, and began operating the 58-unit Maroma Hotel and Spa. Showcased on Conde Nast's Gold List for "The World's Best Places to Stay" and ranking as one of the Travel Channel's "Top 10 Best Beach Resorts, Maroma is a resort hideaway with a focus on preserving the ecology of its 500-acre beach and rainforest. The validation that a luxury property catering to the high-end of the market could exist along this corridor in concert with the large, all-inclusive properties that have dominated the area has attracted the interest of other investors to develop additional luxury properties and master planned communities. Today, there are three other luxury resorts under construction including Mandarin Oriental, Rosewood and Fairmont hotels, and no less than three more are in the early planning stages.

Puerto Vallarta, which is considered Mexico's most authentic resort destination, was considered a mid-level market until recently. Much of its beaches were lined with three-star hotels and timeshare projects. With the development of Punta Mita as Mexico's first private master planned resort community anchored by the Four Seasons Resort Punta Mita, a Rosewood hotel and other luxury branded resorts under construction or in the late planning stages, the dynamics of the Puerto Vallarta market have changed dramatically. Prices for land and residential products have significantly increased as a result of what can only be described as a "boom" residential market.

Los Cabos, while the smallest of these three resort areas, was the first to evolve into a golf and residential marketplace catering to the high-end of the market. While Los Cabos has a number of three and four-star resorts, as well as its fair share of timeshare projects, the area has never had to overcome the stigma of being a mid-market product as did Riviera Maya and Puerto Vallarta, and had a head start in terms of establishing luxury resorts such as the One & Only Palmilla, Rosewood's Las Ventanas al Paraiso and most recently, Auberge Resort's Esperanza, a variety of signature golf courses and very expensive residential real estate.

As these markets began to mature through the diversification of hotel and real estate product offerings, new markets rapidly emerged - for a variety of reasons. La Paz, which was well covered in the August / September issue of the *Market Barometer*, is certainly one of them. Coming up right behind is Loreto, a destination created by FONATUR in the early 1980's that is just now being discovered by investors, developers, tourists and buyers of vacation homes. However, the new destination that is clearly leading the pack in terms of growth in both visitation and real estate sales is Puerto Peñasco, Sonora.

All of these destination resort locations have one important characteristic in common; they are all very close to the United States. While Puerto Peñasco, located on the north end of the Baja Peninsula, is the only true drive-in market, the others are within a reasonable driving distance, and less than a two hour flight to most southwestern U.S. cities. We strongly believe that the growing trend of most families is the desire for a vacation home closer to home. In this regard, the driving factor is a critical issue in the growth of these new destination resort markets.

Puerto Peñasco has been referred to as "Arizona's Beach". Only 63 miles from the U.S./Mexico border and a 3 ½ to 4 hour drive from Phoenix and Tucson, Puerto Peñasco is experiencing an unprecedented growth rate in comparison to all other markets in Mexico. Originally established as a Mexican fishing port and discovered by the Arizona market as a vacation home destination in the 1950's and 1960's, it has only been in the last five years that any significant increase in visitation and real estate sales has taken place. While there are many examples of this impressive growth, there are clear examples that demonstrate the very positive outlook for this market.

Stewart Title Guaranty, which opened its first office in the Republic of Mexico in 2001 in Mexico City, has chosen Puerto Peñasco as its second Mexico location before opening offices in Los Cabos, Puerto Vallarta and Cancun, all of which are in the planning stages. The developers of Mayan Palace Resorts, who have successful projects in Acapulco, Puerto Vallarta and Riviera Maya, chose Puerto Peñasco as the location for their next resort, ahead of Los Cabos. The project, which is well underway, is situated on over 8,000 acres and has a total planned build-out of over 10,000 residential units and three golf courses. The project's 100-room hotel is open, its first residential product is under development, and the first golf course, a Nicklaus design, is expected to open in early 2005. Whereas just last year there was not a single golf course in Puerto Peñasco, by the end of 2005 there will be three courses open for play. Additionally, the first nine holes of a Nicklaus Signature course are now open for play at the Laguna del Mar project, with the second nine holes scheduled for completion in 2005. An 18-hole course is also being seeded at the Las Palomas development and is scheduled to open by the end of 2004, and the above-referenced Mayan Palace golf course is being graded and will be ready for play in early 2005.

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The most interesting evolution of all of these markets, in addition to the new luxury resort hotel properties being developed in the greater Puerto Vallarta market and along the Riviera Maya, is the development and sale of both branded and non-branded residential products which are converting these destination resort market areas into solid second home markets.

Much of the reason for this is the new type of real estate products that are being developed to meet market demand and investor return criteria. In fact, in the new markets of La Paz, Loreto, and especially Puerto Peñasco, practically all of the new growth is coming from residential development with little or no hotel development. Due to the market dynamics associated with a drive-in market, during the last four years over 1,000 residential units have been built and sold in Puerto Peñasco, with only (approximately) one hundred new hotel rooms being developed during the same period. Of the more than 15,000 planned units of residential product to be developed in this market over the next ten years, only one new hotel is currently planned.

It is almost impossible today to finance the development of a stand alone hotel due principally to the delay in the generation of an attractive financial return over the short term (three to five years). In many, if not all, of the new projects in these markets the hotel component is the smallest component or it has been eliminated entirely to make room for more residential product which has a greater potential for increased and accelerated financial returns.

Editor's Note: Brett K. Ellsworth, President of Contact Development Corporation (CDC) contributed this article. CDC is a multi-faceted resort real estate development, investment banking and marketing and sales organization headquartered in San Francisco, California with Latin American headquarters in Mexico City. Contact Development Corporation is active in a variety of projects in the "new" Mexico and can be found on the web at www.cdglobal.com. Brett Ellsworth may be reached directly at bellsworth@cdglobal.com. Our Thanks to Brett and CDC for their insightful contribution

Stay tuned for our next issue when we will provide an in-depth discussion of some specific resort and residential characteristics which are currently in development in the Riviera Maya and Los Cabos areas.

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