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Urban Land

Full Circle

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Mexico finally is being discovered by investors and developers of high-end, luxury hotels, many of which include branded residential components.

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The relatively short history of tourism in Mexico has come full circle. Today, Mexico is once again considered one of the most diverse and popular vacation and second-home markets in the world with its variety of tourism options—beach resorts along 6,000 miles of coastline, colonial towns, archeological ruins—and its proximity to the United States. Investment and development opportunities are more secure and lucrative than ever before due to changes in Mexico's foreign investment laws, the recent ability to purchase U.S. title insurance, and the strengthening relationship—both economically and politically—between Mexico and the United States.

In the 1950s, the Mexican government established Acapulco as a high-end destination that attracted presidents and Hollywood movie stars. The filming of movies such as *Night of the Iguana* helped to launch Puerto Vallarta as one of the hot vacation destinations. But in the three decades to follow, while the number of foreign visitors increased, Mexico lost its place on the list of jet-set travel destinations.

During the early 1970s, the Mexican government formed FONATUR (National Tourism Investment Fund) and developed resort destinations such as Cancun, Los Cabos, and Ixtapa, as well as some resort locations that have struggled, such as Huatulco and Loreto. Most of the resort hotels developed

in these and other nongovernment-supported destinations were large three- and four-star resorts catering to the "masses." Mexico gradually became known as a bargain destination with no real alternative for the top end of the market. During the 1980s and early 1990s, this all-inclusive concept attracted millions more tourists each year. Those looking for a vacation destination in a warm, tropical climate, where staying at a luxury resort hotel was one of the criteria, instead traveled to Hawaii, the Caribbean, and elsewhere. Until recently, Mexico was, for the most part, overlooked by the selective traveler.

Now, with a variety of new, high-end, luxury resort hotels and gated master-planned resort and residential communities, Mexico is offering competitive hospitality and residential opportunities at distances closer to most of the mainland United States than Hawaii and the Caribbean, and with fewer, if any, time changes. Certain large metropolitan areas in the United States such as Los Angeles, San Francisco, Dallas, Houston, Miami, and Atlanta are close enough to Mexican destinations such as Los Cabos, Puerto Vallarta, and the greater Cancun area for those seeking a long weekend trip to fly to these locations on Friday, spend Saturday and Sunday there, and fly back Sunday evening. The relatively short distance and travel time have offered a significant advantage in the sale of vacation homes, both whole ownership and fractional interest ownership products, within gated master-planned communities in Mexico; owners can make more frequent trips for shorter periods.

An essential component of Mexico's economy, tourism, ranking just below the oil and manufacturing industries, is the third-largest industry in terms of generating foreign income, which

amounted to over \$8.1 billion last year. Mexico's economy as a whole has taken major steps in recovering from the 1994 peso devaluation and resulting economic crisis. Inflation has been controlled and was down to 8.96 percent last year, from a crisis high of over 50 percent in 1995. Mexico's gross domestic product (GDP) grew at 6.9 percent in 2000 and, with the slowing of the United States's economy, GDP growth this year in Mexico is projected to be just under 3 percent. The North American Free Trade Agreement (NAFTA), which went into effect on January 1, 1994, was one of the principal reasons for Mexico's economic recovery. Today, Mexico ranks as the United States's second-largest trading partner, overtaking Japan, with only Canada, the other NAFTA partner, in first place. Over 80 percent of all foreign investment in Mexico comes from the United States.

For years, Mexico has been considered a bargain tourist destination. According to the World Tourism Organization (WTO), in 1999 Mexico ranked eighth in the world in terms of number of foreign tourist arrivals and 14th in terms of foreign income generated. Through both private initiative and government support, Mexico is working hard to close the gap between these two rankings. Last year, it ranked 7th worldwide in number of foreign visitors and 11th in amount of foreign income generated, suggesting that Mexico is on its way toward achieving its goal of appealing to the high-end tourist trade. Investors and developers of high-end, luxury hotels, including branded residential components, sold either on a whole ownership or fractional interest basis, have shown recent interest in Mexico. Both Mexican and foreign real estate developers have begun to develop

luxury resort hotels, most operated by established hotel operating companies, with a few operated independently. Two of the resort hotels credited with helping to change the bargain reputation of Mexico's tourism industry are Rosewood's 60-suite Las Ventanas al Paraiso resort located in Los Cabos, which



Located in Los Cabos, the 60-suite, 18-acre Las Ventanas al Paraiso was one of the first high-end resort properties credited with helping to change the bargain reputation of Mexico's tourism industry.



opened in 1997, and the 140-room/suite Four Seasons Resort Punta Mita, Four Seasons's first resort in Latin America, which opened in late 1999. These hotels currently are achieving high average daily room rates and occupancy levels in



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the \$500 to \$700 and 75 to 90 percent ranges respectively, which are about the same or better than a number of comparable resorts in other destinations around the world. The newest addition is Amanresorts's first property in Latin America, Mahakua, a 26-suite development that opened late last year. A refurbished 19th-century hacienda that is the centerpiece of a working ranch and coffee plantation, Mahakua is located in the hills of Colima near the base of one of Mexico's largest volcanoes.

As in other resorts in the United States, "branded" residential products now commonly are part of the overall resort mix. Las Ventanas al Paraiso offers a whole ownership attached villa product. At Punta Mita, Four Seasons-branded products will include the Four Seasons Private Villas, a single-family home product, as well as the Four Seasons Residence Club, a fractional-interest product. Branded luxury residential products, either sold on a whole-ownership basis or on a fractional-interest basis of one- to three-month intervals, have proven to be a growing trend, not only in Mexico, but also within many resort projects in the United States. These residential products generally offer most, if not all, of the same services to residential owners as they do to hotel guests, with the assurance that the unit will be well maintained when not in use. The ability to generate some income through rental programs with the hotel management company is an additional benefit.

Luxury hotel operators have learned the value that brands can add to real estate and understand that the addition of branded residential product can contribute significantly to the bottom line of a development project in which the hotel operator often is required to participate as a minority equity investor to be able to develop and operate properties on unique sites. Amenities such as private resort golf clubs, equestrian centers, and spa and fitness centers also are growing in number and are important components of a high-end resort and residential community.

Punta Mita, a 1,500-acre master-planned resort/residential community located 18 miles north of Puerto Vallarta, combines a number of high-end resort components, including luxury hotels, branded whole-ownership and fractional-ownership residential products, exclusive nonbranded residential products, a private golf club, beach



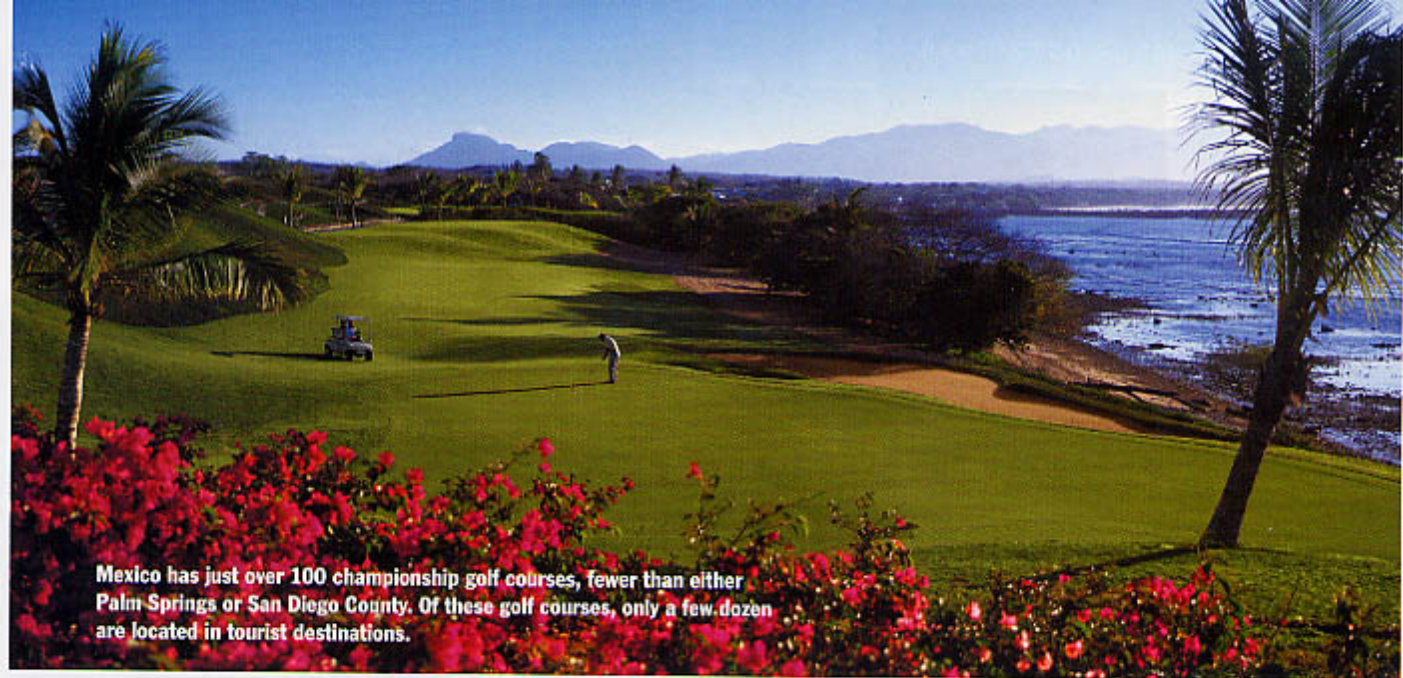
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The 140-room/suite Four Seasons Resort Punta Mita, Four Seasons's first resort in Latin America, opened in 1999. Expansion plans include the Four Seasons Private Villas, consisting of 68 single-family homes, and the Four Seasons Residence Club, a fractional-interest product comprising 86 attached villa units.

clubs, a tennis center, a spa and fitness center, a marina, and equestrian facilities, all constructed for use by its members. Situated at the northern tip of the Bahía de Banderas, Punta Mita, with its nine miles of coastline, will include five luxury boutique hotels, three championship golf courses, and approximately 800 to 1,000 residential units ranging in price from \$500,000 to 3.5 million. Punta Mita is being developed as Mexico's first private resort and golf community by Dine, one of Mexico's largest diversified real estate development companies and the wholly owned subsidiary of Grupo Desc, Mexico's tenth-largest corporation, together with an international team of consultants involved in international resort development.

To establish Punta Mita as a high-end international destination and exclusive residential community, the Four Seasons was set up as an "anchor" to convey the message of Punta Mita's quality, exclusivity, and level of service. The project is structured as a private club; only residents and resort guests have access to the golf club and project amenities. There are two principal classes of memberships: resident membership, for owners of real estate; and temporary resort membership, for guests in Punta Mita's on-site luxury hotels.

Ground breaking for the model complexes for both of the branded Four Seasons's residential products—the Four Seasons Private Villas, consisting of 68 single-family homes; and the Four Seasons Residence Club, a fractional interest project comprising 86 attached-villa units—is planned for this fall.



Mexico has just over 100 championship golf courses, fewer than either Palm Springs or San Diego County. Of these golf courses, only a few dozen are located in tourist destinations.

NICHOLE CALLEWOOD/FOUR SEASONS RESORT PALM SPRINGS

Although opportunities for resort investment and development in Mexico are plentiful, doing business in Mexico differs notably from doing business in the United States. Strides have been made recently toward modernizing Mexico's economy, starting with the implementation of NAFTA in 1994 and the election of President Vicente Fox in July 2000, Mexico's first opposition party president in more than 70 years, which has had a positive effect on Mexico's image, especially in terms of foreign investment. That, combined with the fact that Mexico's congress consists of three principal political parties, none of which has a majority vote, signifies that democratic practices now are in place.

To invest in and develop resort projects successfully in Mexico, the following steps should be considered:

■ **Include a Mexican partner.** A good local partner is invaluable when doing business in a foreign country. Politics, laws, and even construction processes are distinctly different in Mexico, and foreign investors and developers have a much higher chance of succeeding when they select a reliable Mexican partner.

■ **Build a strong international team.** A combination of the top international and Mexican consultants and contractors should be used to "internationalize" and give credibility to the project.

■ **Know your market.** The market affects everything from the master plan to the legal structure of the project, and is critical when deciding whether to develop a public or private golf club.

■ **Know your objective.** Ask yourself "What business are we in?" and identify the driving force needed for the financial success of the project.

■ **International sales and marketing.** An international sales and marketing program with a presence in one or more of the key target market cities in the United States is crucial to developing an absorption rate that will make a master-planned resort/residential community successful. Do not just wait for prospective buyers to come to the project.

■ **Create a sense of community and real estate values through privacy, exclusivity, and service, as well as through amenities and activities.**

Even as the seventh-largest tourism destination in the world, Mexico only has 175,000 hotel rooms of four-star and above qual-

ity, less than both Las Vegas and Orlando. Mexico has just over 100 championship golf courses, fewer than either Palm Springs or San Diego County. Of these golf courses, only a few dozen are located in tourist destinations. With more than 6,000 miles of coastline, most of which is undeveloped, a subtropical climate similar to that of Hawaii, a diverse society rich in history and culture, and government support of the tourism industry, there are numerous locations and opportunities for foreign investment and development.

A number of new luxury resort hotels and master-planned communities are planned for the near future in Mexico—hotels operated by Mandarin Oriental, St. Regis, Banyan Tree, and Auberge among others, as well as hotels by Rosewood and Four Seasons. Additional master-planned resort communities also are in the planning stages in or near markets such as Puerto Vallarta, Cancun, and Los Cabos. The Mexican government strongly supports the development of these types of luxury hotels and resort projects for a number of reasons. First and foremost, such projects can help achieve the goal of attracting well-to-do tourists to Mexico who stay longer and spend more. Secondly, due to the lower density of luxury projects, they can be more ecologically friendly, with less impact on the environment than most typical hotel developments. Finally, these projects can generate a significant amount of foreign direct investment in Mexico's economy through development of other projects and acquisitions of operating assets.

The single greatest challenge, and perhaps one of the best opportunities for foreign financial institutions, is the lack of credit for purchasing real estate in Mexico. Most residential transactions are still cash transactions. However, similar to the increasing availability of title insurance, which is relatively new in Mexico, it is anticipated that more financial institutions in the United States will slowly begin to offer residential mortgages in Mexico. ■

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