

Four Key Takeaways

By Richard J. Katzman and Astrid Clough McDowell

MexHic 2015

Mexico Hotel and Tourism Investment Conference 2015

HVS

On March 19, 2015, HVS Mexico City hosted the fifth annual Mexico Hotel & Tourism Investment Conference, or MexHIC 2015, a forum for interaction between market participants focused on defining market drivers and visualizing a path for sound industry growth.

Key Takeaways

Mexico is experiencing a slow economic recovery, with government revenues highly dependent on oil prices, but with a steady inflation index of 3.0%, GDP growth rate of 3.6%, and no fiscal reforms in 2015. Notwithstanding negative press associated with issues of security, Mexico's economy is relatively healthy and well positioned, particularly when compared with other emerging markets, such as Brazil. Certain regions in Mexico have and will continue to grow, driven by certain key industries, including automotive, aeronautical, and energy. However, other regions are left out of the mix, largely due to geography. They are not naturally positioned to participate.

An overall optimistic outlook remains in terms of both the corporate/business and leisure/resort lodging sectors. Mexican and U.S. hotel chains are all trying to expand their footprints in Mexico. Higher demand levels are allowing for more pricing power, and RevPAR growth levels remain positive. According to STR, in 2014, the Yucatan Peninsula region realized the highest occupancy, ADR, and RevPAR growth. While the urban Mexico markets realized RevPAR growth of 9.1%, the resort markets in Mexico achieved 19.7% in 2014. Furthermore, as a whole, Mexico outpaced Brazil, China, India, Russia, Central America, and the Caribbean hotel markets in terms of occupancy and RevPAR, although its ADR declined in 2014.



Leisure Segment Panel, Left to Right Gregory J. Pitts (Partner Realty Financial Resources), Erin R. Green (VP Development Rosewood Hotel Group), Blanca Rodriguez (Managing Director Banyan Tree Mexico), Michel Montant (Development Director Grupo Posadas), and Pablo Gonzalez (VP Development Hyatt Latin America & Caribbean)

While the corporate/business lodging segment is largely represented in major cities in the interior of Mexico, along the U.S./Mexico border and highly associated with the *maquiladora* industry, and along the Pacific corridor given the strong agriculture industry, the leisure/resort lodging segment is expanding in two primary regions: along the Cancun-Riviera Maya corridor of the Yucatan Peninsula and in different Pacific coastline destinations, such as Los Cabos, Puerto Vallarta, Huatulco, and the Costa Alegre region. An interesting trend occurring in resort destination markets is the transitioning from the tradition

European Plan (EP) model to the All-Inclusive (AI) model, with Cancun serving as an example of this change, with more than 80% of the hotels now operating as AI properties. Mexico has 78,204 AI rooms and 35,093 EP rooms, according to data from HVS and the Mexico Tourism Board. Furthermore, the lifestyle brands and unique niche products are becoming ever popular, with the EP boutique luxury category gaining momentum.

The advent of REIT-type structures, introduced in 2011, has given rise to liquidity in the market. Two hotel REITs, both HVS clients, are working on acquisitions and new builds. Other developers are working on one-off or portfolio deals, bearing in mind that exit strategies are clearer than in the past. In addition to REITs, the market has new institutional private equity funds, as well as two hotel companies that have gone public in recent years. Financing from different sources, including Mexico's export-import bank, Bancomext, seems to be more available than in the past.

About MexHIC



HVS Mexico City, Left to Right: Uriel Burak, Astrid Clough McDowell, Richard J. Katzman, Liliana Aguilar, Patricia Badiuk, and Raul Duarte

HVS Mexico City, a team of six led by Managing Director Richard J. Katzman and including C&V associates Patricia Badiuk, Raul Duarte, and Uriel Burak, as well as office manager and event coordinator Liliana Aguilar and Senior Editor Astrid Clough McDowell, hosted the fifth annual Mexico Hotel & Tourism Investment Conference (MexHIC) at the newly built Hilton Santa Fe in Mexico City on March 19, 2015. This year, MexHIC was attended by approximately 250 people in the hospitality industry, largely associated with the Mexico, Central and South America, and Caribbean markets. MexHIC 2015 is designed to provide information and generate discussion. It gives stakeholders a

HVS is the world's leading consulting and services organization focused on the hotel, mixed-use, shared ownership, gaming, and leisure industries. Established in 1980, the company performs 4,500+ assignments each year for hotel and real estate owners, operators, and developers worldwide. HVS principals are regarded as the leading experts in their respective regions of the globe. Through a network of more than 30 offices and 450 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. www.hvs.com Note: The data presented in this article are for informational purposes only and are not meant as a basis for making investment decisions. For more information, contact the authors.

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chance to hear from industry leaders and representatives of major hotel brands; network with developers, investors, lenders, and government officials; and discuss the many challenges and opportunities of the lodging landscape in Mexico and Central America.

The Audience

- Regional and International Hotel and Resort Investors
- Hotel Chain Executives
- Bankers, Lenders, and Investment Fund Representatives
- Hotel, Resort, and other Hospitality Real Estate Developers
- Hotel and Tourism Industry Entrepreneurs
- Public and Private Hotel, Tourism, and Convention Agencies
- Architects, Planners, and Interior Designers of Hotel, Resort, and Mixed-Use Projects
- Individuals and Companies Seeking Investors for Proposed Hotel and/or Tourism Projects



Unlike most conferences, this is a one-day, nonstop event. The attendees universally appreciate the one-day format and recognize that holding the event in Mexico City is designed to make it user-friendly for the strong local investment community. Highly regarded as the leading consulting and valuation firm, HVS is well positioned in Mexico primarily because everyone on the

team works very hard and very well together all year long, all while connecting with market participants and clients and solidifying relationships; this one-day event is a complement to those efforts. It both confirms the leadership position earned and enhances it in a highly differentiated manner. Every year, Richard personally organizes the conference agenda and forms the panels, giving him a way of connecting with people in the industry outside of the ordinary activity connected with selling or working on an engagement; furthermore, given that people very much enjoy the event, additional prestige comes to HVS. The feedback continues to be overwhelmingly positive!

The Agenda

As attendees proceeded through registration, speed meetings helped certain individuals connect and network with one another, at their option, while others enjoyed a light breakfast and coffee in the pre-function area. Richard then opened the conference with a warm welcome and introduction. As most of the day's conference was presented in Spanish, simultaneous language translation was available in English via audio headset, if needed. A comprehensive economic overview was presented by Delia María Paredes Mier, an Executive Director with Banorte-IXE, prior to a regional and global hotel market overview, which was presented by Jeff Higley with Hotel News Now/Smith Travel Research. Richard presented a look at how local hotel trend lines fit into a global context, including key trends in business travel, leisure travel, chain representation, and Mexico's real estate capital markets, which set the stage and framework for the forthcoming six panels (consisting of an average of five people each):

- DRILLING DOWN ON SUPPLY AND DEMAND - BUSINESS TRAVEL: Experts discuss demand generators in urban areas and industrial markets.
- DRILLING DOWN ON SUPPLY AND DEMAND - LEISURE TRAVEL: Experts discuss trends in travel to resort and other vacation and group destinations.
- VIEW FROM THE TOP: HOTEL OPPORTUNITIES - MEXICO AND BEYOND: Leaders identify areas of opportunity and challenges in different sectors of the hotel industry.
- URBAN MIXED-USE PROJECTS: Advantages and challenges offered by projects with retail, office, and entertainment components.
- CAPITAL MARKETS OVERVIEW - FIBRAS, CKDs, and OTHER INVESTMENT TRENDS: Discussion of the characteristics of new financial vehicles and their implications on the hotel investment market.
- INDUSTRY PRIORITIES - ACTION PLAN: Leaders debate and define possible directions and industry drivers for sound industry growth.

Conclusion

While the fundamentals and drivers are in place, the supply and the demand equation in certain markets and regions needs to be reviewed with discipline. Both public- and private-sector efforts center on promotion of Mexico. A strategic approach that recognizes the natural attributes and advantages of different resort areas and that equips them to compete effectively to grow in consideration of their respective attributes would be most beneficial.