

Hot for Huatulco

Government Incentives Attract U.S. Investors to Mexican Hotel Spot

By Amanda Marsh

Although similar to popular Mexican tourist destinations like Los Cabos, Acapulco and Cancun, Huatulco—270 miles southeast of Acapulco on Mexico's Pacific coastline—has been having a rough time catching up. Enter FONATUR, the Mexican government's trust fund for tourism development, which has been aggressively promoting Huatulco to U.S. investors to help jump-start new development.

FONATUR, the development driving force behind Cancun and Los Cabos, has been aiming at U.S. and other international investors lately with an incentive program to bring more hotels to Huatulco. In doing so, FONATUR is hoping to reach its goal

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—Gary Swedback, NAI Mexico

of achieving rapid growth in hotel room construction in order to lay the foundations of self-sufficiency for the area. Its main strategy is to attract hotel investments in the five-star category, including the Marriott, Hilton, Hyatt, InterContinental and Sheraton brands, with the average investment per hotel set at \$90 million and per room at \$120,000. The hotels may have vacation clubs, condominium-hotels and spas.

"FONATUR is indeed making a huge push to get some traction and momentum going in Huatulco," said Gary Swedback, president of NAI Mexico. "Many feel that it has the potential of becoming another Cancun or (Los Cabos)."

And FONATUR's incentive program has paid off (see "Reasons to Go to the Beach" at right). Oscar Camacho, vice president of marketing and sales for FONATUR, said the trust fund is in the process of closing three development deals with major Spanish and U.S. hoteliers that will add 900 hotel rooms in the next two years. "It's going to create a new era in Huatulco and bring more activity and new investment," he said, though he declined to name the hoteliers, as they

are currently in contract.

But in order for Huatulco to reach the popularity level of Cancun or Los Cabos, airline connections have to dramatically increase. "The success of Huatulco will depend on the ability of FONATUR to draw enough interest from new projects to convince airlines to step up their flights and create better airline connections, and with that more affordable pricing for the tourists and visitors to get to Huatulco," Swedback explained.

And airlines will only enter the market if there is sufficient hotel activity. "It takes time," said Miguel Rivera, a senior vice president for Jones Lang LaSalle Hotels. "It's the

perennial milk-and-cereal problem. You need enough milk for the cereal, and enough cereal for the milk. It has to pick up and snowball."

Ricardo Ampudia, vice president of tourism in Mexico for CB Richard Ellis Inc., agreed. "There are not enough hotel rooms for airlines to make this a new destination," he said. For instance, Cancun received 4.6 million airline passengers last year, according to HVS International, while Huatulco received just 144,300 (see "Popularity Contest" above).

Poor transportation infrastructure has also kept investors from pouncing on Huatulco already. The destination is accessible via Huatulco International-

al Airport and Highways 200 and 175, but few international flights travel in and out of the airport, with most of its business made up of domestic charters. Moreover, Highway 200, which

runs along the coast from Acapulco, and Highway 175, which runs between Oaxaca and Huatulco, are mountainous and winding.

"It's not as easy (as getting to) Acapulco," said Christian Charre, another senior vice president for Jones Lang LaSalle Hotels. "A new road between Acapulco and Huatulco can make all the difference." Rivera said the same about a planned freeway between Oaxaca and Huatulco: "It takes five hours from Mexico City to Oaxaca, then four hours from Oaxaca to Huatulco," he said. "With a toll road, it would only take one hour."

Another setback for Huatulco was the 2002 sale and closing of Club Med, a popular destination that had attracted many international travelers and chartered its own flights. Las Brisas Huatulco, the resort developed in its place, has larger rooms, offering about half as many as Club Med's 552 rooms. Without chartered flights and international marketing, it serves mostly as a local attraction, Rivera explained.

Tapping into Tourism

FONATUR has also been extensively promoting the region more than its more popular destinations to attract

tourists unfamiliar with the location. "Cancun and Los Cabos are the spots," Camacho said. "Cancun is close to the Caribbean and Los Cabos to California. We're spending every moment trying to promote Huatulco to U.S. and international markets."

Camacho added, however, that promotion is much easier than it was a few years ago as tourists and investors begin to observe hotel development activity. A spokesperson from HVS International said Rodolfo Elizondo, Mexico's secretary of tourism, has committed himself to the relaunching of Huatulco during Vicente Fox's presidential term, which runs into this year.

Swedback added that besides its ecotourism, aesthetics, climate, beaches, golf course, marinas and shopping district, the advantage that Huatulco has over other destinations is that it was not developed around an existing Mexican city. "Everything there is rather new," he said. "There is no poverty stigma to be seen. There is no shantytown (and) no area of poverty to see as you go from place to place."

Changing dynamics in Mexico's hospitality market ultimately will affect Huatulco, Swedback noted. "The sense of security is much higher than (in) Asia," he said. "There's an accessibility factor and there is demand at the consumer level for tourism and second homes."

Demand for real estate in the day-visitor market of U.S.-Mexican border towns like Tijuana has quadrupled during the past six months. "Every piece of land has been bought," Swedback said, noting a popularity increase in condo-hotels. "I see this trend spreading through Mexico, including Huatulco." Another trend he sees in the region is the construction of second homes, especially for Americans.

Although some have so far labeled Huatulco as FONATUR's failure, Ampudia expressed confidence in the government group's efforts. "In five years, Huatulco will be very successful," Camacho added. "The next few years will be a big boom." ■

Popularity Contest

2005 Visitors	Domestic Passengers	International Passengers	Charter Passengers	Hotel Guests
Huatulco	107,000	3,300	34,000	2,500
Cancun	946,000	2.4 million	1.3 million	27,000

Source: HVS International

Reasons to Go to the Beach

Through its incentive program for new hotel construction in Huatulco, Mexico, FONATUR will provide the land, worth \$9 million, cash capital of another \$9 million and \$1 million for complementary services like bars or restaurants for each hotel. The building contractors will contribute 5 percent of the total investment, and capital partners will be invited to contribute at least 50 percent of the total investment. Hotel construction would then take place over two years.

When more than 50 percent of the bank debt has been repaid 10 to 14 years later, the remaining cash flow will be awarded to FONATUR so it can recuperate its initial contribution and discontinue its role in the partnership. The investors and building contractors would then remain in possession of the hotels so they can run them as continuing businesses, without bank debt.