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MARKET REPORT

Mexico's Luxury Lodging Segment - Opportunity for Growth

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The luxury hotel market in Mexico has been somewhat overshadowed by other market segments. Here we shed light on its potential.

Mexico's ancient Mayan pyramids and Aztec temples, fusion of European and Meso-American cultures, and exotic subtropical forests and beaches are among its chief enticements. Travelers from the United States, Canada, Europe, and Latin America annually descend en masse upon iconic destinations such as Acapulco and Cancún. Over the past 15 years, Mexico's economy has risen on the shoulders of structural economic changes and a steady trend of foreign direct investment. Tourists are drawn to hotels of all sorts, including European Plan and all-inclusive resorts operating under domestic and international brands. Business travelers likewise visit a wide selection of properties tailored to their needs.

Tourism to Mexico has been on the rise, and while the worldwide economic decline may temper growth in the short term, tourism levels are expected to rebound with the economy. In 2008, Mexico received 22.6 million international tourists, a 5.9% gain from 2007, in over 10,400 hotels accounting for more than 430,000 guestrooms. The domestic market also drove a significant demand for hotels in Mexico in 2008, with 62 million domestic tourists, a gain of 1.4% over 2007.

Bearing in mind the size of the market and the high level of traffic, it might be surprising to learn that Mexico has a well-established and growing luxury segment. As economic and market conditions evolve, this segment will offer significant business opportunities for developers, investors, and hotel chains.

An Established Market with Room to Grow

The luxury lodging market in Mexico is well established, yet generally receives less overall attention than larger, more visible market segments. Mexico's lodging market consists of more than the large all-inclusive hotels that cater to families and spring breakers. Select luxury hotels in Mexico have garnered recognition in the United States as premier leisure destinations for affluent travelers and celebrities. Nonetheless, the broad, diverse array of luxury hotels in Mexico, as well as the potential for growth in this segment, remains largely unsung.

The following list of selected existing luxury lodging supply gives a picture of what Mexico currently has to offer. In terms of the total number of hotels, the luxury segment appears substantial. Yet these hotels comprise an inventory of less than 4,300 rooms, a number well below that of other luxury markets worldwide.

Selected Luxury Lodging Supply in Mexico

Property	Location	Key Count

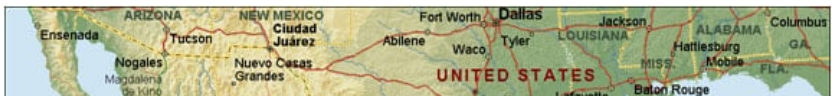
Luxury Collection Hacienda Santa Rosa	Santa Rosa	11
Luxury Collection Hacienda Uayamon	Uayamon	12
Luxury Collection Hacienda Puerta Campeche	Campeche	15
Luxury Collection Hacienda San José	Tixkokob	15
Hacienda San Gabriel de Las Palmas	Amacuzac	19
La Casa Que Canta	Zihuatanejo	24
El Hotelito Desconocido	Careyes	24
Luxury Collection Hacienda Temozon	Temozon Sur	28
Quinta Real Huatulco	Huatulco	28
El Tamarindo Golf Resort	Puerto Vallarta	29
Hotel Esencia	Playa Del Carmen	29
The Tides Riviera Maya	Riviera Maya	30
Casa de Sierra Nevada, Orient-Express	San Miguel de Allende	31
Las Mañanitas	Cuernavaca	32
El Careyes Beach Resort	Acapulco	48
Quinta Real Zacatecas	Zacatecas	49
Esperanza	Los Cabos	57
Capella Ixtapa	Ixtapa	59
Rosewood Las Ventanas Al Paraíso	San José Del Cabo	71
Orient-Express Maroma	Riviera Maya	65
The Tides Zihuatanejo	Zihuatanejo	70
Quinta Real Acapulco	Acapulco	74
Quinta Real Guadalajara	Guadalajara	76
Zoëtry Paraíso de la Bonita	Cancun	91
Camino Real	Oaxaca	91

Ceiba del Mar	Puerto Morelos	
Rosewood Mayakoba	Playa Del Carmen	128
Mandarin Oriental	Playa Del Carmen	128
Grand Velas	Nueva Vallarta	161
Quinta Real Monterrey	Monterrey	165
Four Seasons Punta Mita	Bahia de Banderas	170
One&Only Palmilla	San José Del Cabo	172
Occidental Royal Hideway Resort	Playa del Carmen	200
Le Meridien Cancun	Cancun	213
JW Marriott	Mexico City	229
W Mexico City	Mexico City	237
Marquis Los Cabos	Los Cabos	238
Four Seasons Mexico City	Mexico City	240
Ritz-Carlton	Cancun	365
Fairmont Mayakoba	Solidaridad	401
Total		**4,213**

Most of the hotels listed above operate on a European Plan, with the exception of a few all-inclusive properties. European Plan hotels have a common association with the luxury segment, as the majority of luxury hotels in North America are European Plan properties. We have therefore chosen not to include a comprehensive list of all-inclusive luxury hotels because the focus of many hotel brands and developers is to build European Plan hotels. Also note that many of Mexico's luxury independent or boutique hotels, especially in the colonial cities, operate with ten guestrooms or less. While such properties offer excellent lodging alternatives, we've focused our list on properties with more than ten rooms. Several larger independent and chain-affiliated hotels offer high-quality lodging and add to the rich diversity of the market, but are not consistently cited as luxury hotels in third-party publications and do not therefore appear in our list.

Geographic and Product Diversity

Luxury hotels in Mexico are concentrated among three types of locale: along the country's vast Pacific and Caribbean coasts, in key business centers, and in the diverse landscapes of Mexico's interior regions. Certain markets, including Los Cabos and the Riviera Maya, have numerous luxury hotels. The following map illustrates the geographical distribution of luxury hotels throughout Mexico.





(1) Rosewood Las Ventanas Al Paraíso, One&Only Palmilla, Esperanza, Marquis Los Cabos (2) El Tamarindo Golf Resort, Grand Velas, Four Seasons Punta Mita, El Hotelito Desconocido (3) Quinta Real Zacatecas (4) Quinta Real Monterrey (5) Quinta Real Guadalajara (6) Casa de Sierra Nevada, Orient-Express (7) Four Seasons Mexico City, Las Mañanitas, JW Marriott, W Mexico City (8) Hacienda San Gabriel de Las Palmas (9) Luxury Collection Hacienda Santa Rosa (10) La Casa Que Canta, The Tides, Capella Ixtapa (11) El Careyes Beach Resort, Quinta Real Acapulco (12) Quinta Real Huatulco, Camino Real Oaxaca (13) Luxury Collection Hacienda Uayamon, Luxury Collection Hacienda Puerto Campeche (14) Luxury Collection Hacienda San José (15) Luxury Collection Hacienda Temozon (16) Zoëtry Paraíso de la Bonita, Ritz-Carlton, Le Meridien (17) Orient-Express Maroma, Rosewood Mayakoba, Tides Riviera Maya, Ceiba del Mar, Fairmont Mayakoba, Hotel Esencia, Mandarin Oriental, Occidental Royal Hideaway Resort

Mexico is a prime location for luxury hotels, with people coming from all areas of the world to experience the country's rich attractions. There is a broad correspondence between a luxury market's location and the origin of its patrons. For example, the Pacific coast of Mexico receives large numbers of travelers from the western United States and Canada, with the Caribbean coast receiving high volumes of travelers from Europe and the eastern U.S. Domestic travelers also play a powerful role in driving Mexico's luxury lodging market. Luxury hotels are primed to host domestic meeting and group business, as well as affluent travelers seeking a getaway.

A Diverse Luxury Offering

As in the United States, individual properties in Mexico are often classified as luxury based on their average rate. Select luxury properties in Mexico are able to achieve average rates ranging from US$400 to US$700. One notable hotel achieves an average rate in excess of US$1,000.

However, in Mexico's lodging industry, average rate is not the sole determinant of a luxury designation. Certain domestic and international brands are recognized as luxury hotels in Mexico, even if their average rates are somewhat lower than those noted above.

Luxury classification is also influenced by location. The vast coastlines of Mexico pose as premier oceanfront locations for luxury hotels, and colonial cities provide a unique and historically rich experience for hotel guests. These distinct locations provide a different set of criteria for the classification of luxury properties.

In beach destinations and select locations in the interior, properties developed within amenity-rich master-planned developments also enjoy a luxury status. Examples of common amenities for luxury resorts include oceanfront views, full-service spas, private plunge pools in each guestroom, 18-hole championship golf courses, and fine-dining restaurants. For hotels located in colonial cities and in the country's interior, a luxury property may be defined as one with strong historical associations or a unique architectural design.

As with luxury hotels the world over, a high level of service is a factor indispensable to the luxury designation in Mexico.

More Development to Come

Mexico's proximity to the United States and Canada, its many attractions, and a favorable exchange rate add up to solid positioning for mid- to long-term demand growth. Improved infrastructure and airline service will further aid the expansion of Mexico's luxury lodging market.

Given the strong interest in luxury travel to Mexico from the U.S. and Canada, and the tendency of U.S. and Canadian travelers to stay at brands they associate with a certain market positioning, there is a premium opportunity for new branded developments in this market. Top brands such as St. Regis and Park Hyatt are already slated to enter the market, and many other highly reputed brands are actively exploring entry in many different formats.

Luxury chains seeking to enter or expand their presence in Mexico will find several means of doing so. They may seek to acquire and reposition existing properties with particularly attractive features, or approach new-build situations on free-standing sites or within master-planned resort-residential communities. Mexico is at the vanguard of such development, spurred by talented local and international developers seeking to capitalize on the country's appeal to tourists and second-home purchasers and retirees. While current economic conditions have had an impact on the market, mid- to long-term prospects remain promising, and the likelihood of a strong return on investment for luxury hotel projects in Mexico is high.

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