April 2021

Mexico's Hotel & Hospitality Industry

A travel and tourism update

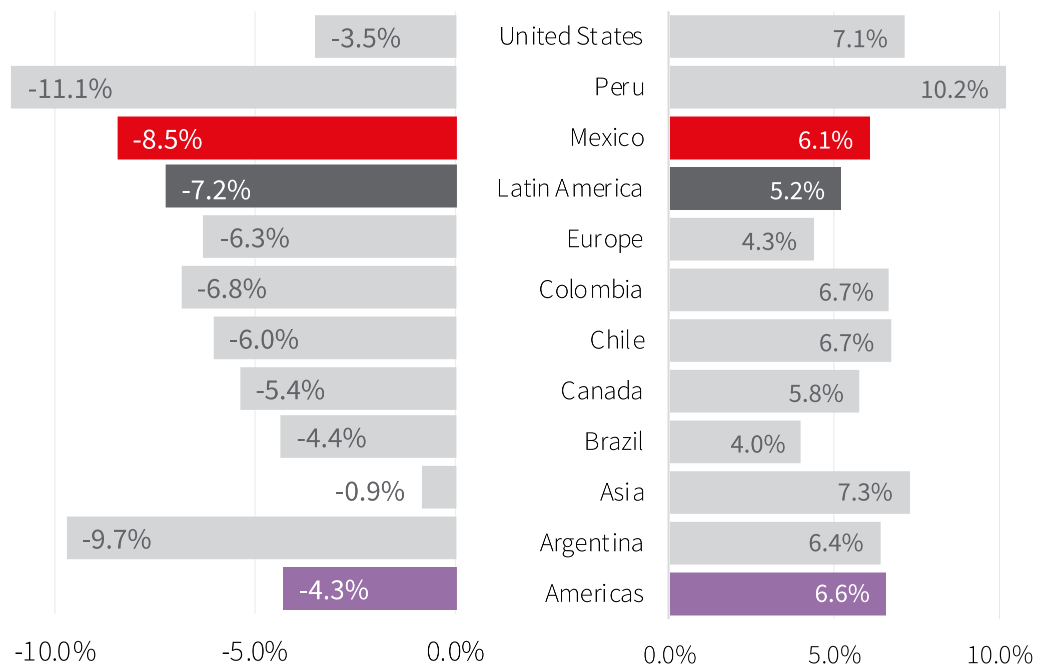
A market poised for unique investment opportunities

Mexico features robust market dynamics that make it an attractive destination for hospitality and real estate investment. Some of these factors include, but are not limited to, its strategic location and accessibility in the Americas, its robust macroeconomic profile, its favorable trade policies, its modern infrastructure, and its rich cultural heritage and natural wonders.

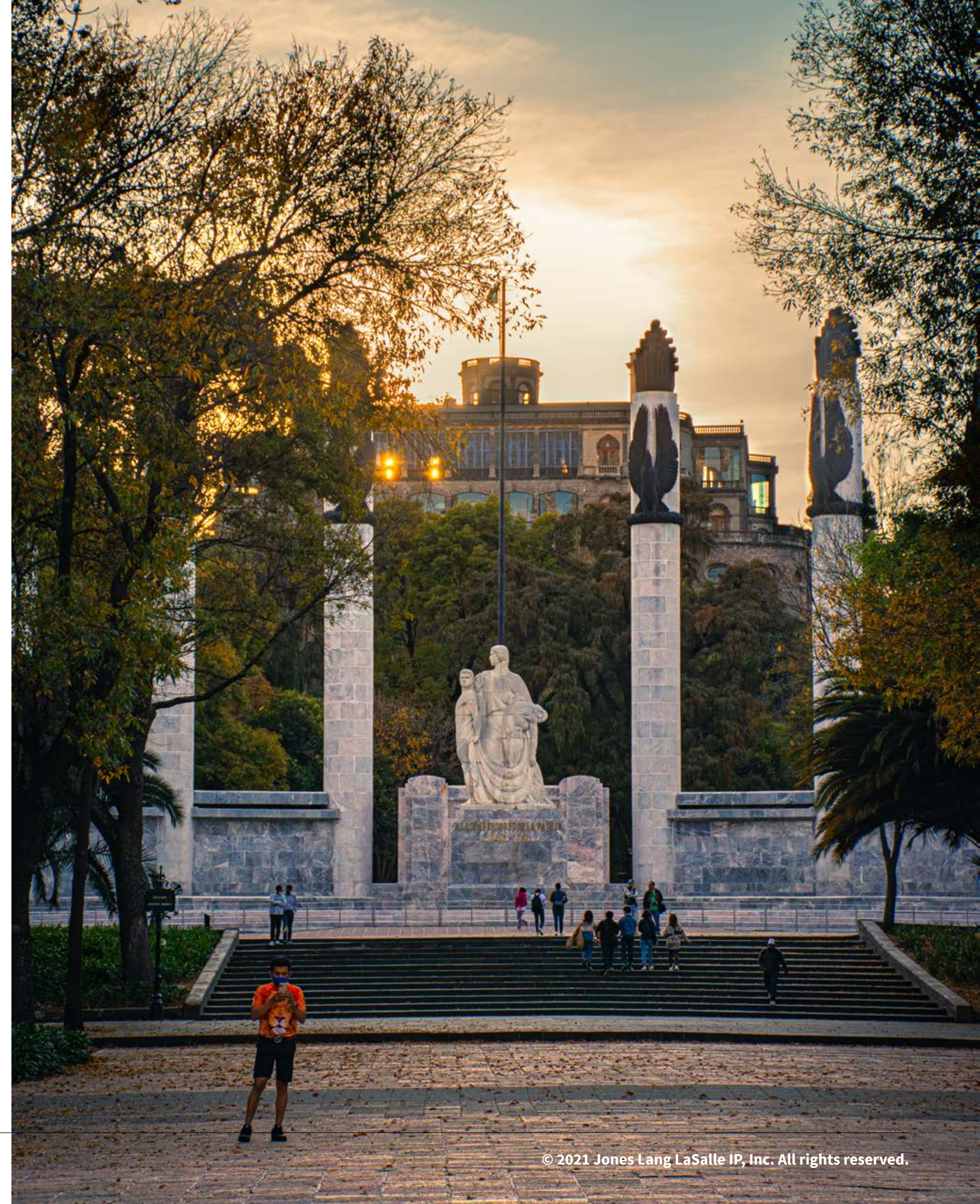
Economic Outlook

Mexico is the second largest economy in Latin America after Brazil in terms of GDP and the sixth largest emerging market in the world. The services sector is responsible for generating almost two thirds of the economy's gross added value, with the manufacturing sector contributing about a fifth. Despite challenges with the current government related to its fiscal discipline and the Central Bank's (Banxico) concerns over its independence, Mexico's economy is expected to observe a solid recovery in 2021, surpassing the GDP growth the Latin America region as a whole is expected to observe in the year.

GDP Growth Forecasts 2020 **GDP Growth Forecasts 2021**



Source: Oxford Economics



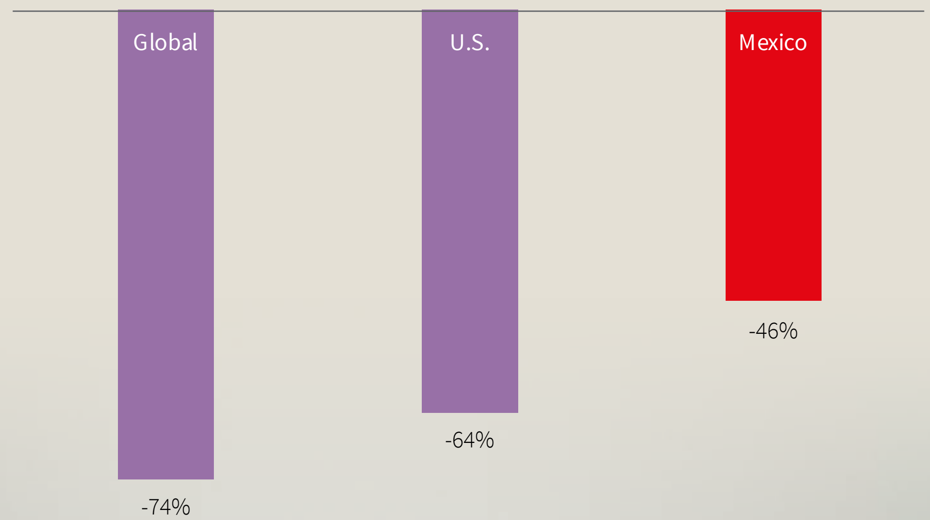
Travel and Tourism Industry

The travel and tourism industry continues to play a vital role in Mexico's overall economy, contributing to nearly 16% of the country's GDP (2019). Mexico remains a popular travel destination as evidenced by the country's following accomplishments:

#1	#2	#7
visited destination by foreign tourists within Latin America (2019)	**most visited destination in the Americas (2019)**	**most visited country in the world (2019)**

The United States is by far the main feeder market, followed by Canada and the United Kingdom. Mexico's proximity to the United States demonstrated yet again its strategic importance for the travel and tourism industry during the COVID-19 pandemic. In fact, in 2020 international tourist arrivals globally declined 74%, while Mexico observed a much lesser decline of only 46%. The absence of travel restrictions in Mexico and its convenient accessibility from the United States favored a resurgence in tourism starting in August / September 2020, especially in beach and touristic destinations. Moreover, the Mexican peso is expected to remain weak against the US dollar, which should continue supporting strong levels of visitation into the country, particularly as a greater proportion of the United States population is successfully inoculated.

Change in international tourist arrivals - 2020 vs. 2019



Souce: UNWTO, CNET - Consejo Nacional Empresarial Turistico

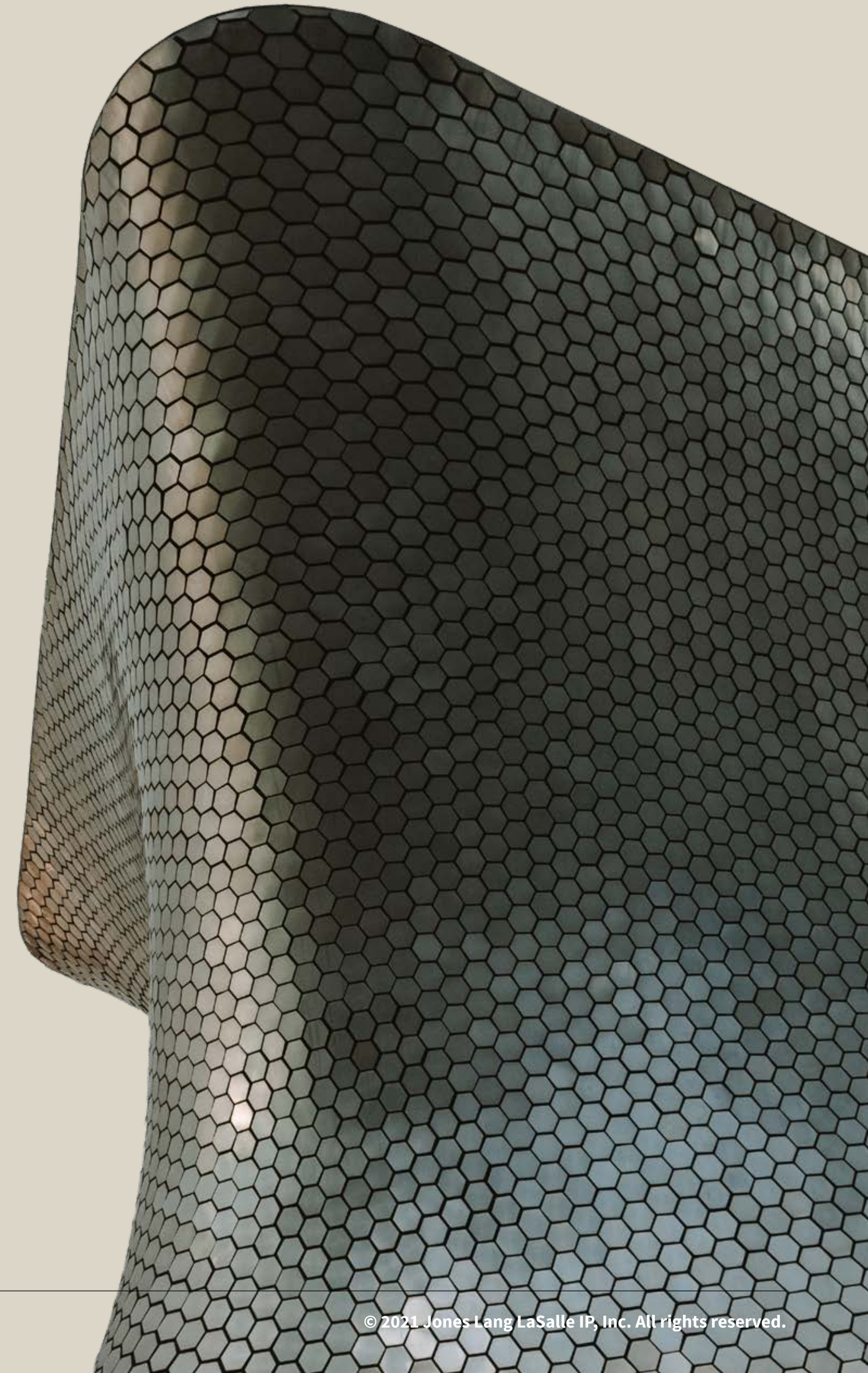
Note: based on 2020 projected data

Did you know?

Mexico's Industrial Market Remains Resilient Off-the-Back of Strong E-Commerce Trends

Given its location, Mexico also continues to be a prime destination for industrial investments, and global companies continue to choose Mexico to establish new factories, not only for the automotive industry but also for aerospace, food, medical and computers. Mexico is part of the United States and Canada supply chain and the confirmation of the USMCA and the election of President Biden have secured further investments in industrial real estate along the US-Mexico border for Maquiladora industries.

Comparable to other countries, in 2020, Mexico's industrial real estate was propelled by the extraordinary growth in e-commerce and e-tailer business, and the consequent need for spaces for distribution, urban infield and fulfilment centers in most of the primary and secondary cities of Mexico. In 2020, industrial real estate grew from 77.08 million m^2 to 79.3 million m^2, outperforming growth in the overall Mexican economy. Monthly rents, on average, also grew slightly from \$4.42 per m^2 to \$4.53 per m^2, while vacancy remained stable at 5.61% vs. 5.55% in 2019, providing certainty to investors. These fundamentals keep attracting global investors with a strong appetite to do business in almost all industrial markets in Mexico, fueling business and corporate lodging demand in these markets.

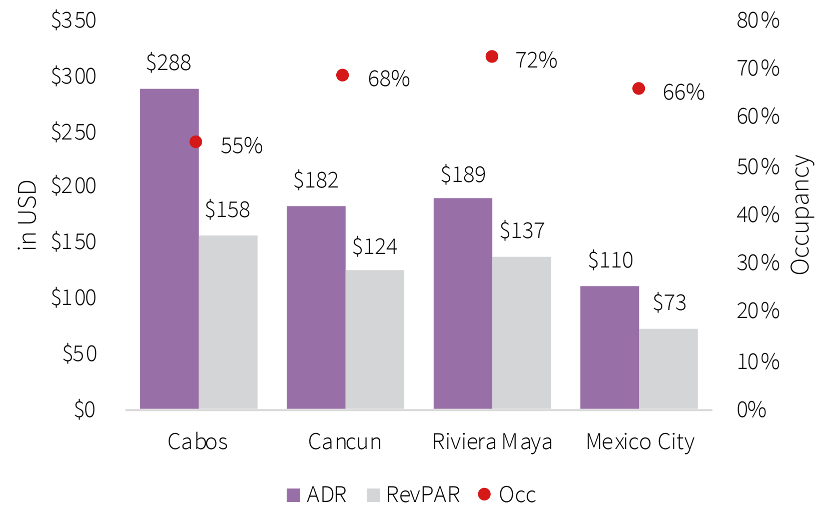


Lodging Performance

The relatively strong rebound in visitation to Mexico was evident in the performance of the country's prominent resort markets, such as Los Cabos, Cancun and the Riviera Maya. These markets, while still observing steep occupancy declines, in part due to maximum occupancy limitations dictated by the government, managed to achieve average rates that surpassed 2019 levels, despite 2020 marking the worst year in the hospitality industry's history.

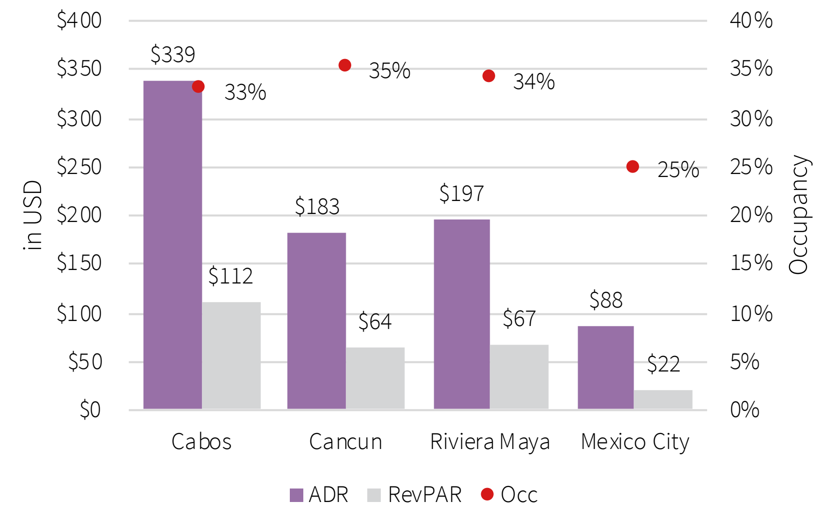
This performance was largely driven by domestic and international travelers from the United States experiencing lockdown fatigue who looked to escape to one of the few destinations that remained open to visitors at the onset of the pandemic. Mexico as a country was able to convey a level of confidence to tourists by not shutting down its borders and by being one of the first destinations to obtain the Safe Travels stamp developed by the World Travel & Tourism Council (WTTC). Hotels in Mexico swiftly implemented all the required safety protocols initiated by not only hotel parent brand companies but also by different global and regional health and safety organizations, industry leaders and associations, such as CNET (Consejo Nacional Empresarial Turistico). Collectively, all organizations continue to work together to promote and defend the interests of the hospitality and tourism industry in the country.

2019 lodging performance by market (USD)

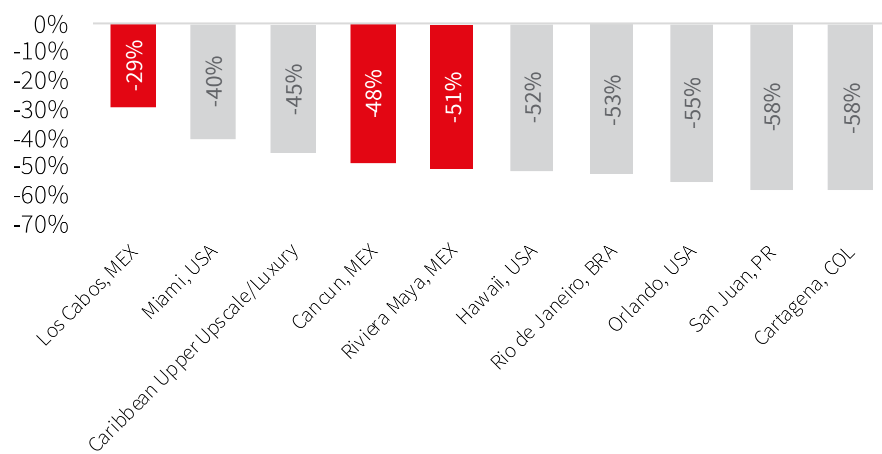


Source: STR

2020 lodging performance by market (USD)

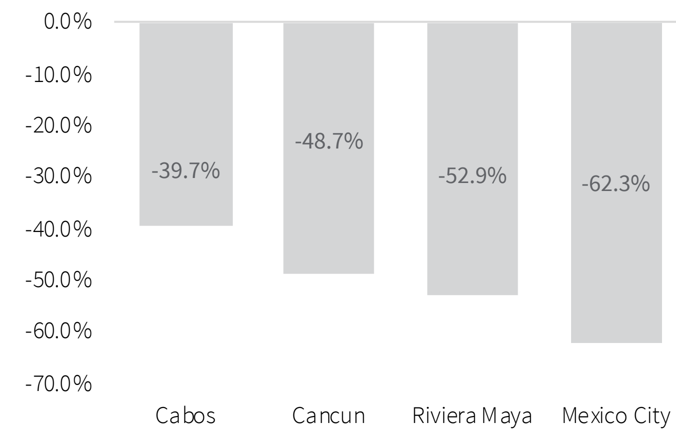


2020 vs. 2019 RevPAR performance in leisure markets across the Americas



Source: STR, JLL Research

2020 Occupancy Performance Across Markets in Mexico



Source: STR

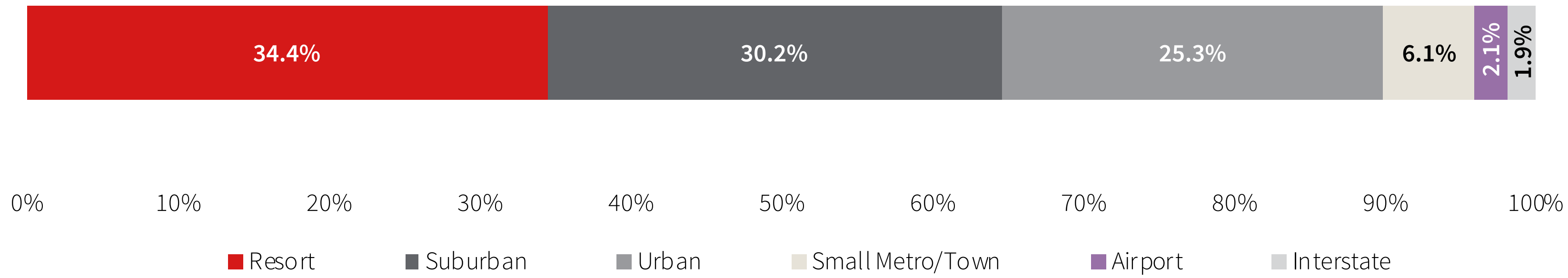
Supply Dynamics

Mexico boasts the most developed hotel sector in Latin America, with over 400,000 hotel rooms spread across the country. Although the country's room supply is equally divided between branded and independent properties, key destinations in the country typically exhibit a higher level of institutional grade (branded) hotel supply, with approximately 60% of existing hotel rooms being branded in destinations such as Cancun/Riviera Maya and Mexico City.

Over one third of Mexico's supply is in resort destinations. Combined, the Cancun / Riviera Maya destination represent the largest hotel market concentration in Mexico, with about a fifth of the nation's hotel room supply, followed by Mexico City and the Puerto Vallarta/ Riviera Nayarit region.

The pipeline of new hotels for the country is impressive, with close to 14,000 rooms currently under construction and an additional 10,000 rooms under planning stages expected to be delivered by the end of 2023. This level of activity demonstrates investors' strong belief in the long-term outlook of Mexico's lodging sector. New vacation destinations such as the Riviera Nayarit on the West Coast have been the recent focus of many developers, while traditional resort markets such as Los Cabos and Cancun continue to see new projects. While some projects in the planning stages have been halted or delayed due to the pause in capital funding and the temporary closure of government entities in charge of approving permits and licenses, projects under construction that were temporarily paused during the lockdown quickly restarted as soon as it was allowed.

Mexico existing room supply - by location type

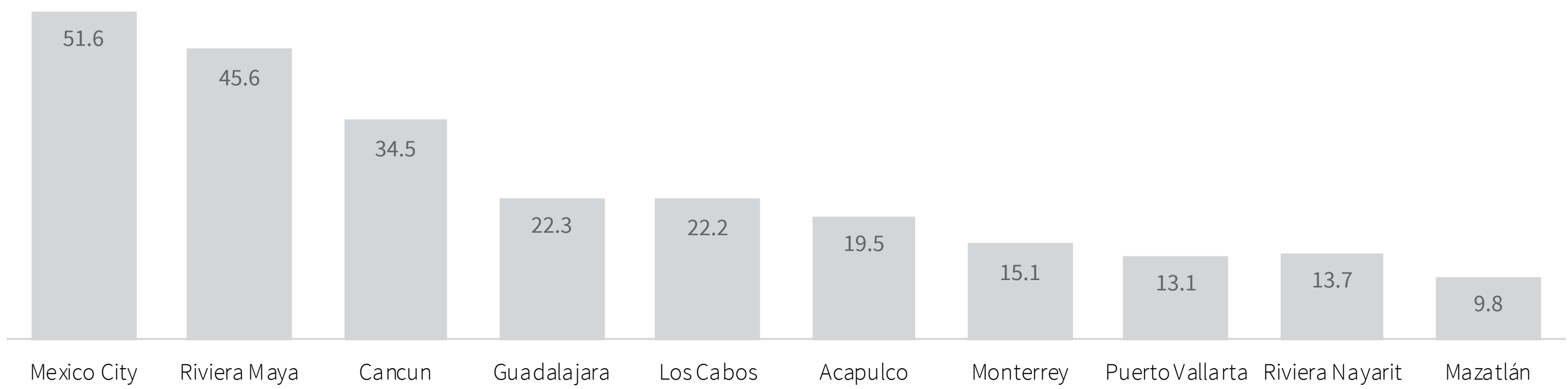


Source: STR

Mexico existing room supply - by affiliation

Source: STR

Room supply by destination, 2020 (in thousands)



Source: CNET, Datatur

Hotel Investment Market

Mexico is a highly strategic gateway destination in Latin America, with close ties to the United States economy, featuring a dollarized lodging market and sophisticated hotel supply. As such, the market presents plenty of opportunities to buy quality and profitable assets with robust long-term market fundamentals.

Unlike other countries in Latin America, Mexico has a more sophisticated financing system that allows for investors to finance hotel acquisitions and hotel development at attractive rates. Loans can be provided in US dollars or local currency, depending on whether the hotel will be in a region that allows for USD denominated revenues. Loan to values (LTV) range near 50% of the total value of the asset, and terms vary based on the quality of the sponsor and of the project. Lenders in Mexico include both local banks and international banks, mostly from Spain.

The emergence of domestic investment vehicles (e.g. FIBRAs and CKDs) targeting the hotel sector has increased liquidity in the market in the past years, thereby driving investment in the hotel sector.

Note: FIBRAs = equivalent of the Real Estate Investment Trusts (REITs) in the US; CKDs = Certificates of Capital Development, publicly traded securities issued by trusts to raise capital to finance investment opportunities.

Key Investment Takeaways – Why Mexico?

Second largest economy in Latin America after Brazil, with a highly strategic location in the Americas neighboring the United States

Incoming **new luxury supply** (e.g. Ritz Carlton, Park Hyatt, Waldorf Astoria, Four Seasons, St. Regis, JW Marriott, One&Only, Rosewood, Ritz-Carlton Reserve) expected to strengthen positioning and rate of major destinations, such as Mexico City, Cancun, Riviera Nayarit, Los Cabos, Guadalajara, Monterrey, which will enable higher rates in the mid/long term

Sophisticated hotel ownership (e.g. REITs, real estate funds, pension funds, etc.) and availability of hotel debt financing, leading to **reasonable buyer's market**

Resilient resort markets that benefit from both domestic and international visitors

Low cost of labor, high labor productivity and low cost of goods, **generating high stabilized hotel profit** margins

Large investments in infrastructure projects, including recent and upcoming airport expansions in key destinations (e.g. Mexico City, Puerto Vallarta, Cancun) and the development of the **Mayan train in Quintana Roo**, which bodes well for the future performance of the lodging industry

Large number of independent assets in strategic submarkets that could be converted to international brand with capital investments to capture up-side returns

Presence of high quality and internationally branded assets in **key destinations**

Contributors

Carolina Lacerda

Country Director Mexico & Investment Sales LatAm

Geraldine Guichardo

Global Head of Research, Hotels & Hospitality

Gerardo Ramirez Barba

Regional Director, Industrial, Mexico

Margaux Mielcarek

Senior Associate, Hotels & Hospitality