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# **Mexico Hotels & Resorts: Los Cabos Trends**



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Will Los Cabos be oversupplied with hotel rooms in the next few years if all of the planned hotel rooms are built? While still an uncertain future, the projections herein provide insights into whether the new hotel rooms will lead to an oversupply or can Los Cabos absorb them.

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# Tourist Arrivals

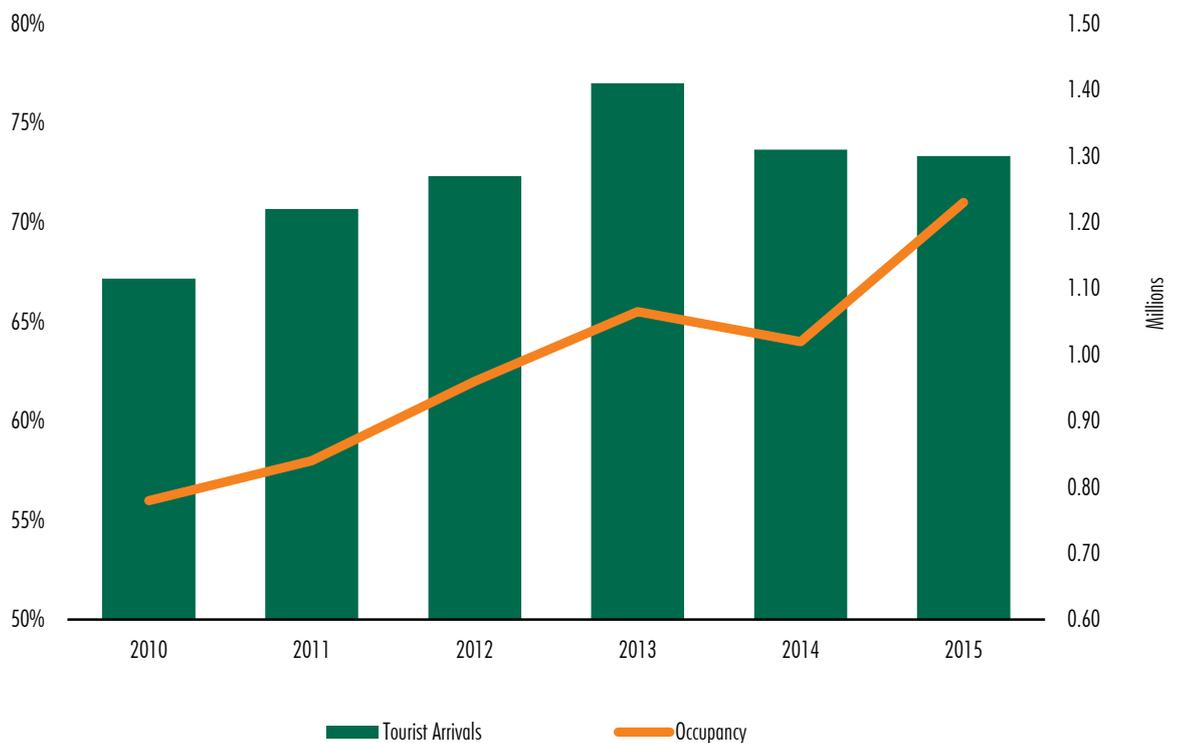
Los Cabos hotel occupancies have recovered from both the recession and Hurricane Odile and tourist arrivals are strong and increasing.

## INCREASE OF VISITORS

Hospitality occupancy rates and tourist arrivals are two prime indicators in projecting future demand in resort markets. Official sources report that over the past 10 years, tourist arrivals to Los Cabos hotels increased by an average of 4.5% annually. The average dropped somewhat due to Hurricane Odile as 2015 arrivals were down nearly 9% from 2013. However, now that we are past the impact of Odile and arrivals have recovered, it is possible that hotel occupancies

can continue to increase 5% annually. Figure 1 illustrates the number of foreign and national tourist arrivals to Los Cabos and average hotel occupancy for all hotels from 2010 to 2015, as reported by DATATUR. The upward trend in increasing arrivals has generally continued after Hurricane Odile. If the current upward trend in tourist arrivals to Los Cabos continues, Los Cabos has the potential to absorb several thousand more hotel rooms.

Figure 1: Historical Los Cabos Hotel Supply/Demand



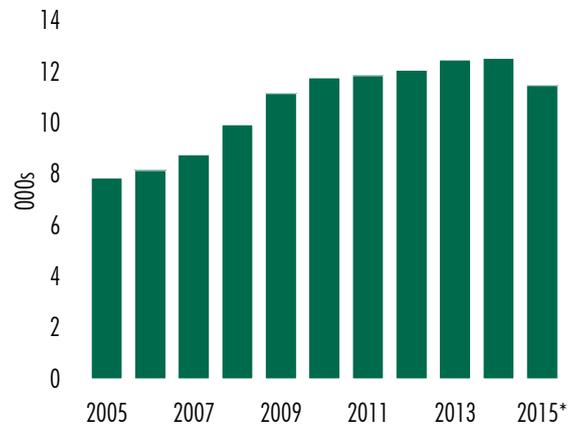
Source: CBRE Valuation & Advisory Services, Q1 2016.

# Hotel Occupancy

As tourist arrivals increased, occupancy also increased and new hotels were built. However, up until 2012, new hotel construction in Los Cabos was limited, thus pushing hotel occupancies higher due to increased demand and stable supply. What is interesting is that while there were about 850 new rooms added to Los Cabos' hotel supply in 2015, occupancy still increased from about 63% to nearly 71%. This shows that demand is currently outpacing the new supply.

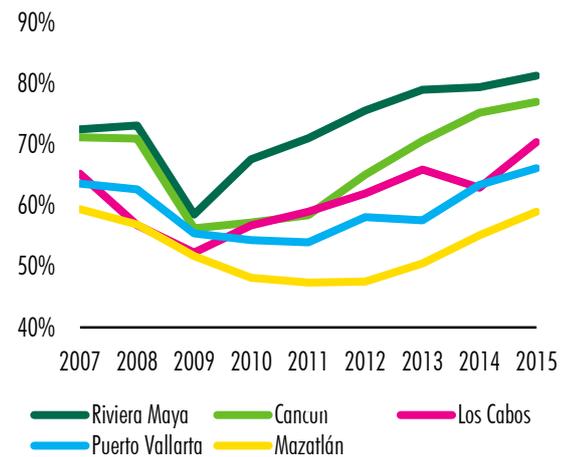
However, there is good news and bad news that needs to be considered. Hotel arrivals may increase more than 5% annually as marketing from new brands into the market can create more interest in Los Cabos leading to even more arrivals. Cancun has reached this dynamic and has much greater tourist traffic due to the marketing exposure of its many hotels. Specific branded hotels have loyal followings that can help bring many new first time tourists to Los Cabos. On the other hand, this increased marketing can lead to older or less capitalized brands losing market share.

Figure 2: Los Cabos Available Rooms



Source: CBRE Research, Q1 2016.

Figure 3: Occupancy Rate at Main Beach Destinations In Mexico



Source: CBRE Research, Q1 2016.



# New Hotel Supply

The estimated new hotel rooms in Los Cabos that have recently opened, are under construction, or in the planning stage now total about 5,000.

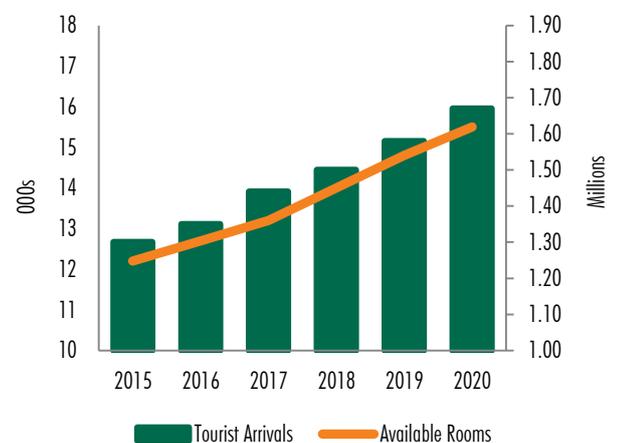
Figure 4: Occupancy Rate at Main Beach Destinations In Mexico

Area	Hotel	Quality (Star)	Status
Cabo Rivera	Four Seasons	5	Planned
Punta Gorda Area	Mayan Palace	4	Planned
Puerto Los Cabos	Ritz Carlton	5	Under Construction
Puerto Los Cabos	JW Marriot	5	Opened late 2015
Puerto Los Cabos	Secrets	4	Opened late 2013
Hotel Row	Mar Adentro	5	Hotel opened early 2016
Hotel Row	Hyatt Place	3	Opened late 2013
San Jose corridor	Not disclosed	5	Planned
Near Palmilla	Hampton Inn	3	Opened September 2015
Chileno Bay	ViveVage (Auberge)	5	Under Construction
Vista Serena	Montage	6	Under Construction
Corridor	Not yet branded	5	Under Construction
Corridor	Solaz (Sheraton)	5	Under Construction
Corridor	Le Blanc	4	Under Construction
Corridor	Villa La Valencia	4	Under Construction
Corridor	Cabo Valencia	5	Under Construction
Near downtown Cabo	Thompson Hotel	4	Opened Fall 2015
Near downtown Cabo	Holiday Inn Express	3	Opened mid 2014
Near downtown Cabo	City Express	3	Opened mid 2015
Marina	Breathless	5	Opened late 2015
Downtown Cabo	Not disclosed	5	Planned
Quivira	Not disclosed	5	Planned
Diamante Cabo San Lucas	Hard Rock	4	Planned
Diamante Cabo San Lucas	Nobu	4	Planned
Cristobal	Solmar	4	Planned
Tres Santos	Not disclosed	4	Under Construction

Source: CBRE Valuation & Advisory Services, Q1 2016.

Figure 5 shows the relationship between projected hotel arrivals and new hotel supply over the next five years. For the hotel arrival projection, a 5.0% annual increase of tourist arrivals is utilized, a rate that the market has historically shown to be possible. For new hotel supply, the amount was estimated from the new hotels in Los Cabos as shown in the earlier table. The chart shows that if all of the new hotels are built over the next several years, given that there are no significant additional new hotels, that demand and supply should maintain equilibrium.

Figure 5: Projected Los Cabos Hotel Supply/Demand



Source: CBRE Research, Q1 2016.

# New Residential Projects

## HEALTHY SALES VOLUME REPORTED AMONG NEW PROJECTS

In addition to the new hotels, there are also a number of new residential projects that are under construction. These developments along the Los Cabos corridor are reporting healthy sales and pre-sales further adding to the trend that Los Cabos is benefiting from increased arrivals and increased marketing exposure. As tourist arrivals continue to increase from the addition of the new hotels, this will generate additional traffic for residential sales. Thus, the addition of the new hotels will benefit existing and new residential projects in Los Cabos. Increasing arrivals and investment into Los Cabos shows support for the possibility of future price increases among residential product.

The hotel projections assume that most of the projected new arrivals will stay in the new hotels, which are primarily 4 to 5 star quality hotels located along the Los

Cabos corridor. The concentration of these new 4 and 5 star quality hotels will also affect average daily rates (ADRs). While ADRs are not addressed in this market brief, this impact can be significant on the market. We anticipate some decline in ADRs due to the surge of new competition. Hopefully, this will entice more visitors to come to Los Cabos due to more competitive hotel rates. Nevertheless, while there may be a dip in occupancy when the surge of these new hotels come on-line, the older hotels will more than likely be affected more than the new hotels and it appears from the data that Los Cabos can absorb the planned hotels without too much impact on overall occupancy.

That is good news for those that worry that all of the new hotels may lead to lower occupancies due to too many new rooms.



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