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Mexico: Trends and Developments

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Ritch Mueller



MEXICO



Trends and Developments

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Ritch Mueller

Ritch Mueller offers strategic legal counsel designed for Mexico's foremost real estate market segments, including residential, industrial, retail, hospitality, and public-private partnerships. The real estate practice advises financial institutions, investment funds, developers, Mexican REITs, and corporate clients on acquisitions, dispositions, joint ventures, financings, and development projects – combining legal precision with commercial insight. The firm integrates deep legal expertise with clients' business goals to structure transactions that maximise value and manage risk. Whether navigating regulatory requirements or negotiating intri-

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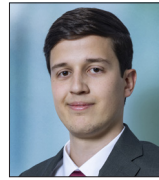
MEXICO TRENDS AND DEVELOPMENTS

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The Evolving Architecture of Mexican Hotel Operations and Transactions

Introduction

Few areas of Mexican real estate have evolved as visibly over the last five years as the contractual and transactional architecture of the country's hotel sector. Mexico has long ranked among the most active hotel markets on the continent and remains so today. What distinguishes the current phase from earlier cycles, however, is not the breadth of activity but the depth of its transactions. A market that five years ago was still focused on operational recovery and pipeline expansion has matured into one defined by its deal architecture: asset-light spin-offs by global operators, long-term and sophisticated management agreements, and a contractual framework that increasingly sets the terms of how institutional capital can engage with the sector.

This evolution is the product of a multi-year arc with three distinct phases. The first, spanning 2021 and 2022, was defined by operational rebound as tourism demand normalised and operators reopened their platforms. The second, through 2023 and 2024, was characterised by capital formation and platform building, with Marriott's acquisition of Hoteles City Express (announced in 2022 and closed in 2023); Holiday Inn Club Vacations' acquisition of four Royal Resorts properties in 2023; and the strategic alliances signed by Palladium and Decameron with Wyndham, and by AB Living Group with Marriott, laying the institutional foundation for what came next. The third phase, unfolding through 2025 and early 2026, has been the most consequential, defined by a small number of highly structured transactions that have redefined the market's reference points: Hyatt's spin-off of the Playa real estate portfolio to Tortuga Resorts; BG Hotels' entry into Mexico through the Devossion by Live Aqua acquisition in Playa del Carmen; and the joint acquisition of the Westin Resort & Spa Cancún from Marriott Vacations Worldwide by Alojica and Royalton Hotels & Resorts. Read together, these transactions reveal a pattern that mirrors broader global hospitality M&A trends of the period: fewer deals, but deals of significantly greater value, longer duration and deeper structural complexity than the market was producing even three years ago.

Looking ahead, the conditions for a more active transactional environment are currently stronger than at any point since 2019. Foreign institutional capital deployed between 2017 and 2020 is approaching natural exit windows, new foreign entrants continue to evaluate Mexican portfolios, and capital formation is increasingly routed through sophisticated joint-venture and co-investment structures. The opportunities for well-positioned buyers and sellers are real, but they will continue to favour well-structured, high-conviction deals.

Underlying each of these dynamics is a set of contractual frameworks that define what is actually possible in any Mexican hotel transaction: the hotel management agreement and its related suite of documents. These contracts, typically running for 20 to 30 years or more, constitute the invisible infrastructure of every hotel asset in the country. They determine what a buyer inherits, what an operator retains, how lenders are protected, and what economic and operational levers remain available to each party over decades. Understanding them is not a technicality; it is the precondition for understanding how hotel transactions in Mexico actually work.

This article examines four dimensions of the evolving architecture of Mexican hotel operations and transactions: the asset-light shift and its contractual footprint; the hotel management agreement framework; the diversifying operator landscape and related governing-law trends (including the emergence of re-flagging and brand repositioning as M&A strategies); and the M&A window now opening through 2027 and beyond. The common thread across all four is the growing centrality of the contractual relationship between owner and operator, which now shapes deal structure, valuation and exit strategy in ways it did not five years ago.

The asset-light shift and its contractual footprint in Mexico

The global shift by international hotel chains toward asset-light strategies – separating real estate ownership from brand, management and distribution functions – has arrived in Mexico with force. The clearest illustration is Hyatt's 2025 sale of the Playa Hotels & Resorts real estate portfolio to Tortuga Resorts for approximately USD2 billion. The transaction is instruc-

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tive not for its size alone, but for what it preserved and how: Hyatt retained 50-year management agreements over 13 of the 14 assets sold (an unusually long tenor by Mexican standards), together with a USD200 million preferred equity stake in Tortuga Resorts that maintains economic alignment between the operator and the new ownership vehicle after the real estate has been deconsolidated. Together, these features preserve operator influence long past the point at which the operator no longer owns the underlying real estate.

Marriott's acquisition of Hoteles City Express in late 2022 illustrates a different direction of the same reconfiguration. Rather than disposing of real estate, Marriott acquired a management and franchise platform, extending its brand footprint into the mid-scale segment in Mexico without the corresponding real estate exposure. Taken together, the Hyatt-Tortuga and Marriott-City Express transactions show that global operators have been actively reshaping their balance-sheet exposure to Mexico in both directions: divesting real estate where operational control can be preserved contractually and acquiring operating platforms where brand reach can be extended without ownership.

Grupo Posadas illustrates yet a third variant of the same asset-light logic, this time from a domestic vantage point. Mexico's largest hotel operator has progressively reduced its direct real estate exposure while expanding its managed and franchised footprint across multiple brands and segments, from Live Aqua and Grand Fiesta Americana at the upper end to Fiesta Inn and One Hotels in the select-service and economy tiers. Posadas's platform now operates predominantly under management and franchise agreements rather than ownership, and its recent role as operator of the rebranded Devosion by Live Aqua property in Playa del Carmen, ahead of BG Hotels' acquisition, evidences how a domestic operator can serve as the contractual vehicle through which foreign capital enters or repositions assets in the Mexican market. Read alongside the Hyatt-Tortuga and Marriott-City Express deals, the Posadas trajectory confirms that an asset-light reconfiguration is no longer the exclusive province of global chains; it has been internalised by leading Mexican operators and is now a structural feature of the domestic hospitality landscape.

The transactional implications are significant. Institutional buyers of Mexican hotel assets must now be prepared to inherit hotel management agreements that are deliberately designed to outlast ownership changes, and to structure their investment around, rather than against, the operator relationship. Operators, in turn, are increasingly selective about counterparty identity and structure, negotiating Acceptable Transferee requirements and change-of-control provisions that ensure ownership transitions do not erode brand standards or competitive positioning.

The HMA framework in Mexico – what hotel management contracts actually look like

Getting to grips with Mexican hotel transactions requires an understanding of the contractual framework that governs hotel operations. Hotel management agreements are not ordinary commercial contracts: they typically run for initial terms of 20 to 30 years, with renewal options that can extend the relationship to 40 years or more, and they impose obligations on the property owner that survive every change of ownership, every refinancing, and virtually every corporate reorganisation. They are, in practical terms, the longest-duration commercial and service contracts most Mexican real estate sponsors will ever sign.

A hotel "deal" with an international operator is rarely a single document. It is a package of interlocking agreements that may be labelled differently according to the operator, but that basically have consistent underlying functions. The core operating contract, most commonly structured as a Hotel Management Agreement (HMA), may also take the form of a Brand and Management Agreement (BAMA) or a similar hybrid, particularly where the operator combines management and licensing functions in a single instrument. Although naming conventions may differ, the underlying principles are the same: operational control, brand standards, long-duration commitment, and a defined economic structure between owner and operator. During the development phase, this core contract is typically accompanied by agreements covering technical services, architectural and design input, and brand-standard oversight, structured as a Technical Services Agreement, a Design Services Agreement, or a combination. Where the project includes a branded

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residential component, a Brand License and Marketing Agreement governs use of the brand in residence sales, and a separate Residential Management Agreement governs ongoing residential operations and any rental programme. Financing adds a Non-Disturbance, Subordination and Attornment Agreement between operator and lender, and where the operator contributes Key Money, a Key Money Guaranty supports the owner's repayment obligation. Each document must be negotiated as part of a single integrated structure.

Operator compensation is designed to align the operator's economic interests with those of the owner while ensuring the operator remains financially covered in periods of underperformance. A base fee, calculated as a percentage of total operating revenue, is paid regardless of profitability. An incentive fee, calculated as a percentage of adjusted gross operating profit and frequently structured in tiered increments, is paid only when financial performance exceeds defined thresholds, often expressed as a percentage return on total project cost payable to the owner before any incentive fee accrues. The balance between base and incentive is one of the most negotiated economic points in any HMA. Additional fees cover sales and marketing, reservations, loyalty-programme participation, technology and accounting services, and, for branded residential components, rental programme management. A replacement reserve contribution, typically equal to a low single-digit percentage of revenue, funds ongoing furniture, fixtures and equipment renewal.

Key Money is the operator's financial contribution to the development, typically funded at opening and amortised over the life of the agreement. If the agreement terminates before full amortisation, the unamortised balance is repayable to the operator, often with creditworthiness or guarantor requirements attached. Key Money operates as a commitment mechanism on the operator's side and a financing tool on the owner's side; legally, it is one of the principal "sticky" elements of the agreement, because its repayment obligation often conditions the effectiveness of any termination.

Area of protection provisions restrict the operator and its affiliates from operating another hotel under the same brand within a defined geographic radius for a defined period, often the full initial term. These claus-

es protect against brand cannibalisation but are narrowly drafted: they typically apply only to the specific brand, not to the operator's entire portfolio, and often contemplate exceptions for franchise arrangements opening after the restricted period ends.

Brand standards and the Uniform System of Accounts for the Lodging Industry (USALI) are the operator's principal tools for operational consistency. Brand standards apply not only to the hotel but, in mixed-use developments, frequently extend to shared amenities, sales centres, and associated retail components. USALI is the required accounting framework, and its ongoing reconciliation against Mexican Financial Reporting Standards (*Normas de Información Financiera* – NIF) and tax reporting obligations creates a recurring friction that owners and their advisers must address throughout the life of the agreement.

The Performance Test is the principal exit valve available to the owners. The typical formulation is a two-prong test measuring both absolute financial performance and performance relative to the market. The first prong compares actual gross operating profit against the GOP budgeted for the relevant fiscal year, requiring that the hotel achieves a specified minimum percentage of the budgeted figure. The second prong measures the hotel's RevPAR Index, which is the ratio between the hotel's own revenue per available room (RevPAR) and the weighted average RevPAR achieved by a defined competitive set of comparable hotels. A RevPAR Index of 100 means the hotel is performing in line with its peers; an index below 100 means it is underperforming them. The second prong typically requires that the hotel fails to achieve a minimum index. The Performance Test fails only when both prongs are missed simultaneously, in each case for two consecutive fiscal years. The logic is to protect the operator against termination based on market-wide downturns: if the broader market declines, absolute GOP may fall, but the RevPAR Index relative to peers will likely hold, and the test will not be triggered.

Testing typically does not begin until the fourth or fifth full fiscal year, giving the hotel time to stabilise. Even when both prongs fail for two consecutive years, the operator commonly retains a "cure" right allowing it to pay the owner the shortfall between actual and

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budgeted GOP and preserve the agreement, subject to a limited number of exercises over the term. The remedy for the owner upon a Performance Test failure is termination of the management relationship. Monetary damages against the operator for operational underperformance are not typically available.

Termination rights beyond the Performance Test are narrow: material default with cure periods, insolvency, expropriation, and specific force majeure circumstances typically constitute the full list. There is no termination for convenience available to the owner, preserving operational continuity.

Transfer provisions protect the operator against ownership transitions that could impair brand value. Acceptable transferee requirements typically exclude competitors, sanctioned persons, parties in material disputes with the operator, and persons failing the operator's KYC process. These requirements interact with common Mexican ownership structures, particularly administrative trusts (*fideicomisos*) used to hold real estate, creating their own drafting and diligence considerations.

Dispute resolution in modern Mexican HMAs typically operates through a dual mechanism. Expert Determination, conducted by an independent industry expert, resolves technical disputes such as budget disagreements, milestone adjustments, competitive-set changes, and performance-test adjustments. Full arbitration, typically ICC arbitration seated in a neutral jurisdiction, resolves contractual disputes. The dual mechanism allows operational frictions to be resolved quickly without triggering full arbitration, a feature that has become standard in sophisticated HMAs and reflects the operational reality of running a hotel under a 20- or 30-year contract.

A closing observation is warranted. The framework described in this section assumes the prevailing model in the Mexican upper-upscale and luxury segments: a full-management arrangement under which the operator runs the hotel directly. In certain cases, however, the operator-owner relationship is structured instead through a franchise agreement, under which the brand licenses its system, standards and distribution platform to the owner without assuming day-to-day

operational responsibility. Operations are conducted directly by the owner or by a third-party management company engaged for that purpose, and the contractual package shifts accordingly: brand standards, reservations and loyalty-programme participation continue to be governed by the franchisor, but operational control, staffing, and profit-and-loss responsibility rest with the owner or its appointed operator. Performance Test, Key Money and Area of Protection provisions, when present at all, take materially different forms. Franchise structures are more common in the select-service and midscale segments and produce a different risk-and-economic profile than full-management arrangements produce, a distinction that becomes material in any subsequent transaction.

A diversifying operator landscape, re-flagging, and evolving governing-law trends

The operator landscape in Mexico has broadened materially over the last five years. Four distinct but related developments define this evolution: the growing presence of independent and experiential luxury operators; the scaling of domestic operators into the high-end segment; the emergence of re-flagging as an M&A strategy; and an observable shift towards Mexican governing law in operator contracts.

Independent and experiential luxury operators such as Aman, Rosewood, Auberge, Raffles and Montage have established or are establishing a meaningful presence in the country's premier destinations. These operators are deliberately selective about location and scale, and they deploy contractual paradigms that differ materially from those of the traditional global chains. For Mexican owners and institutional investors, engaging with them requires a different negotiation framework, one that accepts tighter control and access to the operator's ultra-high net worth distribution platform.

Alongside these international operators, the Mexican high-end segment is no longer the exclusive territory of foreign brands. Domestic operators, with Vidanta and Grupo Posadas as the clearest examples, have continued to scale their offerings and are increasingly competing for the same guest profile targeted by the international chains. What is particularly notable is the parallel redefinition of what luxury hospitality actually

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encompasses. The category is no longer confined to the operation of a resort or hotel asset; it increasingly extends to a curated portfolio of experiences associated with the brand, a pattern illustrated internationally by the Ritz-Carlton Yacht Collection and locally by Vidanta's expansion from its resorts into live entertainment (including a resident Cirque du Soleil production and international headliner performances) and, most recently, its Mediterranean yacht operation under the VidantaWorld Voyages brand. The transactional relevance is not the experiences themselves but what they mean for contract drafting: the scope of what a hotel management agreement or brand licence actually covers is expanding, brand intellectual property and experiential offerings are becoming value drivers that must be addressed explicitly in transaction documentation, and sponsors need to think about operator selection and contractual rights more comprehensively than was required five years ago.

Re-flagging and brand repositioning have emerged as transactional strategies linked directly to the HMA stickiness discussed in the preceding section. Although HMAs are designed to be difficult to terminate, mechanisms do exist, including negotiated termination with payment of the unamortised Key Money and other agreed termination fees, performance-test failure, and consensual brand conversions, all of which are increasingly being deployed. Buyers entering the Mexican market are not only acquiring the asset; they are reconfiguring the operational architecture. BG Hotels' entry into Mexico through the acquisition of Ganzi, is a clear example of the full re-flagging dynamic: the property was rebranded and placed under the management of Grupo Posadas as Devosion by Live Aqua, Posadas's new adults-only all-inclusive concept, before BG Hotels completed its acquisition in late 2025. The acquisition of the Westin Resort & Spa Cancún by Alojica, through a Black Creek Mexico-sponsored platform, and Royalton Hotels & Resorts from affiliates of Marriott Vacations Worldwide, illustrates a different but related dynamic: while the property continues operating under the Westin brand as part of Marriott Bonvoy's all-inclusive portfolio, the operational model is being fundamentally repositioned, with Royalton contributing its all-inclusive operational expertise and a significant capital improvement programme converting the hotel

to an All-Inclusive by Marriott Bonvoy format. These transactions reflect a specific market dynamic: strong appetite from new brands, platforms and operators to consolidate positions in Mexico, combined with mature assets whose original owners are approaching exit windows. For legal advisers, these deals require working simultaneously on the acquisition and on the restructuring of the operational arrangements, whether through termination and rebranding or through repositioning within an existing brand system, a dual-track negotiation that has become a distinctive feature of Mexican hotel M&A.

The fourth development is a quieter but significant shift in governing-law choices. International hotel operators historically insisted on foreign substantive law, typically United States law, and arbitration seated outside Mexico. A growing number of operators are now accepting Mexican substantive law as the governing law of their management agreements, while retaining ICC arbitration seated in a neutral foreign jurisdiction, producing a hybrid structure that preserves procedural neutrality but applies Mexican law to the substantive contractual relationship. The drivers are recognisable: intensified appetite from operators to enter or expand in the Mexican market, the growing sophistication of Mexican developers and their legal advisers, and the overall maturation of the market. This shift is not universal, but among independent-luxury operators and those seeking to establish or consolidate positions in the Mexican market, the flexibility is now real.

The M&A window: reading the multi-year arc towards 2027 and 2028

The period from 2021 through early 2026 is best read as a coherent sequence rather than a series of isolated events. Each phase has left the market better positioned for the next: the operational rebound of 2021 and 2022 restored the performance metrics on which underwriting depends; the platform-building activity of 2023 and 2024, including the formation of Alojica's Mexican lodging platform, Palladium's and Decameron's strategic alliances with Wyndham, Holiday Inn Club Vacations' entry into the Mexican Caribbean, and Marriott's City Express acquisition, created institutional owners and operators of scale that did not previously exist; and the marquee transactions of

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2025 and early 2026 demonstrated that sophisticated, structurally complex deals of a significant size can be executed in Mexico.

The clearest driver of the transactional window now opening is the timing of institutional exits. Much of the foreign institutional capital deployed into Mexican hospitality between 2017 and 2020, through private equity funds, opportunistic vehicles, and joint ventures, was invested under standard five-to-seven-year hold periods that, in the absence of the disruption caused by the pandemic, would have matured between 2022 and 2025. The operational contraction of 2020 and 2021 effectively extended these holds by two to three years as sponsors waited for asset performance to normalise and for pricing to recover to levels consistent with original underwriting assumptions. That reset window has now closed. Operating metrics across most major Mexican destinations have stabilised at or above 2019 levels, institutional buyers are demonstrably active in the market, and capital raised during the 2020–2022 period is itself approaching deployment deadlines on the buy-side. The result is natural pressure on both sides of the trade: sellers with capital to return and buyers with capital to deploy.

Layered onto this cycle is the continued appetite of new foreign entrants. European operators have already made their entry visible, and Middle Eastern capital is actively evaluating Mexican portfolios. This activity is consistent with a broader pattern observable across the global hospitality sector, where recent M&A data indicates a shift towards fewer but substantially larger transactions, with luxury and experiential assets capturing a disproportionate share of deal value. In Mexico, the translation of this global pattern is direct: the deals being executed are bigger, more structured, and more concentrated in the upper segments of the market than they were three or five years ago. The entry of new participants also creates a secondary dynamic: when new operators consolidate positions in the Mexican market, they frequently pursue re-flagging strategies of the kind discussed in the preceding section, opening transactional opportunities that the rigidity of existing HMAs would otherwise have foreclosed. In this sense, the diversification of the operator landscape and the opening of the M&A window reinforce each other.

The conditions for a more active transactional period through 2027 and 2028 are therefore materially stronger than at any point since 2019. The pattern, however, will likely continue to favour well-structured, high-conviction deals rather than broad-based volume. The market that has emerged from the last five years rewards sophistication: the ability to navigate complex contractual frameworks, to anticipate the interaction between acquisition structures and existing operator arrangements, and to manage re-flagging dynamics alongside core deal execution.

Final thoughts

What the last five years have built is not a busier Mexican hotel market, but a more serious one. The transactions defining the sector today are fewer in number, larger in scale, and more contractually sophisticated than those of any prior cycle, and the frameworks governing operator relationships have become the principal determinant of how value is created, preserved and ultimately realised. Hotel management agreements are sophisticated, interlocking contracts that bind the asset for decades, and the quality of their initial negotiation determines the value of every subsequent transaction. Domestic operators are competing meaningfully in the high-end segment, and the definition of what luxury hospitality encompasses is expanding. Governing-law trends are shifting in favour of Mexican law for a broader range of operators. And the transactional window opening through the next few years will reward participants who understand and work with these structural features rather than against them.

The role of the Mexican legal adviser in this environment has evolved accordingly. It now involves translating international contractual paradigms into Mexican ownership structures, anticipating the friction points that will surface in future M&A transactions, and managing the dual-track dynamics of acquisition and re-flagging when they arise. Hotel contracts are built to last for decades; so too must the structures and advice that surround them. The firms and investors that understand this, and that structure their projects accordingly, will be well positioned to capture the value that the next phase of this market is preparing to release.

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