

Ocean-view Investments

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BACKGROUND

María Andrea is a 40-year-old professional, who, after purchasing an apartment in front of the beach and leasing it through Airbnb for five years, has discovered the need for premium accommodations and decided to plunge into the real estate business.

She finds the ideal place, a paradise in front of the beach, where she can develop a set of apartments and amenities for lease and/or sale. She cannot pass this opportunity up.

She has decided to sell her apartment by the beach and consider this revenue in the initial investment. She bought this apartment five years ago, with an original value of \$3,800,000 pesos (MXN). It has a useful life of 20 years and has had a 10% annual gain. The tax rate in force for the sale of fixed assets is 30 percent.

INITIAL INVESTMENT

She got the ball rolling and concluded that the construction of this new vacation resort will be of one year and that pre-sale of the apartments can be carried out during this time.

She has her family’s support, owners of “Cazyel Construcciones” (Cazyel Construcciones), a leading company in their town, founded 20 years ago in her native Puerto Vallarta. She was handed the blueprints and costs with the details of the initial investment.

INITIAL INVESTMENT EXPRESSED IN MEXICAN PESOS	
CONCEPT	AMOUNT
Land	20,000,000
Design and permits	4,000,000
Construction	45,000,000
Outfittings, furniture, and equipment	15,000,000
Start-up expenses	2,000,000
TOTAL	86,000,000

FINANCIAL SOURCES

Together with her family, they have a total of 20 million pesos (MXN) which they can bring forward as capital to start this project. They have agreed to request a return that is equivalent to the government bonus of ten years plus the maximum expected in an [Airbnb](#) lease, which is of 10 percent.

The rest will be funded with a 10-year debt, time that will also be considered as investment horizon. The most adequate funding rate they can get is with [Banorte](#), with an average 12.9% CAT (Banorte, n/d).



Image. Freepik, 2024.

SALES PROJECTION

There would be 20 apartments distributed into two towers and a pent-house in each. The North Tower would be for sales, and the South Tower for lease.

Sales estimations of the apartments are presented as follows:		
NO. APARTMENTS	SALES PRICE	YEAR OF SALE
4	8,500,000 (MXN)	Year 1
6	9,500,000 (MXN)	Year 2
Pent-house	20,000,000 (MXN)	Year 2

The South Tower is intended for lease with two types of contracts:
annual lease or floating lease(a minimum of one-week vacation). Calculations are presented next:

NO. APARTMENTS	LEASE VALUE	TYPE OF CONTRACT	LEASED PERIODS
5	60,000 (MXN) monthly	Annual Two	Three apartments as of year 1 more apartments as of year 2
5	25,000(MXN) weekly	Floating	An average of 36 weeks per year as of year 1 until year 5, and from year 6 on, 50 weeks
Pent-house	150,000 (MXN) monthly	Annual	The 10 years



The rent will be revised according to the expected inflation, with a 4% average according to [Statista](#) projections.

Image. Freepik, 2024.

EXPENSES PROJECTION

Maintenance costs, insurance, services, gardening, administrative expenses, marketing expenses, among others, are calculated for a 40% total of the income predicted for rent.

Working Capital

Based on her previous experience, María Andrea understands that working capital is of the utmost importance in a company's normal operations, and considering the value of inventories, the credit conditions she will receive from her suppliers, and the credit time she will give to her clients, she calculates that the working capital will be 5% of the lease incomes. The initial investment on working capital is done one year ahead and is expected to be recovered at the end of the ten years.

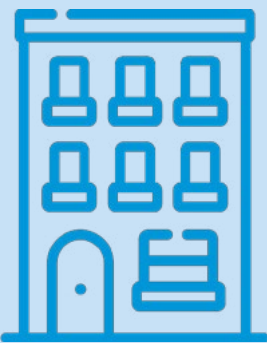
Investment in non-current assets

Furniture and equipment are expected to be refurbished in the leased apartments in year six, with a 10 million pesos (MXN) cost. None of the equipment disposed will be recovered.

Rescue value

At the end of the ten years, María Andrea is planning to sell the South Tower and obtain an \$81,500,000 pesos (MXN) revenue after taxes.

The initial investment gives rise to three fixed assets, considering the following useful lives:



Land, building, and constructions, 20 years.



Furniture and equipment, five years.

The tax rate is 30 percent.

Images: Freepik and Mynamepong in Flaticon, 2024.

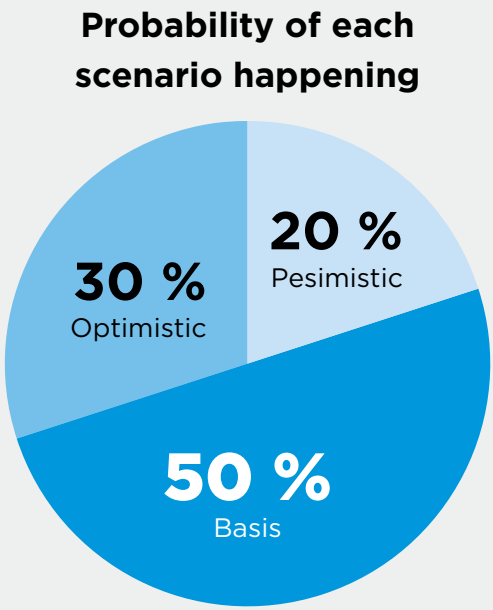


THE DECISION

María Andrea is sure that this project will be a success, but she is aware that things do not always result as planned, so she acknowledges that there can be two alternative scenarios regarding the revenue established for the sale of the North Tower; she believes that the South Tower revenue cannot change.

Pessimistic scenario		
NO. APARTMENTS NORTH TOWER	SALES PRICE	YEAR OF SALE
0	8,500,000 (MXN)	Year 1
6	9,500,000 (MXN)	Year 2
Pent-house	20,000,000(MXN)	Year 3
4	9,500,000(MXN)	Year 3

Optimistic scenario		
NO. APARTMENTS NORTH TOWER	SALES PRICE	YEAR OF SALE
5	8,500,000 (MXN)	Year 1
Pent-house	20,000,000 (MXN)	Year 1
5	9,500,000 (MXN)	Year 2



Based on the project’s evaluation and its different scenarios, should Andrea and her family make the investment? Which would the indicators have to be to make a solid decision?

REFERENCES

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