

DEVELOPMENT POTENTIAL OF CANTAMAR RESORT AND MARINA

DRAFT PROPOSAL



Prepared by Michael Wolf
mwolf@disperser.info

October 2018

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Executive Summary

Club Hotel Cantamar, or Cantamar Resort and Marina, is a small facility outside of La Paz with significant potential for tourism infrastructure that is being wasted. An opportunity thus presents itself for the development of the facilities and property of Cantamar in order to realize significantly more capacity for tourism and to capture that capacity in a profitable manner. There are a significant number of impediments to realizing the potential of Cantamar including related to infrastructure, management, and a simple failure to fully utilize the property and attendant marine concession. There is some question as to the suitability for Cantamar to host tourists directly, but there is significantly more potential for hosting tours otherwise, and if impediments can be overcome, Cantamar represents a significant investment potential.

Purpose

This document is meant to serve the needs of the tourism industry and investors therein specifically for the exploitation of ocean related tourism resources including whaleshark snorkeling, and tours and diving to the local islands.

This document is meant to provide the results of years of inside day to day operations by a keen observer in order to provide insight into the full potential of the facilities. These are valuable insights which are available to anyone interested in soliciting them, but which are otherwise outlined, generally, here in this document.

This document serves the express purposes of providing general information and insight related to insider experience with Club Hotel Cantamar and especially the marina aspect of the business as well as serving as a solicitation for services of the author as a consultant for those wishing to fully investigate those available insights.

Scope

This proposal is limited in scope to the potential for the development of the properties for tourism purposes and a discussion of the perceived and documented impediments. This document does not include any discussion, other than of a general nature, related to investment, financing, or costs; nor does it discuss any details about the present status of the business.

About the Author

The author is a former engineer/programmer with a broad range of skills and experience who came to Cantamar marina in August 2015 and has lived in the marina on a large sailboat continuously since that time. The author contributed a great deal to ensuring the ability of the marina to operate and continue operating, and has immersed himself in the day to day operations of the facility.

The author's experience with the facilities is broad with the exception of actual dive operations, as the author has never participated in any dives or other tours. The author lives, full time, year round, in the marina at Cantamar; loans tools and sometimes skills and knowledge to the staff and has contributed to maintenance and repair on occasion.

The author is available for consultation. CV available upon request in English or Spanish.

Description of Property

Cantamar Resort and Marina presently consists of a small marina, a hotel and resort with restaurant, beach, and pool facilities, and a liveboard dive boat operation operated separately by the same management and with overlap of staff.

The physical facilities are located in Playa Pichilingue, north of the Pichilingue commercial port and is situated entirely on reclaimed land between the original shoreline of Playa Pichilingue and what used to be the Island of San Juan Nepomuceno close to the former island.

The facilities are located outside of La Paz, via a small federal two-lane highway which hugs the rough terrain between La Paz and Pichilingue. The drive is somewhat treacherous and accidents are common though they typically consist of solo accidents of commercial trucks whose drivers are unfamiliar with the road. The traffic primarily consists of beach traffic to Playa Pichilingue, Playa Balandra, Playa Tecolote, and other points north of Pichilingue, as well as Baja Ferries and API and commercial port business, the ferry traffic being the most significant traffic component by volume when ferries run, beach traffic being heavy volume in summer on the weekends.

The facilities consist of a hotel/resort, and marina, as well as a lot presumably leased for development as a dry marina. The hotel consists of two towers of hotel rooms, and two complexes of condominiums, two restrooms in two buildings, one housing a suite, a pool situated outside of a restaurant, a roughly textured parking lot paved with large stones, and a beach with shaded structures and palapas. The marina presently contains a dock for a fishing fleet operating as a lessee, as well as 12 double slips (for two smaller boats or one large boat or multi-hull.) The concession for the marina extends from the west-facing shoreline of Playa Pichilingue to the east of Cantamar, around the physical facilities, and enclosing the beach on the west side of Cantamar. Only a small portion of this concession is presently utilized and none of it has been dredged in recent times.

Summary of Development Potential

There is significant potential for development of Club Cantamar Hotel for the generation of income primarily from tourism, specifically ecological tourism including snorkeling with whale sharks as well as various activities related to island tours, recreation, and diving.

There is some question as to the suitability of the location of Cantamar for hosting tourists as a resort as it is located adjacent to a commercial port and industrial park. This is a matter to be considered by potential investors and will only be discussed briefly in this proposal. But the matter is irrelevant overall because regardless of whether or not the facility hosts tourists as a resort and hotel is actually insignificant financially compared to the other potential of the facility.

The primary feature of this proposal is the fact that the physical facilities of Cantamar are grossly underutilized relative to their potential, especially with regards to the marina.

The primary impediment to development of Cantamar is the present management of the facilities, largely because of the heavy burden of management which is not sufficiently or effectively delegated to capable managers, as well as the reliance of management on tradition over diligence.

It is estimated that the bulk of potential income from Cantamar will come from the marina as a host of tours and tour operators. Cantamar is well situated as the most developed site close to Isla de Espiritu Santo, the primary tourist destination in La Paz, and therefore has the potential to be the

primary source of tourist traffic to the marina either as a direct provider of those tours, as a host of tour operators, or ideally as a combination of provider and host.

Regardless of the future status of the resort, barring any change in the status of what is presently the Pichilingue Industrial Park, development of the resort facilities of Cantamar will not yield a significant source of primary income as a host of tourists on multi-night stays except as packaged with tours. The facilities are too far removed from La Paz to be suitable as a general resort. Any development of the hotel and resort should be with an eye towards daily or single-overnight stays and as a means of packaging tours. Use of the hotel facilities by Baja Ferries customers both commercial and otherwise, should be developed and marketed as a source of reliable filler income for weekdays and off-season time periods.

Development Potential

Marina Development Potential

By far the greatest potential for the development of Cantamar in order to grow income is the marina. Here is potentially the most valuable marina in the La Paz area, based on its location. Not only is it closer to the islands, the first marina you come across when going to La Paz (by about 10 miles), but it is also situated in an environment which receives far less rain than La Paz, and is ideal as a shelter from tropical storms given its very limited exposure.

With a properly developed and installed seawall, Cantamar's marina can be the safest place in the La Paz area for shelter from tropical storms and hurricanes which are objectively getting worse on the peninsula. This is due to its location and the exposure of the bay in which the marina is situated. The only exposure of the bay is to the west, which is the large bay in which La Paz is located, Bahia La Paz. During storms, the only potential for damage other than directly by wind is from waves. Wind is sheltered from the east by hills, from the south by the commercial port and access road, from the north by hills on the opposite side of the small bay at Playa Pichilingue and from the west by the hotel facilities themselves. Thus the only potential for damage are east winds pushing waves into Playa Pichilingue. These waves can easily be blocked with an effective seawall running the length of the border of the concession for the marina.

Presently, only a small portion of the marina concession is utilized. There are slips for no more than 24 small boats. The docks are in poor condition at best, and the material and construction of the docks is unsuitable for commercial public use and must be replaced. The concession should be developed to its full potential. A seawall at the border of (or beyond if possible) the concession is absolutely necessary but can be built relatively cheaply. The seawall should be porous to allow water to flow, but exclude waves and thus should consist of large rocks or similar material which can allow water to freely pass but with significantly diminished flow potential. Used tires would be an excellent material for a seawall if properly constructed, or used to line the outside of the seawall to prevent damage from incidental collisions which are bound to occur. Rock material is readily available in the area which is also quite suitable for a seawall. A CEMEX plant less than a mile from the facilities is also a good resource for materials for construction.



Once the concession is walled and dredged, new posts or other means to anchor docks should be installed. The author of this proposal recommends and can engineer docks of ferro-cement which are inexpensive, strong, and custom made to suit the precise needs of the marina. Given that the bay itself is shallow, the marina will either need to be maintained as a shallow marina (nominal maximum draft of 6.5 feet estimated by author), or a channel dredged, ideally next to the seawall bordering the facility, in order to allow deeper draft boats. Either way, the marina can be developed to include at least 100 slips and possibly be set up to host at least 100 additional small boats such as tour boat pangas.

In addition to the development of the marina, a portion of the concession, that directly north of the restaurant, could be developed as a Mediterranean-style mooring for sailboats. The area can be dredged, included in or excluded from the seawall, and boats can moor between the mooring ball and shore. This can provide for temporary or even long-term moorings for sailboat customers in order to appeal to a broader base of customers.

Tour Operation and Hosting Development Potential

Cantamar's location outside of La Paz and nearer to the islands, and it's being situated in an industrial park which begs serious questions about it's status as a resort for tourists strongly suggests an ideal direction for business for the marina component of Cantamar's physical facilities.

Once the marina is fully developed, Cantamar will have the potential to host tour companies which would operate out of Cantamar. Cantamar can then take advantage of the competitive market of marinas which host tours and begin charging by the head, rather than simply charging for use of space as is presently the case – an unfortunate loss of significant income potential.

Due to other physical facilities at Cantamar and their potential for use in support of this aspect of Cantamar's future business, hosting tour companies would be quite lucrative as the physical facilities could also host a dry marina as well as facilities for the repair of small boats and outboard engines.

Presently, the back lot of Cantamar is not utilized, having been leased over a year ago to a North American who plans to put in a dry marina. If instead, Cantamar were to also acquire the property

next-door to the west, which is designated as a boatyard but in a state of complete abandonment, a full boatyard and dry marina could be developed as a part of Cantamar, or leased by Cantamar to a boatyard business, so that full support of the tourist industry can be maintained right here in Pichilingue. It is vital that Cantamar maintain a business relationship with any boatyard due to its own boat maintenance needs in order to ensure Cantamar always has access to such facilities.

It should be noted that if Cantamar is not to be developed as a resort that it should be developed to support tourism, and that means that Cantamar should integrate a full boatyard into its facilities or otherwise ensure that a boatyard can be built which would fully support Cantamar's needs and those of the tour groups it would develop to host.

Dive Center Development Potential

Given the present state of maintenance and care for the physical facilities and resources of the dive center, there is significant potential for expansion of the dive center and its services. And given Cantamar's location and the fact that it does not have to lease land to operate as a dive center – because it is integrated with a marina and resort already, Cantamar has significant cost advantage over other operators due to lack of overhead.

Were Cantamar to fully develop its physical facilities, improve its dive boats, create a maintenance program for and properly maintain dive boats not only in pristine operational condition, but also pristine cosmetic condition, there is no reason to believe Cantamar could not completely take over the diving services market for La Paz with the noted exception of any services it chooses to host, which ideally would be limited to private, high-end dive services which cater to couples and small groups which could not as easily be serviced by Cantamar.

Resort Development Potential

Development of Cantamar as a profitable resort is a questionable venture indeed, and depends entirely on outside factors. Up until mere days before the creation of this report, the access road to Cantamar was a mess, at best, and a massive source of dust and other pollution which daily and quite dramatically affects Cantamar as exemplified by the need for tour operators to wash their boats daily in order to remove the dust blown onto boats from the access road. But in addition to dust, as there is a commercial port directly south, any wind from the south will blow all pollution from the commercial port over Cantamar's marina as well as the resort. The commercial port allows boats to run generators, which are often improperly tuned and run quite rich which allows unspent diesel fumes mixed with exhaust to drift over Cantamar facilities, producing an environment which is not at all suitable to hosting tourists. Further, because this is an industrial park, the traffic, which runs late into the night by schedule due to the ferries, primarily consists of heavy trucks, some of which use their unmuffled engine brakes which can be heard quite plainly inside any hotel room on campus.

As such, unless there are changes by Baja Ferries and APIBCS, which seems unlikely given their histories, development of Cantamar as a resort hosting tourists should be limited and it should be understood that until these problems outside Cantamar are corrected and its status as a tourist facility is properly respected, Cantamar's primary source of income must be from other than hosting tourists as a resort.

However; development of the present facilities to provide accommodations for travelers, especially commercial truck drivers using Baja Ferries, should be considered as both a source of

supplemental income, as well a means to further market the facilities of Cantamar as more profitable.

Condominiums at Cantamar can be further developed and used as weekend “party suites” for locals who want to entertain and who don't mind some of the problems at Cantamar, or bookings can be adjusted to acknowledge that there are times of the year when winds do not blow pollution from the commercial port, and bookings be made only during those times. If these condominiums are fully developed, an excellent opportunity for very lucrative weekend rentals which could include a vast array of additional equipment rented to support parties, weddings, and other events would provide for an excellent substitute for hosting tourists should outside factors not change to allow such development.

Dry Marina Development Potential

A dry marina at Cantamar could also be a significant source of income if properly developed. An ideal dry marina would include a well built structure to house high end customers' boats which could be charged for as much as \$1000USD per month. A simple system with minimal impact to the marine environment can be created to haul boats out of the water using an overhead crane which then transports the boat, even automatically, to a multi-story building which could house as many as 50 small to medium sized boats, a building which could be made hurricane proof as a selling point. Along with this building, normal outside storage for less financially well founded customers can be created for seasonal and other storage as well as for the boatyard.

Integration with a boatyard built on the property already designated as such adjacent to this lot would be ideal as it would ensure Cantamar has full control of the boatyard as well as the means by which to remove boats from the water. By using that property, facilities would not have to be developed on the present lot and a great deal of money could be saved by combining the element common to both business, the facilities for removing boats from the water and relaunching them.

Impediments to Development

Infrastructure Issues

Cantamar's physical facilities do include some inherent difficulties due to it's location on reclaimed land, the native materials used in construction, and the infrastructure created during initial development of the physical facilities, primarily exemplified by the parking lot surface which, to be honest, is unsuitable for it's intended use. While there are few if any signs of problems related to the nature of the reclaimed land upon which Cantamar is built, there are nevertheless problems which must be addressed, especially as relates to the marina.

Full development of the marina will require repair reconstruction of the wall next to the marina tower which was damaged by seismic activity, as well as significant repairs to the substructure of the marina, which is suffering from erosion damage.

Buildings should be inspected for and repairs made due to degradation of mortar and cement from the use of decomposed granite as a poor substitute for sand, an unfortunate common practice given the prolific abundance of decomposed granite in the region. Of course, decomposed granite is unsuitable for aggregate composites such as cement and mortar which utilize sand as a filler for the binding agent. But if the filler is of a material which degrades naturally due to internal chemical breakdown over time, then the cement or mortar will not remain effective in the long term.

Unfortunately, it appears that cinder blocks are also made of this material here, and are used in the construction of the physical facilities here. Repairs can be made with properly made mortar using silica-based sand, or even beach sand which consists of calcium carbonate, a superior material to decomposed granite and still quite readily available. Sealing of all buildings is paramount, especially at the bases where water erosion and salt corrosion act against the material in the most vulnerable part of the structure of the buildings.

The parking lot must be repaved. It presently consists of mortared boulders in what appears to be an attempt to mimic flagstone but which was not at all successful, resulting in a very rough surface which is presently showing extreme signs of disservice. Worse, the surface is so rough that it significantly inhibits the function especially related to marina operations. It is recommended that the surface be removed and replaced with cement, which is locally available at the Pemex plant less than one mile away. Dredge tailings from the commercial port can be purchased to provide sand so long as a crusher is also purchased to process the material which largely consists of mollusk shells.

Plumbing is showing signs of issues and should be inspected and addressed as necessary. Given that it appears nearly all plumbing was embedded into the structure, it is likely that any changes will require externalizing plumbing, perhaps limited to just new plumbing, but ideally all plumbing should be relocated to facilitate easier maintenance and repair.

Campus-wide, the electrical system requires a complete rework. Given that the power bill seems to be around \$100,000MXN/month, and given the presence of 30VAC in the marina, it is almost certain that faulty wiring and current leaks are a significant component of the power consumption, especially given that this bill represents almost no occupancy of the resort itself and merely reflects day to day operations of the marina and dive center and office, although illicit cryptocurrency mining by staff may also be a factor.

Financial Impediments

Financial impediments are largely beyond the scope of this proposal except to state that these impediments should be carefully discovered and analyzed in order to provide a more complete prospectus. However; given that this proposal covers potential, it must be stated that there are expected to be significant financial impediments to development, not only from the cost of improvements as outlined in this proposal, but also in securing permits, paying fines, and other costs associated with the conduct of business in Baja California Sur and Mexico in general; both still affected by the corruption which the incoming government promises to address.

These impediments are very real – these costs associated with doing business the way it has been done here for so long. But, these problems can be addressed in ways other than paying bribes, and in fact should be addressed in other ways. It is the position of the author of this proposal that the financial benefits post-development should be used to demonstrate the potential income of this property and the benefits that income can provide to Baja California Sur. Thus, any financial analysis should take into consideration the financial benefits to the government specifically and in their mission so as to completely bypass all off-the-books financial impediments which might interfere in the development of this property.

It should also be noted that development of Cantamar can be done without outside investment; though such development would be much slower. Just fixing major problems and separating the liveaboard dive business would mean significant increases in income which could be reinvested.

Management Impediments

Management essentially does not exist for this property. This is exemplified not only in the lack of care of the physical facilities, but in the rampant theft by employees, including of major items.

At-present, the facilities are managed – in name only – by the presumed owner, Pedro Aguilar. But, Pedro's primary focus is the liveboard dive boats. These boats – Southern Sport, Sea Escape, and now Cassiopeia/Soccorros Aggressor, are the primary source of income for Pedro and the primary focus of his attention. Likely due to the extreme workload, Pedro neglects the physical facilities of Cantamar apparently in favor of the liveboards, likely because they are almost certainly about the only source of profit for Pedro in this operation.

But that the physical facilities of Cantamar does not provide sufficient profit is precisely because Pedro puts no real effort into the facilities except to maintain his liveboard dive boats. The facilities here are simply not cared for. Employees have no financial or other motivation to concern themselves with the facilities, other than to report for a job that provides a paycheck – except when Pedro fails to pay his employees that is. And even Pedro himself has written contracts for tour operators which were priced significantly lower than market rates as he did not even consider a per-head fee as all other marinas in the area (and elsewhere) charge for any commercial operation operating out of a private marina.

Thus, the ideal situation with regards to solving the management impediment is to see Pedro take his liveboard boats and separate them out from the business to be operated separately and independently of Club Hotel Cantamar, the resort, and the marina. In this way, a manager can be brought in to focus on the operation of the property and ensuring that the facilities are actually operating efficiently, effectively, and at-profit, and that development of potential can take place.

Environmental Impediments

Environmental impediments to development of Cantamar facilities are something of a conundrum as the present state of operation is extremely detrimental to the environment due to the lack of concern by employees and management for the environment. Simply changing management and utilizing environmentally conscious (and legally required) methods would cease nearly all environmental harm caused by the operation of the facility presently.

Thus, the only potential environmental impediments relate strictly to further development, and are matters to be worked out with the new government by those who take on the responsibility of operating Cantamar. However; some notes on this matter will be made in consideration of observations made as to the nature of Cantamar in relation to the Sea of Cortez:

Cantamar's marina is situated in a location which makes it ideal as a nursery for many species of reef and baitfish, as well as other and even protected species. The beach also hosted two turtle clutches this season. The proliferation of illegal fishing in the immediate area and vicinity by fishermen who operate out of what is presently inside Cantamar's concession is also a consideration. With full development of Cantamar, these illegal fishermen could not operate, and the nursery aspects of Cantamar developed and protected. Cantamar has every potential to be a leader in ecotourism, which is the future of tourism in Mexico, like it or not.

Government and Political Impediments

The government of Baja California Sur has been so corrupt that there is question as to whether or not it functions. But on the matter of development of tourist infrastructure, corruption is not a major impediment. Where it is an impediment however; is in receiving fair and equal treatment and getting permits in a timely manner and with predictable costs.

The government has changed considerably in the most recent elections, which saw the progressive MORENA candidates sweep even Baja California Sur. So a new government provides for new opportunities, especially considering MORENA's promises which include reducing corruption, especially with regards to land development and other foreign exploitation of Mexico.

As such, a real opportunity presents itself here. Presenting this investment to the proper authorities could see a significant level of assistance from the government, especially in light of the expected increase in potential for tourist income as can be provided by these proposed improvements to Cantamar.

Other Impediments

By far the greatest other impediment to development of Cantamar is securing the right to do so. The present owner/operator is not a good businessman, and has wild ideas of the value of this property. While a detailed analysis would be required, it is estimated that given the condition of the infrastructure of the property and the extreme level of financial investment required for development, the author expects that this place has little financial value, especially relative to the millions that the owner assumes it to be worth.

Finally, the disposition of the title and/or use of the land is a serious potential impediment to development of Cantamar. If the property can be purchased wholly, it should be purchased completely from its present ownership so that it can be properly managed and maintained going forward. But if the property cannot be owned, then a new lease from the government should be negotiated with favorable conditions for development. It should be noted that the state of title of the property is unknown. It is believed to be state-owned property with a concession owned by APIBCS which is in turn leased via some instrument to the Aguilar family, likely in the name of Pedro's father, Fernando. This information should be verified through public records first and then through ITAI in order to ensure accurate information is had.

Under the assumption that the property rights are held in concession, it is likely that the concession can simply be withdrawn by the state under breach of contract, especially related to performance, and that the concession can be reassigned by the state. From there, there are two distinct paths: one is reassignment to an operator who can reform the property and attempt to invest from within; or, a bidding process can occur which considers the development potential and seeks to find the investor most able to meet the needs of La Paz and Baja California Sur's tourism industry.