Design and Development of Future Beach Destinations: Lessons Learned from Acapulco, Aruba, Cancun and Costa Smeralda

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ABSTRACT

Countries around the world have fostered economic development through tourism by drawing upon their cultural, architectural and archeological heritage, as well as on their natural resources such as coastlines, scenic landscapes, and flora and fauna. Numerous times in the development of sites and cities for tourism, short term economic development policies have received the highest priority, endangering economic sustainability by causing congestion and degradation of the cultural and environmental assets, which are the very basis of tourism development.

This paper analyzes the conflicting economic interests of hotel developers, local residents and regional governments that come into play in the development of beach resorts. These forces can and often do lead to the destruction of the unique characteristics of the local natural and cultural landscape. The paper presents different solutions that have been implemented to try to align those interests to achieve a better outcome for all parties involved. These solutions include: government regulations, development by a single owner and education of local residents. This analysis demonstrates through case studies that government intervention is needed to make beach development sustainable over time. However, until now government regulation in environmental and building design has been minimal and misguided, leading to the creation of places with little character and uniqueness.

The central question of this thesis is: What level and type of government intervention is required to promote the development of beach resorts at destinations that protect the environment, celebrate local culture, and promote sustainable and equitable economic development?

To answer this question the strategic policy decisions made by government and private developers in the conception of seaside resorts in three different countries are analyzed: Acapulco and Cancun in Mexico, Costa Smeralda in Italy, and Aruba in the Caribbean. These cases were chosen because they represent three very different development scenarios: Single ownership development with no government intervention (Costa Smeralda), multiparty development with no government intervention (Acapulco), and multiparty development with minimal government regulation (Cancun). These case studies analyze the international tourism market trends and economic forces that have given shape to them over the 25 years following the implementation of their specific development, environmental, and design policies. Based on this analysis, new policies and a new model of development for beach destinations is proposed.

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INTRODUCTION

Advances in technology and the emergence of a global economy have boosted an unprecedented demand for international travel. Tourism has evolved from being a peripheral economic activity to becoming the largest industry worldwide. Travel and tourism together are the world's largest industry, larger than Agriculture, Oil, Automobiles or Steel. They employ about 6% of the global work force, around 100 million people. Domestic and international tourism combined generate an estimated 10% of the global gross domestic product. In terms of exports, international travel and tourism receipts account for 10% of the world's total, making it the world's largest export earner, larger than any other economic sector.¹

This importance of tourism had led countries around the world to foster economic development through tourism by drawing upon their cultural, architectural and archeological heritage, as well as on their natural resources such as coastlines, scenic landscapes, and flora and fauna. Numerous times in the development of sites and cities for tourism, short term economic development policies have received the highest priority, endangering economic sustainability by causing congestion and degradation of the cultural and environmental assets, which are the very basis of tourism development.

This paper analyzes the conflicting economic interests of hotel developers, local residents and regional governments that come into play in the development of beach resorts. These forces can and often do lead to the destruction of the unique characteristics of the local natural and cultural landscape. The paper presents different solutions that have been

¹ Huescar Augusto, Luhrman Deborah, WTO. Latin Finance. May 1995. p 54
implemented to try to align those interests to achieve a better outcome for all parties involved. These solutions include: government regulations, development by a single owner and education of local residents. This analysis demonstrates through case studies that government intervention is needed to make beach development sustainable over time. However, until now government regulation in environmental and building design has been minimal and misguided, leading to the creation of places with little character and uniqueness.

The central question of this thesis is: What level and type of government intervention is required to promote the development of beach resorts at destinations that protect the environment, celebrate local culture, and promote sustainable and equitable economic development?

To answer this question the strategic policy decisions made by government and private developers in the conception of seaside resorts in three different countries are analyzed: Acapulco and Cancun in Mexico, Costa Smeralda in Italy, and Aruba in the Caribbean. These cases were chosen because they represent three very different development scenarios: Single ownership development with no government intervention (Costa Smeralda), multiparty development with no government intervention (Acapulco), and multiparty development with minimal government regulation (Cancun). These case studies analyze the international tourism market trends and economic forces that have given shape to them over the 25 years following the implementation of their specific development, environmental, and design policies. Based on this analysis, new policies and a new model of development for beach destinations is proposed.
PART ONE
The Tourism Industry

The first part of this thesis has two objectives: (1) To present current tourism megatrends as they are being affected by changes in tourism preferences, information technology and government policy; and (2) to provide insight into how the economic interests of hotel developers and operators have in the past resulted in the overbuilding and environmental deterioration of beach destinations. This will provide a background that is necessary to understand the evolution of the case studies and prototypical development models presented in Part Two. I will return to this material in Chapter 7 in which I propose a new model for future beach destinations.
CHAPTER ONE
Changing Patterns of Tourism

Tourism today is very different from that of 30 years ago. Today tourists are increasingly sophisticated and have access to more information through new technologies. This creates a demand for customized travel and for destinations with tourism products that are more sensible to the environment and to local cultures.

This chapter explains changing social forces that shape the destination decisions of tourists, the technological improvements that make customized travel and specialized resorts feasible, as well as new tourism policies being implemented by different governments.

1.1 THE NEW TOURISM

The tourism products\(^1\) of the 1960’s and 1970’s emphasized standardization and consistency of quality. Mass production of hotel rooms through economies of scale was the instrument in offering low cost lodging, food and entertainment. This emphasis left an imprint on the urban landscape of destinations worldwide in the shape of large scale standardized prototypical hotel towers\(^2\) (figure 1.1). Economies of scale in lodging

\(^1\) Tourist product is made up of a series of services internationally traded that include lodging, transportation, and the purchase of locally produced goods and entertainment

\(^2\) Prototypical hotels of this era focus on the rationale of maximizing cost efficiencies in operations and development. The resulting development model stacks hotel rooms in towers with double loaded corridors to maximize the use of circulation, provides large central lobbies with elevators to minimize costs of surveillance, and is constructed with modern architecture style and construction methods to increase the speed of construction.
frequently compromised the physical qualities of the surrounding environment, eroding the cultural and environmental attractiveness of destinations.3

Today there seems to be consensus in the tourism industry that the emphasis has evolved not to be on standardization but on customization to meet individual tourist preferences. These preferences will determine the cultural and physical characteristics necessary for destinations to be competitive, and will break the mass tourism market into specialized niches (Figure 1.2). I believe that government policies for environmental design and conservation as well as information technologies are development and promotion tools that acquire principal importance for the sustainability of future tourist destinations.

3 Environment within the context of this paper includes all physical surroundings: climate, landscape, natural resources, as well as the social, urban landscape and cultural context.
1.1.1 CHOICE OF TOURISM PRODUCTS AND DESTINATIONS

The tourist product is made up of a series of services traded internationally that include lodging, transportation, and the purchase of locally produced goods and entertainment. Sessa describes the tourist product as a series of magic boxes each providing a service or good. Imagine a large box containing smaller boxes inside. The large box represents the destination (country, city, landscape, environment), and the smaller boxes products consumed inside that particular destination (hotel, restaurants, museums, tours, retail, etc.). First, the tourist chooses the destination, then he chooses the locally produced products. In this model, the production of tourism products is conceptually and operationally divided but is still one with the destination. In order for the local products

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to be consumed, they must be sold with the destination. A destination is a product traded globally that through its collective attributes generates demand for its tourist products\(^5\).

**How do destinations compete?**

If most tourists choose the tourist destination before choosing local tourism products (not true of all inclusive packages\(^6\)), then there is a close to perfect form of competition among similar destinations before the traveler decides where to go. Once the destination is chosen, an oligopolistic competition begins among the various types of hospitality and services available in that particular location\(^7\). For example, a tourist deciding to go to the Caribbean will decide among similar islands. Destinations in the Caribbean with mass beach tourism developments have standardized cultural characteristics and tourism products. They offer similar services, similar food (food chains), similar accommodations (international hotel franchises), similar urban landscape quality (hotel towers), similar cultures (Caribbean), etc. The more similar the characteristics and products of destinations, the closer substitutes they become for one another, and the more competition they face. This substitution effect due to a lack of differentiation makes destinations bid one another’s prices down to try to attract tourists.

Porter’s economic theory of competitive advantage indicates that regions compete against each other through the collective attributes of their culture, urbanity, environment and institutions\(^8\). He suggests that those regions that offer different local products and skills

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\(^6\) All Inclusive Packages charge an up front fee that covers all beverages, meals, activities, transportation and tips. (Even tourists with all inclusive packages consume some products once they are in the tourist destination: extra meals, entertainment activities or commercial purchases)


hard to replicate by competitors will sustain a competitive advantage\(^9\). Similarly, tourist destinations that, without compromising the environment or local culture, differentiate by enhancing and creating unique attributes valued highly by tourists will be able to sustain a competitive advantage (This is the driving force for new government policies explained in Section 1.3.2).

The cultural and economic status associated with a destination is a common attribute sold by all the producers of local goods and services. Within a destination, any purchase has implicit in it the consumption of intangible benefits. For example, when choosing a luxury hotel, the tourist is not only purchasing nice accommodations, she also acquires status and quality service. Likewise, in choosing a particular destination, the tourist not only purchases accommodations, food and some entertainment activities. She also purchases status associated with that destination and the experience of being exposed to its unique cultural or environmental context.

1.1.2 SOCIAL FACTORS AFFECTING THE ATTRACTIVENESS OF TOURIST DESTINATIONS

It is of common knowledge in the tourist industry that the profile of tourists and their preferences are changing dramatically when compared to those of thirty years ago. The markets generating the greatest demand for international travel are in developed economies. These societies are currently going through internal economic, cultural and social changes. This evolution is generating tourists with different tastes, expectations and needs affecting the attractiveness of destinations and their tourist products. The most important social changes accepted by the tourism literature are:

\(^9\) Competitive advantage is the term used to describe unique product attributes that allow its producer to financially outperform its competitors.
• **Higher incomes.** Knowing that tourism demand increases in parallel with discretionary income, there are three socioeconomic shifts that are creating a larger potential demand for tourism: Firstly, in most parts of the world national income has increased over the last two decades. Secondly, the incorporation of women in the work force has created a greater number of double income households. Thirdly, there is a larger percentage of the population retiring that has more leisure time and disposable income\(^{10}\). Tourists with higher incomes focus more on the price-quality ratio of the tourist experience, rather than cost as the principal decision criteria.

• **Demographic changes.** The population in developed economies, the main generators of tourism, is growing older and its growth rate stagnating. Older tourists are more sophisticated and therefore more difficult to serve. By the year 2000 the population over 60 in developed economies will exceed the level in 1995 by 13 to 15 million\(^{12}\). Population growth in the European Union has been decreasing by 0.25% a year since 1973 and by the year 2000 it will have zero growth. In the United States the aging of the baby boomers is following similar trends. This greater number of older and experienced tourists will generate demand for resorts and destinations with special cultural and recreational amenities.

• **Changing values.** Authenticity and uniqueness of travel experience have grown in importance. There is a search for the different, the unique and the authentic. The traveler wants to experience the inexperienced, see the unexpected, gain impressions of new cultures and a new horizon.\(^{13}\) In a parallel trend, an increased sensibility to the

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\(^{10}\) See Vanhove Norbert, “Globalization of tourist demand: the underlying factors and the impact on marketing strategy.” *WTO.* 1995. p. 65

\(^{11}\) Price-quality consciousness means that the tourist does not mind to pay premium prices if the quality of the services meets individual preferences.

\(^{12}\) Vanhove Norbert, “Globalization of tourist demand: the underlying factors and the impact on marketing strategy.” *WTO.* 1995. p. 64

\(^{13}\) Vanhove Norbert, “Globalization of tourist demand: the underlying factors and the impact on marketing strategy.” *WTO.* 1995. p. 126
environment and a movement towards healthier lifestyles is creating the need for preservation of ecologically sensitive and scenic areas. This increased awareness about the environment measures destinations against increasingly high standards.

A higher value of time generates demand for flexible vacations programmed with recreation and cultural activities. Leisure tourism is today full of information and cultural activities for self development as well as opportunities for hobbies and outdoor sports\textsuperscript{14}. Today’s tourists are more active and they expect much more than just lying in the sun\textsuperscript{15}.

- **More experienced and educated tourists are “quality conscious.”** A greater number of tourists with higher education and awareness of the variety of destination choices available have higher expectations of the overall quality of their vacations. More tourists today already travel for business, which also increases their demand for quality, variety and choice. With each trip, the traveler becomes more sophisticated demanding unique attributes from each vacation at fair prices.

**Implications of Social Changes**

Mass tourism products that emphasize standardization and economies of scale in order to lower prices are out of context in today’s tourism market. Lowering costs provides an advantage only until competitors implement similar initiatives. For example, it takes only a few months before all international hotel franchises implement any new marketing and product strategies, service standards, recreational activities, and management styles. Almost all international franchises have adopted *Total Quality Management* (TQM) and


have targeted different brands to different market segments (economic, business, all-suites, resorts, and luxury). The result provides no significant sustainable advantage for any hotel chain. As suggested by M. Porter, operational efficiencies based on low cost production are often not enough to produce a sustainable competitive advantage. Only differentiation by location or quality of setting like unique architecture, landscape, and cultural amenities, can provide elements difficult to duplicate by competitors (sustainable advantages).

The implications for destinations are the same as for tourist products. For example, tourists expect mass tourism beach resort destinations to have the same environmental standards (clean beaches and sewage treatment facilities), the same entertainment (golf, discos, bars, concert halls, shopping malls, fast food franchises, movies, water sports, etc.) and the same quality of service (five star-large scale-all inclusive hotels). The result is that all destinations provide those services so that no one has an advantage over the others.

1.2 THE SUPPORT OF TECHNOLOGY

This section provides an understanding of how technology has affected the development of tourist destinations in the past and how new information technology can become the instrument for tourists to customize vacations. This change will further erodes the competitiveness of tourism products oriented to mass tourism and will break the market into narrowly defined niches.

1.2.1 TRADITIONAL TRAVEL DISTRIBUTION SYSTEM

Traditionally, the link between the tourist and the final destination (tourist product) occurred through a series of intermediaries, called the distribution system. A distribution

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system becomes necessary when the buyer (the tourist) and the supplier (the destination hotels, restaurants, activities, etc.) have never met and have no practical way to exchange information. Travel agents and tour wholesalers have access to information, bring the parties together, and become accountable for vacation quality standards.

The traditional distribution system for tourism was developed by international airlines. They were the first to build hotels worldwide to provide reasonable accommodations for airline passengers and to help boost the demand for air travel. Airlines also developed Global Distribution Systems, an information network that allowed the coordination of international booking of airline and hotel accommodations. To lower the cost of Global Distribution Systems, airlines created strategic corporate alliances with other hotel franchises. Travel agents use Global Distribution Systems to provide accommodation and transportation choices for tourists.

The control of Global Distribution Systems allowed airlines and their allied hotel corporations to monopolize lodging alternatives offered to tourists through travel agents. Independent hoteliers were normally not allowed to join the network and therefore were unable to reach tourists far away. Their response was to create alternative Global Distribution Systems.

Associated independent hoteliers overcame the monopoly imposed by global distribution systems, but they still depend on travel agents. This intermediary has the incentive to book hotels and destinations yielding the greatest commissions. This motivated travel agents to use their knowledge about travel preferences of local consumers to become tour wholesalers. Tour wholesalers force similar destinations to lower their prices to attract the highest number of tourists and maximize their fees. Therefore, pre-packaged tours capture tourists looking for economic vacations.

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Although there is some competition among tour wholesalers, normally they hold a monopoly on consumer information in their respective markets (names, addresses, preferences, price sensibility, trends, frequency of travel, etc.). In this manner, the tourist product of undifferentiated destinations oriented to attract mass tourism becomes dependent on a few tour wholesalers. However, new information technologies are challenging this market structure.

1.2.2 THE IMPACT OF NEW TECHNOLOGIES

- **Internet and Global Reservation Systems.** The technology of combining the internet with global reservation systems has the potential to revolutionize the forces shaping the demand for tourist products. These new technologies bring the supplier of the tourist product at the destination closer to the consumer. Increased information creates better informed consumers, who now can customize their vacation to individual preferences at competitive prices by saving on fees and transaction costs.

New information technology allows for diagonal integration\(^\text{18}\), in which the traveler can tailor her experience by purchasing different services from different suppliers that are neither vertically, nor horizontally integrated\(^\text{19}\). Internet and global reservation systems could allow destinations with small enterprises to become more competitive by saving on sales commissions, advertising, and transaction costs. The economics of customer information favors a generation of smaller, flexible forms of tourism with healthy firm to customer relationships\(^\text{20}\).


\(^\text{19}\) Vertical integration is when a firm owns a product at several stages of production. i.e. airlines and hotels. Horizontal integration when the firm owns several producers of one or several services in the same market. i.e. contractual alliances for economies of scale or scope between airlines and car rentals.

• **Technology and Marketing.** Database marketing\(^{21}\) has special implications for the distribution system of tourist products. In the past travel agents and tour wholesalers controlled access to customer information. Today, travel reservation systems and database marketing increase customer information for direct suppliers, not for intermediaries. This information stored in databases allows suppliers to target products for specific clients at low costs.

Traditional marketing tried to appeal to a wide range of potential customers through mass media advertising. These campaigns are expensive and inefficient. When using mass advertising, it is difficult to determine if the intended audience is receiving the information, and the number of respondents.

Old industry practices of mass marketing, standardization, limited choice and inflexible holidays no longer make sense.\(^{22}\) They emphasize brand name and standardized products that appeal to most consumers but do not efficiently serve the interests of any specific group. For example, in the past there were just hotels; all customers (businessmen, families, singles, coupes, etc.) paid the same price for standardized lodging services. Some customers paid for unwanted services (families do not need desks in rooms) while others did not receive special services (businessmen need conference rooms). A hotel that tries to appeal to all customers has to provide all services (desks, pools, conference rooms, etc.) which raises their fixed costs and therefore room rates.

Global Distribution Systems and database technology have the ability to develop a private audience of individuals with similar interests\(^{23}\). For example, instead of

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\(^{21}\) Marketing is the process through which products are presented to potential customers.


\(^{23}\) For further discussion on database marketing in the hotel industry see Frank Go, “Globalization strategies of the Lodging Industry.” Routledge, London. 1995.
advertising on television a special hotel promotion for wind-surfers in Aruba (which would be very expensive), the hotel can mail the information to those clients in their databases that windsurfed in Aruba in the past. The costs are lower and the success rates higher.

When a supplier uses database marketing to send information to a target market, he is able to:
1. Link expenditures to results, weighing advertising costs vs. customers attracted.
2. Know whether information was received and answered
3. Reach profitable markets unreachable through mass advertising
4. Get customer feedback to modify his product, shifting from generic to customized
5. Implement price discrimination strategies

Database marketing and internet can be employed to develop increasingly specialized resorts and destinations appealing to particular tourism groups interested in specific amenities like sailing, scuba diving, etc. Thanks to new information technology, the competitiveness of tourist destinations in the future will depend more on their ability to meet new consumer expectations and less on the provision of low cost standardized tourism products.

1.3 GOVERNMENT POLICIES

This section illustrates how different government policies get reflected in the development of tourist destinations, affecting their physical, environmental and cultural attributes. Increasing competition among destinations and greater awareness about the negative effects of uncontrolled tourism development have triggered new government policies and strategies to differentiate and protect their unique attributes.
Governments around the globe have fostered tourism to generate economic development. Frequently they provide financial incentives to private investors (subsidized loans and tax credits for example) to promote the tourist industry. Governments provide these incentives hoping to offset their costs with future earnings from:

- jobs created
- increased tax revenues, and
- spill-over effects\(^{24}\).

The capacity of governments to attract tourism development resides in the inherent natural, cultural and urban attributes of a destination (beauty of landscape, cuisine, folklore, arts and crafts, cultural activities, built heritage, streetscape, entertainment activities, etc.). The more attractive and unique the attributes of a destination, the greater bargaining power\(^{25}\) governments have with private investors. The greater the need for economic development (capital scarcity, fast growing unemployment or non-diversified economy), the less bargaining power a destination has.

Governments impose environmental regulations on private investors to control the quality and quantity of tourist development in a destination. Examples of such regulations include: maximum density and developable area, maximum height, building design and landscape guidelines, environmental protection, performance controls, etc.

The built form of tourist destinations as well as their cultural and environmental attributes are directly affected by government policies and objectives that shape private investors' behavior. Through regulations and financial incentives governments have the capacity to

\(^{24}\) Spillover effects relate to all the indirect economic activities generated to support the tourism industry. They include food, transportation, entertainment, services, etc.

\(^{25}\) Bargaining power of a destination is the ability to negotiate advantageous terms in tourism development agreements that produce equitable economic benefits and protect the local culture and environment.
shape the attributes of a destination (culture, built and natural landscape, etc.) and reinforce or jeopardize the future of its tourism industry.

1.3.1 GOVERNMENT INTERESTS

The interests of regional governments to promote tourism vary across regions. Although they all want to generate economic development, some view tourism as a diversifier for their economies (Boston\textsuperscript{26}), others as a main source for numerous low-skilled jobs (Acapulco\textsuperscript{27}), others as a source for foreign investment that generates valuable tax revenues (Cape Cod\textsuperscript{28}) and still others as a source of foreign trade (Cancun\textsuperscript{29}). These economic interests are directly reflected in the policies and controls for tourism planning which consequently shape the physical form, the culture and environment attributes of destinations.

Governments fostering tourism are interested in increasing the standard of living of their citizens. However, tourism development policies have sometimes resulted in adverse effects for the environment and for the quality of life of local residents. Deforestation, displacement of the local settlements from the shoreline by tourism development, low skill-low pay jobs, and pollution and congestion are some common negative consequences of massive tourism development.

\textsuperscript{26} Boston is a well diversified economy that does not depend solely on tourism (although it is an important sector). Learning institutions, high tech, insurance, investment banking, services, etc. are other sources of employment.

\textsuperscript{27} Acapulco’s massive public investments to foster mass tourism were justified as a way to create jobs for the fast growing population. See chapter 3.

\textsuperscript{28} Cape Cod is a beach destination serving the New England area. The Cape Cod Commission through its zoning code prescribes low scale development of mainly vacation homes. These homes are in large lots to protect the environment. The protection of the environment and the unique characteristics of the area create high value for vacation homes. These homes pay taxes for local services utilized only during a short season (security, garbage collection, schools, etc.). The increased tax revenue ends up subsidizing the services of locals that live there year round.

\textsuperscript{29} Cancun was conceived to balance Mexico’s foreign trade deficit by increasing tourism exports in the short run. See section 4.2
Today there is a greater pressure on governments to foster environmentally sensible tourism with a more equitable distribution of its economic benefits. Governments are also aware of the changing needs and expectations of new tourists and of the new technologies that can modify the competitiveness of tourism development. In response to those changes some destinations are pursuing more sensitive development policies (Aruba) while others are still fostering old models of mass tourism (Turkey). By implementing these policies governments become ultimately interested in the sustainable competitiveness of their tourist destinations.

1.3.2 GOVERNMENT STRATEGIES TO PROMOTE TOURISM

Conventional initiatives to develop tourism evolved influenced by both government and community priorities. We can classify government strategies into two categories: developing economies characterized by a minimum public participation process and a central government, and developed economies which usually have strong political empowerment of local communities.

- Developing Economies. Centralized governments interested in creating jobs and increasing their exports in the short term, will normally pursue mass tourism development strategies. For example, Acapulco and Cancun were promoted by federal government initiatives to foster economic development in the short term (see Chapters 3 and 4). Mass tourism generates the most jobs and the highest revenues in

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30 Turkey has earmarked 16 activity centers in the Mediterranean to offer mass tourism beach destinations organized in strip development along the coastline with practically no environmental control or planning. See Habib Alipour. “Tourism Development Within Planning Paradigms: The Case of Turkey”. Tourism Management. v17n5. 1996. p. 367.

31 Local community priorities get reflected in conventional government strategies to the extent that the process and the institutions allow them to be reflected.

32 Mass tourism for the purposes of this paper implies the construction of thousands of hotel rooms in hotel towers that concentrate tourism in small geographical areas. It attracts economically conscious tourists with low average levels of expenditures per day.
the short run but often produces hidden environmental and cultural costs\textsuperscript{33}. Centralized governments in developing economies have been able to foster this prototype to the extreme of jeopardizing the environment by ignoring the public participation process (for example see the case of Acapulco in Section 3.2). In this scenario most economic benefits are captured by hotel and tour operators while locals become dependent on low pay jobs.

Perhaps this outcome reflects the low bargaining power of destinations with respect to investors and hotel operators, and the lack of political empowerment of local communities in centralized government systems. The resulting form of mass tourism can be attributed to the fact that on numerous occasions undeveloped economies foster tourism by borrowing from international institutions. This debt generates a short term horizon for these governments. This in turn fosters a fast build-out to meet these financial obligations with funds from the tax revenues new jobs and buildings create. The need for a fast build-out creates the incentive to foster large scale hotels that employ fast construction processes and apparently generate larger tax revenues. However, the environmental costs imposed by the negative externalities of large scale hotels are often overlooked.\textsuperscript{34} These costs in reality lower the real tax revenue received by local communities and can in fact some times make it negative.

- \textbf{Developed Economies.} Regions that conventionally have seen tourism as an economic diversifier or as a source of valuable tax revenues are usually in developed economies that politically empower the environmental and cultural interests of local communities. \textsuperscript{33,34}

\textsuperscript{33} Mass tourism development is blamed for causing massive deforestation, water pollution, infrastructure congestion, degradation of local culture, geographical displacement of local population, and destruction of built heritage in numerous beach destinations of developing countries. Caroline Doggart and Nike Doggart, "Environmental Impacts of Tourism in Developing Countries". \textit{Travel and Tourism Analyst}. April 1996. p. 84

\textsuperscript{34} Large scale hotels introduce the need for massive amounts of traffic movement, parking, level public services (water, electricity, sewage). Their construction often follows techniques insensitive to the environment and they impose visual externalities by introducing architectural styles not compatible with the surrounding environment.
communities (i.e. Boston and Cape Cod respectively). These communities have greater bargaining power since tourism is not the principal economic activity and since the political and legal system gives local residents the ability to affect decisions. They follow more sensible approaches and take a long term perspective when promoting tourism. This frequently ensures that their unique cultural or environmental characteristics are not challenged by over development.

1.3.3 NEW APPROACHES

Today increased competition among destinations, the increased economic importance of tourism, and the increased awareness of its negative environmental effects have led governments of developed and developing countries to adopt increasingly focused strategies that provide destinations with a clear planning vision. With an increased number of mass tourism destinations that offer standardized services and typical hotels, a need to differentiate destinations has also become apparent. To respond to these changes, governments are now going back to review their policies and to undertake programs that protect and promote their unique characteristics. The focus of these policies might be on managing, creating or enhancing cultural (built heritage, activities and entertainment, gambling, business) or natural (exotic landscape and ecosystems) attributes.

All of these strategies have five points in common, they:
1. Encourage visitors to consume locally produced goods,
2. Develop unexplored natural and historical assets and activities to promote longer stays,
3. Target increasingly narrow segments of the market,
4. Protect stressed or fragile ecosystems from further development, and
5. Emphasize unique cultural and environmental attributes
I have categorized new tourism development strategies into four groups: (1) Management of existing tourism flow, (2) Product enhancement, (3) Process driven, and (4) Comprehensive, explained below.

- **Management of Tourism Flow.** These policies are concerned with putting a limit on the number of visitors to protect the natural environment and to avoid congestion externalities\(^{35}\) in infrastructure, ecosystems, and establishments. The most frequent instruments for controlling the number of travelers are visitor quotas and caps on the amount of tourism development. For example, Bermuda limited the number of stayovers to 600,000 per year (stayovers and cruise ships), restricted the number of ship calls during the week, and eliminated them on weekends. It emphasized public transportation (one car per family and visitors are not allowed to rent cars), and implemented environmental and historic conservation policies\(^{36}\). Similarly, the government of Bhutan has restricted the number of visitors to its traditional Buddhist villages and fragile ecosystems\(^{37}\), and the Galapagos Islands have a pre-set number of visitors tickets that are put up for bid. For these destinations controlling negative impacts of tourism to protect the environment is the main objective.

- **Product enhancement and strategic positioning.** Destinations following policies in this category are concerned with differentiating their tourism product from other destinations by emphasizing the quality of the urban and natural landscape. Main

\(^{35}\)Externality is either a benefit or a cost of an action that accrues to someone other than the people directly involved in the action.


\(^{37}\)The government of Bhutan imposed a visitor’s quota to limit tourism’s environmental and sociological impacts in a very traditional Buddhist society and fragile mountain environment, while capturing its economic benefits. It allows no more than 2,500 foreign tourists into the country per year. The tourism plan set a level of 3,000 tourist arrivals annually by 1990 and 5,600 by 1995. All tourists must come in prearranged groups and spend a minimum preset amount daily. This policy is implemented through entry visa procedures and arrangements with international tour operators (WTO 1986b). Edward Inskeep, “Tourism Planning: An Emerging Specialization”. *APA Journa*. Fall 1988.
initiatives include restoring historic districts and archeological sites, improving the
genral infrastructure, and implementing programs to enhance level of services and
local culture activities like arts, crafts, cuisine, etc. They emphasize the local cultural,
natural, or human created characteristics of a destination. For example, Portugal has a
national tourism strategy mainly concerned with product and service enhancement,
the preservation of the built heritage, and improvements to general infrastructure. Similarly, Mexico has a strategy to improve access to colonial cities, unique
ecosystems and newly restored archeological sites. Belize has focused on small-
scale nature tourism related to its extensive barrier reef, rainforests and Mayan Archeological sites. To these destinations uniqueness and quality of tourist product is a main concern.

- **Process driven.** Governments following process strategies are concerned with
government interagency coordination and with involving local communities in the
decision process to produce equitable and sustainable tourism development.

Fostering cooperation among competing agencies and interested parties (political
constituencies and investors) is the main objective of process driven policies. In
Spain, for example, the lack of a clear national policy and the lack of coordination
between the country’s regional governments have resulted in a fragmented process
that led to over-development of the coast line. In Greece a flexible policy was
implemented to allow development within precise national objectives and
performance standards to reconcile local interests. This allows flexibility for the

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39 Mexico is following a national policy to foster tourism development by increasing access to unspoiled natural and cultural environments. Mar de Cortez with 1/3 of the world species of marine mammals, an alliance with Belize, El Salvador, Guatemala and Honduras to promote Maya archeological sites, and promotion of colonial villages are some examples of the environments being promoted. Transportation interconnections among main tourism centers are being improved. Silvia Hernandez, Mexico Tourism Secretary. *Latin Finance*, Sep. 1996, p.73.

tourism development process within well established guidelines. In Senegal, a localized process produced low impact tourism enterprises to bring economic benefits to small villages without disturbing their character. Increasing cooperation to align the interests of all parties involved in an equitable and efficient way to preserve the unique attributes of a destination is the objective of these policies.

- **Comprehensive.** Comprehensive strategies try to combine all the previous ones to produce the best possible outcome for all. An example of this strategy is Aruba. It is undertaking a major initiative to develop small scale tourism enterprises that reinforce the character of the local culture and provide opportunities to raise the quality of life of its residents. The government of Aruba followed an open planning process to incorporate needs of the local community. This new development combined with its mass tourism district developed in the late 1960’s will be able to offer something for every type of tourist and for the community as well. If not correctly administered, comprehensive strategies run the risk of making compromises with different parties that produce an outcome that does not fully meet the expectations of anyone.

Management, product and process strategies pursued in isolation produce only partially satisfactory results. For example, if the number of visitors is controlled perfectly but the

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42. Senegal implemented a program for villages of 1,000 habitants to offer accommodations to groups of 20-30 tourists in traditional houses, where traditional food is served and local transportation is employed. More than 20,000 visitors per year stay in 13 participating villages. Caroline Doggart and Nike Doggart. “Environmental Impacts of Tourism in Developing Countries”. *Travel and Tourism Analyst*. April 1996. P84

43. New planning vision in Aruba is largely due to its Ministry of Economic Affairs and Tourism, Roberto R. (Tico) Croes and to the consulting expertise of Sasaki Associates.

44. Aruba has a moratorium on construction of large all inclusive hotels, expanded the boundaries of its national park, is implementing programs to foster local arts and crafts and is investing in public facilities that primarily benefit locals (sports facilities, market, parks and plazas, etc.). The planning process has included the participation of the local communities for the first time. Sasaki Associates, 1997.
quality of the tourist product is inadequate, the destination will not be as successful as it could be. Conversely, if a destination has the perfect product but does not control the number of visitors, the destination can become congested, polluted and unsuccessful. Lastly, a democratic process can generate myopia whereby the interests of the majority take over the interests of the rest or where the process ends up lacking a clear direction and product due to compromises made during the decision process. A truly successful destination must find the balance between product quality, number of visitors and local population interests. It must be stressed that involving the local residents in the planning decision process has the advantage of aligning their interests. This makes them more hospitable to tourists by fostering an equitable distribution of the economic benefits, and therefore, makes them more likely to protect the unique attributes of the destination if they are made aware of their importance. The following chapter will further explain the way those different economic interests play out in the development of beach resorts given different degrees of government involvement.
CHAPTER TWO
Development Dynamics in Beach Destinations

This chapter concentrates on the evolution of beach destinations in the absence of design and environmental controls. It first describes the economic interests of different types of hotels to understand their motivations. Second, the product cycle\(^1\) and evolution of beach destinations are illustrated to present the consequences of not controlling the economic interests of private investors. In the absence of environmental and building design controls, destinations tend to automatically self destroy their cultural, architectural and natural attributes as they mature and become over developed. Third, investor behavior models that drive this destructive cycle are presented based on the economics of oligopolies. In Part Two, three case studies - Acapulco, Cancun and Costa Smeralda- are presented to support these models and illustrate their concrete physical and environmental consequences.

2.1 THE ROLE OF HOTELS IN THE DEVELOPMENT OF BEACH DESTINATIONS

This section analyzes the advantages of multinational hotels\(^2\), how they grow, and how their interests in the sustainability of the destination vary with their ownership structure. I suggest that hotel chains that own the hotel buildings they operate have a greater

\(^1\) Product cycle is a phrase employed in economics to explain the profitable life of any given product.

\(^2\) Multinational hotels for the purposes of this paper are those that have presence in various countries through operating, owning-operating, or franchising. They provide standardized accommodations and emphasize brand recognition, and low cost operations through scale economies of large scale building prototypes.
incentive to preserve the special attributes of the destinations where they locate. This is so because the return on their investment is directly affected by those attributes. Hotels that just own operating contracts do not have this long term interest in the destination. The advantages of multinational hotels and their interests in the destination are important since they unravel under competition that, if left uncontrolled, translates into overbuilding\(^3\) which can destroy the attributes of a destination. Understanding how the interests in the sustainability of a destination change with the ownership structure of hotels becomes important in order to propose new development models that align the economic interests of all involved parties.

International hotel corporations in the late 1950's created the all inclusive resort prototype present today in all mass tourism beach destinations\(^4\). This prototype responds to advantages of lowering operating and financing costs through economies of scale. Standardized mass production enables all inclusive resorts to offer lower prices than local hotels\(^5\) and to raise customer expectations. This competition induces local hotels to build similar large scale prototypes which often result in overbuilding the beach destination. Corporate decisions and government policies concerning building prototypes and design quality affect the destination's attributes, and therefore, its long term competitiveness.

A typical all inclusive resort is located right next to the beach. It is organized around a central open space containing gardens and pools with one side opened to the beach. This central open space concentrating outdoor activities is enclosed by mid-rise longitudinal

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\(^3\) Overbuilding for the purposes of this paper is the proliferation of hotel rooms in large scale resorts to the point that beaches and transportation infrastructure become congested.

\(^4\) All Inclusive Resort Prototype is a large scale hotel complex that includes inside its premises all the services a tourist can desire: restaurants, retail, entertainment, private gardens and pools, golf, tennis, etc. The physical form and layout of the building responds to lower operation, maintenance and construction costs through economies of scale. Centralized lobby, double loaded corridors, room standardization and repetition, and high rises are employed.

\(^5\) Local hotels for the purposes of this paper are independent hotel owners and operators whose location is concentrated in one destination.
buildings on the two sides perpendicular to the sea and by the central lobby, shops and a high rise hotel tower on the side parallel to the sea. The architectural layout, circulation systems and program of services included inside the resort emphasize the isolation from the surrounding context. This prototype does not have adverse effects on its context *per se* if its design and density are tamed to blend with its context and landscape. It is only when this prototype is repeated ruthlessly at high densities without consideration of the landscape and local architectural traditions that it has devastating effects.

*Figure 2.1.* Prototypical all inclusive resort in Honolulu, Hawaii. This is a Hilton resort with 2,540 rooms, 6 restaurants, 10 bars, 60,500 square feet of meeting room space, pools, exercise areas, gym, spa, ocean beach, and a private dock.
Figure 2.2. Prototypical hotel in Waikiki.

Figure 2.3. Prototypical central open space of all inclusive resorts where pools, gardens and all tourists outdoors activities occur in a controlled and artificially landscaped environment. This illustration shows the central open space of the Waikiki resort illustrated in Figure 2.2. Note the remarkable similarities in architectural style, materials, landscape techniques and site plan layout between the Cancun hotel in Figure 2.1 and the Waikiki hotel in Figures 2.2. and 2.3.
2.1.1 INTERNATIONAL HOTEL INDUSTRY

Multinational hotel corporations have standardized hotel prototypes and quality of service that are replicated internationally. The competitiveness of standardized services is today facing its limitations due to increased competition, and to new information technologies that make it possible for smaller, specialized, more culture sensitive hotel prototypes to become more competitive (see section 1.2).

Advantages of multinational hotels over local hotels

- Ownership. Ownership advantages of Multinational Hotel Corporations are related to the large scale of their operations and to their presence in numerous countries. The most important are:

  Management expertise. Multinational corporations are able to acquire and retain experienced human capital. They offer higher compensation, align interests through ownership participation (stock options) and provide career opportunities inside the firm that local or regional corporations cannot match. Also, by separating ownership and management the best managers can take the decisions, rather than the owners.

  Scale economies. The size of the customer base of multinational hotel chains allows them to make profitable corporate strategic alliances with car rentals, tour operators, airlines and global travel reservation systems. The volume of operations also lowers their marketing, sales support, and personnel training costs. Access to markets in various countries and the

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6 This section is based on the work of Frank Go. "Globalization Strategies Of The Lodging Industry." Routledge, London. 1995.
large volume of standardized purchases reduces the prices of their supplies.

**Finance.** Access to global capital markets allows them to raise capital at lower rates due to their internationally diversified portfolio of operations. They often accept lower returns if an international project offers diversification or exchange rate opportunities.

**International presence.** Brand recognition attracts a large number of customers worldwide that seek a standard level of service at the lowest prices possible (All rooms have a t.v., bathroom, desk, telephone, etc.).

- **Location.** Multinational hotel corporations choose destinations based on: size and growth of demand (potential payoff to investment), policy of host government on foreign investment (financial or fiscal incentives, or barriers to entry), and economic and social stability in the host country (exogenous risks).

A particular location within a destination gives the hotel specific advantages like: scenic views, proximity to transportation systems and attractions (museums, beaches, commercial centers, historic districts, and business districts). For example, in the historic district of Paris, there are no sites available to develop hotels. Buildings are owned by multiple parties which makes it difficult to assemble properties for development, not to mention restrictions by local government that prohibit the change in land use and the demolition of ancient buildings.

In destinations where entry to the market is difficult because of government or other inherent barriers, those hotels already established have a monopoly of locational advantages. In Europe, with the exception of France, chains have had
a hard time winning a market share, in spite of the undeniable advantages linked to their presence. In spite of the trend for globalization, hotel chains cover only 25% of the market worldwide. To the extent that multinational hotels can outbid local hotels in acquiring, leasing or developing sites with significant locational advantages desired by visitors (scenery, climate, amenities, etc.), they will gain a significant advantage.

- **Market Internalization.** Customers of hotels generate a demand for intermediate products like retail, arts and crafts, restaurants, travel agents, tours and entertainment services, etc. *All inclusive resorts* recognize the opportunity to profit from this demand and respond by offering those products within their premises. This creates a further incentive to build large scale hotels to maximize their potential demand for intermediate products and services in addition to lowering operation costs through economies of scale. This incentive of hotels to internalize positive spillovers of the demand for intermediate products normally conflicts with economic development policies of local governments that want an spillover effect.

Multinational hotels have an advantage over local hotels due to the high levels of capital investment and expertise required in the construction and operation of large scale hotel prototypes. However, local hotels have the ability to develop and operate smaller hotels with indigenous materials, design and construction processes that possess a unique character. Customers looking for economic travel and reliability prefer standardized hotels; travelers that value highly unique experiences prefer hotels with unique characteristics. These different advantages and customer preferences have resulted in a

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7 Slattery and Littlejohn, 1991

polarization of the resort industry in terms of size, very large standardized resorts on one end and exotic small scale resorts on the other.

**Disadvantages of multinational hotels**

The result of hotel globalization is the repetition of hotel prototypes across the world with a tiresome monotony that adds little to the traveler’s experience or to the attractiveness of beach destinations. With better informed and increasingly sophisticated tourists seeking new, unique and authentic experiences in their vacations, standardized prototypical hotels will not be in the best competitive position (see Section 1.1 for a discussion of changing expectations of tourists).

*Figure 2.4. Oahu*
Figure 2.5. Acapulco

Figure 2.6. Miami
Figure 2.7. Puerto Rico

Figure 2.8. Waikiki. Note the similarities in hotel development and urban design characteristics of five beach destinations illustrated in Figures 2.4 through 2.8: Oahu, Acapulco, Miami, Puerto Rico and Waikiki.
Given current market trends, smaller hotel prototypes that specialize in a particular market segment and emphasize architectural design and landscape characteristics unique to the destination will become more competitive. Indigenous architectural design and culture have the potential to add value and diversity to hotel operations, which is often overlooked by global strategies. Standardized hotels are too general and leave large sectors of the market under or over served. To be competitive, a global strategy must be combined with sensibility for local customs and culture to avoid uniformity.

Competitive advantage is created through a highly localized process. Differences in national economic structures, values, cultures, institutions and histories contribute profoundly to competitive success.

9 David Leininger, Principal of Economic Research Associates, interview 1997,

10 Ziff Levine 1990

Figure 2.9. Beach resort in Phuket Island

Figure 2.10. Beach resort in Phuket Island, Thailand. The hotel is built on a coconut farm inspired by the architecture of Thai Temples. Elaborate local craftsmanship and construction materials are celebrated in 40 pavilions over a 100 acre site.
Figure 2.11 and 2.12. A hotel in Ubud, Bali. It is built on ancient rice terraces with dramatic views over the landscape. The site was chosen not because of its proximity to the beach but for the cultural diversity of its surroundings with: artist's colonies, antique shops, museums, and wood and jewelry crafts. The architecture of the hotel follows vernacular traditions and uses local materials and craftsmanship.
Responses of the resort industry

There are two responses from the resort industry to the changes in tourism demand. One coming from existing large scale all inclusive resorts, which are trying to specialize by focusing on the needs required by a particular profile of customers. For example, Sandals specializes in couples while Club Med has focused on families. This response still focuses on low cost through economies of scale and is normally employed by multinational hotels to attract mass markets interested in low prices. This is what M. Porter calls “needs based positioning”. He asserts differences in needs will not translate into meaningful advantages unless the elements required to satisfy those needs are difficult to imitate. Otherwise competitors could meet those same needs, and there would be nothing unique or valuable about this specialization.

The second response comes through specializing in the architectural and cultural uniqueness of the resort and emphasizing a getaway feeling from familiarity. These resorts are often built following unique indigenous architectural forms and construction processes with a high sensibility for the environment and local building heritage. This response is based on attracting small markets of tourists who value highly their special characteristics and pay premium prices. It is normally employed by local hotels although some international hotels mix this approach with their conventional large scale hotel prototypes.

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12 This is what M. Porter calls differentiation focus and implies that segments of the market are poorly served by broadly targeted competitors that serve them at the same time they serve others. M. Porter, “Competitive Advantage, Creating and Sustaining Superior Performance.” The Free Press - Mcmillan, N.Y. 1985. p. 15.

2.1.2 HOTEL OWNERSHIP IMPLICATIONS FOR THE DESTINATION

I believe that the interests that a hotel has in preserving the collective cultural and environmental attributes of a destination vary with its ownership structure and with the time horizon of its investments. These interests get reflected in the physical form and in the building prototypes that hotels decide to follow. A hotel with a long term interest in a destination will follow more sensitive development techniques than one that does not. An understanding of those economic interests will provide insights as to how to align them in the future to protect those attributes.

Hotels can expand and consolidate their operations by being real estate owner and operator like Forte, through management contracts like Hyatt, or through consortia like Best Western.

- **Ownership (UK).** Hotels following this form of expansion are interested in location advantages. They own and operate hotels in destinations with high attractiveness to tourists and where entry is difficult (CIGA and FORTE in Europe). By owning properties these hotels avoid the risk of being outbid in management contracts by other franchises and they monopolize locational advantages. In exchange, they assume the risk of the destination losing its attributes, affecting the value of their investment. Hotels in this category have a vested interest in the attractiveness of destinations where they operate and they are more likely to oppose overbuilding and negative land use intrusions and develop in sensible ways.

- **Contracting / franchising ( Hilton, Hyatt, Marriott ).** This category does not hold the destination specific risks that come with ownership of the hotel buildings and get compensated solely through management fees\(^\text{14}\). They are normally in destinations

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\(^{14}\) In recent management contracts owners of the real estate require equity participation from franchises. Walter Rutes. Interview 1997.
where entry is relatively free of barriers, and they have a short term horizon for their operations (normally 10 years). This lack of investment and short term vision creates an opportunistic approach with lack of commitment to the destination.

Franchising spreads across franchisees the costs of global reservation systems, advertising and centralized management. Each property is financed and developed by the franchisee at the design specifications of the operating franchise. Franchises usually prescribe large scale hotel prototypes to maximize their fees and align the hotel to their ownership and market internalization advantages. The franchisee pays for fees, royalties and training in exchange for technical assistance, access to global reservation systems and brand recognition.

The risk of overbuilding a destination due to the proliferation of franchise operated hotels or comparable prototypes are held by the owner of the real estate asset in conjunction with the local community, not by franchisees. For example, in Acapulco, numerous international hotel management franchises abandoned their contracts after the pollution of the bay became widespread knowledge and after the oversupply of hotel rooms made the operations unprofitable. Owners of real estate lost most of the value of their investments and local residents saw tax revenues and economic spillover benefits plummet. All franchisees lost was a contract; they moved on to newer mass tourism destinations (see section 3.2 for a detailed description of Acapulco’s case).

- **Consortia.** This approach allows independent small hotel owners to specialize in niche markets at a low cost. Local owners of small hotels have a greater incentive to preserve the attributes of a destination because their hotels often incorporate the value of all their investments.

Independent small hotels collaboratively create consortia to increase their competitiveness and gain importance of brand name. For example, Best Western is a non profit organization that offers small hotel owners the benefits of a franchise with the opportunity to remain independent. Consortia provides global reservation systems, marketing, financial and training services.

2.2 EVOLUTION OF BEACH DESTINATIONS

Well documented is the rise and fall of the attractiveness and popularity of beach resort destinations\(^{16}\). These places seem to go through a transformation process in which mass tourism is promoted and cultural and environmental attractiveness is eroded. How could such a process be stopped or prevented? What are the economic factors at play? Does economic theory provide insights to prevent such behavior?

This section describes the traditional evolution of beach destinations in the absence of strong building design and environmental regulations. An understanding of the process that destroys the environmental attributes of destinations will provide insights as to how to prevent it.

2.2.1 PRODUCT CYCLE OF BEACH TOURISM DESTINATIONS

*Product cycle* is a phrase employed in economics to explain the profitable life of any given product. For example, automobiles have a product cycle of 4 years before their design becomes obsolete and has to be significantly modified to adapt to changes in taste or demand. If changes are not made, competitors can imitate the design and offer it at


lower price, or offer a different, improved design, washing away the profitability of the old one. There are two ways producers of the same good can compete, by offering the same product more cheaply (if they can produce it more cheaply) or by offering a different and better product that more closely meets consumers’ expectations. Product differences can be in the product itself or in support services. For example, two cars in the same price range with very similar characteristics can be differentiated by their physical design and performance or by their support services: guarantee terms, brand name status, quality of service at dealership, availability and cost of repairs, etc. The length of the life cycle of a product depends on the uniqueness of its attributes and on how difficult they are to duplicate by competitors. Differences in service are for the most part easier to imitate. Different products have life cycles of different durations. Electronics with a very short life cycle are at one extreme of the spectrum while real estate is at the other.

Buildings are different from other products since they are: fixed in a location, highly durable, and costly to modify. For these reasons, the life cycle of any building not only depends on its physical attributes and flexibility of design, it also depends greatly on the bundle of attributes of its location: accessibility, landscape setting, scenic views, public amenities, the quality and variety of services provided nearby, and neighboring land uses, as well as the design and aesthetics of adjacent buildings. Therefore, the life cycle of

\[\text{References:}\]


20 There is significant empirical evidence to support that the value of each particular site does not only depend on its own intrinsic characteristics, but also is strongly influenced by the uses that occur on nearby sites, the overall design of the neighborhood, and by the way streets, infrastructure and open spaces are provided throughout the community. Denise Di Pasquale and William C. Wheaton. "Urban Economics and Real Estate Markets." Prentice Hall, NJ 1996. p. 350
any building is longer if its individual and locational characteristics remain attractive over a long period of time, and shorter if they do not.

This external effect of buildings on one another makes the bundle of attributes of an attractive location a public good.\textsuperscript{21} For example, an historic district with appealing land use, public amenities, architecture and urban design, creates aesthetic and cultural attributes from which surrounding buildings and users benefit at no cost. Let’s say the district needs money for improvements. Since it is difficult to exclude anyone from the external benefits created by the historic district, it becomes difficult to get individuals to cooperate for improvements and recognize their value. Individuals hope to pass the costs of providing these benefits to others and get a free ride.\textsuperscript{22} The more numerous the parties or individuals that directly benefit from a public good, the more difficult it becomes to get them to participate in the costs of providing it.

Once development occurs in a destination, it becomes locked to the attributes and characteristics of existing buildings. Their durability and inflexibility make it difficult to modify their collective attributes. The more densely developed a destination is, and the more inflexible its buildings, the more expensive and difficult it becomes to alter its characteristics. Not only because the size of investment required to modify it is greater but also because the number of individual owners involved increases, creating free rider incentives. This is essentially what happens to overbuilt destinations.

In the failure to get individuals to collectively protect public goods, the particular bundle of appealing attributes of a destination may be eroded, shortening the life cycle of the

\textsuperscript{21} A public Good has two characteristics: Non-diminishability: one person’s use of the good does not diminish the amount available for others, and Non-excludability: it is impossible or prohibitively expensive to exclude people who do not pay from using the good.

\textsuperscript{22} A free ride effect occurs when parties choose to abstain from cooperating to create and upkeep public goods hoping that others will contribute, and therefore, allow them to benefit for free.
location and promoting its economic obsolescence. This phenomenon appears repeatedly in the evolution of mass tourism beach destinations.

2.2.2 EVOLUTION OF MASS TOURISM BEACH DESTINATIONS IN THE ABSENCE OF STRONG ENVIRONMENTAL DESIGN CONTROLS

Origins

Traditional beach resorts seem to start around small villages with an identifiable authentic culture situated in magnificent beach and landscape settings. These villages with their inherently exotic culture and environmental attributes, possess in their collective modus vivendi a collection of attributes appealing to international travelers. They provide tourists with an escape from the monotony of everyday life and with the romance and learning experience that comes from different cultures. The more unique and appealing the characteristics of a destination stay over time, the longer its life cycle.

Coastal villages in the process of becoming mass tourism destinations, start by benefiting communally from small scale tourist enterprises until an entrepreneur with access to capital markets (local or regional governments, international or local investors), decides to exploit this cultural and environmental asset by introducing transportation infrastructure that facilitates access for mass tourism (highways and airports).

Initial Intrusion of Mass Tourism

The introduction of mass means of transportation brings the construction of the first high density, all-inclusive resorts on the beach. These resorts focus on providing cheap

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23 An all inclusive resort is one that provides all the services needed by the tourist within its premises: entertainment, restaurants, retail, services, tours, golf, pools, gardens, etc. They promote vacations inside the hotel that include all services sometimes prepaid by the tourist. They are of massive scale, introspective and with little connection with the surrounding urban context.
accommodations by building high density towers. These architectural prototypes dominate the landscape and local architectural traditions, slowly taking away the uniqueness of the destination.

**Consolidation**

Initial intrusions are followed by more resorts along the coast, and by multinational development that benefits from the concentration of international tourists: fast food franchises, car rental agencies, international clothing stores, etc. As this development continues to take place, the unique character of the local village is replaced by a prototypical urban landscape formed by a collection of architectural images representing foreign corporations and franchises. Eclectic hotel towers along the coastline create anonymous private islands of development connected through a boulevard where tourist retail is distributed.

**Congestion-Decay**

Construction and displacement continue until overbuilding produces a massive concentration of tourists along the shoreline. This generates congestion in beaches, roads and establishments. Soon the ecosystems are threatened, and the environmental quality of the destination plummets. Disinvestment occurs and the local community is left behind to live with a second class, rundown beach destination with all the problems of a poorly planned city.\(^\text{24}\)

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\(^{24}\) This phenomenon of the product cycle for beach destinations has been extensively documented and occurs consistently in beaches where mass tourism development occurs. Russell Smith proposes a model for the evolution of beach destinations that follows this pattern. Similarly Klaus de Albuquerque and Jerome L. Mc Elroy suggest a similar pattern in "Caribbean Small Island Tourism Styles and Sustainable Strategies," 1989. Also see Cooper C., “Tourist Product Life Cycle”, 1989 and “The Destination Life Cycle: an update.” 1994.
Figure 2.13. Building congestion along the shoreline of Acapulco concentrating massive numbers of tourists. Notice how close buildings of all shapes and sizes are to each other. In the background you can also see the massive cuts on the mountain to accommodate roads for residential development.

Once the destination has been overbuilt at high densities that produce negative effects on its attractiveness, it becomes locked to those attributes, and it becomes increasingly difficult to improve them. A destination’s fast build out responds to market needs in a narrow time frame and uses most land resources. When market preferences change or congestion appears, it becomes too difficult to modify hotels. The faster this build-out
and congestion process occurs displacing the unique cultural and environmental attributes of a destination, the shorter its life cycle becomes.

**Changes in Tourist Profile**

The profile of the beach resort tourist in the early stages is very different from the one twenty years latter when congestion is present. Early visitors are of higher income, seeking exotic places to visit for recreational as well as cultural reasons. Expenditures per tourist decline as further development continues. Early visitors are replaced by price conscious tourists who often come in all inclusive packages, leaving little spillover for local enterprises. Early tourism emphasizes the quality and experience of the whole village, while self contained hotel developments emphasize the convenience of vacations inside the resort.

**2.3 ECONOMIC RATIONALE THAT RESULTS IN OVERBUILDING OF BEACH DESTINATIONS**

The preservation of the unique cultural and environmental attributes of a beach destination are largely dependent on the number of visitors accommodated, and on the environmental design quality of new development. Hotels are responsible for most new development in beach destinations. This section analyzes the economic behavior of individual hotel developers that results in overbuilding. An understanding of this behavior will suggest tools to create economic incentives and environmental design controls to preserve and create the attractive attributes of a destination.

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25 Overbuilding for the purposes of this paper means to build large scale hotel towers and mid-rises in complexes that concentrate hundreds of hotel rooms and thousands of tourists. This concentration generates negative congestion and environmental externalities in the surrounding context.
This section is based on the economic behavior of oligopolies applied to the specific circumstances of beach destinations. Hotels in a beach destination create an oligopoly because there is a limited supply of sites developable. This section assumes that there are two basic ways hotels can compete with each other in a destination:

1. **Cooperation (NOT-OVERBUILD)**
   Cooperation for the purposes of this discussion means a scenario in which an owner of a hotel site builds at low densities with a design compatible to the local architecture and landscape. If all hotel owners get together and cooperate, this means that they form a monopoly. They agree to specialize in different market niches to avoid unnecessary competition, to control quantity and quality of hotel development and to protect the unique landscape and cultural attributes of the destination. A cooperative monopoly also means that hotels could coordinate promotional events, share customer and development cost information, and provide together unique amenities that benefit the attractiveness of the destination as a whole: parks, urban furniture, compatible architectural design, etc.

2. **Non-cooperation (OVERBUILD)**
   A non-cooperative mode is a scenario in which an owner of a hotel site builds a large scale hotel prototype often not compatible with local architecture and landscape. This prototype allows him to compete by lowering its operation costs, which in turn allows him to capture a larger share of the market. However, if all hotel owners follow similar prototypes, the result is often the overbuilding of a destination and

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26 An oligopoly is a market condition in which the sellers are so few that the actions of any one of them will materially affect the price and hence have a measurable impact on competitors.

2.3.1 PRISONER'S DILEMMA

If hotels in a destination cooperate, they could coordinate to maximize their collective
profits and preserve the environmental attributes of a destination that increase their
profitability. Why we do not see collusion agreements among hotel operators and
developers? This happens for three reasons:

1. each hotel has no way of enforcing the cooperation of existing hotels,
2. each hotel has no way of keeping new hotels (which might not cooperate) from
   entering the market, and
3. different hotel types have different risk and profitability characteristics

Each hotel developer analyzes the payoffs of different development strategies (cooperate,
or not-cooperate) assuming various development strategies on the part of its competitors
in the destination. A hotel developer is said to have a “dominant strategy” when a
development strategy gives him the highest payoffs regardless of what development
strategy other hotels follow.

The dominant strategy for hotel developers in a destination is to build large scale all
inclusive prototypes to lower operation costs and to internalize demand for secondary
goods like entertainment, restaurants, car rentals and shopping. However, problems

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28 Firms that fall into hypercompetition modes are forced to continuously spend resources to keep up with
marketing, technological and personnel training to lower costs and keep up with competitors. This
continuous upgrade provides no sustainable advantage for any firm but imposes significant costs. Firms that
provide different products are not subject to the same pressures of cost efficiency. M. Porter. “What is

29 Hotel developers also have information and expertise about the profitability of large scale all inclusive
hotel prototypes, about their construction cost, development time and operation costs. Specialized
prototypes following different design and construction configuration pose a greater uncertainty from the
emerge when all developers follow this dominant strategy because in the absence of
design and environmental controls this translates into overbuilding, which destroys the
attributes of a destination in the long term. In this scenario, like in the prisoner’s
dilemma, all developers will follow their dominant strategy and will do worse than if they
had cooperated.

To illustrate consider the following example: ( The numbers are assigned arbitrarily to
represent the payoff to the investment of individual hotel owners in each scenario.
Representative case studies in section two suggest that investor’s payoffs and behavior do
follow similar patterns.)

<table>
<thead>
<tr>
<th>HOTEL A</th>
<th>DO NOT COOPERATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>COOPERATE</td>
<td>A=500</td>
</tr>
<tr>
<td>DON’T OVERBUILD</td>
<td>A=750</td>
</tr>
<tr>
<td>HOTEL B</td>
<td></td>
</tr>
<tr>
<td>DON’T COOPERATE</td>
<td>A=0</td>
</tr>
<tr>
<td>OVERBUILD</td>
<td>A=250</td>
</tr>
</tbody>
</table>

In this example a hotel’s dominant strategy is to “overbuild” since this produces the
highest payoffs no matter what the other hotels do. If hotel “A” overbuilds and hotel “B”
does not, “A” gets profits of 750 instead of 500 if it had cooperated. This is because “A”
by building a large scale hotel is able to lower its operation costs and capture a larger
share of the market away from “B”. For “B” the payoff is zero because he is forced to
developer’s stand point. This reinforces that the dominant strategy is to go with prototypes for which they
have information. Walter Rutes, interview 1997.
lower its prices without having the advantages of a large scale hotel and because it has lost market share to “A”.

If hotel “A” overbuilds and hotel “B” “does too, “A” gets profits of 250 instead of 0 if it had cooperated. In this scenario their respective payoffs go down to 250 because when both hotels overbuild they bid each other’s prices down in an attempt to attract the same profile of tourists. The consequent massive development displaces the attractive characteristics of the local culture, overtakes the landscape, and generates congestion externalities. This makes the outcome worse for all hotels, diluting profitability and eroding the attractive characteristics of a destination. The case of Acapulco in Chapter 3 represents this scenario.

Each hotel following its dominant strategy will lead the destination to be at the lower right corner and each will earn significantly less than if they had cooperated. If “A” and “B” had cooperated to form a monopoly, they could have built less, avoiding the erosion of the attributes of the destination, and could specialize in attracting tourists with different profiles. Note also that when both hotels cooperate the total earnings (A+B) are higher than in any other scenario. The case of Costa Smeralda in Chapter 5 is an example of this scenario.

In the economics of oligopolies, as attractive as cooperative outcomes might be, when what it pays each firm to act in their individual interests turns out to be very harmful to the interests of all firms as a whole, an individual approach will often be taken,30 the structure of a prisoner’s dilemma emerges and an inefficient outcome will occur, overbuilding the beach destination.

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2.3.2 NASH EQUILIBRIUM

In the example from Section 2.3.1, it may be tempting to believe that within a destination of only high density resorts, a hotel offering a “different” (low density) setting can have an advantage due to the local scarcity of its attributes, and therefore its dominant strategy might be “don’t overbuild.” This would not occur since overbuilding by all the other hotels would cause negative external effects on the destination and damper the ability of the low density hotel to attract tourists not interested in the image and characteristics of mass tourism. In an overbuilt destination a dominant strategy can be “don’t-overbuild” only if the site of the low density resort is so large that it can exclude other hotels from imposing their overbuilding externalities on it, becoming in reality a local monopoly.

Do Hotels Always Have a Dominant Strategy?

In a prisoner’s dilemma all the parties have a dominant strategy. All hotels are individually better off by “overbuilding” if they cannot enforce cooperation or if they cannot create barriers to new hotels. But there are other circumstances when not every party has a dominant strategy. Consider the following example:

<table>
<thead>
<tr>
<th>HOTEL A</th>
<th>COOPERATE</th>
<th>DO NOT COOPERATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>DON'T OVERBUILD</td>
<td>A=500</td>
<td>A=750</td>
</tr>
<tr>
<td>COOPERATE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DON'T OVERBUILD</td>
<td>B=400</td>
<td>B=0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>HOTEL B</th>
<th>DO NOT COOPERATE</th>
<th>OVERBUILD</th>
</tr>
</thead>
<tbody>
<tr>
<td>A=0</td>
<td>A=300</td>
<td></td>
</tr>
<tr>
<td>B=300</td>
<td>B=200</td>
<td></td>
</tr>
</tbody>
</table>
Assume overbuilding dampens profitability as argued above and assume hotel “A” is a multinational hotel, while hotel “B” is a local hotel. For the multinational hotel “overbuild” becomes its dominant strategy due to its ownership and market internalization advantages over local hotels (see Section 2.1.1). If hotel “A” overbuilds and hotel “B” does not, “A” gets profits of 750 instead of 500. Similarly, if hotel “A” overbuilds and hotel “B” does too, “A” gets profits of 300 instead of 0.

On the other hand, the local hotel does not have a dominant strategy. Local hotels do not have the same advantages multinational hotels do, but if the latter enter the market with a particular development prototype, the former are forced to compete on the same terms. If the multinational builds a hotel tower offering lower prices and imposing negative effects on the surrounding hotel sites, the locals are better off competing with similar prototypes even though they do not possess the same advantages. Conversely, if a multinational enters with low scale development, locals would follow similar strategies since they are closer to their level of expertise and financial capacities. Therefore B’s best strategy depends on A’s. If A chooses to overbuild, B does better overbuilding too, getting 200 instead of 0. If A chooses not to overbuild, B also does better by not overbuilding, getting 400 instead of 300. In contrast with the previous example in Section 2.3.1, local hotels do not do better by overbuilding even when multinationals do not because they do not have the same advantages as multinational hotels.

What is likely to happen in this scenario is that hotel “A” (multinationals) will pursue its dominant strategy and overbuild. Local hotels are able to predict the dominant strategy of multinationals and therefore overbuild also. When only one firm has a dominant strategy, the best strategy depends on the actions of the firm that has a dominant strategy. In our example this would lead both hotels to overbuild, producing an inefficient outcome since both could do better by cooperating. The lower right cell is called a Nash
equilibrium, defined as a combination of strategies such that each party’s strategy is the best it can choose given the strategy chosen by the other player. At the Nash equilibrium neither player has the incentive to deviate from its current strategy and cooperate.

The environmental costs of not cooperating are high for both the destination and the individual hotels. Cooperation does not assure that each party will abide by the agreement and compliance gets complicated as the number of participants increases and the potential for defections increases. Cooperative participants need a way to penalize those who defect, thereby making it in their best interest not to do so.

2.3.3 ALTERNATIVE SOLUTIONS

In practice issues to upkeep and protect public goods of a destination are dealt with by government regulation that controls building permits, environmental standards, land use, height of buildings, density, minimum set back and open space requirements. However, government intervention in developing resort destinations is often minimal and has little impact on important attributes like architectural design and building prototypes.

How could individual hotel owners be encouraged to develop their parcels at densities and architectural styles that are compatible with the community? How could we best prevent individual hotels from introducing adverse building prototypes into an otherwise harmonious destination? There are several possible solutions to the above externality problems that are employed under different circumstances.

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31 After John F. Nash. American mathematician who introduced the concept in 1951.


• **Private Contracts.** Even when each individual hotel owner has an incentive to act on her self interests, through education and interaction owners might agree to act in the group’s interest if others will do so as well. The group can agree on a contract or on a common deed restriction on their properties to provide the initial commitments and the ongoing enforcement necessary to ensure a cooperative outcome. These contracts frequently control architectural style, building materials, density, height, land uses, maintenance standards, etc. at a higher level of scrutiny than conventional government regulation. Any individual owner might find these restrictions privately undesirable but recognize that she is better off with them.

This voluntary approach to solve the negative external effects works best when the number of participants is small. However, a contract or a common deed restriction does not ensure compliance over time.

• **Single Ownership (Internalization In Large Scale Development).** There are two problems with public goods in a beach destination.

1. Multiple owners own a common resource, making it difficult to allocate the costs of upkeep and conservation (destination attributes).
2. Where there are externalities, owners neglect to acknowledge the positive or negative economic links among their properties.

Both problems cease to exist when there is a single owner taking development decisions. Thus, when a beach destination is developed at large scales, compatible landscape and architecture are more likely to be provided. Similarly, infrastructure, open spaces, amenities and maintenance will be coordinated and provided since they add to the net collective value of the property being developed.
The limitations of this solution are related to the difficulty of assembling large tracts of land and acquiring the capital resources to undertake large scale development. Similarly, if the strategy only internalizes the benefits of providing harmonious design at the time of development, how is the management of externalities to be handled after the land is subdivided and sold to individual owners?

- **Regulation.** In theory a cooperative agreement could become dictated by law to avoid negative externalities among property owners and protect public goods. For that reason development is often regulated to provide a certain level of landscaping, density, layout, etc. Similarly, zoning laws regulate the range of uses, construction density and maximum height of buildings. This view of regulation assumes that the regulating authority has the information and the expertise necessary to make the correct recommendations (often not true). Furthermore, government interests are often compromised by their political or economic development agenda, ignoring externalities in the short run.

Additionally, there is often little consensus about which public goods should be provided or which externalities should be addressed by regulation. As a result government takes a minimal approach to regulation intervention which is often not enough.

It has taken 50 years of looking back to learn from the negative experiences for most governments to acknowledge their need to intervene with stricter regulations or instruments with the clear intention of preserving the landscape and architectural character of beach destinations (see section 1.3.2.)

- **Education-Cooperation.** If local communities are politically empowered through the legal system to approve or reject development that imposes externalities on their community or that washes away their unique cultural or environmental attributes, a
cooperation and education strategy can often offer the best results. Informed and educated locals can form a strong coalition that becomes the best guardian of public goods since they are directly benefited or affected in perpetuity by the decay of a destination. Education and information for locals is often provided by the parties interested in developing the area. This approach does not rely on any legal instruments for its enforcement but on cooperation among educated and informed parties who are able to distinguish that cooperating is the best strategy. However, it must be stressed that development will only occur when it is economically feasible, and local consensus will not change that.

Cooperation and single owner development approaches seem to break down over time as multiple parties acquire economic or political interests on the destination. On the other hand, regulation is perpetual but until now it has followed minimal environmental and building design approaches, leading to the creation of places with little character and uniqueness. This lack of uniqueness is not only desirable but also necessary for the creation of competitive beach destinations.

In the Part Two of the paper I am going to concentrate on how the development agency\textsuperscript{34} can use building and environmental design controls and implementation tools to promote the development of beach resorts at destinations that protect the environment, celebrate local culture, and promote sustainable and equitable economic development. To answer this question I analyze three cases of beach destinations: Acapulco, represents the outcomes of development by multiple owners in the absence of regulation, Costa Smeralda illustrates a single ownership approach without government intervention, and Cancun where the state intervenes with minimal environmental regulation. An example of cooperation / education in its strict sense was not found and therefore is not illustrated.

\textsuperscript{34}Agency for the purposes of discussion of this chapter represents a group of cooperative independent investors, a government agency or a single owner controlling development and investment decisions of according to an established philosophy and vision applied within the geographic boundaries of the beach destination. An agency can be composed by local or regional government officials, a single owner, a group of independent cooperative owners, an elected or appointed board or commission, or a combination of them.
PART TWO
Models of Tourism Development

In this second part, I focus on the interests of government and private developers. Using
the economic models proposed in Part One I create categories of prototypical
development models of beach destinations which are illustrated through case studies.
Each model represents a combination of government objectives and incentives, a set of
development controls, and a respective response by private investors. The economic,
cultural and environmental attributes of each model are illustrated and analyzed through
representative case studies. This analysis will provide valuable lessons to employ in the
future development of beach destinations.

I have identified three different strategies for development of beach resorts in relationship
to their strategic policies of development. They translate into development models with
distinctive physical prototypes that I call:

• **Cultural themed plan / Monopoly.** Developed by a single owner or by cooperation
  among few owners that together assemble large tracts of land.¹ Development
  reinforce a common cultural theme and follows compatible designs that are sensitive
to the environment because it raises the value of their collective investment.

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¹ *Monopoly* in this paper is used to indicate a partnership or a corporation that even though it might have
several owners, acts as a single entity that controls the supply of goods or services within a market.
*Cooperation* is not used following the strict sense of the word because even though owners in this model
voluntarily cooperate at the moment of development, they also put in place a private contract, some
internal regulations, and other mechanisms to ensure compliance.
- **Master subdivision plan / Oligopoly.** Developed by a central government agency with the intent to generate economic development in the short term. A subdivision of waterfront lots encourages independent investors to develop all inclusive hotels with minimal regulations of architectural or environmental design.

- **Ad Hoc Plan / Free Market Development.** Private investors acting independently develop the waterfront to maximize the value of their investment in the short term with practically no environmental and design regulation from local governments. Consequent development literally illustrates economic market forces.

I use five qualitative variables to assess the relative strengths and weaknesses of these prototypes in their ability to generate economic and environmental sustainability. These are: architectural and site planning typology, development policies and controls, and implementing agency, which have an impact on the environment, local residents, and local culture. The different types are compared in Chapter 6.
CHAPTER THREE
Ad Hoc Plan / Free Market Development

3.1 DESCRIPTION OF THE MODEL

This type of beach destination is representative of the evolution of destinations that evolve spontaneously without collective coordination or regulation of development. It illustrates the behavior of individual investors facing the prisoner’s dilemma illustrated in section 2.3.1. This model includes traditional fishing or agricultural villages that rapidly became tourist centers. The hotel district seems to evolve without being the particular intention of any single entity but emerges as a collection of individual self interest development efforts. The minimal presence of government planning mechanisms, policies and processes for development is characteristic of this model. If they exist, they are commonly driven by politics. The absence of development control policies leaves in its buildings a three dimensional model of international economic market forces and architectural trends.

Acapulco, Rio De Janeiro, Puerto Rico and Honolulu are examples of this type of beach destination.

Characteristics

- Environmental and building design controls are minimal and frequently not enforced.
- Tracts of land are assembled by developers that create all inclusive resorts with hotel towers, restaurants, retail, and night time entertainment. Which displace locals from
the waterfront and provide no continuity or connection between the village and the beach, or among resorts.

Fig. 3.1 This model presents an eclectic and spontaneous mix of land uses and buildings prototypes that emerge over time out of market forces. (Acapulco).

- Besides common setbacks from the beach and from the distributing boulevard, the architectural style and quality of individual hotel complexes bears no relationship to the village's or to nearby hotel complexes. An eclectic mix of towers by the sea, single homes, and vacation villas encroaching upon one another and upon the village historic district is characteristic of this model.
- There are no restrictions on growth of the tourist district. It can grow as long as there is beach to incorporate and infrastructure to support it.
- Infrastructure is provided incrementally as needed: water, electricity, roads, etc.
The end result is the segregation of land uses by market forces, a collection of disconnected resorts distributed along a boulevard bordering the coastline. Hotels in this *Ad Hoc* model compete through low cost strategies and economies of scale. This often results in overbuilding the beach front and translates into environmental and ecological decay. Resorts of this type operate in a close to perfect competition market where the products are commodities, abundant and with only insignificant differences
3.2 THE CASE OF ACAPULCO

Acapulco\(^2\) was a fishing village that rapidly emerged in the 1960’s to become a world class mass tourism destination. Its fast unplanned growth eventually eroded its unique environmental and cultural attributes, making it a second class destination and stagnating its economy that had become largely dependent on foreign tourism trade. Uncontrolled peripheral development, direct sewage disposal into the bay, and massive overbuilding generate infamous congestion and pollution levels. Social problems are exacerbated by a deficit in the provision of housing and public services. Today Acapulco counts more than 26,000 hotel rooms with a vacancy rate greater than 57%. In less than ten years, the profile of its tourists has changed from being 79% foreigners in 1987, to less than 16 % in 1995.\(^3\) Acapulco now has a year round population greater than 1 million and continues to promote tourism development even further in the hope of boosting its economy. Acapulco represents a case where the destination has gone through a full product life cycle led by the short term economic interests of individual owners, with practically no environmental or planning control.

![Figure 3.2. Acapulco bay](image)

\(^2\) Information about Acapulco was obtained through masterplans and a bibliographic research. See bibliography.

\(^3\) Secretaria de Turismo, Mexico, “Estadisticas Basicas de la Actividad Turistica.” 1996.
Figure 3.3. Acapulco bay enclosed by hotel towers along the beach.

3.2.1 DESCRIPTION

Acapulco is a 13 km long Atlantic bay located in a valley of Mexico’s Sierra Madre Occidental. It is protected from the open sea by a peninsula and several small islands. Acapulco bay is enclosed by a ring of mountains that provide it with spectacular peripheral scenic views, which create the impression of sitting in the center of a huge
roman amphitheater, as illustrated in figure 3.3. Its topography is varied with reefs, plains, steep rocky hills, and undulating valleys. Acapulco is equally rich in ecosystems with two of Mexico’s largest lagoons nearby and a tropical forest of tremendous biodiversity and beauty. It is gifted with yellow beaches and emerald waters that provide a frequent spectacle when crushing against its rocky reefs. The original fishing village had a rich colonial architectural streetscape following Spanish building traditions. Acapulco is located 450 kilometers from Mexico City, today the main source of its tourism.⁴

Figure 3.4. Digital model of the dramatic geography of Acapulco. The enclosing mountains and island give the landscape magnificent panoramic views.

Acapulco was the principal port of exchange with the Philippines from the 16th century until Mexico's independence in 1821. This picturesque village in its magnificent natural setting remained stagnant and forgotten for nearly 100 years, devoted only to agriculture and fishing.

**Conceptualization mid 1920's to mid 1930's (6,500 habitants)**

During this initial period, the tourism industry in Acapulco emerged without the specific conceptualization or planning of any government or private agency. The old port was
connected to the interstate highway network and a small airport was constructed. Tourist development in the village was mainly summer homes of American tourists, built in Acapulco’s traditional town style. The village rapidly became the hideaway for the international jet set. At this point the tourist potential of Acapulco was discovered.

**Implementation mid 1930’s to mid 1960’s**

Realizing the beauty of the bay and its international tourism potential, Mexico’s federal government invested heavily in transportation infrastructure to promote Acapulco. During this period the main artery along the coast, a new decentralized airport, residential neighborhoods along the coast, and a new six lane highway connecting Mexico city with Acapulco were constructed. With these infrastructure improvements large scale all inclusive hotels began to appear along the bay.

All new tourist development and land subdivisions occurred spontaneously with minimal government regulation. The land accommodating the new tourist district and neighborhoods was, for the most part, expropriated from local agricultural cooperatives (ejidos\(^5\)). This land was sold with no construction or design restrictions to private land developers, many of them politicians involved in the planning and promotion of infrastructure including the president of Mexico Miguel Aleman, the secretary of communications Juan Andrew Almazan, and the secretary of defense Gilberto E. Limon, among others.\(^6\) Conflicts of interest were obvious but the consequences remain to be seen.

The absence of development regulations allowed individual investors to seek to maximize the value of their investment in the short run by overbuilding. The development process

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\(^5\) In Mexico *Ejido* is local communal ownership of the legal rights to work the land for agriculture purposes. The federal government reserves the right to put it to other uses or to dispose of it. The holders of agriculture rights cannot sell, lease or dispose the land.

was conducted without public participation although several local community movements tried unsuccessfully to stop expropriations and the massive development of the tourist district. This force came back to haunt those who at the time decided to ignore it.

By 1946 illegal settlements appeared at the periphery of the city, as illustrated in figure 3.4. Most of the first illegal settlers were people affected by the expropriation of land who settled in lots without sewage, water or electricity. At the time, no planning efforts were made to provide public housing to relocate affected families. To stop further pollution of the bay, local and federal agencies were obliged to provide public services for sewage and storm drainage in an ad-hoc manner as settlements appeared.

*Figure 3.6. Housing settlements that emerged spontaneously on the periphery of Acapulco.*
Consolidation mid 1960’s to 1970

During this period the new international airport opened, attracting mass tourism with consumption patterns and a cultural and demographic profile different from the previous high class visitors. National and international hotel corporations established operations in Acapulco. More than 12,000 rooms and 4,000 condominiums were completed. The city saw its hotel towers multiply along the bay at the same time as its irregular settlements encroached against the mountains.

Land use allocation was left to market forces. Tourism development outbid the locals and took over the waterfront land. This brought the separation of the city from the sea by a wide strip of tourism development and an eight lane distributing boulevard. Tourists and locals functions were completely separated. The historic district concentrated civic functions and local commerce, while the coastal band of self contained resorts concentrated tourist activities.

The problem of illegal settlements in Acapulco that started in the 1940’s was exacerbated by massive immigration. By 1970 Acapulco had received 20 years of massive immigration from other economically depressed regions and states, and its population exceeded 235,000, a number that far exceeded the jobs created by tourism. In that same year the first “Plan Acapulco” was adopted not to control development but to provide corrective measures: parks, a center for entertainment activities for 10,000 people, pollution control, and cleaning of the beach.

Decay 1970’s-1980’s

All development that had occurred up until this point lacked sewage treatment facilities. By the early 1970’s, hotel expansion stopped voluntarily largely due to the widespread knowledge of the increased pollution of the bay. Sewage and storm runoff, which was
being poured directly into the sea, was to continue for another 15 years until corrective measures were taken. (The first sewage treatment plant began operation in 1990.)

**Redevelopment attempts 1980’s**

By the early 1980’s Acapulco’s situation was chaotic due to pollution of the bay, deforestation, massive traffic congestion, and the explosive growth of illegal settlements. The massive concentration of tourists congested beaches, markets, shops and the historic district. After only 50 years, there was little to resemble the sleepy colonial fishing village that Acapulco once was.

In 1981 several infrastructure projects conceived by the federal government were undertaken, including: the airport expansion, relocation of 2,400 families into public housing projects, provision of sewage, electricity and water for low income settlements, construction of a sewage treatment plant, and a home auto-construction program. An urban renewal project attempted to relocate 120,000 residents to a nearby town. Illegal settlements were being blamed for most of the pollution of the bay because they blocked the waterways, increased runoff speed and pollutants due to open air sewage, and created solid waste. The community formed a coalition and stopped the relocation.

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7 These auto construction programs often consisted of loans to illegal settlers to acquire construction materials to improve the quality and services of their homes under the condition that they made the improvements themselves.
Figure 3.7. Illustrates the massive proliferation of public housing projects in the Acapulco periphery in an attempt to provide housing for relocating families and low income workers.

Acapulco traffic system became heavily congested due to a massive flow of tourists coming by automobiles and buses from Mexico City. In an attempt to alleviate congestion several traffic projects were implemented in 1982. The main distributing road bordering the coast was expanded to 8 lanes and extended along the coast to accommodate further growth of the hotel district. The bus terminal was taken outside the city, penalizing transit transportation and rewarding automobile users. Both projects solved little in the long term and only exacerbated noise and air pollution in the hotel district. The expansion of this coastal road created a physical barrier that became a separation between the city and the sea. See figure 3.8.
Figure 3.8. The city of Acapulco is now separated from the sea by an eight lane boulevard, and tourism development of massive scale is concentrated along the beach.

The 1982 Plan

In 1982 contamination was such that the World Health Organization and the United Nations threatened to take international action. Skin, stomach and eye infections among locals and tourists were intolerable. The water flora and fauna had been depleted and the fishing industry had stagnated; the port became a net importer of those goods.

The masterplan of 1982 had as a principal objective eliminating pollution and the illegal disposal of sewage water into the sea, as well as to continue to extend the provision of
public services for illegal settlements. It fostered further tourism development outside Acapulco bay to decentralize the economic activities and alleviate congestion. However, development controls imitate the land use, and density allocation of the existing hotel district.

Figure 3.9. Inventory of proposed and existent land uses of Acapulco

Figure 3.10. Growth and environmental reserves.
3.2.3 OVERVIEW OF THE PROJECT STRATEGY

The strategic location of Acapulco with respect to Mexico City has been one of the principal causes for both its success and failure. This proximity has provided it with a large market on one hand, while on the other has put tremendous pressure for the bay to develop mass tourism. Tourism flow from Mexico City comes mainly by car and bus, producing massive congestion on streets and avenues. In the absence of a clear intent on behalf of government authorities to preserve the cultural and environmental attributes of the village, market forces have overaken its carrying capacity and have eroded its economic base.

The 1993 Plan

The city of Acapulco has not followed a clear growth strategy and the plans implemented until now have been reactive instead of proactive. They have concentrated on implementing corrective measures to the issues of: illegal settlements, infrastructure
provision, environmental clean up, housing, and road expansion. Development has filled the Acapulco bay area and is now sprawling to nearby towns. The 1993 plan poses a growth model for the city with the objective of improving the quality of life of its residents and preserving what is left of the historic and ecological patrimony.

**Economic Strategy**

Although the plan states its intention to promote the diversification of the local economy by promoting agriculture, fish and oyster farms, and cattle, the land use allocation map indicates a different story. If all the recommended tourism development occurs, the economy would be more dependent on tourism than ever before.

The state is to increase its debt to finance further tourism development south and north of Acapulco bay along the coastline. The fragile ecosystems of the lagoons Negra and Tres Palos are to be developed for tourism related to boating and fishing. The plan attempts to prevent land speculation by selling lots according to planned construction schedules.

**Spatial Strategy ( Land Use, Spatial Allocation, Infrastructure Provision )**

The 1993 plan promotes the development of four urban subcenters connected through regional highways. Each center is to be autonomous and provide services, employment and housing for its habitants. Two Centers, the North and South, revolve around tourist development of the coastline and the lagoons. The east center is to be promoted for industry and agriculture while the center (Acapulco Bay) is to be decentralized and relieved from pressures of further development.

The plan seeks to continue cleaning the bay, and the Negra and Tres Palos lagoons by eliminating direct sewage and solid waste disposal. This is of key importance if the promotion of further tourism development is to be successful. In addition the plan foresees the creation of a system of ecological preservation parks: the *El Veladero*
mountain with 7,855 hectares and La Roqueta island with 90 hectares. Lastly, scenic roads are provided with regulation that limits the height of buildings nearby to protect their attributes.

The plan prescribes for the new North and South tourism centers, the traditional mass tourism hotel prototype already overdeveloped in Acapulco bay. There are no strategic indications to diversify the hotel stock or to create unique public environments. Furthermore, the plan has minimum building regulations for the construction and design of new hotels. The only government development control tool is a minimal regulation approach of land use, density, setbacks, lot size, lot frontage, lot coverage ratio and floor to area ratio through zoning. Lastly, the plan shows little indication of public participation or opportunities for local enterprises.

3.2.4 CURRENT SITUATION

Currently Acapulco’s economy is stagnating with the flight of international tourism and with a population growing at 4.4% in a mountain valley with scarce developable land. Illegal tenancy of land continues, 71% of all homes have 2 or fewer rooms, 46.7% no sewage disposal facilities, and 34.6% no water. While Acapulco continues to be the center of the region for all activities (government, health, entertainment, markets, employment, etc.), pollution and congestion keep generating the sprawl of development outside the bay area.

Sewage and runoff from illegal settlements continue to be major problems in spite of attempts to solve them. For example, dams for retention were provided but were invaded by illegal settlers before they were forested. Both lagoons, Negra and Tres Palos, are threatened by receiving solid waste disposal and sewage discharge. In addition, the bay receives spillovers from oil ships and boat sewage discharge, and erosion has caused deforestation that has increased the risk of floods and dirt avalanches.
The development of all inclusive resorts continues on the north and south tourist centers, exacerbating local competition and making the Acapulco Bay economy decay even further. Acapulco Punta Diamante, a 1,000 room mega-resort tourist complex to the south of Acapulco Bay is in its first stage of construction\(^8\) and dredging of the Negra and Tres Palos lagoons to build marinas and tourist development is underway.

3.2.5 EVALUATION

- **Culture, Architecture and Urban Design.** The lack of control in the hotel district allowed hotels to build as much as possible in the style they preferred. In the absence of strong controlling instruments individual hoteliers decided to compete through economies of scale. The resulting physiognomy is a continuous wall of hotel towers eclectic in style along the entire bay, as illustrated in figure 3.10 and 3.11. For example, the proximity of buildings to each other and to the beach causes towers to cast shadows on each other. This wall impedes the scenic views of the spectacular sierra behind them (figure 3.12). Each tower is an all inclusive island of development which prevents the spillover effect on local businesses and creates a spatial and functional discontinuity along the street side. The distributing road along the hotel district is at a huge scale and cuts the city in half physically and functionally: on one side sea and tourism, and on the other sierra and locals. Similarly, the local residents’ shopping district is the historic district while the tourist’s retail and entertainment activities are located along the coast.

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\(^8\) This complex includes over 1,000 new rooms, two 18 hole golf courses, tennis courts and shopping malls.
Figures 3.12 and 3.13. The construction of massive hotel towers creates a wall extremely close to the shore that takes away the visual contact with the landscape of the surrounding mountains.
The massive expropriation of the agricultural land of cooperatives forced former farmers to join the tourist work force. They went from land owners to salaried employees. Prostitution, drugs, violence, unemployment and underemployment have appeared. The massive concentration of tourists looking for cheap accommodations, food, crafts, etc. has washed away the fine local building hand crafts, furniture making, regional cuisine, arts and crafts, jewelry making, and cultural entertainment.
• **Economic.** It must be stressed that Acapulco’s problems are exacerbated by reasons that transcend the capacity of local planning: massive immigration and population growth, corruption and oppression by higher levels of government of the local political community. There is no doubt that promotion of mass tourism exacerbated and perhaps caused many of those problems, but it is not the only reason.

Acapulco shifted from relying on its port and agriculture to a tourist based economy. The early success of this tourist center attracted mass tourism and uncontrolled development that eroded the fragile natural and cultural attributes of the community. Acapulco is today dependent on a national tourism market since the international market is not interested anymore. Nevertheless, Acapulco keeps pursuing the international mass tourism market by promoting tourism development nearby with the same prototypical hotels that caused the degradation of its cultural and environmental attributes. This initiative perhaps answers to government pressures to create jobs in the short run and to a lack of sophistication in the development approaches taken to develop the waterfront.

• **Risks, Strengths and Weaknesses.** The community and the government have lost bargaining power in attracting new investors due to the environmental problems of the bay and to the displacement of unique local cultural attractions (architectural style, arts and crafts, cultural attractions, etc.). As a consequence, investors have considerable discretion to build inside their parcels and promote vacations inside their resorts, not in Acapulco in general. The bay and village have lost their unique attributes that attracted tourists.

The plan assumes that the demand for this type of mass tourism will keep on growing indefinitely, overlooking the changing demands and profiles of new tourists and the current vacancy rates of existing hotels exceeding 57%. New tourists demand unique cultural and landscape environments that provide a getaway experience and that little
resemble the monotonous repetition of the mass tourism development. Further
development of the same hotel prototypes will only exacerbate Acapulco’s economic,
environmental and social problems, and will further undermine its uniqueness.

3.2.6 CHALLENGES FOR THE FUTURE

The major challenge for Acapulco is to solve the environmental and social problems that jeopardize its future. To clean up its bay and its international image should be its number one priority. Equally important is the renewal of its central tourist district and to not keep spreading development outside the valley and causing further environmental decay elsewhere.

A halt to further tourism development is necessary to retrench the growth of the city in order to accommodate to changing needs of tourism and to reinforce its cultural attractions and its unique natural amenities. Promotion of alternative types of accommodations, ephemeral cultural events, international fairs, amusement parks, museums, rehabilitation of historic districts, implementation of stricter architectural design guidelines and education programs are examples of actions that can be taken to rebuild the uniqueness of Acapulco.

Acapulco can take other radical approaches but it must be careful to study their consequences. For example, since Acapulco has lost most of its cultural and environmental attributes, instead of rebuilding them (which would be quite difficult) it could take the opposite approach. It could decide to become the mass tourism beach destination par excellence and appeal to that class of traveler. It could reinforce its attractiveness through synthetic attributes like gambling, concerts, shows, etc. The risk this approach is that it will not guarantee a fair distribution of the economic benefits across the population and it could exacerbate the illegal settlement problem. Even though I do not have sufficient data to prove this statement, it appears that beach destinations following more sensible development approaches at lower densities create less of a need
for massive numbers of low skilled workforce, creating less development pressures at the fringe. These approaches normally would take an incremental building approach that generates a limited but sustainable demand for skilled local craftsmanship that masters the work of indigenous building materials and building processes, which also add significant value to the tourist experience (See Section 5.1 for an example in the case of Costa Smeralda).
CHAPTER FOUR

Master Subdivision Plan / Oligopoly

4.1 DESCRIPTION OF THE MODEL

This model is different from the traditional village since there is a clear intention from a government entity to create a beach front resort district to generate economic development in the short term. There is a designated area located away from local settlements to avoid conflicts between the interests of land owners and the proposed land uses. Government plans for the development of the beach destination but follows a minimal regulation approach to control building and environmental design.

Cancun, Waikiki, Ixtapa, Oahu and Miami are some examples of this model.

Characteristics

- A planned lot subdivision with a distributing boulevard is usually put in place in anticipation of resort development. The sponsoring government agency normally builds transportation infrastructure (airports, dredges, ports, etc.), amenities (golf course, aquarium, etc.) and provides financial incentives for developers to build within the complex.
There is normally a cap on the number of rooms buildable within a parcel (max. density) and within the destination. However, variances and exceptions are common. Zoning is customarily used to separate land uses into gross categories to protect the hotel district from the encroachment of undesired development.

- Environmentally sensitive areas are sometimes set aside for preservation with no further intervention.
- Infrastructure is planned for and provided in advance to accommodate large scale all inclusive resorts in mega blocks.

Similarly to the traditional village model, the quality and aesthetic characteristics of the architecture and urban design are not controlled through policy mechanisms. Only minimal zoning regulations like setbacks and some height restrictions are applied.

Likewise, environmental interventions are limited to sewage treatment, setbacks from the
sea, and minimum percentages of open spaces. To require resorts to provide on site sewage and desalinization treatment is also not uncommon.

The result is a gross segregation of land uses by a masterplan and the collection of independent, unconnected all inclusive resorts of similar size and aligned along a boulevard that follows the shoreline. An eclectic collection of architectural styles, materials and forms is a common outcome in similar resorts all over the world. No pedestrian environment to link developments together is provided. Destinations following this model often lack unique character and attributes. While the results are clearly better than on the Ad hoc free market development type, there is definite room for improvement. Resorts in this model of destination face an oligopolistic competition where products are imperfect substitutes for each other and their maximum number available is limited.
4.2 THE CASE OF CANCUN

Cancun\(^1\) is an example of creating a place starting from scratch to generate economic development in the short term. Today Cancun is Mexico's most successful beach destination with more than 27,000 hotel rooms and 2,000,000 visitors per year. Since its conception in the early 1970's and in less than 30 years, its permanent population has gone from zero to more than 300,000. This fast growth is at the heart of Cancun's weaknesses that might jeopardize its success in the future. Although Cancun has triggered economic development for the entire region, strong environmental and social problems, a lack of flexibility to adapt to changing market preferences and the first signs of congestion are challenging the minimal environmental end design regulation approach taken to control tourist development.

\(^1\) Information for this case was acquired from a variety of bibliographical sources and interviews, see bibliography.
4.2.1 DESCRIPTION

Cancun is a 17 km long Caribbean Island gifted with beautiful crystal clear beaches and white sands. It is located in southeast Mexico, in the Yucatan Peninsula. Cancun is shaped in the form of a number 7 resting against the peninsula to form two lagoons. The island is bordered by water on two sides, the Caribbean and the Bojorquez lagoons. The topography in the peninsula and the island is mostly flat and covered by tropical forest vegetation. Cancun is located within a one hour drive of unique cultural assets, the Maya’s archeological ruins of Tulum and Chichen Itza. Tourism development is organized in all inclusive resorts of modern style along a continuous boulevard flanking the coastline.

Figure 4.3. Aerial view of Cancun showing punta Nitzuc with its eclectic collection of all inclusive resorts.
Figure 4.4. Aerial view of Cancun showing the bracelet of inclusive resorts that go around the Bojorquez Lagoon (to the left) and cover most of the narrow island. Note the reduced building setback from the sea.

Figure 4.5. Map of Cancun showing the master subdivision plan of the island where tourist oriented development is concentrated and isolated.
4.2.2 HISTORY

Conceptualization mid 1960’s

Cancun is a project conceived in the mid 1960’s by a group of prominent bankers in Mexico City.² They intended to develop places for beach tourism similar to others emerging at the time in other parts of the world (Spain, Hawaii, Caribbean islands, and Florida). They lobbied high government officials to support the projects to generate economic development and increase tourism exports.³

With federal government financial support, the banker’s group sponsored research on the 9,000 km of Mexican littoral seeking potential sites for development of tourism.⁴ Cancun was chosen for its extreme beauty, high quality of sand, proximity to the highway system, large underground water supply and sufficient beach front to justify the investment of an international airport.

Cancun was located 200 km away from the nearest city, there was no indigenous population to draw the labor force from, and no utilities or transportation infrastructure was in place. Cancun’s objective was to create a world class mass tourism destination including golf courses and international five star hotels targeted to attract American tourists.

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² Ernesto Fernandez Hurtado (Bancomer Director), Rodrigo Gomez (Banco de Mexico), and Antonio Ortiz Mena (Secretary of Internal Revenue) were the creators of the strategy.

³ Mexico’s Secretary of Tourism, Secretary of Internal Revenue (tax) and President were convinced to support the project.

⁴ Other sites identified by this group would latter become developed by FONATUR (Ixtapa, Huatulco, Los Cabos, etc.)
In spite of the magnitude of the investment, Cancun’s masterplan was assigned to an architect with no previous urban design experience.\(^5\) This plan separates the site into three areas: tourism development (the entire island), the local population (clustered on the mainland) and conservation areas (around the lagoons). The narrow island required massive land infills to accommodate the huge development program.

![Plan Maestro](image)

**Figure 4.6.** Masterplan of Cancun. The site is divided into three main areas: (1) tourist development (concentrated on the island), (2) local residents and workers in a town (upper right corner), and (3) conservation areas (around the lagoons).

**Implementation 1970’s**

Of the 12,000 hectares in the plan, more than 60% was controlled by federal government.\(^6\) However, most of Cancun island (the most valuable land), was privately owned. The island was acquired with some difficulties before revealing the masterplan.

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\(^5\) That architect was Javier Solorzano, chief designer of the firm of Enrique and Agustin Landa.

\(^6\) 5,000 hectares were owned by ejidos and 2,000 by the Federal Government.
With ownership of the island, a federal authority called FONATUR\(^7\) was created to provide studies, coordinate infrastructure projects, and grant financial incentives. In the early 1970’s in spite of significant financial incentives, FONATUR had problems attracting investors. The Mexican economy was in the middle of an inflationary environment, a recent monetary devaluation and an increasingly high national debt. FONATUR tried everything to get hotel projects started. It went into joint ventures with local developers providing the site, the project and below market loans. With the hope of attracting hotel chains with access to international distribution systems, FONATUR started to build hotels, hoping to close an operating contract in the future.

The plan never had a clear policy to provide temporary housing for construction workers. Their barracks lacked water, sewage and electricity. Furthermore, this working class generated an informal market of goods supported by illegal settlements of people. By 1973 this situation had become a threatening problem. The population in illegal settlements and working barracks without services reached 6,000. By the mid 1970’s, a local authority to prevent further intrusion of illegal settlements was created.

At about that same time, several major political changes were implemented for the benefit of Cancun. It was declared an independent county from Isla Mujeres (the only existent local population that could have benefited from the increased tax revenue), and the entire region around it was declared a free trade zone.\(^8\) FONATUR’s chief project manager was

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\(^7\) FONATUR has the ability to raise capital in the national and international public or private capital markets to finance tourism ventures under predetermined master plans. It has faculties to own, operate, lease or dispose of real estate or financial assets held by the authority. It is responsible for inter-government agency coordination of infrastructure provision, design, promotion and implementation of the projects. It provides economic incentives like below market interest rates and loan guarantees to promote private investment that fosters tourism. This agency has a six chair advisory committee, the Federal Bank holds two, the departments of the presidency, finance, tourism, and national patrimony hold the rest.

The agency goal is to generate economic development and direct foreign investment. Between 1974 and 1993, FONATUR lended about $1.3 billion in financing tourism projects. Secretaria de Turismo, Mexico, 1995.

\(^8\) A free trade zone poses no barriers or taxes to exports or imports of goods or services with the attempt to foster the exchange of world class goods.
designated the first mayor of Cancun\(^9\) (now with 8,500 habitants). With this political shift FONATUR gained complete financial, political, fiscal and regulatory independence over Cancun.

By 1973, the international airport, 1,600 homes for workers (insufficient for the 8,500 habitants.), 23 hotels, a Robert Trent Jones Golf Course and the infrastructure to support 25,000 people were completed. In the following years the basic public services like garbage collection, fire station, a hospital, an elementary school, markets, and an immigration office were provided.

Cancun’s neighboring communities slowly grew in discontent with the project and viewed it as a representation of interests foreign to their locality. At this point the group of bankers that started the tourism initiative had become detached from any functions of FONATUR or the project.

Cancun grew at an unimaginable rate between 1975-1978. In that period the population tripled from 8,500 to 25,000. Squatter settlements without services of water, sewage or electricity kept growing and the state government was reluctant to assist.

**Consolidation 1980’s**

In the early 1980’s, in addition to infrastructure consolidation projects,\(^10\) a special four year program was implemented to provide public housing and services with state and federal funds. In spite of these efforts, the illegal settlements kept growing at a faster rate than the locality was able to provide services. Cancun became increasingly subsidized by state and federal governments.

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\(^9\) Alfonso Alarcon, was first major of Cancun, directly appointed by the president.

\(^10\) the road surrounding the lagoons, the airport expansion, and a new hospital were completed.
In the decade of the 1980’s, the number of hotel rooms in Cancun more than tripled from fewer than 4,000 rooms to more than 15,000. This represents an annual growth of 15% in the hotel room stock in any given year.

Today Cancun presents several challenges. Its population keeps growing faster than the provision of basic services of housing, sewage and utilities. Furthermore, Cancun’s economy is largely dependent on its mass tourism products which are constantly facing global competition from new destinations. A solution to these issues that threaten the social and environmental equilibrium of Cancun remains to be implemented.

4.2.3 OVERVIEW OF THE PROJECT STRATEGY

The strategic location of Cancun within a short flying distance from major population centers of the United States, its warm weather year round with a short rain season, the beauty of its natural attributes, its cultural attractions, and the absence of local communities facilitated the fast development agenda of the Mexican Federal Government.

Economic Strategy

The Federal Government wanted a world class mass tourism destination to increase Mexico’s tourism exchange in the short term. The project was financed through federal

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11 70% of the urban area has no sewage system. Illegal settlements continue to grow, rents are between 40 and 60% of the income of medium and low income households, and there is a shortage of subsidized housing. In addition, loans for the acquisition of subsidized low income housing often exceed the payment capacity of the working class. See “Plan Director de Desarrollo Urbano de la Ciudad de Cancun”. Gobierno del Estado de Quintana Roo. 1993

12 72.7% of Cancun’s work-force is devoted to tourism and commerce, and 17% to construction (of hotels mainly). See Cancun “Plan Director de Desarrollo Urbano de la Ciudad de Cancun”. Gobierno del Estado de Quintana Roo. 1993
resources and international finance institutions. This international debt imposed a short term horizon that created an incentive for the government to design, implement and build the project as fast as possible to meet its financial obligations.

The government chose the fast growth strategy of the provision of public infrastructure (roads, utilities, airport, etc.) to subdivide and sell the island to individual investors with minimal development and environmental regulations. Lot subdivision was tailored to accommodate large scale all inclusive resorts, the most popular hotel prototypes at that time. The strategy of providing all the public infrastructure in advance, hoping to attract private investment later, had a large up front cost for the government.

The hotel prototypes favored by the plan cannot be developed incrementally because they require large up front private investments. This fact plus the uncertainty about the attractiveness of the destination obliged the government to provide major financial incentives to promote the fast growth of hotel enterprises. After all, the present and future success of the economy of the whole city depended on the number of tourists accommodated. The creation of FONATUR, the political independence and jurisdiction of Cancun (liberating it from tax obligations to other jurisdictions), and the free trade zone agreement were seen as the key to economic success of the project.

**Spatial Strategy**

The original concept of Cancun was that of a large, self contained beach resort with a total of 30,000 rooms (now reduced to 28,500). The masterplan emphasized two aspects: the spatial allocation of land uses, and the infrastructure and programming of the destination.

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13 22.05% of the budget was provided by several federal infrastructure provision authorities (electricity, water & sewage, airport, communication and transport, etc.), the Inter-American Development Bank provided 45.65% (21.5 million DLLs.) and FONATUR invested 32.05%. In 1976, a second 20 million loan from the IDB was granted for infrastructure expansion. FONATUR, 1995.
1. Land Use - Spatial Allocation

The masterplan uses zoning to segregate land uses for two population groups: tourists and locals. In the plan there is no apparent opportunity for those two groups to interact. Tourists activities and development are concentrated along Cancun Island while locals are clustered in neighborhoods on the mainland. Large tracts of land are set aside for conservation around the Bojorquez lagoons.

The resort was designed on 13,231 hectares divided in four zones:

- **Hotel and Tourist Oriented Area** (1,031.3 hectares, 7.8% of the site).
  
  This area is located all along Cancun island. The plan consists of a subdivision of the island into tracts of land for tourism development at a large scale distributed through a four lane boulevard that borders the coastline. Zoning segregates land uses within this area into three very gross categories: hotels, retail, condos.

  Density and type of development vary in relationship with the width of the island (In wide areas, large scale five star resorts are prescribed, while in narrow areas and around the golf course condominiums are recommended). Hotel and condo development is classified into three different density and height clusters:

<table>
<thead>
<tr>
<th>Density</th>
<th># Rooms/ ha</th>
<th>Height</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Low</td>
<td>45 to 100</td>
<td>3 to 8 stories</td>
</tr>
<tr>
<td>2. Medium</td>
<td>100 to 140</td>
<td>8 to 12 stories</td>
</tr>
<tr>
<td>3. High</td>
<td>140 to 180</td>
<td>12 to 20 stories</td>
</tr>
</tbody>
</table>

In addition to height and land use regulations in the hotel district, the masterplan puts limits on setbacks, minimum lot size, maximum height,
minimum lot frontage, lot coverage ratio and floor to area ratio. There is no regulation of architectural design or style, building materials, landscape, building quality or the construction process. There are no building guidelines or special plans to create incrementally any lively public spaces other than the 20 meters federal set back requirement from the sea on the beaches.

Most hotels were built with beach front and with at least a four star rating. For the most part, hotels are aligned following the coast line of Cancun island all around the lagoon on a single loaded vehicular corridor. Resorts are set back from the road and have an introspective character, where all activities are conducted on the private grounds of the resort. There are strict controls on advertising signs.

- **Town Area**, (4,151.6 hectares, 31.4% of the site).
  The town area for workers was organized around megablocks that constituted high density independent neighborhoods. They were connected through pedestrian paths and had central bus stops. Each neighborhood had an interior park.
Figure 4.7. Residential Mega-Blocks

- **Conservation Areas**, (8,044 hectares 60,8% of the site. Including the lagoons). Set aside for conservation, creating a green belt buffer for the lagoons and the tourism district.

2. **Infrastructure and Programming**

The plan provided all infrastructure necessary for both the tourism development and the new town. In addition to water and sewage treatment plants, underground utilities, infill and dredging, airport construction, and vehicular roads, FONATUR had an agenda of providing supporting services for the local population and amenities for the tourists. This agenda included:

- A convention center and shopping center
- 18 hole golf course
- Water recreation facilities, expansion of Juarez port, marina, and piers
- Rehabilitation of archeological sites of Tulum and Chichen Itza
- Water taxis to commute between islands

4.2.4 CURRENT SITUATION

Today Cancun has a serious sewage system problem that can cause an environmental disaster similar to the one that destroyed international tourism for Acapulco. There has been a continuous expansion of illegal settlements on the periphery of the city. As a result, in 1993 more than 70% of the urban area had no sewage system. The use of inadequate septic tanks, and the permeability of the subsoil make this a serious environmental threat to the ecosystem of the lagoons and coral reefs.

While the hotel sewage treatment system used to be fully served by three plants, the continuous growth of accommodations had the system operating at over its capacity. To correct the problem injection wells were constructed in Punta Cancun and the excess affluent was discharged underground. In addition, the location of the solid waste infill site near the Bojorquez lagoon is threatening this fragile ecosystem.

The 1993 Cancun masterplan forecasts a population of 500,000 by the year 2010 with 28,500 hotel rooms (the maximum allowed by this plan). To accommodate and control this growth, the plan expects to expropriate 4,000 hectares at the north and south of the city to create a green belt of conservation areas around the city and limit urban sprawl to foster the development of vacant land inside the city.

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14 Hotels share the costs of provision and operation of communal sewage treatment plants.

Tourism development continues. The Cancun-Tulum corridor will accommodate future tourism development at low densities while two other mega projects are on the way: *Cancun Port* and *Malecon Cancun*.

*Cancun Port* is a themed project to attract wealthy tourists. It is expected to have a traditional flavor and be organized around a pedestrian environment of plazas. *Cancun Port* is programmed to have 4,285 rooms in 12 five star hotels, an 18 hole golf course, 419 residential units, a 550 boat marina, 1,151 residential units with frontage on navigable canals and 1,300 spaces for private boat docking, a retail center, club and services. The project is on a site of 343.64 hectares.

### 4.2.5 EVALUATION

Cancun is a tourism destination that until now has been successful at attracting travelers. It possesses magnificent natural attributes and the truly unique cultural attractions of archeological sites nearby. However, the masterplan segregates tourist areas from the local population and takes little advantage of the unique cultural richness of the Yucatan Peninsula or the Mayans. It emphasizes a mass tourism resort prototype that focuses on itself and on standardization. The combination of these two aspects of the masterplan have produced lifeless streets and a lack of attractive public spaces. The monotonous repetition of the same international prototypes along the main boulevard make it difficult to give Cancun a unique collective sense of place although some megaresorts achieve this inside their premises.

- **Culture, Architecture and Urban Design.** The urban landscape of Cancun’s tourist district is very different from the new town’s. The tourist district has the appearance of a world class mass tourism destination with underground utilities, wide roads, first

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16 This marina is expected to capture the Florida market that has over 30,000 private boats over 50 feet long that are able to cross the Gulf of Mexico.
class hotel franchises, etc. while the new town presents all the characteristics of ad
hoc development in a third world city.

The hotel district lacks differentiation from similar districts in other parts of the
world. It constitutes a vehicular corridor flanked by anonymous large scale hotels of
eclectic architecture style. This hotel corridor contains mostly all inclusive resorts
that provide services like restaurants, retail, etc. inside their premises. These resorts
have everything the traveler needs. The collection of these all inclusive islands of
development along a boulevard produces a monotonous corridor without public
activity and character.

By fostering all inclusive hotels, the masterplan favors activities and amenities to be
provided in private spaces (malls, resorts, pools and gardens, disco’s, golf club, etc.),
not in the public ones (streets, parks, promenades, or plazas). In most of Cancun
island there are no promenades, plazas, gardens, public beaches or even street shops.
Even shopping is concentrated in shopping centers and malls. In addition, the lack of
guidelines to control building quality produced a place of unsophisticated eclectic
architectural styles and building materials.
Figure 4.8 and 4.9 illustrate an aerial view and a plan of the master subdivision for Punta Cancun. We can clearly observe the quality of place that results of solely providing a subdivision plan without design controls. Punta Cancun could have had a much stronger character and sense of place.

The plan does not provide for attractive pedestrian connections and overemphasizes vehicular circulation systems even when most tourists arrive by airplane. The major activity center is Punta Cancun where the convention center, hand crafts center, shopping mall, retail complexes, restaurants, bars and night entertainment are
clustered. It attracts most of the tourists, even those located in hotels far away. The whole center is sprawled out and, like the rest of the tourist district, it lacks character and cohesiveness. It evolved spontaneously from the need of public spaces in a domain of all-inclusive resorts.

*Cultural impact*

The project has missed the opportunity to capitalize on the unique cultural attributes of the rich local culture. There are few local architectural expressions, and arts and crafts are downplayed to a retail activity.

The plan allows for few spatial opportunities for social interaction between locals and tourists. The public beaches designed for the local population were opened after 15 years, and they have no lifeguards, rest rooms, sunscreens, dressing rooms, or restaurants.

It must be mentioned that the local community has no input into the creation of the masterplan. Only recently (1986) have local groups of environmentalists been incorporated to help monitor the lagoons but not to influence future development decisions.

- **Economic.** The development of Cancun has triggered the explosion of the tourism industry in the region. This is in large part due to the airport that provides access and to the information about the profitability of the region that Cancun generated. However, it is not clear who is retaining the vast majority of the economic benefits. Most of the local residents end up working in low wage-low skill jobs, and the majority have no access to housing or basic public services. Furthermore, the hotel prototypes prescribed by the masterplan and the required high levels of initial investment to develop them, make it impossible for small enterprises to compete. The
owners of hotel enterprises end up being corporations who spread ownership nationally and internationally.

- **Risks, Strengths and Weaknesses.** Cancun is a mass tourism destination that has started to experience environmental and social issues that can jeopardize its future. The exposure to these risks is due to a great extent to the strategy, objectives and priorities chosen to develop the destination against the clock.

![Prototypical hotel in Cancun](image)

**Figure 4.10** Prototypical hotel in Cancun. Organized around an open space containing gardens and pools. This space opens up on one side to the beach.

*Risks and Weaknesses*

The project runs the risk of an environmental disaster in the lagoons due to the continuous sewage discharge, the dredging of over 20% of their original bottom, the continuous boat traffic and the destruction and filling of surrounding mangroves.\(^\text{17}\)

An environmental disaster can wash away the attractiveness of Cancun as happened

in Acapulco. In addition, social decay due to poor living conditions of the working population and the unequal distribution of economic benefits can trigger inhospitable behavior towards tourists.

Due to the fast build out, Cancun filled up its land reserves with the hotel prototypes that were demanded by mass tourism. If demand for such accommodation drops, the whole destination will be in trouble with no flexibility to accommodate new prototypes. Furthermore, Cancun faces increasing competition due to an increasing number of destinations offering similar prototypes and tourism products. Its lack of built and cultural environment uniqueness makes it hard to differentiate. By developing Cancun with hotel prototypes and architectural style similar to all the other beach mass tourism destinations, the unique cultural and environmental advantages get minimized. The vacation becomes a holiday in the resort not in Cancun. Therefore the resort can be anywhere and the quality of the vacation would be the same. If Cancun could offer unique urban and cultural qualities harder to replicate in other destinations it could be more competitive.

Cancun’s region has too much unconstrained beach waiting to be developed. This creates the risk of a local oversupply of hotel accommodations that would erode the profit margins for all hotels. In addition, new hotels are emerging outside Cancun’s jurisdiction without the planning control of FONATUR. This uncontrolled development could cause environmental externalities throughout the whole region, eroding its attractiveness.

Finally, the government and FONATUR have their own agenda and are under political pressure to keep creating jobs (not to mention financial pressure to pay their international financial obligations). These pressures, can create myopia; where the illusion of unlimited tourism growth is created the government keeps providing financial incentives for tourism growth with the result of a over building. This
translates into environmental issues and large vacancy rates. There is a limited number of tourists willing to go to a mass tourism destination and competition by new destinations is constantly increasing.

**Strengths**

Cancun has a hotel stock whose price is very competitive in the international market. It is able to roll over 2 million visitors a year that consume locally produced goods and services. With major transportation infrastructure in place, more development becomes more competitive to build.

**5.2.6. CHALLENGES FOR THE FUTURE**

Today the tourist profile is changing. Preferences are moving away from standardized mass tourism destinations and towards unique cultural experiences (see Section 1.1). Cancun’s challenge is to adapt to this change and try to go back and implement revitalization strategies that could cater to this new customer. Emphasis on the uniqueness of the local culture could provide an added advantage by making plans for special districts, fostering arts and crafts, improving the streetscape, mixing other types of tourist accommodations, fostering ephemeral cultural events, and emphasizing a higher level of architectural and urban design through stringent policies.

The mega-project of Cancun Port promises to diversify the lodging stock to some extent and respond to the new tourist expectations. Its success remains to be tested since these customers are more sophisticated and FONATUR has not been successful in attracting them to other destinations like Huatulco where as of 1995 it had an aggregate vacancy rate of 49%. In addition, at a regional level the government is matching the local efforts

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18 In Huatulco Oax. FONATUR attempted to create a high class low scale tourist development that has until now not been as successful as expected. Huatulco is a succession of nine bays programmed to be developed with 4,400 hotel rooms to accommodate 195,000 tourists a year. Secretary of Tourism Statistics, 1995.
to link beach tourist places to inland attractions and projects like “*La Ruta Maya*” (a regional network of Mayan archeological sites that transcend several states and countries including Mexico, El Salvador, Belize, Guatemala, and Honduras) with the hope of creating spillover effects to other localities.
CHAPTER FIVE
Cultural Theme Plan / Monopoly

5.1 DESCRIPTION OF THE MODEL

This model illustrates how cooperation can provide an alternative to the Prisoner’s Dilemma illustrated in Section 2.3.1. Resorts following this model are developed on large tracts of land by a single owner or by a small group of investors that act as a single entity by agreeing upon a cultural theme and a sensible development and urban design philosophy that maximizes the collective value of their investment. This model starts out acting as a monopoly under the decisions of a single entity and normally evolves to include the interests of numerous owners as tracts of land are sold for development by third parties. Parcels for development come with design and development restrictions and development approvals are subject to approval by a private committee. Costa Smeralda, Huatulco and Fisher’s Island are examples of this model.

Characteristics

- There is a strong emphasis on building with a compatible architectural design and careful site planning techniques to protect the landscape. Building interventions are controlled through a masterplan, design guidelines, and a design review process.

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1 At the time of development a group of land owners voluntarily get together and cooperate to follow strict design and environmental guidelines. Thereafter, parcels are subdivided and sold with deed restrictions that incorporate those guidelines. By buying the property with the deed, every individual owner is accepting to cooperate and align his individual interests to those of the development, compliance is enforced through internal building permits and utilities supplies.
Hotels are specialized in a market niche and their sizes (90-150 rooms) and locations restricted. All inclusive resort prototypes are banned and small scale tourist accommodations that align the interests of developers and tourists more closely to those of the local community are encouraged (second homes, condominiums, apartments and hotels).

Fig. 5.1 and 5.2
Show a figure ground and an aerial view of a Porto Cervo village. A piece of Costa Smeralda. A good example of this cultural theme model that develops the land at low densities with sensibility to the natural and cultural landscape.
Strong emphasis is made on the linkages between developments in terms of land use compatibility and provision of complementary public amenities in a pedestrian environment.

Infrastructure is planned in advance but provided incrementally as new phases of development require it.

Development normally follows a long term approach and an incremental building process.

Environmentally sensitive and scenic areas are set aside for preservation with no further intervention.

The result is a collection of development built by multiple independent parties which are unified by the same architectural style, construction materials, landscape relationship, and most importantly, every individual owner shares an interest in sustaining the quality of the environment (since it affects the value of their investment and its future profitability).
5.2 THE CASE OF COSTA SMERALDA

Costa Smeralda\(^2\) is an extremely successful high class resort destination created from scratch through a cooperative strategy. Ironically, today its financial success is generating uncontrolled peripheral development as well as external political and economic interests that jeopardize its future. Costa Smeralda represents a cooperative outcome of the economic model presented in Section 2.3.1 developed by a small group of investors.

Costa Smeralda was created to generate economic development for the Island of Sardinia, locate in the South of Italy. The project focused on the high end European tourism market, and followed a slow incremental development approach, emphasizing the creation of a unique place with strong character and sense of place. Costa Smeralda is the antithesis of an international mass tourism destination with standardized hotel prototypes and sterile public spaces. Today it is Europe’s jet set destination.

5.2.1 DESCRIPTION

Costa Smeralda is located on 3,000 hectares in the northeast corner of the Mediterranean island of Sardinia, in southern Italy. Its site is a strip of land of undulating topography between a mountain wall and white sand beaches of crystal clear emerald waters. Its tourism development is carefully organized and concentrated on villas of authentic Italian Mediterranean character.

\(^2\) Information about Costa Smeralda was obtained from interviews with the consultants involved in the design and implementation of its masterplan (See bibliography) and from the book of Claudio Miorelli, "The History of the Twenty Five Years of the Costa Smeralda. Persons, Facts, Images". Italy, 1987
Figure 5.3. Typical section of Costa Smeralda with the mountains enclosing valleys of undulating topography bordered by emerald waters and white sand beaches.

Costa Smeralda is located within a 1/2 hour drive of the local communities of Arzachena and Olbia, where most of its work force comes from. The project has been extremely successful at creating a tourism destination that is successful economically while preserving the unique characteristics of the landscape and local culture.
Figure 5.4. Location of Costa Smeralda
5.2.2 HISTORY OF THE PLACE

Conceptualization / Early 1960’s

In the early 1960’s, the Island of Sardinia was sparsely inhabited and was among the poorest regions of Italy. At that time, Mr. John Duncan Miller, a World Bank Officer was assigned to monitor an economic development program in Sardinia. He was struck by the natural attributes of Costa Smeralda and together with some friends purchased desolated and deforested land. This group of investors formed a Consorzio for the tourist development of the site.

The Consorzio Costa Smeralda was created to promote, coordinate and control the development of the entire area. Consorzio members agreed to follow a common development process and philosophy stated in a masterplan. This plan was created by urban designers and planners of international prestige. The Consorzio also became the entity responsible for getting necessary approvals from government authorities. At the time the unsophisticated local authorities viewed the project as a good generator of needed economic development, and therefore, posed no impediments for its implementation.

The basic philosophy stated in the masterplan had the objective of generating a homogeneous, integrated development that preserved the environment and where construction could not be imposed on the landscape but blended into it. Costa Smeralda was to develop with small increments over a long term horizon. The plan prevented the fragmentary development that would appear if each property owner was allowed to derive the maximum short term profit out of her investment.

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3 Sasaki Associates was involved in the development of Costa Smeralda’s original master plan.
Figure 5.5 and 5.6. The rural character of Costa Smeralda.
This philosophy strongly emphasized the architectural and urban character of the place being created. Building regulations dictated construction standards and were enforced by an architectural committee through a design review process. The masterplan followed traditional Sardinian village patterns and architectural traditions. The Consorzio put a high value on the collective qualities of the architecture and landscape of Costa Smeralda.

Figure 5.7. Church built by the Consorzio during the first phase of the project.

Implementation 1963-1972 (First phase)

In the early 1960’s, tourism development in Costa Smeralda started before the major infrastructure projects were completed. The first villas and the three principal hotels\(^4\) of Costa Smeralda completed construction before connecting the site to the regional road.

\(^4\) Hotel Cala di Volpe, Hotel Pitrizza at bay Liscia de Vacca, and hotel Romazzino were the first structures to be built in 1963.
system or before constructing an airport. Tourists in this early stage arrived by boat or by airplane, using the nearby dirt runway of an abandoned military airport.

In the mid 1960's the connection to the regional road system, the sewage treatment plant and the aqueduct were completed. At that time, the Consorzio began construction of the spectacular Robert Trent Jones “Pevero” Golf Course which became playable in 1970. The course is located right on the seashore with breathtaking views. By 1969 the first masterplan was completed.

**Consolidation 1972-1982 (Second phase)**

In 1972 after 10 years of orderly, sensitive development based only on internal Consorzio regulations, Arzachena generated a building and zoning code. At this point the Consorzio created an internal planning office to deal with public authorities for approvals. After small modifications to the development program and after incorporating new regional environmental preservation standards, the masterplan for Costa Smeralda was approved by local authorities and a second phase of development was carried out from 1972 to 1985 when most of the existent development in Costa Smeralda was completed.

In 1973, the regional government asked the consortium to present a 20 year investment program that would justify further approvals for development by generating economic development for the region. In its response, the Consorzio emphasized promoting a first class tourist development with complementary activities that generate direct employment and increase inter-regional and international exchange. The areas of intervention include: accommodation facilities, agriculture, industry, transportation, commerce and recreational activities.

During this period the Cervo tennis club, the yacht club and the Pevero golf club were assembled and achieved international recognition through the organization of international sport competitions. The yacht club is responsible for the organization of
annual world class regattas, which in the past have included: the Italy challenge for the America's Cup '83, One Ton Cup '73, the Maxi Yacht World Championship, the 12-meter world championship '84, among others. In addition, tennis and golf tournaments, motorcar rallies, and offshore races are organized in the spring and fall. These international events have been a key promotional strategy for Costa Smeralda to attract tourists in the off season.

Figure 5.8. Annual regatta

The Consorzio provides public services that are usually the responsibility of local governments. It operates a Medical Services center for visitors and locals built through voluntary contributions. The preservation of nature, fire prevention, surveillance of the entire area, beach cleaning and garden maintenance are permanent objectives of the Consorzio to sustain high standards of Costa Smeralda.
1982 Masterplan

Over 20 years of implementation Costa Smeralda promoted sensible development without the intervention of the regional government. At this point the investment plan presented in 1973 had not been approved and the government passed a law that took away the right to develop nationwide within 300 meters of the waterfront. The Consorzio demanded the liberty to control and implement development inside its premises since it had demonstrated its environmental sensibility and the positive economic effects on the local communities.

In 1983 the regional government authorized the Consorzio to control the urban planning and design of further development in Costa Smeralda. This enabled the Consorzio to plan its own development with the preservation of basic economic and environmental objectives. This approval was subject to the Consorzio completing *comparto studies* within 3 years. These studies offer a long term view of the qualitative and quantitative level of development planned for the entire territory, the zoning structure and the supporting infrastructure. The study area exceeded 2,000 hectares and special software was developed to study the interrelationships between legal, physical, marketing, infrastructure and management aspects of the project.

Mc Kinsey & Co. was hired to develop a strategy for long term property development, an evolution plan and a marketing plan that were incorporated into the final proposal. Parallel studies of topography and natural landscape characteristics were performed. “The *comparto plan*” proposes that over 1,700 hectares (85%) be conservation areas and 4.6% covered land area. The *comparto plan* was elaborated by a multidisciplinary team responsible for planning in Costa Smeralda: market analysis, landscape architects, architects, and engineers. The *comparto plan* consists of:

- **Masterplan** showing how much development is planned, where it is to be distributed and how it will be served.
- **Site analysis** describes in detail the land and its character. It determines the types of development to be placed on each site.
- **Process** that must be followed by individual developers to meet the goals and objectives of the resort.

The Consorzio submitted the comparto studies in 1986 to the regional government, but the plan has not yet been approved, and today there is a moratorium on new construction.

**Exogenous Pressures**

After being extremely successful for over 20 years, the Consorzio Costa Smeralda acquired CIGA, the largest chain of hotels in Europe. Recently CIGA has gotten into financial distress and 51% of its shares were bought by ITT Sheraton, gaining control of the hotel chain and Costa Smeralda. ITT Sheraton has demonstrated commitment to the Consorzio’s masterplan and philosophy. It has offered to sell Costa Smeralda back to the Consorzio, keeping only the hotels and those parcels where hotels were proposed by the masterplan. The Aga Khan, president and major shareholder of the Consorzio, is studying the proposal. This intrusion by a franchise breaks the monopoly established by the original Consorzio members, changing the entire economic dynamics of the destination, putting more pressure in the consorzio to developing at higher densities to make up for the losses of the hotels.

**Spin-Off Development**

The Consorzio’s decision making process is similar to a corporation’s. It divides ownership from management decisions. Each owner-investor in Costa Smeralda gets voting rights in the Consorzio in relationship to the size of her investment. However, the Consorzio’s statute gives founding members a perpetual majority of votes to control management and development (They have the right to administer the voting rights of all...
the conservation land, more than 80% of Costa Smeralda). In 1994, small members held 3,000 votes and the founding members 47,000,000.

This unbalanced distribution of the voting rights created a political problem as the number of small Consorzio members increased. They became concerned that the Consorzio might not represent their true interests when negotiating with government agencies and demanded a more transparent and democratic management process to influence budgeting decisions. These concerns were triggered by the fast rate of increasing Consorzio fees, high cost of water, growing Consorzio budget, high fee default rate coupled with their interest in extending the season to support their small enterprises (shops, services, small hotels, villas, etc.). As the number of political constituencies has grown (first the Consorzio members, second the government intervening, third ITT-Sheraton) original Consorzio members have lost interest and are selling their investments.

The success of the Consorzio has generated the development of condominiums and hotels outside the property limits of Costa Smeralda. This peripheral development benefits from services provided by the Consorzio (clean beaches, safety, sport events, stores, etc.) and attracts customers enchanted by the quality of the built environment created and supported by the masterplan. However, this development does not comply with the process and regulations of the masterplan and does not pay Consorzio fees to support public services. The current population of Costa Smeralda is 14,000 people plus more than 5,000 in the periphery, up from zero in 1960.

5.2.3 OVERVIEW OF THE PROJECT STRATEGY

The 1969 strategic plan of Costa Smeralda was one of striking brilliance. First, Sardinia has a perfect location with respect to the large potential markets of European nations. It

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provided for beautiful, unspoiled beaches at a short flying distance, an alternative to the overcrowded French and Spanish rivieras.

Second, the Consorzio capitalized on Costa Smeralda’s natural characteristics as well as on Sardinia’s valuable building and urban design traditions. To protect the beauty of the environment and the character of vernacular architecture (the very same elements that make the place valuable and unique), the Consorzio enforced a set of development principles and procedures that reinforced and protected their economic strategy.

- **Economic Strategy**

  The Consorzio defined tourism in three objectives that provided the tourist a deliberate escape from the familiarity of every day life to celebrate: the vernacular culture of Sardinia, the beauty of the landscape, and the romance of getaway. The development of Costa Smeralda deliberately moved away from the models of mass tourism developments occurring at the time in the French and Spanish rivieras (and all over the world).

  The economic strategy was to create a monopoly in Costa Smeralda that would be able to capture the economic benefits of providing amenities and of protecting the environment and local cultural traditions by carefully crafting Mediterranean villas. This was possible through a cooperative strategy of the founding members of the Consorzio that shared information and decisions towards a common goal. They agreed that development should be planned carefully and that it was to occur gradually with a long term perspective. The economic feasibility of the project depended largely on the development of real estate more than on the mass production of hotel accommodations, therefore protection of the landscape and built attributes became most important. Founding members at first concentrated on creating

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themselves a unique and attractive place that, once it became successful, could sell land for individual developers to build according to the goals and objectives of the masterplan.

Once the members agreed to the character and principles for development in the masterplan, they concentrated on creating and controlling a program of activities and facilities that would maximize the attractiveness of Costa Smeralda for first class tourists. They decided that the individual investments of founding Consorzio members should reinforce each other rather than compete. To achieve this, the first move was the creation of three hotels of very different character: one oriented towards a golf course, the second towards marina and sports and the third oriented towards business retreats with a small convention center and meeting rooms.

Figure 5.9. Hotel Pevero organized around the Pevero Golf Course.
The large tracts of land owned by the Consorzio created a territorial monopoly that enabled them to set price, quality and quantity of all the tourist’s services (hotels, restaurants, shops, etc.). Since there are no substitutes within a considerable distance and undesired competitors (i.e. international all inclusive resorts) cannot build inside Costa Smeralda, the Consorzio has no price wars or threats of oversupply by competition. Rents and fees to commercial establishments and condominiums are a key instrument for the Consorzio to ensure compliance with their pricing strategy and allow them to capture some of the economic benefits of demand generated for intermediate products like retail, arts and crafts, restaurants, travel agents, tours and entertainment\(^7\). By enforcing a high

\(^7\) All inclusive resorts with a short product cycle are not allowed in Costa Smeralda. The internalization of spillover markets caused by the generated demand of incoming tourists is achieved through the rent and
price policy, the Consorzio keeps the exclusiveness and the high quality of services in Costa Smeralda. In addition, the monopoly makes it possible to share demand information and learning experiences emerging from the development.

Figure 5.11. Hotel Cervo organized around tennis and yacht clubs.

Costa Smeralda is oriented to attract high income tourists able to purchase vacation homes and pay premiums for high quality services. To appeal to these tourists, Costa Smeralda created the tennis, yacht and golf clubs in an exclusive, secluded, attractive and beautiful environment. To favor condominium sales over hotel accommodations, the plan limits the number of hotel rooms and their type. Tourists return more often if they become owners of a property⁸. Those tourists that acquire an economic interest in Costa

fees of the commercial real estate and condos. In this manner, for example, the restaurant does not have to be in the hotel, it does not matter where the tourist eats dinner tonight, the Consorzio benefits in some portion through rents of cafes, restaurants, supermarkets, etc. but leaves the opportunity for locals to also make a business and benefit in a more independent way (not being directly hired but through free enterprise).

⁸ A recent survey by the American Resort Development in 1996 shows that: timeshare owners will return to their home resorts an average of 5.5 times during the next 10 years, as compared with an average of just 2.7 times if they had not purchased the timeshare.
Smeralda have the incentive to see the enforcement of the building and masterplan regulations to protect their investment. In addition, high income tourists spend more and can create a profitable destination without the need for massive construction.

The incremental development approach adopted by the Consorzio allowed for careful design, gave the project flexibility to adapt to market changes, and did not require large up front investments or a fast build-out. Construction of hotels and villages started before regional roads were constructed but they were able to capture tourists that came by vessels or airplane. By concentrating development the investment in the network of utilities was minimized. Also, by prescribing small incremental development, the plan allowed individual developers with different investment capacities to participate, offering opportunities for local entrepreneurs. In addition, at the beginning of the project, the Consorzio offered free rent to stores and shops to help local people start commercial activities for the place.

Lastly, the Consorzio statute ensured indefinite management control for the founding members even when the project is fully developed. In this way, these members could enforce the masterplan to protect their investment and profit indefinitely from Consorzio fees that cover management and operation of the clubs and public services. In addition original consorzio members retained ownership of the main hotels, shops, and restaurants.

**Spatial Strategy**

The original concept of Costa Smeralda was that of concentrating development in a network of small villages on coastal coves contained by low hills. These villages were united by a scenic road that emphasized the contact with nature and the entrance to dense developed villages that celebrate local vernacular architecture. At no point were the villages allowed to go over the landscape lines and dominate the scenery. Every view was carefully calculated and designed.
Figure 5.12. Villa of Porto Cervo. Note how development is not concentrated in vertical buildings along the coast. The undulating landscape serves as a platform to give sea views to development uphill.
The villages were settled around centers of activity with particular types of hotels and clubs (marina, golf, convention). These villages created hospitable pedestrian environments and development was kept away from the small and secluded beaches. Going to the beach became a whole experience in which the integrity of the landscape was retained. This approach was quite the opposite from mass tourism destinations where massive hotel developments are brought as close to the beach as possible and the beaches become urban, loosing their natural relationship to the landscape.

Figure 5.14. Typical beach in Costa Smeralda. They form small coves left undeveloped to maximize the relationship to the landscape and avoid the urbanization of the waterfront.
The spatial strategy and distribution of development in Costa Smeralda was driven by the analysis of topography, climate, drainage, soils, vegetation and sea. Three approaches to develop distinctive land forms resulted out of combining the site analysis with the goals and objectives of the masterplan’s development philosophy:

1. *Coastal coves contained by low hills.* These hills create immediate visual horizons and isolate the coves into distinct places. These areas were identified for having high potential for development of concentrated activities for recreation or resort development. Each cove was envisioned as a separate village with its unique character. Porto Cervo, Calla do Volpe, and Razza di Giuncu were the first to be developed.

2. *Low land hillsides.* Rising above the coast lands to the foot of the mountains and adjacent to the cove areas, these slopes would create the immediate scenic background for the concentrated development below. They were set aside for preservation of open space and for lower density residential development that is gifted with spectacular views of the entire Costa Smeralda.

3. *Background Mountain Ridges.* Form a continuous background for the entire coast. They were very important visually as open space and relatively far from the water to be profitable for development. Background mountain ridges represent the wilderness of the coast and were set aside for preservation.

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9 Morgan Wheelock, interview 1997

10 Morgan Wheelock, interview 1997
Development Completed in Costa Smeralda

Costa Smeralda is consolidating the villages and completing the conference center designed to provide a steady tourist flow all year for the Cervo area. Phase three is already planned waiting for the approval of the comparto plans by local authorities and the resolution of the ownership dispute between ITT Sheraton and the Consorzio.

About 1/3 of the land has been developed with:

- 2,580 condominiums (1,900), villas (560), and time sharing apartments (120)
- 215 stores and shops, including 4 supermarkets
- 6 restaurants (off hotel sites)
- 4 hotels: Cala di Volpe, Pitrizzia, Romazzino and Cervo are five star, while LeGinestre, and Luci di le Muntagna are four star hotels
- Yacht club (with a marina of 1000 mooring places, and a first class shipyard\(^1\)); Tennis club (23 courts, racquetball, gym, etc.), and Golf club (with an 18 hole Robert Trent Jones course)

Proposed Development

In general, in the remaining vacant 2,000 hectares of land the building density will be roughly half of that constructed so far.\(^2\) There is an strategy to turn Costa Smeralda into one of the golf centers of the Mediterranean (5 golf courses with 54 holes). This focus on

\(^{11}\) For maintenance and craft from light to 350 tons vessels.

\(^{12}\) In Costa Smeralda density is controlled through allowable volume of built space according to the land use zoning code, not through a Floor to Area Ratio.
golf will presumably generate tourism flow even in the winter. (See Figure 5.18 for constructed and proposed development in Costa Smeralda).

This last phase of the project includes the development of the remaining 2/3 of the site with:

- a 250 boat marina
- four golf courses (two 18 hole, and two 9 hole, plus practice fields. All designed by Robert Trent Jones), a golf academy and two new golf clubs.
- 8 new hotels and the expansion of 5 existing hotels
- 2,500 condominiums and 2,000 villas in two new villages

**Building Guidelines**

Although Costa Smeralda looks today as if it had emerged organically, there is an underlying blueprint for the entire project, as well as a flexible set of guidelines, objectives and principles for development that constantly adapt to incorporate government regulations and market demands within an established philosophy.

The quantity and location of development is established in the masterplan. The building quality and design are regulated through two governing tools implemented by the private planning agency of the Consorzio: design guidelines and a design review process.

Design guidelines have three components. First, a vocabulary of Sardinian vernacular architectural forms that emerged out of extensive research on the island settlements. In addition they include a list of indigenous building materials and local building processes as well as the regulation of openings, colors, setbacks, heights\(^{13}\), and volume of construction. The second component regulates the landscaping techniques and provides a

\(^{13}\) The project has a maximum height of 3 stories throughout the entire place.
list of indigenous plants that can be used. Lastly, the design guidelines include graphic site planning recommendations to locate the buildings on different prototypical scenarios of topography, water drainage, winds and views.

Figure 5.15. Indigenous materials and vegetation protect views and let landscape dominate.

The design review process enables the Consorzio to ensure that the guidelines are interpreted correctly. There is an assigned architecture committee that reviews every project and an established process which every project must go through. The committee also reviews any special circumstances and ensures that repetition of the same architectural design is not perceived as such.
5.2.5 EVALUATION

- **Culture, Architecture And Urban Design.** Costa Smeralda created a successful unified resort that is orderly but not rigid, varied but not chaotic, and harmonious but not uniform. The architectural quality of the villages is simply extraordinary. The plan reinforces the creation of informal plazas and streets organizing a hospitable pedestrian environment. Furthermore, by not allowing the construction of all inclusive resorts, people are encouraged to get out of their accommodations and interact in plazas, clubs, streets, shops, etc.

The choice to follow traditional local architectural forms, landscaping techniques, building materials and processes has produced an urban landscape that meshes with the colors and forms of the landscape. The incremental, multi-disciplinary and multi-party development process following a common architecture language and landscape principles has produced villages of incredible diversity and unity at the same time. This has provided Costa Smeralda with a character and uniqueness not easy to replicate by competing destinations, if not impossible.

While there has been a positive impact on the local culture by reinforcing vernacular architecture, hand craftsmanship and urban design practices, the locals have also experienced a sociological shock. Some of the wealthiest individuals from all over the world visit Costa Smeralda regularly and display their exotic lifestyles before less sophisticated locals that work in low skill jobs. This has triggered a *demonstration effect*

Figures 5.16, 5.16, and 5.17. Character of architecture and public spaces in Costa Smeralda.
• **Economic.** Although I do not have data to prove this statement, it seems like Costa Smeralda has had a positive economic impact in the entire region. The development of the local construction, hotel and service industries have made Arzachena and Olbia (the two communities where most supporting personnel and supplies come from), go from having the lowest median income in the Sardinian region, to one of the highest (at least as for 1986).\(^{15}\)

The choice of local architectural style, materials and urban design tradition has fostered the demand for a low tech, labor intensive, low skilled local work force. Local artisans have benefited directly from the opportunities to create small construction enterprises and from custom made construction hand crafts. This is contrasted with high tech, capital and machinery intensive building processes utilized in mass tourism construction processes which benefit a smaller number of national or international corporations.

The spin-off services created to support Costa Smeralda have been equally successful. For example, Alisarda, the airline created for Costa Smeralda, within 20 years became the principal\(^{16}\) airline in Italy. Today the airport and airline service the entire region creating travel and business opportunities as well as significant employment. Ground transportation, food and agriculture have also been promoted extensively.

Today there is a waiting list to buy properties in Costa Smeralda due to the building moratorium awaiting government approval of the comparto plan of 1985. This situation has created pressure for development outside the consortium boundaries where unregulated lower quality buildings are emerging. Perhaps the permits should

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have been acquired all at once when the future of the development was not certain. Now the community is too comfortable with the project as it is and is benefiting from the spillovers. This uncontrolled development can erode the attractiveness of Costa Smeralda. If each owner at the periphery only seeks to maximize the short term profit of his own investment, the alignment of interests and cooperation outcome of the sensible development philosophy simply will not exist.

There are there lessons to learn from the development evolution of Costa Smeralda:

1. The municipality on which the territory of Costa Smeralda depends has only 8000 people, most of them farmers or former farmers. The scale of the project was overwhelming to them. Perhaps a better strategy would have been to educate the local authorities about the sensibility and importance of the remaining phases for the economic feasibility of the project and gain their approval and support. This however is easier said than done since a relationship of trust between the Consorzio and the local residents has to be established first and since an education process normally slows down development.

2. At the beginning of the relationship between the consortium and the local authorities, locals were cooperative because the Consorzio was creating jobs and improving the economy of one of the poorest areas of Italy. As those jobs were created and the local population grew wealthier, that relationship changed. The political and social attitude of the local community turned. Since their standard of living improved they had little incentive to promote further development.
3. By choosing to develop villages with a strong character like Porto Cervo, the rest of the site, left untouched for the moment, is now under pressure by environmentalists to be preserved.17

Small Consorzio members have formed a political constituency that wants to have input into how the land reserves are to be developed and into how the budget is to be allocated. Even though by share of investment their contribution is only a fraction of the total value of the Consorzio, these people live there and together form the community that makes the place. If small Consorzio members or an outside government entity gains control over the project, the separation between ownership and management that enabled the Consorzio to create and support Costa Smeralda might be threatened. Then it would be left to the willingness of numerous individuals to recognize the true benefits received by the creation and enforcement of the masterplan and the high level of public services (garbage, cleaning beaches, security, etc.). Cooperation to place a higher value on collective benefits over short term personal interests becomes increasingly difficult to achieve as the number of participants increase (not to mention the administrative hurdles to get consensus to undertake any initiative).

- **Risks, Strengths and Weaknesses.** Costa Smeralda has a well established reputation with a loyal clientele not bothered by high prices if the correct quality and level of services are provided. It is a tourist product that is increasingly scarce every day. Customer loyalty in Costa Smeralda derives from the fact that most visitors own timeshare or condominiums in the Consorzio and like the exclusiveness, the character of the place and the services provided.

17 Enzo Satta notes from interview 1997
**Strengths**

By keeping hotel competition low and differentiating the types of tourists each one attracts, the Consorzio has created a monopoly where hotels together are able to set the price that maximizes the profits and the exclusivity of their accommodations. They are able to share market information, marketing costs and coordinate strategic events.

The masterplan protects the beauty of the environment enhancing its attractiveness. Development has had a low impact on the surrounding environment protecting the investment of all the stakeholders. Culturally the architecture blends into the landscape and local region, giving it an adequate sense of place and a uniqueness hard to duplicate. Costa Smeralda as a destination is well positioned to satisfy the needs of the new profile of tourists, if its current conflict of interests are resolved.

**Risks**

The moratorium on development and the national law to build within 300 meters from the sea have severely damaged the economic feasibility of the concept of Costa Smeralda by taking away the rights to the most valuable land. The clear original concept of concentrated development in villages is no longer reflected in the current plan. The inability to build near the coast has obliged the Consorzio to sprawl the development inland and to propose numerous hotel and golf development sites to try to make the project economically feasible, although less sensitive (see Figure 5.18). This inability to build on the waterfront (the most profitable sites) has generated the need for more development with smaller profit margins inland to meet the cash flows projected and make up for the large initial investment of original consorzio members. This frustration has made the original Consorzio members lose interest and sell their stakes to other parties. The cooperative monopoly is breaking apart and local

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18 Golf courses, the expansion of existing hotels and the proposal for new hotels are indicative of the need to increase the number of travelers to Costa Smeralda to make it economically feasible. Pressures for mass tourism will take over if development is not controlled adequately.
government agencies lack the expertise to take control. The inability to build is creating pressures to promote mass tourism which can slowly take over and destroy the unique attributes of Costa Smeralda. The place from which the entire region has benefited until now.

In addition, the shift of ownership and operation of the main hotels from the Consorzio to an international corporation (ITT-Sheraton) can attract a certain clientele not compatible to the one attracted traditionally, pushing high price paying clientele to go somewhere else. This multinational has different service and pricing strategies as well as a shorter investment horizon that might not be compatible with the Consorzio’s interests.

5.2.6 CHALLENGES FOR THE FUTURE

The Consorzio by not involving local residents enough in the decision process was unable to keep their support. This has come around to jeopardize the interests of both in the form of spin-off development and lack of political support to lobby against the national setback law. If locals had been informed and educated as to why the plan was to be pursued in such a way, they perhaps would have been more understanding of the true interests at stake. The frustration of original Consorzio members and their corresponding loss of motivation in the future development of Costa Smeralda can have dramatic consequences for the entire region. If local residents are to take control of this place, the biggest challenge is for them to get the information, education and expertise necessary to understand the economic factors in place and to find feasible ways to keep mass tourism off Costa Smeralda.

The Consorzio acted as a government regulating development but it was really a corporation. Therefore, it was exposed to being bought by other parties that could take control. While at the beginning this might have been irrelevant, as the number of permanent residents increased, they were left with no control. The purchase by Sheraton
Figure 5.18. Masterplan for Costa Smeralda
Awaiting for Approval of local government authorities.
represents what could have happened before and further exacerbates the need for local government officials and local residents to get the information and education relevant to make educated decisions about their future.

The local population seems to have suffered from the demonstration effect where local residents demand the same standard of living, costumes and goods as visitors. This has the negative consequence of local residents undervaluing their culture. Today, people from all the region come to Costa Smeralda to lay on the beaches and interact with tourists just for the day. While this interaction is good, they also subsequently increase upkeep costs (cleaning and maintenance) of beaches and streets, and sometimes overcrowd the environment. The sustainability of the environment could be threatened in the future not by a great number of foreign visitors it but by local residents. Similarly, the uniqueness of Costa Smeralda can be jeopardized if the demonstration effect washes away the culture of local residents. They must find other sources of cultural and professional development that reinforce their identity and self esteem. The government can help with education programs and with financial incentives. One of the most important assets of Costa Smeralda is the local culture, an asset that the Consorzio cannot monopolize. An asset that is obviously undervalued in the rest of the island.

Costa Smeralda has the challenge to not become a political instrument of local authorities used to gain votes in elections. The benefits and costs to the community must be weighed carefully to provide the best outcome for all parties involved through a process that builds consensus and trust by cooperation and alignment of interests. In addition, Costa Smeralda has the future challenge to keep the quality of public services high and the costs of maintenance low in an increasingly large and complex project.
Operationally the hotels now operated by ITT Sheraton have the challenge to keep the quality of development of new hotels, to keep the same client base and tourist profile, and to keep the high level of personalized service provided by the founding Consorzio members.
CHAPTER SIX
Conclusions / Portfolio Model

The quality of development in a beach destination is largely dependent of the interests and sophistication of the parties involved in the development process, the time taken to develop them and on the information available to the participants at that time. These attributes and in particular the physical shape of the urban landscape, directly reflect the objectives of the parties taking the development decisions. Their objectives are normally illustrated in a masterplan that guides development with different degrees of flexibility. The masterplan and the agency enforcing it have the potential to protect and add value to private and public investment or to inadvertently create incentives for the its destruction by setting in place the incentives to erode the attributes of a destination.

In the recent past, the development of beach destinations has focused on generating economic development. This goal has led governments and private developers to overlook the importance of incorporating the voice, opinion and economic interests of local residents. I have identified three development models that have been followed in the development of beach destinations: Ad hoc / competition, Master Subdivision / oligopoly, and Cultural Theme / monopoly. These models determine the economic and environmental sustainability of the destination. Several lessons can be extracted from the analysis of the case studies as well as from the economic behavior models and market trends presented in previous chapters.

1. *Control.* Within a beach destination, there is a need to coordinate the investment and development decisions of independent investors to control *free rider* problems, to
avoid overbuilding and to provide compatible architectural and urban design harmonious with the landscape.

2. Leadership and expertise. In the development of beach destinations there is a need for a development agency\(^1\) with expertise to create and execute a clear development philosophy and vision. This agency must be autocratic but democratic to successfully control strategic decisions over time like level of development, architectural style, provision for public amenities, maintenance, and types and amount of hotel development. If the development agency resembles a private form of government,\(^2\) its decisions in the long run must be supported by community participation or by the state to ensure its sustainability.

3. Social Conscience. It does not matter whether the development agency is a single owner, a group of cooperative independent owners forming an association or a consortium, or a local or regional government office or authority. What is important for the long term sustainability of a beach destination is that the agency has a social conscience, the necessary expertise, a clear vision and the support of the local community. Emphasis should be made on the means and processes necessary to achieve a sustainable beach destination, not solely on the ends.

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\(^1\) *Agency* for the purposes of discussion of this chapter represents an entity controlling development and investment decisions of multiple parties according to an established philosophy and vision applied within the geographic boundaries of the beach destination. This agency can be composed by local or regional government officials enforcing this vision through regulation; or by private parties cooperating and enforcing its vision through private contracts i.e., A group of independent investors, an elected community development board, a consortium or a single owner selling land with restrictions to be developed by other parties.

\(^2\) For the purposes of discussion a *Private form of Government* represents a group of independent investors that voluntarily agree to follow a set of guidelines and processes enforced by a private development agency (like the consorzio in Costa Smeralda, a non-profit organization, or an elected community development board). Their guidelines and processes are commonly exercised through private contracts and through societal and political pressures.

*Public form of Government* represents the agencies creating and enforcing regulations through law.
4. **Boundaries.** Uncontrolled growth destroys the unique attributes of beach destinations. Development agencies should determine growth boundaries based on a sensible relationship to the environment stated clearly in their visions. They should lobby the state to enforce these boundaries. Necessary growth should be accommodated by starting new destinations, not by congesting existing ones and undermining their sustainability.

5. **Value of Design and Planning.** Comprehensive sensitive planning and building design following local traditional customs have the potential to create enormous value across various dimensions: economic, environmental, cultural and social. This great value that sensitive design can bring is often overlooked and not provided by the minimal regulation approach that the state often takes. If the state is to continue to take successful part in development agencies, it must increase its scrutiny levels in these areas. Lastly, the ability of design to create and sustain value is largely dependent on the fulfillment of the four principles listed above.

The objective of this chapter is not to prescribe a particular urban or architectural form but rather to propose a process with sensible principles, design controls and agency implementation tools necessary to promote the development of beach resorts at destinations that protect the environment, celebrate local culture, and promote sustainable and equitable economic development. These principles and tools are incorporated into a new beach destination development prototype that I call the *Portfolio Model*. 
6.1 COMPARATIVE ANALYSIS

State intervention

This section compares the different degrees of state intervention in the development of Acapulco, Costa Smeralda and Cancun. This will help identify what are the key governance issues to ensure a sustainable development of beach destinations. (See Appendix 1).

- **In Acapulco** state intervention to regulate development was practically non existent. Uncontrolled multiple parties seeking to maximize the value of their investment in the short run led to the destruction of its natural and cultural attributes.

- **In Costa Smeralda**, by contrast, the presence of a development agency formed by cooperative investors, made state intervention unnecessary to accomplish a sensible development with exactly the opposite results than Acapulco. However, this private agency did not involve and educate local residents and government authorities to gain their support. As a result, the destination became extremely successful only to be jeopardized recently by the growing economic and political interests of multiple constituencies.

- **Cancun**, on the other hand, represents a case somewhere in the middle between Acapulco and Costa Smeralda, where government promotes the development of a destination and follows a minimal design and environmental regulation approach. The result while economically successful in the short term, is beginning to present signs of environmental decay. In addition, the competitive limitations of the physical form resulting from Cancun’s minimal regulation approach is today becoming apparent in an increasingly sophisticated tourism market.
All cases analyzed could benefit from a greater participation and support of local residents and government agencies. Today in fact, they are facing increased government scrutiny in an attempt to protect public interests and achieve more competitive and equitable outcomes.

A private form of government based on cooperation among private parties to control sensible development breaks down if it is not supported by community participation or by the state. Cooperation agreements for development are fragile since they are based solely on trust among a few parties which depend on private contracts difficult to enforce. In addition, the trusting and cooperative parties involved at the time of development are frequently not the same ones that end up living with the project. New participants also do not share the same information (or expertise) as founding parties and therefore overtime become less likely to trust and cooperate. To avoid the break down of private forms of government a continuous process that incorporates the interests of local constituencies and that educates their opinions about economic and environmental issues underlying decisions must be put in place.

Given the frequent absence of such a process, private cooperative agreements find it difficult to survive and state intervention appears necessary. However, it must be stressed that while the state appears to be the right vehicle to control and coordinate the promotion of beach destinations, in the past the state itself has not particularly excelled in taking development or regulating decisions, particularly in developing countries. In addition, it has often lagged behind the private sector in the initiative to promote them. For example, Acapulco, Costa Smeralda and Cancun emerged out of private sector’s initiatives.

Local government agencies often also lack the expertise to envision, manage and control the growth of beach destinations in a sensible way. This sensible development of beach destinations requires experts that range from environmental sciences, to marketing and finance. Underdeveloped regions, where most of new beach destinations are emerging, often lack an abundance of human capital. This scarcity of expertise often results in its
concentration in a central government which implements broad national regulations that try to apply to a wide variety of circumstances. This approach to simplify regulation to facilitate its administration by a central agency frequently has unintended adverse effects. For example, while the designation of a development-free zone anywhere in Italy within 300 meters of the seashore might have protected the nation’s coastal zone in the short term from insensible development, it has also penalized sensible approaches like the one followed in Costa Smeralda. This national policy in one sweep has increased pressure to foster mass tourism and sprawl development inland to those few places where construction is allowed.

Given the limitations of the state and the complementary skills of the private sector, the development of sensible and successful future beach destinations lies somewhere in the cooperation of the two to gain the support of the local community. There is a need for a higher level of expertise on behalf of public and private agencies to guide and regulate development with increased scrutiny to produce the best outcomes in beach destinations. ³

**Spin-off Development and Opportunities for Local Residents**

Acapulco, Costa Smeralda and Cancun lack in their evolution a process that incorporates the economic and cultural interests of local residents. This myopia later created encroachment of spin-off development and political constituencies that threaten their future sustainability. To explain the ways to control development at the fringe of the

³ In theory at least, a private form of government has a greater incentive to acquire the required expertise because it is formed by individuals who have a direct economic interest in the destination. However, they must educate (or demand the education) of public local and regional forms of government to complement their limited power. Another way to create an incentive for public government to get the necessary expertise and take the correct decisions is to set an special independent authority in charge of development whose compensation is tide to the overall economic performance of the destination (not just of the international hotels). For example, in New York City, the development of the mixed-use waterfront project of Battery Park City has a similar organizational structure and it has created excellent results for both private investors and for the government.
planned area goes beyond the scope of this paper, however, I stress the need to find a solution to control this effect on a case by case scenario.

Planning for the provision of adequate housing for local residents and workers was not provided in any of the cases studied. In every instance this has become a serious issue over the long run. Acapulco and Cancun present a similar problem, immigration by low skill workers looking for jobs in the tourist industry create a massive concentration of informal settlements at the fringe. The exponential growth of these settlements has created visual, environmental and infrastructure externalities of great cost for the destination.

On the other extreme, Costa Smeralda created a wonderful destination sensible to the landscape and the environment. In order to achieve and sustain this, Costa Smeralda has created a luxurious place affordable exclusively by high class foreigners. This has pushed local residents to develop homes and small enterprises of lower quality at the fringes.

Opportunities for meaningful enterprises for local residents appear to be minimal in all cases, specially in Acapulco and Cancun where most of the benefits for local residents come in the form of low skill-low wage jobs since hotel prototypes prescribed by the masterplan require high levels of investment and technical expertise. Costa Smeralda appears to provide more opportunities by allowing investment opportunities in smaller increments perhaps affordable by local investors. This effect seems to be further emphasized by prescribing indigenous building materials and processes.

How could we create beach destinations that resemble the architectural and environmental quality of Costa Smeralda but that incorporate meaningful opportunities for self and professional development across the different profiles of the population? The answer to this question is not a simple one since it is affected by exogenous variables like population growth, immigration, education levels and level of economic development of
the surrounding region. Nevertheless, the solution to this issue must be contemplated by both the public agencies and the private investors in anticipation of the negative effects that its neglect would cause.

There is a need to educate and incorporate the local people into the decision and implementation process of the development of beach destinations to make them understand how their interests are being protected, what opportunities are being opened and how their culture plays an essential role in the overall success of the place. For this to be a feasible goal, the destination must create opportunities for the self-realization of locals that go beyond those of low-skill hotel jobs. Involving local residents in the decision making process not only generates a more equitable distribution of the economic benefits of tourism, it also creates better destinations with public spaces that provide opportunities for locals to interact and play a larger role in the experience of visitors, creating opportunities for both groups to learn about each other’s cultures, and enhancing the uniqueness of the destination.

**Tourism Target**

A last distinction I want to make between the cases analyzed is their overall collective strategy to target particular segments of the tourist market and its implications for local residents.

- *Acapulco* never followed a clear collective vision to attract a particular segment of the tourist market. Nevertheless, the profile of Acapulco’s tourists has changed over its life span. Tourists attracted in its beginnings were high class foreigners looking for exclusive and exotic destinations while today its mass tourism travelers are mainly interested in the four “S”s.4

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4 Common tourism literature describes the interests of Mass Tourism travelers as the four “S”. (Sand, Sun, Sea & Sex).

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- *Costa Smeralda* on the other hand has been clear and consistent in attracting high class tourists interested in: an exclusive getaway, an immersion into the environment of a unique culture, and the practice of outdoor sports for self fulfillment (boating, sailing, golf, and tennis).

- *Cancun* by contrast concentrated in attracting an hybrid mix of travelers: mass tourism interested in the four “S’s”, and travelers interested in its nearby archeological and scuba diving attractions.

Each case represent a different approach a destination could take. But where does the long term sustainable trend reside? Clearly in none of the above, we need a more sensible and inclusive model that achieves more than those existent.

### 6.2 PRINCIPLES TO CONSIDER IN THE DEVELOPMENT OF BEACH DESTINATIONS

**Process and Development Agency**

There is a need to establish an agency to incorporate educated strategic decisions that create a physical vision for the destination. This vision must clearly determine what types of tourists to attract, what amenities to provide, what public realm characteristics should be emphasized, what cultural amenities to protect and foster, and what level of development should be achieved to keep in balance with the surrounding natural environment.

The *agency* taking development decisions for the destination should set up a democratic process where the interests of hotel developers and local residents are incorporated in the
creation of a collective vision. The role of the agency in this scenario would be to guide and facilitate the sensible development of the destination within a clear and sensitive philosophy that increases the overall value of the destination and provides opportunities for all constituencies. This philosophy must protect local cultural and environmental attributes to ensure its sustainability.

Strategic Considerations

Should destinations collectively specialize in attracting a particular type of tourism (mass tourism or exclusive tourism), or should resorts within the destination do the specialization? Which market is the most promising today, mass tourism or specialized niches? Which of these markets is likely to continue to be competitive in the future?

While in the opinion of the experts it is clear that the importance and competitiveness of niche markets will grow and become the most profitable with the assistance of technological improvements, it is also true that the mass tourism market will not disappear. One thing is certain, whichever type of tourism is promoted by a destination, it has to emphasize local uniqueness to differentiate from competing destinations and avoid short product cycles.

Tourism development in beach destinations should collectively emphasize those indigenous landscape, architectural, urban, cultural and recreational attributes that make them unique and which provide differentiation hard to replicate by competitors. Indigenous architectural styles and building materials, village patterns, arts & crafts, cultural amenities, coral reefs, and scenic landscapes are all unique attributes a destination can emphasize to differentiate from competing destinations. While this

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5 In destinations where local residents do not exist because it is starting in an inhabited area, a process to incorporate the opinion and to create meaningful opportunities for future residents should be put in place. Local residents even though they might not exist at the time of development, they will come and eventually form a community with its own set of demands and interests, that if ignored, will jeopardize the sustainability of the entire destination in the long run.
emphasis on local uniqueness seems to recommend an emphasis on exclusive tourism, a *carefully balanced and controlled* mix of mass tourism and niche accommodations can provide the same (or better results). The question is, can we do better than Cancun in mixing both types of tourism? Yes.

**The Portfolio Approach**

Destinations that are able to balance the mix between exclusive tourism and mass tourism while preserving and enhancing unique cultural and landscape attributes will be able to achieve sustainable tourism development. This approach would maximize the opportunities for all constituencies and will provide the destination with a diversified portfolio of tourist enterprises that keeps a steady tourism flow regardless of market preferences. The portfolio model implies an alignment of the economic interests of hotel developers, hotel franchises, government agencies, tourists and local residents. This model also implies that the negative visual, spatial and functional externalities that mass tourism accommodations might cause on niche tourism are avoided through compatible design, and through comprehensive planning and management of the tourism in the destination.

**6.3 PORTFOLIO MODEL**

To complete this study I want to put forward a development model that *agencies* should incorporate into the process of design and development of future beach destinations. This model is conceived in abstraction, and therefore it must be applied to local geographical, cultural and governmental circumstances.

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6. The difference between an spontaneous mix of mass tourism accommodation emerging in an *Ad Hoc model* and a carefully planned and controlled one is an important one. In the former mass tourism accommodations eventually displace niche accommodations because they cause negative externalities that undermine the tourism of the latter. Niche accommodations in a carefully controlled scenario have a masterplan that provides insurance against negative externalities of mass tourism accommodations by regulating their architectural style and volume, their visual and physical impact, their relationship to the surrounding natural and built landscape and their volume of tourism and traffic generated.
The model owes its name to financial portfolio theory, which states that higher combined returns and lower risk exposure can be achieved by holding different stocks and bonds together in a portfolio, than by holding any single asset in the portfolio individually. This happens because the underlying companies of the stocks perform differently under different economic scenarios and their returns are less than perfectly correlated to other stocks held in the portfolio. In portfolio theory it becomes rational to hold assets that do not have high returns if they offer a diversification opportunity, that is to say, if they perform significantly different in alternative economic scenarios. We can think of the different hotel enterprises in a destination as a portfolio of assets that a destination puts together and holds. While it may be tempting to assemble a portfolio of only the most rentable hotel accommodations in the short run (all inclusive hotels), the destination could achieve better returns by including other hotels that might not perform as well but that offer diversification opportunities. For example, if demand for mass tourism falls, the destination still has other accommodations, and vice versa.

Theoretically, the destination could maximize its economic benefits by finding the correct mix of hotel accommodations and amenities: all inclusive resorts, bed and breakfast, villas, timeshares, consortia small hotels, marinas, golf, etc. This mix is not only desired economically but it also has positive consequences socially by providing investment and work opportunities for investors of different scales and for labor with different skills and education levels. However, unlike a financial portfolio that can be rebalanced continuously at low cost to acquire new assets that become more desirable or to dispose those that have negative consequences for its overall performance, a destination cannot recycle real estate assets due to their high costs and to their political consequences. A destination has also a limited supply of developable space that becomes “locked in” once it gets developed. Therefore, the agency in control of the development decisions of a destination should be careful when assembling its portfolio due to its inflexibility and to the negative external effects that different property types and land uses have on each other as well as on the environment, which could destroy the economic potential of the destination.
A correct mix of lodging prototypes widens the destination’s market, adds diversity, lowers its risks of losing attractiveness throughout cycles and lowers competition among service providers inside the destination. However, if not conducted appropriately, this portfolio approach has the risk of not attracting any sector in particular: mass tourism or exclusive tourism. This model relies heavily in the creation of a unique environment that controls the negative external effects that different property types have on each other.

Lastly, destinations should take a medium term (15 years) approach to development and reevaluate its position constantly. After achieving a critical mass, the destination should proceed to develop with caution to allow for flexibility in the future to adapt to changes in demand or new products. Land and natural resources as well as development must be carefully controlled and managed.

ARUBA, A Step in the Right Direction

Even though I have not analyzed Aruba to the same extent that Cancun, Acapulco and Costa Smeralda were, Aruba seems to represent a destination that resembles the structure of the Portfolio Model. Aruba is a small Caribbean Island with a population of 66,000. It has approximately 12,000 hotel rooms and an occupancy rate of 76.5%.

Aruba in the first phase of its development focused on fostering mass tourism but it followed more stringent building and environmental regulations than other mass tourism destinations. It fostered the utilization of indigenous species for landscaping and on providing public spaces to knit the hotel district together. Scenic roads, streets design for pedestrians, oasis of green areas, panoramic vistas, secluded beaches without

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7 For example, niche tourism demands privacy and a strong contact with nature while mass tourism demands a critical concentration of tourists for interaction and entertainment. A destination that appeals to both could end up not providing enough privacy for niche tourism or not enough concentration for mass tourism.

development, and barriers for fast moving vehicular traffic are some of the measurements emphasized in the development of Aruba.

Aruba today has put a moratorium in the construction of all inclusive resorts and has focused on promoting the renovation and upgrade of its existent hotels by providing financial incentives and by upgrading public facilities and common amenities. In addition, today Aruba has approved a masterplan to promote in a second phase the development of different hotel accommodations that would provide more significant opportunities for its local residents and improve their quality of life. Bread and breakfasts, small scale exclusive hotels, a new marina, an arts promenade, museums, open air market, bicycle paths, and the extension of Arikok National Park are some of the key ingredients of its diversification strategy. An emphasis on unique indigenous characteristics of the natural and built landscape is made in this plan for the second phase of development. This diversification strategy will make Aruba more competitive and sustainable in an increasingly sophisticated tourism market (See Appendix 2).

6.3.1 ECONOMIC STRATEGY

The economic strategy of a portfolio beach destination should be to assemble the optimal mix of hotel accommodations and amenities to align the interests of private parties with the attempt to recreate the high quality spatial and environmental outcomes of a destination developed by a single owner. The success of this strategy is largely dependent on the alignment of economic interests of the parties involved and on its spatial and implementation strategy (explained in Section 6.3.2 and 6.3.3 respectively).

The state should facilitate the provision of a balanced mix of hotel accommodations and amenities providing financial incentives to those types of accommodations that otherwise would get displaced by the most profitable. For example, tax, financial or education incentives can be employed to start small hotel enterprises run by locals and constructed with indigenous building processes. The state could also promote the creation of
consortia by independent hoteliers and increase their competitiveness with international hotel franchises. The construction of web sites and the creation of collective databases to promote smaller, independent enterprises is another way the state can assist to promote diversity of hotel accommodations in the destination. Finally, zoning can be employed to reinforce a mix of hotel accommodations. These initiatives will provide opportunities for local residents that go beyond low skill jobs.

The promotion of vacation homes and time share will generate loyalty with tourists and will also align their interests with those of the destination. But what about international franchises? A large portion of the market likes these accommodations; should they be allowed in the destination? Yes, but their interests must be aligned and their negative environmental impacts controlled.

The agency in control can lease the land designated as appropriate for international franchises instead of selling it. By leasing the rights to occupy land over long periods of time, an agency can negotiate with private developers higher levels of quality for building design and site planning, therefore ensuring the mitigation of external negative environmental effects on surrounding properties and eliminating the isolation that all inclusive resorts emphasize. Any increase in costs of providing a higher quality of design or in modifying building prototypes can be negotiated by the agency by lowering lease rate, or through other financial incentive mechanisms (through tax increment finance if the agency is part of the state). Land leases should have a percent rent accrued to the agency for appreciation or promotion of the destination. This creates the incentive for the agency to provide the correct mix of land uses and amount of development, the right combination of services and lodging prototypes, and the correct level of maintenance that maximizes revenues for the destination as a whole, aligning the interests of agency decisions as well.

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9 Large scale hotels in all inclusive resorts do not have to be constructed with the international architectural style. They normally are because is often the least expensive way to build them. In the portfolio model, any extra costs in developing with a compatible design can be compensated through financial incentives.
If the development agency is part of the state, this system has an implicit tradeoff. The state is obliged to finance all infrastructure by itself without the revenues of land sales and is giving up property tax revenues in exchange for participation in a percentage of the sales of rooms, restaurants, services, etc. This proposal assumes that the state has significant access to expertise and information and that it is free to make decisions unaffected by political compromises, which most times is not true. This solution perhaps puts too much discretion and power in the state; if a transparent process is not in place and if local residents have no way to influence decisions, this system can have adverse consequences.

Lastly, the size of the destination should be clearly defined by the agency as well as the maximum allowed number of hotel rooms in each category. This will ensure that the destination does not exceed its environmental carrying capacity and will limit the competition among the different types of hotels. The agency by retaining ownership of the land can write performance and maintenance standards on its leases to ensure compliance by franchises and avoid the potential decay of the destination due to lack of competition. Local hotels will face enough competition from each other and from franchises, making it in their best interest to uphold the performance standards and the destination (See Appendix 3).

6.3.2 SPATIAL STRATEGY

A destination’s portfolio of accommodations should emerge not only out of economic and social conscience. The landscape and environment in which it is located must also influence considerably the types and amounts of hotel accommodations that are assembled in the destination’s portfolio. Hotel prototypes should be clustered and located in those places where they produce the most value for a destination over the long term. For example, all inclusive hotels could be clustered in places where the topography is flat and where the environment is less sensitive. Lower scale development should be located next to historic districts and sensible environments to protect culture’s uniqueness. The
scale and architectural style of buildings must be controlled to provide smooth transitions. This approach avoids overwhelming shadows and congestion caused by massive concentration of vertical development and the monotonous appearance of strip development along the waterfront that results of uncontrolled market pressures. More importantly, this approach of lower scale development and historic districts provide the cultural image and environment from which larger hotels and the entire destination benefits.

The entire destination should have a structure of public spaces and amenities that knit it together. The destination should be designed assembling a series of interconnected public spaces that provide unique contextual experiences and using buildings to conform to them through a unified architectural style compatible with local building materials and traditions. Boardwalks, commercial streets with wide sidewalks for cafes and restaurants, plazas, parks, marinas, scenic vistas, historic districts and walking paths should form a seamless network of experiences in which the sum of the parts is greater than the pieces. The location and general structure of the open spaces and contextual experiences of a destination should be clearly mapped out in a masterplan. It is this context of public open spaces and experiences what makes the destination different from others and where collectively can create an amenity that no individual resort can replicate in other destinations.

It is at the level of the masterplan where the spatial experience and design qualities of the destination are predetermined. This document that represents the vision and development philosophy of the destination and together with the implementation process have the potential to create a valuable place that is sustainable. High quality strategic design and planning is often not provided by minimal regulation approaches that the state takes and as a consequence numerous destinations have often missed the opportunity to create unique places that are more successful by employing their local traditional design and construction traditions. The destination needs a sensitive, strong and flexible cultural theme structure for all development.
6.3.3 IMPLEMENTATION TOOLS

The goals and objectives of the destination as a whole as well as a clear development philosophy should be registered in a clear vision compiled in a masterplan. The implementation of the portfolio vision and the control of building design and construction should use the following tools:

- **Policies and Regulations.** Should establish a development philosophy in quantitative and qualitative terms to reinforce the locally unique cultural and environmental attributes. That is to say, in addition to building density, land use, setbacks, sidewalks width, buildings height, etc. regulations should prescribe a clear set of qualities like: architectural style, compatible design, safety, character, feeling, etc. Regulations should establish the attributes desired from each development and the measurements of their compliance. They should reinforce the development philosophy and should be flexible enough to allow project specific attributes to be maximized. To ensure that the flexibility of the qualitative regulations is not abused there should be a design review process and a clear set of building guidelines.

- **Design Guidelines and Design Review.** Exhaustive research into the indigenous and vernacular architectural forms, building prototypes, construction processes, landscape techniques, plant species and village patterns should be undertaken to form a set of building design guidelines that will regulate development to emphasize local distinctiveness. These guidelines should dictate: construction processes, building materials, landscape species and techniques, openings, setbacks, site planning techniques, street sections, building heights, land uses and public furniture, and designated special districts (retail, markets, arts, entertainment, etc.).

To facilitate compliance with the development philosophy and the interpretation of the building design guidelines a design review process must be placed. A committee of experts, local residents and agency members and government officials should
review projects developed by different entities to ensure the development philosophy is respected and that each project has a positive impact on the entire destination.

- **Technology.** The destination should create a database with information from all its visitors to allow for feedback about their stay necessary for promotion. More importantly, to foster small enterprises to be competitive, education about the new technology to locals becomes most important as well as incentives to acquire new technology, create web pages, etc. must be provided. Incentives to form consortia groups among local hotels to become more competitive should also be provided by government.

- **Information and Education.** Information and education of the local population is necessary to make them aware of the value of following a masterplan, respecting the ecology, celebrating and retaining their local cultural identity, following compatible architectural designs and site planning techniques, etc. Similarly, local government officials and agency members need to get the expertise necessary to follow a project of such complexity.

Seminars to train people to manage small enterprises, in tourism related jobs, in development and construction, arts and crafts, etc. are equally important to pursue a portfolio model that is to be successful.

In the end, it is the local people who collectively possess the unique landscapes and culture as well as the perpetual interest in seeing the destination retain its attributes to protect their quality of life. Any model for development that does not give them the right education, information, incentives and importance they deserve to preserve those attributes is doomed to fail.
By developing a beach destination at lower densities, by following environmentally sensitive development and management approaches, by incorporating the opinion and creating opportunities for local residents, and by enhancing local architectural, cultural and landscape uniqueness, a destination can maximize its economic benefits as a whole and achieve sustainability. This might seem counterintuitive since this argument suggests that by building less and by apparently incurring higher level of expenses you can profit more in the long run. However, today this becomes a rational way to proceed given the evolving preferences of the tourism market, the increased number of competing mass tourism destinations and a greater global environmental awareness. This increasingly sophisticated context requires higher levels of expertise, information and education from all the constituencies involved. How to create and sustain a continuous learning environment around the development of a beach destination is the biggest challenge.
## Appendix 1

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<td></td>
<td>MASTER SUBDIVISION PLAN WEAK CONTROL BY REGULATION:</td>
<td>MASTERPLANNED AND CONTROLLED BY CONSORZIO THROUGH GUIDELINES AND DESIGN REVIEW IN PRIVATE CONTRACT AND REGULATIONS</td>
<td>ADVOCACY PLANNING PROCESS EVOLVING OF MARKET FORCES</td>
</tr>
<tr>
<td>Density</td>
<td>Architectural design, forms and layout</td>
<td>MINIMUM REGULATION CONTROL:</td>
<td>MINIMUM REGULATION CONTROL:</td>
</tr>
<tr>
<td>Number of rooms / lot (FAR)</td>
<td>Building materials and construction process</td>
<td>Infrastructure demands: utilities and transportation</td>
<td>Infrastructure demands: utilities and transportation</td>
</tr>
<tr>
<td>Set backs</td>
<td>Landscaping, setbacks</td>
<td>Transportation</td>
<td>Transportation</td>
</tr>
<tr>
<td>Parking requirements</td>
<td>Development sites, conservation zones</td>
<td>Land use</td>
<td>Land use</td>
</tr>
<tr>
<td>Land use</td>
<td>(Land use mixed)</td>
<td>Density</td>
<td>Density</td>
</tr>
<tr>
<td>Height</td>
<td>Volume and height</td>
<td>No limit to sprawl of destination</td>
<td>No limit to sprawl of destination</td>
</tr>
<tr>
<td>Sewage treatment plant provided</td>
<td>Max. growth of development</td>
<td>WEAK INTERACTION</td>
<td>WEAK INTERACTION</td>
</tr>
<tr>
<td></td>
<td></td>
<td>although hotel district and community are next to each other, all inclusive resorts characteristics and the distributing</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>boulevard separate it from the town.</td>
<td></td>
</tr>
</tbody>
</table>

## ENVIRONMENTAL IMPACT SETTING

<table>
<thead>
<tr>
<th>CANCUN</th>
<th>COSTA SMERALDA</th>
<th>ACAPULCO</th>
</tr>
</thead>
<tbody>
<tr>
<td>SEPARATION of local population from tourist oriented activities to eliminate conflicts of interests.</td>
<td>STRONG INTERACTION of locals with visitors. The masterplan fosters locals to run small enterprises of arts, crafts, goods and services throughout the village.</td>
<td>WEAK INTERACTION</td>
</tr>
<tr>
<td>Locals have little interaction with foreigners due to this spatial separation. Economically, the tourist industry has only provided low skill, low wage jobs for the local population.</td>
<td>By prescribing local materials and labor intensive building procedures, the economic benefits to building and maintaining tourist facilities have benefited locals primarily.</td>
<td></td>
</tr>
<tr>
<td>Housing, schools and health systems are heavily subsidized by the state and federal government.</td>
<td>VERY LOW</td>
<td>VERY HIGH</td>
</tr>
<tr>
<td>HIGH</td>
<td>The masterplan makes a strong emphasis on relating the built forms and villages to the landform. Large tracts of land have been put aside for preservation. Building densities and impervious surfaces have been of low impact</td>
<td>The bay has gone through several massive clean-up efforts to try to rectify its decay. Numerous aquatic species have disappeared. Beaches are overcrowded on holidays, vehicular traffic is present, uncontrolled building spread has occurred on dangerous slopes. Social decay is apparent.</td>
</tr>
<tr>
<td>Adjacent lagoons have been drained to increase water flow to clean excess runoff more quickly. Housing of locals and hotels not connected to the sewage system is endangering the ecosystem. Future development in the lagoon side removes sediments from the bottom and causes eutrophication. Introduction of alien palm species causes devastating effects</td>
<td>PRIVATE CONSORTIUM: BETWEEN THE AGA KHAN AND INDIVIDUAL PARTNERS in charge of conceiving, implementing and coordinating the plan.</td>
<td>NO SINGLE PRIVATE / PUBLIC ENTITY</td>
</tr>
<tr>
<td>FEDERAL GOVERNMENT AUTHORITY</td>
<td>LAWYER</td>
<td>Passed through generations of local elected officials.</td>
</tr>
<tr>
<td>FONATUR: Federal Government Authority in charge of conceiving, implementing and coordinating the plan as well as providing financial incentives to promote new construction.</td>
<td>CULTURAL IMPACT</td>
<td>DEVELOPMENT ENTITY (DECISION MAKER)</td>
</tr>
<tr>
<td>MEDIUM</td>
<td>DEVELOPMENT ENTITY (DECISION MAKER)</td>
<td>HIGH</td>
</tr>
<tr>
<td>Local ethnic groups have been vulgarized.</td>
<td>LOW</td>
<td>HIGH</td>
</tr>
<tr>
<td>Archaeological sites and jungles endangered. Very competitive in the low price, low margin of profit, mass tourism market.</td>
<td>The masterplan celebrates local vernacular culture, arts and crafts. Locals present the effects of the demonstration affect where they undermine their customs and traditions and adopt those of visitors.</td>
<td>Mass tourism has overtaken the customs and traditions of locals. There are few opportunities for the development of local arts, crafts, architecture, expression, etc.</td>
</tr>
<tr>
<td>VERY COMPETITIVE</td>
<td>EXTREMELY SUCCESSFUL with the high class European market. Low risk of doing through product cycle if the development concepts are sustained. Risk of losing control by the consortium to other parties that might lack the expertise or the commitment to a long term development process.</td>
<td>MEDIUM</td>
</tr>
<tr>
<td>RISK, SUSTAINABILITY?</td>
<td></td>
<td>RISK, SUSTAINABILITY?</td>
</tr>
<tr>
<td>HIGH-LOW RISK of going through product cycle due to fast overbuilding, environmental decay or change in market preferences. No diversification of product or economy.</td>
<td></td>
<td>MEDIUM-LOW</td>
</tr>
<tr>
<td>RISK, SUSTAINABILITY?</td>
<td></td>
<td>MEDIUM-LOW</td>
</tr>
<tr>
<td>HIGH-LOW</td>
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<tr>
<td>RISK, SUSTAINABILITY?</td>
<td></td>
<td>MEDIUM-LOW</td>
</tr>
</tbody>
</table>
Island Context Plan
Government of Aruba
Sasaki Associates, Inc.
March, 1997

CARIBBEAN SEA

Arikok National Park
North Coast Preserve
Park Transition Area
Spanish Lagoon Area
Potential Marine Park Area
Tourism Development
Urban Development
Refinery
Primary Island Roads
Island Circuit
Development Pressure
Appendix 3

STATE
-Grant authority to Development Agency to regulate and manage resources and development
-Promote hotel diversity through financial, technological and education incentives implemented through the agency.
-Oversees relationship, education and opportunities for local residents
-Foster consortia, web pages, etc.

PRIVATE INVESTORS
-Bring capital resources
-Investment Expertise
-Benefit from high quality of environment provided and controlled by the agency and by the insurance on their investment provided by the careful masterplan and management of the destination.
-International hotels benefit from the image and place created by unique small hotels and public spaces.

DEVELOPMENT AGENCY (PUBLIC OR PRIVATE)
-Balances the Portfolio of accommodations and amenities.
-Regulates and manages quality and quantity of development and natural resources within the boundaries of the destination.
-Leases land to international hotel franchises and negotiates to make them comply with the objectives of the masterplan.
-Sells land to investors that comply w/masterplan.
-Aligns the interests of the different parties including the agency itself by tying its compensation to the overall performance of the destination.
-Cross subsidizes across the destination to maximize the attractiveness of the destination. i.e. small hotels and local development might need financial incentives to get them started but latter provide an attractive and unique image from which the entire destination benefits.
-Pays taxes and linkages to the state
-Promotes the destination as a whole
-Emphasizes quality of built environment and open spaces that link the destination together.
-Informs and educates local residents to make them better citizens and gain their political support as well as to make them take advantage of the opportunities being created for them.
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