

A Look at the Hottest Current Topics in the Mexico Resort Real Estate Market

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As the Mexico resort real estate market continues to gain popularity among North Americans, one common theme exists; an increasing demand for insightful and relevant information among the entire Mexican resort real estate community, including developers, realtors, owners, resellers and potential buyers. This is especially true in light of today's more difficult economic times. Therefore, it seemed worthwhile to highlight the hottest current topics in the industry as discussed at the fourth annual Mexico Resort Development Conference in Carlsbad, California held in December 2008.

This year's conference was once again well attended among the most knowledgeable industry players, spanning a broad range of function, including debt and equity investors, banking/lending institutions, developers, land planners, designers, architects, consultants, real estate executives and professional service firms, all of who possess significant and direct experience throughout all of Mexico's resort areas.

The 2008 Mexico Resort Development conference focused on the changing global economic landscape and its direct effect on Mexico's resort developments and buyers.

The Current State of the Market Will Drive Positive Change

It was made clear that the current global economic downturn will have several effects on the Mexico resort real estate market. To understand the downturn and its effects, one must first understand the upturn.

The historical upturn (from approximately 2000 to 2005) is simple. Mexico was and continues to be an extremely attractive destination for second and retirement home ownership given its favorable attributes and proximity to the U.S. and Canada. As U.S. citizens continued to discover Mexico, they were able to purchase beachfront and ocean view properties at a fraction of the cost of similar real estate in the U.S. and also enjoyed 40% to 100% returns on equity, as compared to 15% to 35% in the U.S. This, coupled with buoyed U.S. equity markets and cheap and available credit, made it relatively easy for developers to sell to U.S. buyers who purchased the majority of the real estate in Mexico's tourist corridors over this time period. The number of projects increased to meet the high demand, causing the unit prices and rates of returns to rise as well as the number of investors financing such projects.

As the U.S. economic downturn began to first surface in 2006, followed by a global downturn that continues today, the number of U.S. buyers naturally decreased. A growing number of Mexican and Canadian buyers emerged; however, this was not enough to offset the decrease among U.S. buyers. Despite weakening demand, many developers continued to build properties, creating higher inventory than seen in the past.

While Mexico's resort real estate markets have not experienced as severe of a downturn as the U.S. real estate market, nor does anyone expect them to reach such a level, it is clear that demand has slowed and will remain slower for the short term as compared to the booming years of 2000 to 2005.

A slower market will translate into two things. First, it is evident that Mexico's resort real estate market is now more than ever a buyer's market. Increased inventory in light of decreased demand puts buyers in the driver seat more than ever before. Second, a buyer's market will force developers to work harder in order to differentiate themselves and create value-added projects that meet buyers' demands even more.

A Changing Market . . . for the Better

The upside of the recent market boom yielded the creation of numerous world-class resorts throughout Mexico, all of which paved the way for future successful projects as well as attracted the attention of the international community, catapulting Mexico as the world's top retirement destination for the second year in a row as ranked by International Living.

The current state of the market will bring more positive change. These positive changes were expressed by several panels at the conference, all stressing a similar point; the stakes have been raised --buyers have new priorities in their lives and developers will be forced to offer "programming" that is more creative and better understands their target market.

While buyers continue to value strong amenities, the level and types of amenities has changed. Among the new level of amenities that buyers are trending towards include spa, fitness and wellness facilities, activities for children such as kids clubs, educational and cultural programming, retail villages, marina villages, shared open spaces, indigenous landscape that include environmentally sensitive amenities and sustainable design with a stronger focus on authenticity. As all developments appear to sell some sort of differentiating lifestyle, developers will be challenged now more than ever to build the right lifestyle for the right target market.

In addition to developers being faced with the task of creating more value-added products, the changing market has made every aspect of financing a more important part of the sale process. First, developers will no longer be able to count on pre-sales to finance part of their construction, and therefore must take a more conservative route and line up traditional financing for the entire project. This is needed to ensure completion of their projects and create the confidence among their buyers that units will be delivered in a timely fashion despite a potentially slower market. Second, buyers are increasingly looking to finance their purchases through cross-border Mexico mortgage providers such as ConfiCasa. Developers and realtors will increasingly work with Mexico mortgage providers to build a mainstream and healthy cross-border Mexico mortgage market that will help the market for both buyers and sellers by making Mexico real estate more affordable. The topic of Mexico mortgage financing is discussed in significant detail in ConfiCasa's Spring/Summer 2008 Newsletter article "Cross-Border Mexico Mortgage Financing - A Silver Lining to a Slower Mexico Real Estate Market".

Change Drives Opportunity

Mexico's continued attractiveness among foreign home owners, due to its climate, amenities, close proximity to the U.S. and Canada and safety, makes it clear that the U.S. and global economic downturn is just a shorter-term hiccup in what will continue as Mexico's long-term boom as a second home and retirement destination among Americans, Canadians and Europeans. It is important that people not lose sight of this fact and realize that a shorter-term crisis creates opportunity. Finding those opportunities is the new challenge. For developers, it means raising the bar to what are already world class properties. For buyers, it means being able to obtain tremendous value wherever they choose to purchase in Mexico.