

Plenty of Sunshine on the Mexican Housing Market for Foreigners; Why the Clouds Have Suddenly Parted

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Cabo San Lucas, Mexico When you first arrive in Cabo San Lucas, the southernmost tip of the Baja Peninsula, it is hard to imagine that this once quaint fishing village was unknown to most foreigners just a few decades ago. Today, it is home to approximately one million visitors per year, a 320 boat world-class marina, three of Conde Nast Traveler's Top 10 Best Hotels in Latin America, over 9,000 hotel rooms frequented by many A-list celebrities, and a trendy-high-octane nightlife, including the legendary Cabo Wabo Cantina (owned by Sammy Hagar of Van Halen). Cabo San Lucas' radically appreciated real estate market is a prime example of the endless opportunities existing just south of the border.

The flourish doesn't stop with Cabo San Lucas. Many other Mexican resorts and beach towns have been experiencing significant demand for residential real estate from foreigners. As you travel north from Cabo, up both sides of the Baja coast, cities such as La Paz, Rosarito, Ensenada and Loreto are under heavy residential development. Continuing outside the Baja, towns such as Puerta Peñasco (or Rocky Point as we Gringos like to call it), Puerta Vallarta, Acapulco, Ixtapa, Zihuatanejo, Cancun, and Playa Del Carmen are also experiencing massive real estate growth. It is estimated that close to 5,000 second homes and retirement homes were sold in Mexico to foreigners in each of the last two years, with a total market value of over five billion dollars. With real estate sales expected to triple in size by 2010, experts don't see an end in-site to this beautiful country's rapid expansion.

One reason for such aggressive expectations is demand. According to Alfonso Sumano, Director of the Mexico Tourism Board, Mexico receives more than 21 million business and leisure travelers every year, ranking the country seventh in international arrivals, worldwide. And, the World Trade Organization estimates that the number of international travelers to Mexico will double to approximately 42 million by 2020. In addition to robust tourist growth, over 30 million baby boomers are expected to retire in the U.S. and Canada during the next 10 years, and over 70 million are projected to retire in the next 20 years. As a result, the demand for warm weather property with beach views for vacation use, retirement homes, or for investment purposes, continues to build momentum with primary residents of the United States and Canada. With only a small number of warm weather/near-coastal development opportunities in North America and extremely high priced developed property (especially given the real estate boom over the last decade) Americans and Canadians are looking abroad more than ever. 5,797 miles of coastline (most of which is undeveloped), ideal weather conditions that include over 300 days of sunshine per year and temperatures consistently over 70 degrees, close proximity to the U.S. and Canada, developing infrastructure, high level of safety, improved health services, and a cheaper cost of living, present Mexico as an extremely attractive option for second home purchasing by North Americans.

In anticipation of such hot demand in years to come, the Mexican government, which relies on tourism as the country's third greatest source of revenue, adopted the development of its resort areas as a fundamental priority. A major initiative was the creation of FONATUR in December 1973 by Mexican Congress. FONATUR's vision is 'to be an influential force in sustainable, competitive, and adequately financed national development and projects that are in accordance with the dynamic demands of the market – that generate income and promote Mexico's image abroad and overseas'. FONATUR has been the main force behind the expansion of the original "FONATUR five", consisting of Cabo San Lucas, Ixtapa, Cancun, and the more recent Loreto and Huatulco. Over the next 15 years, FONATUR will invest more than \$5.6 billion on new projects

currently underway in Baja and the Cancun/Riviera region. Two of these current projects include the development of Loreto Bay and the Escalera Nautica, a string of 22 marinas, strategically placed along the shores of the Sea of Cortes, between Baja and the State of Sonora. Five additional projects that span the Cancun/Riviera Maya region, Loreto and Huatulco are also currently in the planning stages. Along with this development comes an even larger infrastructure of roads, airports, and services that are comparable to the standards of Americans and Canadians, alike. “FONATUR has and will continue to experience great success in promoting foreign tourism and aiding the residential real estate market”, says Dan Rosenbloom, a Principal of MXD Financial, a private U.S. lending group which provides financing to residential real estate developments in Mexico, aimed at foreign purchasers.

Once plagued with negative media attention as the result of numerous Americans and Canadians losing their real estate properties in the late 90’s, and misconceptions regarding whether foreigners are legally allowed to own property (they can – see inset), Mexico’s residential opportunity was once forecasted as gloomy. Why has Mexico’s residential real estate market suddenly turned from overcast to sunny? Simple really; external demand is igniting change, fueling what is expected to be a long-lasting real estate boom.

Mexico’s great strides in residential and tourist development, along with growing demand for foreign purchase, has sparked a recent evolution of the residential real-estate transaction process to mirror that of the United States’. This process, including the introduction of escrow services, title insurance policies, reliable appraisal services, closing services and most importantly, traditional mortgage lending, solidifies the opportunity for foreign purchase. “Without a transparent and sophisticated real estate transaction process, much like that of the U.S. and Canada, a mortgage lending environment was not possible, and significantly restrained overall demand”, says Eduardo Perez, Founder and Chairman of ConfiCasa Mortgage International, the longest standing cross-border mortgage lending company for Mexican residential real estate. While the cross-border mortgage lending market is still in its infancy, the lending process is getting closer each year in meeting the tight standards of that of the U.S. and Canada.

Despite a rapidly improving real estate transaction process there is still a gap in meeting the standards to which Americans and Canadians are accustomed to, in terms of speed of the process and loan terms. A process can range from 30 days up to 120 days in some cases, depending upon property type, the mortgage broker and which lender is used. The most favorable loan terms currently available require 20 to 30% down, with rates slightly higher than the current U.S. range of 6.5% to 7.5%.

Over the last two years, ConfiCasa Mortgage International has seen significant increases in the number of U.S. and Canadian’s seeking financing for Mexican properties. In turn, the Company has also seen the entrance of many mortgage broker firms offering competitive services. Mr. Perez welcomes the increased competition, which he feels promotes aggressive lending programs and ultimately drives higher professional lending and broker standards for borrowers. With competition comes functional differentiation. Primary differences exist within the brokers’ ability to close loans; a distinct competitive advantage that all firms are seeking and very few have mastered. As a result, track record and referrals are important gauges for potential borrowers when seeking out a cross-border mortgage broker.

With all the right pieces in place, the residential real estate market in Mexico will continue to shine as brightly as the sun on an average day in Mexico. Just please don’t forget your sunscreen!

BOXED INSET

Many Americans and Canadians have a common misconception that it is illegal for foreigners to own property in Mexico because of article 27.1 of the Mexican constitution, which prohibits foreigners from acquiring direct ownership of lands or waters within a zone of approximately 66 miles from a foreign border or approximately 33 miles from a coast, known as the “restricted zone”. However, in 1993, Mexico adopted the Foreign Investment Law (FIL), which amends article 27.1, allowing foreigners to own residential property in the “restricted zone” exclusively through a “Fideicomiso”. A Fideicomiso, which continues to be one of the most commonly misunderstood legal instruments in residential real estate, is a trust agreement where a bank serves as a trustee, and has a fiduciary obligation to the buyer, or “beneficiary”. The beneficiary of the trust (the buyer) retains and enjoys full rights of ownership of the property, including the right to use, mortgage, lease, modify, and sell the property as desired. Despite the beneficiary of the trust having the same absolute rights as if owned directly (fee simple) in the United States and Canada, the indirect ownership (trust) structure, renewable every 50 years, naturally confuses most buyers and unfortunately results in the common misconception that foreigners are prohibited from owning a piece of the Mexican dream.