

“AS U.S. SECOND HOMES DECLINE, MEXICO INCREASES”

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Happy New Year to all, and welcome to 2007. With the beginning of another 365 calendar days, inevitably there are questions to be asked about the previous year and questions about the coming one, especially in the volatile world of real estate. Questions are easy; meaningful answers can be much more difficult to obtain. Here are several that are worth considering as we venture into 2007 with a new President in Mexico.

So what happened to the second home market in the United States during 2006?

The Office of Federal Housing Enterprise Oversight proclaimed during the first quarter of last year that residential homes values had appreciated at 20% or better in four of the major second home markets during 2005. As one might expect, these markets were California, Nevada, Arizona and Florida. Over the last five years, the OFHEO reported that appreciation in residences for these four states had risen over 100%. During the very next year, 2006, these same venues of second home popularity decelerated dramatically and appreciation through the 3rd quarter of 2006 was 1% or less for all four states. According to Dr. Ted Jones, Senior Vice President and Chief Economist for Stewart Title Guaranty Company in Houston, there is not a U.S. housing “bubble,” but more the phenomena of regional “bubblettes.” He says that there are three types of home buyers in the U.S.: those that live there and work there, those that buy second homes, and those that invest or speculate on homes for their subsequent appreciation. The latter would be clearly the modes’ operendi for many buyers in the four markets mentioned previously. The situation, according to Dr. Jones, will be a little more dire during 2007. In many of these acquisitions, creative financing options were utilized to minimize the monthly mortgage impact with the expectation that the purchaser would “flip out” of the residence, take their tidy profit and move on. The median down payment in many of these mortgage originations was an unthinkable 2%. With a negative amortization on the horizon for the upcoming year, these creative financing alternatives can be characterized as “time bomb mortgages”. At the end of the day, buyers of second homes in these markets may be really stuck for the next two years.

What is Mexico’s outlook for tourism during the next Presidential tenure?

For the next six years, Mexico will continue their Presidential leadership with a member of the PAN political party. President elect Felipe Calderon Hinojosa won the national election by the slimmest of margins over PRD hopeful and subsequent reactionary Andres Manuel Lopez Obrador. With the 44 year old Calderon’s victory and transfer of power judicially established, it marks the second consecutive term of office for the PAN and not a PRI presidential candidate. The Institutional Revolutionary Party (“PRI”) political party ruled Mexico for seven generations prior to the election of Vicente Fox Quesada. President Calderon and his cabinet do not have designs on privatizing PEMEX nor do they envision the petrochemical sector to follow close suit. Where does that leave the importance of tourism and its subsequent impact on Mexico’s gross domestic product? During President Fox’ tenure and that of his Secretary of Tourism, Lic. Rodolfo Elizando Torres, Mexico realized a total investment in real estate sales, new infrastructure and mixed use development of more than \$1.2 billion USD. Much of this money came from the United States, Canada and other foreign investors. President Calderon re-

appointed Sec. Elizondo to a second term as Secretary of Tourism and appointed Lic. Miguel Gomez Mont Urueta, a well known and experienced Mexico City developer, as the new Director General of Mexico's tourism agency, FONATUR. He replaces Lic. John McCarthy. Mr. McCarthy made great strides in Mexico's tourism sector selling a lot of Mexican resort and residential real estate during his 6 years as Director General. Mr. McCarthy should be credited with helping create a North American confidence that Mexico was "the place" to put investment dollars. President Calderon, in the first month of his Presidential tenure, has indicated that tourism and foreign investment into Mexico's real estate sector will be of prime importance to the sustainability of Mexico's GDP and the long term goals of continued prosperity for the nation.

What will the second home landscape in Mexico be like for U.S. buyers?

Mexico has it all; Mexico has something for everyone. That should be the overriding message that every residential dominion in this beautiful exposes for the next two years. Why? Because it's the simple truth. One only needs to determine where they want to be, what geographical amenities they like, whether they're beach people or colonial aficionados. Is it a choice of dry, desert climate on the water, or mountainous tropic in the interior, or just sparkling white sand on luminous beaches dotted by palapa roofs. Are you more interested in the well established denizens like Cabo, Vallarta, San Miguel de Allende, the Riviera Maya and Puerto Penasco, or do you seek the "up and coming" locales like Rosarito, La Paz, Loreto, Manzanillo, Mazatlan, Huatulco and Ixtapa/Zihuataneho? All of these markets will attract a particular buyer based on their personal preference AND their price point. The latter criteria will become an increasingly important component in the selection of where to buy, where to invest. As has been stated before, with the tremendous appreciation that Mexico's residential sector has experienced, many North Americans will be "priced out" of some markets. Where a two bedroom condo sold for \$180K five years ago in a given municipality, and was affordable then, that same unit today sells for \$400K or more. As a result of this dynamic value change, foreign purchasers will seek a geographic location suitable for their given means and disposable income that will still provide them with acceptable amenities, enjoyment and upside investment potential. A lot has been written and chronicled about the vast inheritance the "boomers" will realize over the next decade. Many, many North Americans will have, and have now, a lot of money that will be invested in something or somewhere. Why not Mexico? Our neighbor to the south is keenly aware of the investment potential this unprecedented group of inheritors can make on their country. Not to mention the impact they'll have on improving the quality of life with new infrastructure and development wherever they invest. It is estimated that 10,000 Americans buy real estate in Mexico each year. Today, the total is approaching 1.5 million purchasers from the north. The perception and viability of owning a home in this wonderful country has changed a great deal. Foreign buyers now understand and recognize the safeguards that can be provided for real property acquisitions in the nation. The overall integrity and professionalism of the real estate community has been greatly improved. There is a greater sense of comfort and security with North American buyers. Given the second home landscape in America over the next twenty four months, and maybe longer, Mexico will be the place to be, the place to invest, the place to own that second home! **Editors Note:** for more information on second home buying in Mexico, check out "Cashing in on a Second Home in Mexico" at www.tomkelly.com.