"TOURISM & SECOND HOMES REALITY CHECK SOUTH of the BORDER"

By Mitch Creekmore, Stewart International

Wall Street is mired in a downward spiral due to oil and financial stress. On Friday, Washington announced concerns over Ginnie Mae and Freddie Mac with possible government intervention. The two mortgage giants have taken $11 billion in write-downs over the last nine months and their stock fell by 30 percent and 45 percent, respectively, for the week ending July 11. **Where are Americans going to invest? Where can we safely put our money to work in a reliable investment atmosphere? Housing had always been one such "safe" venue.**

We all wish our domestic financial and residential real estate woes would improve over the next six months. Unfortunately, that is unlikely. They probably won't get much better until we have a new president in the White House and well after the first of the year. News out of Washington and the U.S. Commerce Department in April said new home sales plummeted by 8.5 percent to a 17 year low in the month of March. The report gives little hope the housing market is near the bottom.

The economy expanded at an annual rate of one percent in the first quarter, the Commerce Department said last week. That caps the weakest six months of growth in the last five years. The world's biggest financial institutions have taken about $400 billion in writedowns and credit losses tied to the U.S. housing slump, according to data compiled by Bloomberg. Eli Broad, founder of homebuilder KB Homes, said in an interview with Bloomberg that with homes sales and prices declining and consumer confidence at a 28 year low, "I don't see it turning around very quickly. This is worse than any recession we've had since World War II." Selling off vacant, unsold homes could take "several years," he said. REALTOR® Magazine reported in a survey in the May issue of *Business Week* that cities like Los Angeles, San Diego, Las Vegas and Phoenix saw sellers reduce asking prices on their residences by more than an average of 20 percent in the last 12 months. The number of Americans in danger of losing their homes to foreclosure rose to the highest level in three decades during the first quarter of 2008, according to data from the Mortgage Bankers Association. "I think housing is going to continue to have a corrosive effect on consumer psychology and the economy in general to a far greater extent than people think, or even far greater than I thought about a month or two ago," Broad said in his interview.

These are stark and worrisome headlines, to say the least, about the challenging plight we'll all face in the coming months. Interestingly, on the same day as the REALTOR® survey, *USA Today* had a front page headline in their Money section entitled "Foreign Buyers Snap Up U.S. Real Estate." With the continuing decrease of the dollar against the Euro and Pound Sterling, coupled with the reduction in home prices in popular destinations, the U.S. has become a "great buy" for international purchasers that have stronger currencies and greater disposable incomes.

The question now, though on a very cautious and 'wait and see basis,' is: where will *Americans* invest? Where will they look for real estate opportunities, whether it is a second home or a retirement destination? There seems to be no sense of urgency in today's market like there had been in the years from 2000 – 2005. Annualized appreciation in the "big four" second home markets was staggering at over 100 percent in residential values during that same time period, according to the National Association of Realtors. Today, Americans are concerned about rising oil prices, the cost of gasoline, healthcare issues, the pending presidential election and the overall credit crunch that has crippled the mortgage industry and led to widespread mortgage foreclosures. The subsequent impact all of these factors create on American buying mentality is being felt throughout the U.S., as well as in Mexico and virtually all of Central America. With that said, many U.S. citizens will still look south of the border for second home purchases due to its close proximity, increased airlift capacity, access and affordability (even with higher fuel costs), and a lower cost of living that cannot be attained **anywhere** in the U.S. – especially on a fixed income! The biggest unanswered question is, "When?"

Like Mexico, the countries of Costa Rica, Panama and the Dominican Republic (DR) have seen dramatic increases in tourism and real estate activity over the past seven years. Mexico is the most important tourist destination in Latin America. According to the InterAmerican Development Bank (IDB), the country receives about 30 percent of its total income from international tourism in the region. Eight percent of Mexico's GDP comes from the tourist sector and accounts for six percent of their nation's employment. Mexican tourism is heavily dependent on North American visitors, and at the same time, it is extremely vulnerable to U.S. economic fluctuations. A major advantage that Mexico has in the region is FONATUR, the National Trust Fund for Tourism Development. Since it's inception in 1974, FONATUR has been the public trust and part state-owned entity that has been responsible for the development of Cancun, Los Cabos, Ixtapa, Huatulco and Loreto. The mission statement of FONATUR is, "To be the institution responsible for the planning and development of sustainable tourism projects of national impact. To be an instrument of promotion for investment and training of the tourism sector; thus being the national entity that lends its experience to regions, states, and municipalities, along with small and medium businesses." Today, FONATUR has additional new master planned projects like the Nautical Ladder in the Sea of Cortez, the Riveria Maya and Costa Maya developments in the State of Quintana Roo, Litibu in the State of Nayarit, and Palenque in the state of Chiapas. During the six-year presidential term of Vicente Fox Quesada, FONATUR realized more than six billion dollars in foreign direct investment. For these many reasons, Mexico has continually retained its reputation as the "big enchilada" in tourism and real estate development within the Latin American region.

When the U.S. economy began to show signs of weakness, many speculated as to whether American tourism in Costa Rica, Panama, the Dominican Republic and the rest of the Central American countries also would begin to decline. So far, this has not been the case. In fact, Costa Rica saw one million visitors in the first five months of 2008, according to the Costa Rican Tourism Board (ICT). This represents a 16 percent increase of approximately 133,000 visitors when compared to the same time period in 2007. The Dominican Republic enjoys about 4.5 million visitors each year. Even though Americans have less discretionary income, meaning fewer dollars to spend on vacations both domestically and internationally, they're still willing to travel to these countries. Close proximity to our border makes airline tickets and hotel accommodations more palatable even in the face of rising fuel costs. Tourism will remain one of the biggest generators of GDP for most of these countries. All of these so called "banana republics" of old have tourism boards that are aggressively and strategically marketing to North Americans. Eco tourism and sustainable developments are no longer exclusive to Costa Rica. Each country has something different to offer with its own rich culture and history, archeological presence and special natural amenities that make the experience unique. Some of the biggest names in the development world from countries like Spain, England, Canada, Mexico and the U.S., to name a few, have world class resorts and master planned projects established or under construction in these nations. It's worth mentioning that the professionalism and integrity of the real estate agent community in most of these countries has improved as well. It's not as much about "my commission" and a general lack of disclosure as in years past, but instead about creating a greater level of comfort and security for buyers. Title insurance and escrow services have helped push real estate agents to adopt higher standards of service and ethics for the benefit of their customers. As a result, one only needs to determine where they want to be, what geographical amenities they like, and whether they are beach people, rain forest or colonial aficionados.

Guatemala, El Salvador, Nicaragua, Honduras and Belize have something for everyone. Why? Because it's simply the truth! 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 more important component in the selection of where to buy and where to invest in the coming years. With the tremendous appreciation that Mexico's residential sector has experienced, coupled with that of Costa Rica and Panama, many North Americans will be "priced out" of some international markets. Where a two-bedroom condominium sold for $180K five years ago in a given destination, and was affordable then, that same unit today sells for $400K or more. As a result of this dynamic value appreciation, foreign purchasers will seek a geographic location suitable for their given means and disposable income that will still provide them with acceptable amenities, healthcare, infrastructure, enjoyment and upside investment potential. A lot has been written 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 can be invested in something or somewhere. Why not second homes in any of these countries? Our neighbors to the south are keenly aware of the investment impact 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, tax revenue and development wherever they invest. Today, that total is over two million purchasers from North America. The perception and viability of owning a home in these wonderful countries has changed a great deal. Foreign buyers now understand and recognize the safeguards that can be provided for real property acquisitions outside the U.S. There is a greater sense of comfort and security with North American buyers. Given the dire second home landscape in America over the next 18 months, and maybe longer, Mexico and Central America will be the places to be, the places to invest, the places to own that second home!

Editors Note: for more information on second home buying in Mexico or Central America, check out "Cashing in on a Second Home in Mexico: How to Buy, Rent and Profit from Property South of Border" as well as "Cashing in on a Second Home in Central America: How to Buy, Rent and Profit in the World's Bargain Zone," at www.tomkelly.com. Mitch Creekmore is co-author of both books.

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