"MEXICO UPDATE 2009
Random Thoughts on the Market"

By Mitch Creekmore, Stewart Title Guaranty Company

"Life comes at you fast!" Remember this hyperbole from the Nationwide® commercial that began to air last year? It depicts the chain reaction of little, simple events that ultimately leads to the destruction of a home. Who would have ever thought six months ago that the Dow Industrial Average would go from over 13,000 to less than 7,500? Who would have foreseen in this same time period the collapse of AIG and Lehman Bros., the bailout and recapitalization of Fannie Mae and Freddie Mac, the myriad of other failed banks, lenders, companies and ultimately, massive layoffs. Wall Street is broken, our stock market is a train wreck, property values have imploded, and mortgage and credit markets have crashed. Put simply, our economic outlook is on the rocks like a grounded tanker. And now, a stimulus package of gigantic proportion that no one is sure of who or what is actually being "stimulated." Comes at you fast? What a gross understatement.

What does all this mean for Mexico and the real estate market? According to Integra Realty Resources de Mexico, economic activity grew by 2.7% during the first half of 2008. The economy suffered a gradual slowdown in growth rates as a result of the decreasing price of oil, diminishing remittances from Mexican nationals abroad, and the crisis in the auto industry. The peso was substantially devalued by the fourth quarter going from an exchange rate average of P$10.40 per dollar to P$13.50 per dollar by the end of 2008. The latest forecast indicates that the peso will be trading around P$12.00 per dollar for 2009. Estimated GDP in Mexico will decrease from 2.3% in 2008 to approximately 2.0% during 2009.

In spite of the international financial crisis and the economic recession of their largest trade partner to the north, Mexico's commercial and industrial markets had solid gains in activity in 2008. With posted growth due to favorable vacancy rates and stable rents, the key markets in the industrial sector were Mexico's bright spot. Monterrey continues to be one of the leading economies and industrial centers. Rents average $4.80/SF and vacancies are below 10% despite the U.S. recession. Other key cities like Cuidad Juarez, Matamoros-Reynosa, Tijuana and Saltillo all posted similar growth with rents and vacancies similar to that of Monterrey. The retail market also grew substantially during 2008, especially in the Mexico City metro area. Overall, major international real estate investors and companies remain attracted to Mexico's industrial and retail markets. The attraction is the result of higher internal rates of return that can average between 11 to 13.5% annualized yields in the commercial arena.

Mexico's resort areas that have been the primary second home markets have suffered dramatically since mid 2008. Americans are still willing to travel and vacation, but very few are buying residences. Generally speaking, no particular locale has been better or more greatly affected than another. All of the beach destinations have seen a 50-80% decrease in residential sales to Americans. A couple of markets like the Rosarito corridor south of Tijuana and Puerto Penasco, Arizona's primary beach destination have seen developments stop construction completely. Due to illiquidity in the capital markets, developers just can't find construction dollars to complete or develop their projects. Private equity just simply isn't available. More importantly, Americans are not willing to part with their money for that second home "dream" or investment regardless of where it is. With losses of 35% or more in the stock market and the home equity play all gone, Americans have become more than cautious. They are down right afraid, generally speaking, to make any move or decision regarding a residential acquisition. Despite Mexico's affordability, low property taxes and low cost of living, not to mention a favorable exchange rate in dollars to the peso, they have taken a much anticipated "wait and see" attitude not knowing what the future holds in the United States. The sense of urgency that fueled the Mexican second home market from 1998 to 2006 is gone. Until Americans can feel comfortable about their own disposable income and see stability in America's economic and mortgage crisis, along with their own future, they will stay sitting on the fence or not consider an investment in real estate at all.

A lot has been written concerning the drug violence in Mexico. Headlines have been sensational and clearly there is an on going effort by President Felipe Calderon and the Mexican government to eradicate the efforts of drug dealers. Most of the violence is directly related to the cartels, Mexicans killing Mexicans. Border cities like Tijuana, Cuidad Juarez and Reynosa have been the principal locations where most of the violence has occurred. Please keep in mind that there is absolutely no pattern of innocent U.S. citizens, or tourists for that matter, being randomly targeted or murdered in drug violence. Let's remember that the United States is plagued with inner-city crimes and murders. Guns are common in the U.S. (they are against the law in Mexico), and convenience store clerks should receive combat pay. Mexico is still a relatively safe place to live, visit and vacation. As our domestic scene stabilizes and financial markets return to a level of normalcy, though it probably won't be until 2010, Mexico will once again emerge as a strategic second home destination. Many Americans will need to find a place to live that will be more inexpensive than the United States or Canada. Especially if those Americans are not "boomer" inheritors and they will have to live on a fixed income. Let's face it America, there will be many of us that have lost or not saved enough money to stay in the good old U.S. of A. Mexico, alternatively, will be a country we can "live" with!

Editors Note: for more information on second home buying in Mexico, check out "Cashing in on a Second Home in Mexico, How to Buy, Rent and Profit from Property South of Border", at www.tomkelly.com. Mitch Creekmore is co-author of the book with real estate columnist, Tom Kelly. Mitch can be reached at 800 729-1900, ext. 4104.