Mexican Resorts Show No Sign of Catching U.S. Housing's Cold

Despite worry, the flow of foreign money into vacation sites hasn't slowed.

By Evelyn Iritani Times Staff Writer August 26, 2006

Real estate experts in Mexico worry that the giant sound they hear is the softening U.S. housing market sucking out the money that Americans have poured into vacation homes south of the border. But neither the cooling American housing market nor tense Mexican presidential politics so far have stemmed the influx of foreign dollars into Mexico's booming coastal resort areas, government and real estate officials said. When FONATUR, Mexico's tourism development agency, put the first phase of Litibu on the market a few months ago, buyers snapped up the 500 acres of the newest Pacific Coast resort for $125 million. Foreign investment into Mexico is on track to hit $20 billion this year, up from $17.6 billion in 2005, according to the government. "We have some concerns about the slowing U.S. housing market but there are many other things working for us," said John McCarthy, FONATUR's director general, who was in Beverly Hills recently to speak to U.S. investors. "Most of our buyers are baby boomers who have paid off in good part their initial mortgage and are coming into inheritance money."

In addition, real estate experts say, Mexico's resort property market might experience a smaller price shock than U.S. homes will because it is a new area of investment and the buyers tend to be higher-income and less likely to be forced into fire sales. "The cooling real estate market could take this from being a very, very positive trend to a mildly positive trend," said Christopher Thornberg, an economist with Beacon Economics, a real estate consulting firm.

That's good news for Janette and Harvey Craig, who paid $60,000 four years ago for a piece of beachfront property in Litibu, a small beach community about 30 miles north of Puerto Vallerta. They expect the parcel, which is worth about $300,000 today, to become even more valuable when the nearby resort is completed in three years. It will include hotels and condominiums, 910 homes and an 18-hole golf course designed by Greg Norman. "It's just going to push prices higher and higher," said Janette, a part-owner of Garcia Realty in the nearby surfing town of Sayulita. In the past, foreigners have been wary of investing in Mexico because of legal problems, corruption and red tape. But changes in Mexican laws have made it easier for foreigners to own property through bank trusts. Major U.S. firms have begun offering mortgages and title insurance. Mexico also is drawing more attention from Europe. Last year, Spanish companies were the top investors in the tourist industry, pumping $416 million into resort properties. U.S. investors followed with $321 million, according to the tourism agency. McCarthy rejects the notion that tourism only benefits wealthy developers and well-heeled travelers. He pointed out that the average incomes in Quintana Roo and Baja California Sur, the states that are home to Cancun and Cabo San Lucas, are among the highest in the nation. Tourism is the third-largest generator of foreign exchange in Mexico, after oil and remittances from Mexicans living abroad.

FONATUR identifies promising tourism areas, buys land, draws up a master plan and develops basic services such as roads, sewage facilities and power plants. The government then sells the property to private developers. By getting state and local officials to sign off on a project, the Mexican government has dramatically reduced the risks to foreign investors, said Doug Regelous, president of -based Daedalus Projects Group Inc. Daedalus is finalizing the purchase of approximately 9,000 acres on the East Cape, a largely undeveloped stretch of coastline along the Gulf of California between San Jose del Cabo and Punta Pescadero. He declined to divulge the specifics of the project because the deal had not been finalized. But he said it would contain an upscale resort hotel, golf course and residential community with a focus on water sports. "The East Cape is a swimmable ocean," he said. "The Pacific isn't."In just a few decades, the southern tip of the Baja Peninsula has become one of Mexico's most exclusive getaways.Once known for inexpensive time-share properties, the rugged coast between Cabo San Lucas and the sleepier San Jose del Cabo is lined with luxury resorts that charge as much as $1,000 a night for hotel rooms. Oceanfront estates sell for as much as $7 million. On busy weekends, it is not uncommon to see 100 private jets at the airport. Mexico's real estate boom also has been helped by the development of upscale "fractional ownership" properties that allow buyers to purchase a piece of a condominium or home. Barry Hacker and his wife, Paivi, sold their beachfront home in Florida after it was damaged by two hurricanes in two years. They said they have invested "tens of millions" of dollars in a piece of waterfront property in Ixtapa, a resort area on the west coast of Mexico. They plan to build a 10-room boutique hotel called Punta Romantica and offer fractional ownership in 10, four-bedroom villas on the property.

Hacker, a partner in KPMG's Tokyo office, said many wealthy Americans were selling their waterfront properties in Florida and California while prices were high. "We can deliver a villa for a fraction of the cost that's also oceanfront and is fully staffed with all the hotel services, a gym, a spa and a restaurant," he said.

Mexican tourism officials are sensitive to criticism that this rapid development threatens some of the country's most beautiful coastline and marine reserves and puts a strain on the rural communities that bear the brunt of the rising land costs, increased traffic and an influx of people looking for work. These challenges have come into sharp focus along the east coast of Baja California Sur, which borders the Gulf of California, home of the largest marine park in Mexico. FONATUR has teamed up with Loreto Bay Co., a Scottsdale, Ariz., developer, to build what is being billed as the "largest resort community in North America committed to the principles of sustainable development." The Mexican government invested $200 million on roads, water treatment plants and other infrastructure.

The $3-billion project, called the Villages of Loreto Bay, will create a town of 6,000 homes in neighborhoods designed for pedestrians and golf carts. No cars will be allowed. Nearly two-thirds of the 8,000 acres will be maintained as a "greenlands preserve." Homes are being constructed with locally produced adobe bricks, and the developer has leased land for a wind farm so the project can generate its own electricity, said Jim Grogan, Loreto Bay's president and chief executive.

In two years, the project has sold 640 homes, whose prices start at $380,000. Two-thirds of the buyers are Americans, many from California, and the remainder are mostly Canadians with a sprinkling of Mexicans. "There's no question, people are willing to pay a premium for sustainable development," Grogan said.

The U.S. firm has established a nonprofit foundation that has bought new equipment for the local hospital and purchased a patrol boat for the marine conservancy, according to Grogan. The Loreto Bay Foundation gets 1% of all home sales and resales, or about $3 million so far.Rob Faris, an economist with the Harvard Institute for International Development, praised the developer's efforts to limit the project's environmental footprint. But he worries about the impact such a large number of people will have on southern Baja's limited water supply, the marine park and the community of Loreto. Within two decades, the population of the sparsely populated region is expected to balloon from 15,000 to 120,000, according to a study co-authored by Faris.