Investment in Mexico

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Investors and developers are increasingly looking to Mexico as a land of opportunity. While Mexico's economy is closely tied to that of the United States and is expected to be impacted in some measure by the current slowdown, the financial crisis in the U.S. has not yet had any significant repercussions on Mexico's economic activity or international trade. Over the past 15 years, as Mexico has increasingly drawn foreign investment, the appeal of real estate as an asset class has continuously grown.

Secure prospects and government incentives

Developers and investors have a tendency to take a longer-term perspective with regard to their activities in Mexico. This is due in part to several key trend lines that support investment in Mexico's real estate sector and, more specifically, in lodging and tourism. Mexico is host to the development of numerous master-planned projects offering legal certainty, quality infrastructure, ample amenities, and development platforms for hotel and residential developers. Like those in the U.S., urban and resort markets in Mexico have witnessed a marked increase in projects combining hotel and residential components. In addition, the Pacific and Caribbean coastlines of Mexico are increasingly viewed as prime destinations for upscale developments.

Tourism and resort residential development are a national priority for Mexico. The country's regulatory framework fully backs foreign ownership in the majority of ventures, including real estate, allowing 100% participation in shared capital. Mexican laws governing foreign investment provide legal guarantees and offer investment security. The legal mechanism also simplifies the paperwork involved in registering foreign investments, as well as the unrestricted repatriation of profits, bonuses, dividends, and interest payments. In addition, title insurance similar to that offered in the U.S. is now widely available for purchasers of large sites and individual housing units alike.

More industry, more demand

According to the Secretaría de Turismo, Mexico received approximately $3.5 billion USD in private tourism investment in 2007, an increase of 11.12% over 2006. Foreign investment, particularly from Spain and the U.S., accounted for 43.76% of the total. Mexico has consistently been one of the largest recipients of foreign direct investment in all economic sectors among emerging markets. As industry expands in several cities in northern and central Mexico, so does the demand for lodging, particularly in the limited- and focused-service segments that cater to business travelers. Relatively few hotels outside of the resort destinations are branded, offering an excellent opportunity for both domestic and international brands to obtain growing market share. In urban areas, the development of mixed-use projects that combine hotel and residential uses with office and/or retail components present another opportunity for growth.

For the second consecutive year, condominium construction has outpaced that of hotels. According to the housing consulting firm Softec Mexico, sales of tourist housing in 2007 totaled 18,000 units, an increase of 52.5% as compared to the previous year. Puerto Vallarta occupied the lead position in sales; other areas that demonstrated dynamic activity included Los Cabos, Puerto Peñasco, Acapulco, Cancún, Riviera Nayarit, and Playa del Carmen. Approximately 80% of the beachfront housing was purchased by foreigners, principally from the U.S. and Canada. Mixed-use developments including hotel and residential components are expected to multiply with

Summary

Foreign investment in Mexican real estate is on the rise, and many favorable factors conspire to keep this trend moving forward.

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Mexico’s flourishing status as a second-home and retirement market for U.S. and Canadian baby boomers. In fact, Mexico ranked at the pinnacle of the 2007 Global Retirement Index, published by International Living. Consumer confidence in buying residential property in Mexico is bolstered by the increasing availability of title insurance policies issued by U.S.-based companies.

Outlook

Some challenges do impose on Mexico’s attractive investment climate. The biggest obstacle to ongoing activity will likely be the tightening of credit markets in the U.S. and Mexico. Loan-to-value ratios are expected to be reduced, and loans will be made on a more selective basis, factors that are bound to stifle development to some extent. However, investment and development platforms take a longer-term view, and in this light are somewhat less focused on and less vulnerable to the possible impact of a slowdown in the very short term. The outlook for real estate development and investment in Mexico is, therefore, relatively sunny and streaked with the colors of a variety of prospects, from hotels to residences in urban to resort locales. Moreover, based on current trends and the government’s inviting stance, foreign investments stand on solid ground.

About Richard J. Katzman

Richard Katzman is Senior Managing Partner for the LATAM region. He established the HVS Mexico City office in 2007. He has been active in Mexico and other Latin America countries since 1992. During this period, Richard formed Grupo Inmobiliario Inova, a real estate advisory boutique that merged in 2001 with Insignia/ESG, then among the most prominent real estate service companies in the world. In 2003, following the merger between Insignia/ESG and CB Richard Ellis, Richard elected to reestablish an independent platform prior to joining HVS in 2007. Richard was born and raised in Mexico City. He completed his undergraduate studies at Cornell University, School of Hotel Administration, and received his MBA from The Wharton School. He is fluent in English, Spanish, French, and Portuguese. Contact Richard at +52 (55) 5245-7590 or .