

Posted on Sat, Oct. 14, 2006

**MEXICO**

## **Baja's alluring bargains tempt U.S. investors**

### **American developers eye beachfront property in Mexico's Baja California to build communities aimed at U.S. baby boomers.**

**BY THOMAS BLACK**

Bloomberg News

Lynn Feenaughty bought a builder's promise and an empty lot near the village of Loreto, on Mexico's Baja California coast, after being priced out of Puerto Vallarta, his first choice for a retirement home.

Feenaughty, part of a wave of U.S. buyers in new coastal communities, made the \$201,000 leap of faith into an undeveloped area last year after Mexico relaxed foreign-investment laws and U.S. companies began offering escrow service and title insurance, reducing risks.

The change in Mexico's real-estate climate is drawing U.S. developers -- including Donald Trump, David Butterfield and John Fair -- to build communities on the Baja peninsula. Their plans incorporate golf courses, marinas and shopping centers to appeal to American retirees and vacation-home buyers, said Donald Trump Jr., vice president of development for Trump Organization.

"People in the U.S. can't afford oceanfront property anymore," Trump said. "In Baja, you can get oceanfront for a fraction of the price."

#### **WATERFRONT LAND**

Baja has miles of still-undeveloped beach property, compared with a crowded coast across the border, Fair said. The peninsula of desert flatlands and mountains between the Pacific Ocean and Gulf of California stretches for 1,000 miles south from San Diego.

The five largest projects aimed at foreigners, including Butterfield's Loreto Bay, will attract \$5 billion of investment by developers and home buyers within 15 years, according to Mexico's National Trust Fund for Tourism Development.

A two-bedroom villa near the beach can be purchased for \$200,000. That compares with the \$576,360 median price for a home in California in August, according to the California Association of Realtors. New residences range up to \$4 million on more than an acre of waterfront land.

"The next 15 years are going to be an absolute second-home and retirement-home explosion in the Baja," Fair said.

Demand is being fueled by U.S. residents flush with cash from rising stocks and a five-year surge in home values, said Mitch Creekmore, director of international development for Stewart Title Guaranty, which insures the ownership for \$3 billion of property in Mexico.

Baby boomers, the 76 million Americans born from 1946 to 1964 who make up 29 percent of the U.S. population, stand to inherit more than \$70 billion from their parents, and much of that will be spent on real estate, Creekmore said.

Buying a home in Mexico slowly became more similar to a U.S. transaction following the 1994 change in Mexican law to allow full foreign ownership through trust funds. Title insurance and third-party management of escrow followed, and now U.S. bank financing is more easily available, Creekmore said.

The trusts, which counter a constitutional ban on foreigners owning land near the coast or border, are created and owned by Mexican banks. The U.S. buyer is the beneficiary, with all rights to the property. The trusts last 50 years and are renewable.

"When we bought, there was nothing here -- just stakes in the ground," said Feenaughty, 64, at his two-story Spanish Colonial-style home. The property is protected with title insurance that would pay for lawyers to defend his ownership and reimburse any losses, he said.

Investors had problems in the past with poor record-keeping on land Mexico granted to farmers, leading to title disputes and fraud allegations. Many have vivid memories of October 2000, when Mexican police forced scores of Americans from their homes in the Baja community of Punta Banda after they lost a property dispute in court.

U.S. buyers still don't have the same legal standing as Mexicans, who can buy coastal or border property without using a trust fund.

At Loreto Bay, 700 miles south of San Diego, Butterfield plans to build 6,000 homes in 15 years on 3,200 acres, along with shops, restaurants and a golf course.

Fair plans to begin construction this month on 800 houses and condominiums, a golf course, shopping center and marina in a \$285 million first phase of Paraiso del Mar, on 1,800 acres in La Paz, a port city near the peninsula's tip.

New York-based Trump Organization and partner Irongate Wilshire of Los Angeles plan to build three towers with 500 condos and hotel rooms on 17 acres of land overlooking the Pacific Ocean near the city of Rosarito.

### **EYEING MORE PROPERTY**

Elsewhere in Mexico, the government wants to bring more undeveloped beach land to market by creating a corridor north of Puerto Vallarta on the Pacific Coast between the villages of Litibu and El Capomo, said Roberto Calvet, director of development for the National Trust Fund for Tourism Development, or Fonatur.

Fonatur, which founded the developments at Cancún and Los Cabos, already sold most of the available land in Litibu. The project will include 2,280 hotel rooms, 910 homes, a Greg Norman-designed golf course and shopping centers.

Bruce Turner, 45, a Chicago real estate developer, this year bought an 1,800-square-foot oceanfront house and guesthouse in La Paz, for \$280,000. In California, it would have cost almost \$1 million, he said.

"A lot of Americans are going to start heading south of the border to buy their vacation homes," Turner said.