



[Home](#)  
[Cover Stories](#)  
[Features](#)  
[Columns](#)  
[Contents](#)  
[Back Issues](#)  
[Archives](#)  
[Distribution](#)

[Daily Business Report](#)  
[Online Calendars](#)  
[The Reel Story](#)  
[Lender Performance](#)

 [Print This Page](#)  
 [Email This Page](#)



## The Connection

*By Patrick Osio*

### Baja Capital And Mortgages

*New investors and better financing for buyers stimulates home demand along Baja's coast*

Last fall we noted Southern California developers were watching with interest the explosive housing development taking place in Baja California for the U.S. retiree and second home buyer. But many questions and uncertainties needed clarification before prominent housing developers would participate.

International companies have increasing faith in Mexican real estate investment. A big sign came in July 2004, when LaSalle Investment Management announced it had acquired a portfolio of 53 properties in Mexico for around \$300 million on behalf of itself, its parent (Jones Lang LaSalle Inc.) and a consortium of institutional investors from the United States, Canada and Europe. The investors included the California Public Employees' Retirement System.

Several factors make such investment decisions possible. Not least is the stability of the Mexican peso. The currency has withstood the test of the U.S. recession. The Mexican economy remained steady and is now growing. Additionally, it is legal to make loans in dollar denominations or in pesos indexed to the dollar. Also lending investment credibility is the emergence of Mexico into a de facto democratic form of government.

In the Baja Gold Coast — Tijuana, Ensenada and Rosarito — housing development in the last four years has taken on gargantuan dimensions. The three primary markets are social interest (low cost) housing, middle income and retirement/second home.

Mexican social interest housing developers have flourished due to government and labor union financing for such projects and government guaranteed mortgages for low-income families.

The housing for middle-income families has flourished due to the availability of both construction and mortgage financing, but at higher than U.S. rates. Part of the construction financing comes from buyers who make large deposits, ranging from 20 percent to 50 percent, that in turn provide builders with leverage to finance the balance of the development.

Finally, the high cost of housing throughout Southern California and the Baby Boomer generation nearing retirement, is exploding demand for lower-priced luxury housing along Baja California's coast.

A few U.S. and a fistful of Mexican developers are striving to keep up with the demand, but the principal obstacle is the scarcity of capital for property acquisition, infrastructure, construction and take-out financing. The result is that some U.S. and Mexican developers are resorting to requiring deposits or payment in full prior to construction. This in turn puts the buyers at risk — the buyer becomes the lender, facing an investor's risks.

This lack of project financing is keeping most U.S. real estate developers out of Baja California. These builders need funding for the project, availability of reasonable interest mortgages to offer U.S. citizens buying in Baja California and secured property title.

Here's the good news. Because of the growing confidence in Mexico, U.S. hedge funds and institutional joint venture investment are emerging. New sources of mortgage financing also are appearing to qualified citizens or legal residents of the United States.

A prime example is O'Connor Capital Partners, a privately held New York-headquartered, independent real estate investment firm with \$500 million focused on direct investment in property in the U.S., Mexico and Canada. O'Connor has invested in a Samsung industrial complex in Querétaro and has been investigating other Baja California real estate opportunities.

The second part needed, mortgage availability in Mexico, now is a reality. CS Financial, a private mortgage banking service that handles about \$1.6 billion in annual domestic funding and a major underwriter for GE Financial, began providing mortgages for American citizens who are purchasing property through bank trusts (fideicomiso) in Mexico's Baja California coast.

The mortgages are 70 percent of purchase price with a loan maximum of \$2 million. At press time, the quoted interest rate was 7.99 percent (annual percentage rate of 8.45 percent). CS Financial does the underwriting that is then financed by GE Capital.

Research indicates the potential mortgage market at between \$100 million to \$150 million a month, making the prospects for GE Financial as well as for other mortgage lenders a lucrative proposition. Other potential financial institutions either pursuing or investigating the potential are GMAC, Wells Fargo Bank, and Citibank/Bancomer.

(Next month *The Connection* will provide more information on the mortgage availability – how to qualify, how it works and how the lenders protect the loan.)

Patrick Osio Jr. can be reached at [posiojr@sandiegometro.com](mailto:posiojr@sandiegometro.com). The veteran consultant also has issued *The Mexican Perspective*, an intensive primer on business culture and protocol. Copies are available at [http://www.hispanicvista.com/sales/book\\_sale.htm](http://www.hispanicvista.com/sales/book_sale.htm).