FEATURE Developers brings title insurance, transparent financing, Canadian lenders to real estate deals

The taming of Mexico

FRANK O'BRIEN

WESTERN INVESTOR

In Mexico there is a slang word for courage – *cojones* – and **Jack Perlman** may embody the term better than most.

Perlman, a former New Yorker, has apparently tamed Mexico's notoriously rough real estate market, at least along a four-mile stretch of Caribbean beach in the Riviera Maya area.

There, over the past 17 years, Perlman's company, **Condo Hotels Playa del Carmen**, has built and sold out four condominium hotel projects and pre-sold a hefty portion of its fifth development, El Taj, despite condo prices that can top US$1 million. El Taj, with 27 of the 41 units pre-sold, will open in January.

This would be a success in good times, but Mexico real estate developers are fighting through fears of the H1N1 (swine flu) virus, a global economic recession and a shocking Mexican crime rate, all of which have hammered real estate and scared tourism.

Perlman agrees Mexican real estate does not normally inspire confidence among North American investors. He has seen cases where, after deposits have been made, the developer has simply disappeared with the money.

This has happened even with brand-name properties, such as the Trump Baja, where $32 million in pre-sale deposits are missing after the project was cancelled earlier this year. In most of Mexico, Perlman explained, deposits are not required to be placed in a trust, as in Canada or the U.S. "Developers can use the money anyway they want," he said.

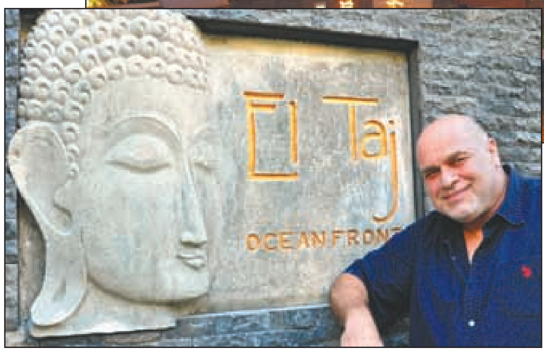
Perlman, however, has insisted on bringing U.S.-style title insurance to his developments, and has led the charge in the use of escrow accounts to protect deposits. **American Title**, one of the largest title insurance companies in the U.S., now has an office in Perlman's complex.

As well, his company deals with a local **Scotiabank** office in Playa del Carmen to arrange financing for Canadian investors, who he said, make up 40 per cent of his buyers.

The prices are eye-popping. At the El Taj, preconstruction prices for one bedroom units start at $300,000; a two-bedroom, 1,204-square-foot condo is listed at US$775,000, and three-bedroom suites average US$1.2 million. Perlman claims that 27 of the units have been pre-sold, including to "several" Vancouver buyers. In defending the prices, he cited the beachfront location and the high-quality finishes and top-of-the-line appliances.

A New York-based hedge fund recently bought seven units at El Taj, Perlman said, which he said is a "good sign."

Photo: Condo Hotels Playa del Carmen



TOP: Condo Hotels Playa del Carmen in Mexico's Riviera Maya. LEFT: Jack Perlman: U.S.-style title insurance, Canadian banking ease fears for Mexico investors.

Whether all of the pre-sales will close, however, is the big question because, as Perlman notes, most of the pre-sales were made prior to the economic tsunami that has hit beachfront resorts around the world.

There are other reasons why some investors may get cold feet. Due to fears of Mexican crime and the H1N1 virus, plus the economic downturn, occupancy rates at Perlman's condo-hotels have fallen to 40 per cent, compared with an average of 65 per cent in 2008.

The crime rate in the Riviera Maya area is not considered high, according to the the U.S. **State Department** and Canada's **Foreign Affairs** office, both of which note that most of Mexico's serious crime is centred in the drug corridors along the U.S. border. Canadian travel warnings to Mexico due to H1N1 were lifted in May.

Still, fears have resulted in fewer` tourists and lower occupancy levels, certainly a concern to would-be investors.

According to Perlman, the typical $300,000 one-bedroom hotel condo would rent for around $250 per night in high season. Of this, the management fees and commissions take 50 per cent. Perlman contends that it is equity appreciation, not rental income, that is the big draw for investors in the Playa Del Carmen region.

Baja bid

On Mexico's West Coast, a B.C. developer claims to be the first to take advantage of changes to Mexico's archaic Agrarian Laws which have long restricted development on aboriginal lands.

Kelowna, B.C.-based **Isla Cortes Development Ltd.**, is attempting to find investors to back its multimillion-dollar resort bid in the state of Sinaloa. The project, centred near the town of Los Mochis on the Sea of Cortez, directly across from La Paz on the Baja Peninsula, is to evolve into a resort hotel and condominium complex on 900 acres of land, according to **Bill Messer** of **Century 21 Seaside Realty Inc**.

Until recently, the land was under the control of Ejido Communal Groups, but recent changes to Mexico's Agrarian Laws allow the Eljido owners to title the land as private property, according to **Greg Alfonso** of **Alfonso Law Corp**., legal counsel for Isla Cortes. Alfonso said Isla Cortes is the "first developer, foreign or otherwise, to partner with the [Mexican] First Nations" in a resort development.

Los Michos is a short flight from California and has both an international airport and a deep-water seaport. "We are really just getting started on the development," Messer said.

The developers will have to overcome the area's ugly reputation for crime and drug murders.

According to the U.S. State Department, "Sinaloa experiences high rates of violence and is considered home to the Sinaloa [Federation] Cartel, one of the strongest and most violent [drug] cartels in Mexico." Last year alone there were 1,059 homicides in the state.◆

Lower Mainland