

Hot Housing Market Crosses the Border

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SAN JOSE DEL CABO, Mexico — Lured by 300-plus days of sunshine and "good, fun waves," Greg Leach is tapping the equity from his three-bedroom Mountain View home to build a vacation getaway near this small Mexican resort town.

Leach, 52, who is splitting the estimated \$100,000 investment with a surfing buddy, could pocket a sizable profit if he wanted to. Realtors estimate their house could fetch close to \$400,000 in Baja's sizzling market, which has shot up at least 10% to 15% a year for the last two years.

"Cabo has just exploded," said Leach, a building contractor.

Buyers have been snapping up homes here in the southern half of the Baja Peninsula, usually in all-cash deals. Like Leach, most of the newcomers are Americans, many from California, leveraging the equity in their increasingly valuable U.S. homes.

Their purchases reflect a change in global real estate ownership: People no longer have to be super-rich to invest in homes in foreign locales. In fact, some economists are starting to worry whether places like Baja California, London and Canada's British Columbia are part of a global housing bubble driven by the same combustible mix that has fueled American home prices: low interest rates, flexible financing and sluggish stock markets that have sent investors looking for better money-making opportunities.

Official figures aren't kept on how many Americans are buying residential real estate abroad or how many foreigners are investing in the U.S. But a survey by the National Assn. of Realtors revealed that 15% of home buyers in Florida last year were foreigners, mostly from Europe and Latin America. Three-quarters of those buyers said the properties were vacation homes or investments.

Though a similar study hasn't been done in California, economists believe foreign buyers play a significant role in the state's housing market.

TD Bank economist Carl Gomez said Americans make up as much as 10% of the home buyers in the British Columbia cities of Victoria and Vancouver, which have experienced double-digit price increases in recent years.

Like most buyers of homes abroad, Mike Pariseau wasn't seeking riches when he bought

his first four-bedroom house in Victoria in 1996. He and his wife, who is Canadian, had been going there for vacations and grew tired of borrowing beds from family and friends. That home proved to be such a good investment that they purchased a condominium last year where their daughter is living while attending college.

Pariseau paid about \$384,000 for his Canadian properties, tapping the equity in his Santa Barbara home, which has jumped in value from \$210,000 to \$1.2 million in the two decades since he purchased it.

"As far as I'm concerned, real estate is the only way to be," said Pariseau, a software consultant. "We've got some money in managed funds, but it doesn't even come close."

Although housing markets historically have been driven by local buyers and sellers, globalization — and the Internet — has made it easier for people in the fastest-growing markets to export their wealth.

Some economists fear that if the U.S. economy hit a rough patch, heavily indebted Americans would be forced to sell their second homes or dump investment properties, triggering price drops in the U.S. as well as in places such as Baja that depend heavily on American money.

Investment bank Morgan Stanley estimated this year that property prices in two-thirds of the world were either highly inflated or moving quickly in that direction. Morgan Stanley economist Andy Xie believes a global housing crash is a serious possibility.

"Either you have a big adjustment like a 20% or 30% decline, or you have a big recession or you have a slow decline in property prices or several years of no growth," said Xie, who is based in Hong Kong.

Some worried governments are trying to cool their housing markets in hopes of engineering a soft landing. The Chinese government has raised taxes and tightened lending in an effort to tamp down prices that have doubled over the last two years in markets such as Shanghai. After the British and Australian governments hiked interest rates, housing prices in those markets started to slow.

But even the threat of hurricanes, restrictions on foreign investment and soaring electricity and water bills haven't damped America's enthusiasm for Baja. Greenbacks have transformed this region into an American enclave, where English is the lingua franca, the U.S. dollar is the currency of choice and must-have accessories include a security guard, an infinity pool and high-speed Internet access.

The 20-mile stretch of coastline between the towns of Cabo San Lucas and San Jose del Cabo is a string of luxury resorts and gated residential communities with private clubs and designer golf courses. The luxury complex on Cabo San Lucas' Medano Beach sells six-week-a-year "fractional ownerships" in its two-bedroom ocean-view condominiums at prices starting at \$136,000.

"It's really been a tremendous investment," said Brent Brown, a 46-year-old owner of a chain of Utah auto dealerships, who recently sold his home in Cabo San Lucas for \$4.3 million, doubling his investment of two years earlier.

A British entrepreneur bought the seven-bedroom home, along with a second, \$1.3-million home as a rental property, said Ted Downward, a Century 21 broker who handled the sales. Brown is using his profit to build a larger home nearby.

Bruce Greenberg, an international real estate consultant from Tucson, said he recently sold three investment homes in Cabo for nice profits after growing tired of managing the properties from afar. He estimates that at least 100 homes and lots have sold for more than \$1 million in southern Baja in the last year.

Investing in Mexico carries risks. Real estate agents aren't regulated and there have been several cases recently of people with millions of dollars in escrow funds that had not been deposited in legitimate accounts, according to people involved in the real estate industry.

The Mexican constitution prohibits foreigners from owning land within 30 miles of the coastline or 60 miles of the border. But the country amended its laws to encourage foreign investment after the passage of the North American Free Trade Agreement in 1994.

Now, foreigners can purchase property through a bank trust known as a *fideicomiso*, said Mitch Creekmore, co-author of a new book called "Cashing In on a Second Home in Mexico" and a senior executive at Stewart Title, the leading provider of title insurance in Baja.

Most deals in Mexico are cash or seller-financed because until recently there were few institutions willing to lend money to foreigners buying Mexican residential real estate. But a handful of U.S. firms, including First Capital Mortgage and GE Capital, are starting to offer mortgages to Americans for Mexican properties.

Russ Schreier, a vice president at First Capital Mortgage in San Diego, said his firm recently closed its first mortgage on a Baja property.

Schreier, who has purchased property in Loreto Bay, a newly emerging resort area on the Gulf of California, predicts the Baja market will become even more heated when mortgages are more easily available, given the demand from U.S. baby boomers for vacation and retirement properties.

Not everyone believes that a global housing bubble is looming. Tom Davidoff, a real estate expert at UC Berkeley, believes that most home buyers are long-term investors, not speculators, and are unlikely to resort to fire sales or default on their mortgages even if the economy slows.

"There are definitely some idiots who think there are a lot of ten-dollar bills out there," he said. "But are those guys setting prices, or are they a small part of the market just trying to get rich?"

James Fetgatter, chief executive of the Washington-based Assn. of Foreign Investors in Real Estate, argues that foreign investors can be a stabilizing force because they are usually wealthy individuals or large institutions that are less vulnerable to price shocks in any one market.

In the 1990s, however, Japanese investors armed with a strong yen dumped billions of dollars into Manhattan penthouses, Los Angeles office towers and swanky U.S. golf courses. When Japan's real estate bubble popped, sending the Japanese economy into a decade-long recession, many investors were forced to liquidate those properties for huge losses.

The Baja peninsula had its own scare after the terrorist attacks in 2001. Americans pulled back from traveling overseas and the real estate market ground to a halt. Housing prices started falling as anxious homeowners tried to bail out.

Chris Snell, 44, president of Snell Real Estate, which handles 80% of southern Baja's luxury properties, bought out his nervous partners. "I was in so deep I couldn't get out," he said.

His gamble paid off. Snell said his company had handled \$270 million in sales since January, up from \$120 million for all of last year.

Snell isn't worried about a housing bubble here.

"When I go to Santa Barbara and I go to Napa and I see people wanting to buy homes with zero percent down, that scares me," said the Realtor, who recently sold his own 3,200-square-foot Baja home for more than \$3 million. "That is a bubble I see that can burst. When I see them coming to Cabo and buying homes with all cash and they're involved in the deal, that doesn't scare me."