



What analysts are saying about investing in Mexico, Punta Mita and second homes going into 2009

December 22, 2008

Ilan Maroschamer, Manager PriceWaterhouse Coopers, LLP, Latin America:

The U.S. is still Mexico's number one trading partner and both economies are intricately connected, so Mexico is highly impacted by the recession in the U.S. The luxury end has been the primary feeder market for second homebuyers, and that sector is sitting idle heading into 2009. Mexico's high-end lodging sector for 2009 is also way down as advanced winter bookings should have seen near sellouts well before Christmas 2008.

Traditional markets in the U.S. – the Tri-state area, plus Los Angeles and San Francisco are sitting tight and not spending their discretionary income on second homes. New markets like Dubai and Russia are being tapped for the first time.

For the past six years, luxury second home prices have escalated exponentially, and homes at Punta Mita, for example, have been snatched up quickly since the community officially opened in 1999 with the Four Seasons Punta Mita resort. It's been a tremendous success and even the unbranded residential, resort communities there have benefited from the halo effect. Most PM buyers have been wealthy U.S. nationals and cash buyers, who are now shifting their priorities away from real estate. But even with the kind of beating we're seeing in the capital markets, there's still more wealth out there than there's ever been, and there's an unprecedented number of multi-millionaires in emerging economies and of course, the U.S.

Working in Punta Mita's favor is that it's a tested product with almost 10 years of credibility and cache. The Four Seasons Punta Mita has been a success since opening its doors in 1999 and is one of the top-rated hotels within the entire Four Seasons system, as well as in Mexico and the world. A large number of upscale residential communities have also been built since the Four Seasons, which means Punta Mita is a more established community instead of just another ambitious project on paper. Punta Mita's master-planned developer, DINE, is also one of Mexico's strongest players in construction and development with solid finances behind them.

After the shake out of 2009, strong, solid developers like DINE and other well regarded brands like Strategic Hotels and St. Regis hotels, which have also invested in Punta Mita, will be in a strong position, giving second homebuyers great confidence to invest. Punta Mita is quite established and well managed, which makes them more resilient tough

economic times, versus other projects without similar sponsorship and lack of brand name recognition.

Moreover, Mexico has been taken seriously as a place to invest, as foreign ownership of high-end coastal real estate has been successful as a viable interest through a real estate trust. Since the mid-90's, Mexico has been transformed from an isolationist protectionist economy to a global player, where the peso is traded on international markets. The banking system has opened up quite a bit to welcome international investment and competition.

Adam York, economic analyst, Wachovia Corporation:

Traditional big spending second homebuyers are now quite hesitant to make a purchase with such economic uncertainty in the U.S. and the world. While wealthier investors are usually more insulated from economic downturns, the investment vehicles of the super wealthy, such as hedge funds and private equity, have not fared well in this present downturn. But as recessions are shorter lived than most people expect, we can expect to clean out excesses of the previous economic cycle, thus eliminate competition and less well capitalized projects. We're seeing the beginning of much consolidation in several industries, so projects that have been successful thus far will be in a better position to compete after the current recession ends.

Ralph Bowden, president, Ralph Stewart Bowden Inc., Charlottesville, Va.:

Punta Mita is the newest form of a group of resorts within a resort community and has achieved a milestone in global resort development. It was consciously planned for five star hotels that while still competitive with each other, they were placed in a resort community with synergies that complement one another and emerge from a great choice of high quality lodging opportunities, thus exposing high end real estate to a global market of highly pre-qualified homebuyers.

Mexico can actually point to the initiation of Punta Mita as opening a gateway to the 5-star U.S. market. And ever since then, the gates have opened wider and have become more inviting. The buyers there are mostly end-users and the investment part of it, with a cash on cash return is really secondary. As far as supply and demand, I would challenge anyone to say there's too much Punta Mita product available. I don't see any opportunity for over supply to exist there, with a finite number of resort and residential components and the fact that all development parcels have been sold there.

From the time Punta Mita was planned in the late 90's to where it is now, it's like night and day. The level of international hospitality, sophistication and sense of design and architecture is nothing less than world-class.

Going forward, there are still many people with deep equity in their home, so the demand

for pre-qualified buyers at a community like Punta Mita has never been healthier. I envision a surge of that well-qualified segment of the market popping up that hasn't been anticipated, and I believe we're about to go through a sustained 20 percent per year growth in qualified demand.

Even though 2009 is not looking very positive at the moment, long-term holders of real estate who have invested in stocks and equities for a long time should realize that whatever value lost will soon be recovered.

Rick Norton, president, Norton Consulting Inc., a Palm Beach Gardens, Fla.-based resort and residential development specialist, founded in 1978.

Prices in Punta Mita, Mexico are on average 33 percent or a third less expensive than similar exclusive gated communities in Los Cabos, Hawaii, The Bahamas and Costa Rica, thus a far greater value for second-home buyers. 2008 total purchase prices and prices per square foot for custom home lots, large detached homes and condominiums in Punta Mita, cost significantly less than in other warm weather beach destinations of similar quality, or offering similar or lesser amenities.

Specifically, detached three- and four-bedroom ocean/golf view homes in Punta Mita range from \$634 to \$711 per square foot (\$2.4 million to \$2.7 million), compared to \$1,413 to \$1,497 per square foot (\$4.6 million to \$5.3 million) in similar high-end resort communities in the other destinations.

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