



Newsletter — August, 2005

Intro

Greetings,

I just returned from a 6 day trip to the Costa Maya and Lake Bacalar. It's hard to believe that this was my th trip in years. But each and every trip has its own unique challenges and adventures. This one was no different.

As always, the main focus of my trips are to scout out new opportunities in real estate. I'll talk more about that later. This time I'll profile the details and photographs of properties on my new website. If you haven't seen it yet, you can access it at www.mexicocaribbean.net. Please send me any comments and feedback you think I could use to improve upon it.

The Road More Traveled

Each time I travel to the Costa Maya I try to identify the most significant change(s) from my previous trip. Although I've mentioned this in past newsletters, the roadwork and continued development of the infrastructure tops the list. Major paving operations are taking place between Tulum and Carillo Puerto. To the south, between Bacalar and Chetumal, construction equipment can be seen expanding the road to four lanes. This is a major project and has been going on for months. I can't believe this is an effort to improve the speed and efficiency of traffic to Chetumal; rather, it's to improve the speed and efficiency of getting people to Bacalar and the Costa Maya. I've said repeatedly that when the airport in Chetumal is expanded to accommodate major international travel, the road infrastructure will need to be ready to handle the increased flow of traffic. Does the government of Mexico and the State of Quintana Roo know something we don't? If I had to guess, there's big plans for development in the making for the Costa Maya. Here's some of the latest talk around town.

Northern Costa Maya Development

It's been known for some time that the areas north of Mahajual, particularly the Placer and Uvero areas, are the locations identified for future hotel development. Why is this so? There are several reasons. The areas south of Mahajual are very limited in terms of available real estate needed to accommodate hotel development. Although there are many beautiful beaches in this area, parcels of beachfront greater than 100 meters are scarce. Consequently, the logical areas left with adequate space are located north.

Zoning

The areas of Uvero and north have a density allowance of 30 - 40 units per hectare. A hectare is a unit of measure defined as 10,000 square meters; this is equivalent to approximately 2.5 acres. This area has the highest density allowance in the whole Costa Maya. This can be illustrated by example. A lot measuring 25 meters by 100 meters has 2500 square meters of surface area, or 0.25 hectares. Using the low end density of 30 units/hectare would allow a 7.5 unit (bedroom) home or hotel to be built. Larger lots would obviously accommodate more units.

Contrast this density allowance with areas to the south of Mahajual zoned at only 5 or 10 units per hectare. This is a major difference between areas north and south of Mahajual. The low density allowance virtually restricts any future hotel of substantial size anywhere south of Mahajual. The commercial zone in the towns of Mahajual and Xcalak are the exception, and are zoned at higher densities.

Master Plan

Believe it or not, there is a master plan for the Costa Maya. Developed by Fonatur, the Mexican tourism agency, the plan calls for the future hotel zone to be located in the Placer/Uvero area. There is a stretch of beachfront that measures about 2 km and is owned by Fonatur and targeted specifically for future hotel development. These 2 km's are located between the Placer and Uvero access roads.

There really isn't much question as to where the future resort growth and development will be. In addition to hotels, this area also has planned golf courses and water parks. I looked at a plan on this trip that showed the latest projected golf course. Current plans have it located on the west side of the Placer/Uvero road somewhere near the junction of the Placer access road. If you're looking to invest in an area of future growth and development, this may be it. With each trip I make, it becomes less speculative.

Oh. One more thing about the Placer/Uvero area. There's nothing official about this, but you can decide what to do with it. I "heard" from a very good source that there's a developer right in the middle of working to acquire a long stretch of beachfront here to build up-scale homes and villas priced in the \$1,000,000 range. That's one million U.S. dollars. If that happens, think about the impact on property values in this area.

How About the Biosphere

Otherwise known as the Sian K'aan Reserve, this is a ecologically protected area along the coast that begins just south of Tulum and extends south to Pulticub which is located 50 - 60 km north of Mahajual. Designated as a wildlife preserve by UNESCO, it is an environmentally sensitive area. You know, one of those areas whose beauty we're all supposed to observe, appreciate and protect (from the ravages of man).

Just two yeas ago I was told that building was severely restricted and allowed only under special conditions (e.g. only homes made of wood, a minimum of 200 meters to build). Things sure have changed.

I traveled to Tampalam (well into the Reserve) on my last trip and observed one very large house under construction. Not only that, it was made of concrete. What to my surprise to find that homes of any kind can now be built on a minimum of 50 meters of beachfront. That's a far cry from 200 meters that had previously been discussed. It appears that some restrictions have been lifted. I make no moral or ethical commentary on the nature of these changes, but am only reporting on what has transpired over the past couple of years.

But, for those of you possibly interested in acquiring property in this "sanctuary," there's an abundant supply of the most beautiful, pristine beaches you've ever seen, at prices less than one half those to the south. Go to the website for more details.

The Tax Man

A year or two ago, I read an article entitled "The Tax Man Cometh." The theme of the article had to do with the accurate assessment of property values. It highlighted the potential and future problems for investors acquiring property and reporting the value on the escritura (deed) at significantly less than the purchase price. There was a time you could do that. I'm afraid that time has come and gone. We are now in a transitional period which is proving to be problematic for some property owners. Here's why.

The Old System

Up until now, there was a conscious and deliberate attempt at keeping property taxes low. Keep in mind that many politicians with large land holdings and wealthy landowners (who acquired much of the property from politicians) created a system to minimize the property taxes that they would be required to pay. This was done by grossly underestimating the "real" value of the property. By placing an artificially low value on properties, property taxes would in effect be minimized.

Newsletter — August, 2005

Those of you who own property may want to check your escritura (deed) to see what value was placed on your property at the time you bought it. You may not even have been aware that there was a stipulated value written here. In all probability, your attorney never discussed it with you and marginally raised the value from the previous owner's deed. After all, they were doing you a favor. Everyone wants to pay as little as possible in property taxes, right?

The other reason these values were kept artificially low was to minimize the capital gain tax required to be paid by the seller when a property was conveyed. A significant increase shown on the buyer's deed would have a corresponding tax consequence to the seller. So, it was in the best interest of the owners (and ultimately sellers) of property to keep these values artificially low.

The New System

You mayor may not be aware that there was an election and regime change in Quintana Roo this past April. Under the new government, changes are taking place which could have major tax implications.

- Increased Assessments
It's no different in Mexico than anywhere else in the world. When the government decides it needs money, one of the most effective ways is to raise taxes. Think about the tax windfall to the state that could be realized just by raising the property values. That's exactly what's happening. The assessing authorities are re-evaluating properties in certain regions of the Costa Maya. In one case I know of, the property value was raised by a factor of 2.5. Sellers of property will now incur a capital gain tax of 30% on the difference between the value stated on their deed and the minimum value that the property can be assessed at. That's a big tax bite. Based on some of the assessments I've seen, taxes were in the range of \$15,000 - 20,000. If you'd like some idea of your property's assessment, ask your attorney or an accountant to get you the "Cedula Catastral" for your property.
- Governmental System Connectivity
The new government has brought additional changes. Under the old system there was no inter-connectivity between the government agencies involved in real estate transactions. Everything was handled more or less on paper. The "catastral" responsible for recording deeds and assessing property could not effectively communicate with "hacienda," the agency responsible for collecting taxes. The "notaries" responsible for writing deeds and conducting real estate transactions were also limited in system connectivity. That's all beginning to change. In the future, when a property is conveyed, "catastral" will be electronically notified as will "hacienda." If taxes owed on the sale of the property are not paid, fines will be imposed on the seller. Seller "beware."

Any Advice?

Yes. Speak with your attorney and accountant. They may provide you with sound guidance which will help minimize the tax on real estate transactions. Remember, this is still Mexico. I was speaking to an attorney while on my trip. It was rather comical to hear her say in her broken English that sometimes if you "tip" the officials, you can get the assessed value reduced. To quote Forrest Gump: "and that's all I have to say about that."

The upshot of all of this is that more taxes will be paid by someone. One option that I've observed in negotiation is to split the capital gain tax owed between buyer and seller. As a buyer, you may resist that option but if it's what it takes to close the deal, it may be worth it. One way or another, sellers will refuse to take a big tax hit. You may see increased taxes reflected in higher property prices.

Commercial Property

I'd like to spend some time addressing commercial property in Mahajual. I realize most people are typically looking for residential property or property that can accommodate small hotels, but you may want to consider the Mahajual commercial district. Prices in the commercial district have soared in the past five years. For example, one hotel owner purchased a 10 meter by 20 meter lot located on the beach road for \$48,000 four years ago. A lot of this size in this location would sell for over \$200,000. I currently know of four contiguous lots in the commercial district located on the beach selling for a total of \$380,000. I believe purchasing property in the Mahajual commercial district has tremendous investment potential. That's why I've already purchased one lot and am looking for another. With each trip I make to the Costa Maya, and seeing the investment dollars poured into the infrastructure, I'm more convinced that Mahajual will be a well-known and frequented tourist destination in less than 10 years. I'm betting on it.

Property for Sale

- (1) Location: 6 km. South of Mahajual
Size: 10 m x 185 m
Price: \$85,000

Detail

Small but beautiful lot in highly desirable location just minutes from Mahajual. Ample distance (56 m/185 ft) from road to F. Z. providing lots of room to build on beach side of road.

Newsletter — August, 2005

- (2) Location: 8 km south of Mahajual
Size:
Price:
Detail
Very deep lot with beautiful beach located minutes from Mahajual.
- (3) Location: 8.5 km south of Mahajual
Size:
Price:
Detail
Exceptionally attractive lot with beautiful beach. Large cleared and grassed area with existing house.
- (4) Location: 9 km south of Mahajual
Size: 100 m x 110 m
Price:
Detail
High elevation and beautiful beach characterizes this large lot. Great location and size make this property very attractive for a small hotel or B & B.
- (5) Location: Mahajual Commercial District
Size: 4 lots at 9 x 18 m each
Price: \$390,000 total
Detail
This is the only commercial property available on the beach in the central area of Mahajual. This property fronts the beach road in Mahajual and extends one full block to the west to the next street, providing access on 2 streets. This is one of the few remaining vacant properties that offers high potential return for anyone interested in starting a business or renting space to a commercial activity.
- (6) Location: Mahajual Commercial District
Size: 4 lots at 9 x 20 m each
Price: \$90,000 each
Detail
These four lots located in the heart of the commercial district are just one block west of the beach road that runs through Mahajual. This property is particularly attractive because all

Newsletter — August, 2005

vehicle traffic is detoured onto this street when the cruise ship is in town. Official discussions are proposing permanently closing the beach road to through traffic and making this street the main street open to vehicular traffic.

Saludos,

MexicoCaribbean@AOL.com



Denis