

A Case For Commercial Property

I just spent the past two weeks in Bacalar working on my road project. As you might imagine, almost nothing ever works out as planned. Anticipating that the heavy machinery could start on a Wednesday, I was delayed by several days due to tropical storm "Arthur", and was not able to start until the following Monday. The first tropical storm of the year drenched and flooded the coastal towns of Majahual and Xcalak and managed to make its way to Bacalar and Chetumal. Oh well. It did give me a chance to look things over in Majahual, since the last time I had been there was in March when the *malecon* (pedestrian walkway) was still under construction. Well, it's finished, at least the first phase which begins at the lighthouse and extends through town to the fisherman's pier. I understand there are 2 phases left which will extend north of town and south of the fisherman's pier. But it remains to be seen when that will happen.

Anyhow, with all the re-building activity that has taken place since the hurricane hit Majahual last year, I had a chance to reflect and would like to share some thoughts and observations with you.

Past Year - Lackluster Real Estate Activity

The real estate activity in the Costa Maya in the year since the hurricane has been lackluster at best. Why is this? Well, there are a few reasons in my opinion.

(1) No Cruise Ships

Since the hurricane and the destruction of the cruise ship pier, there has been little commercial activity in Majahual. Those of you that have been in town when a cruise ship has been in port have certainly felt the excitement of all the hustle and bustle. The town comes alive when hundreds of people are on the beaches or in restaurants and shops that once lined the beach road through downtown Majahual. It has been almost a year since there has been any of that activity. In other words, the town has been "muerta" (dead) according to locals. Many have moved out of the area to find work elsewhere. Of course many have stayed and scratched out a living knowing that this is only temporary and the cruise ship activity will return. Latest projections are that the first cruise ships will begin returning to Costa Maya in July or August. Wait. I just heard that was revised. Maybe the fall now. But what does this all have to do with real estate sales? I believe the cruise ship activity was a catalyst for real estate sales. The Costa Maya and its beauty received much exposure from the thousands that got off the ships and ventured into town and the surrounding areas. That alone motivated many people to schedule follow-up trips to scout out real estate. With the cruise ship activity suspended for a year, so have the follow-up visits from would-be buyers.

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(2) Real Estate Supply Down

The second reason for lackluster sales which I believe is related to the cruise ship inactivity has to do with supply of quality real estate available for sale. At the height of the cruise ship activity, there was far more inventory of quality beachfront lots for sale. That doesn't mean that there aren't quality lots left. It just means that many people who once would have marketed their property for sale have either taken their property off the market or are holding off until activity picks up again. That action has had a compounding effect on lackluster real estate sales.

(3) Recession

I would be remiss in not mentioning the effects of a global recession, particularly in the U. S., as a factor in lower real estate sales. Without question, the interest rate hikes by the Fed two years ago and the more recent housing market bubble due to the sub-prime mortgage market has had a direct negative impact on sales. When interest on home equity loans were low and housing market prices were at their peak in 2006, many buyers would tap their home equity and invest these dollars in alternative real estate like land in the Costa Maya. Declining home values and increased cost of borrowing have virtually shut down this stream of dollars flowing into the Costa Maya real estate market. Notwithstanding, I believe a vibrant real estate market in the Costa Maya is right around the corner. With resumed activity and a more impressive downtown area largely due to the malecon and the elimination of many unsightly establishments along the beach, I believe people will be more motivated to invest in the Costa Maya. The question has been posed many times: "Will Majahual be another Playa del Carmen?" Of course many do not want to see this happen because it would definitely change the character of the town. But regardless of where you stand on this question, if Majahual development starts to trend like Playa, it bodes well for investing there and will surely mean an increase in property values in the Costa Maya, but particularly in the commercial district of Majahual.

Commercial Property - Biggest Bang for the Buck

What defines commercial property in Majahual? Majahual's commercial district begins at the lighthouse and extends through town for 2 – 3 kilometers. The limits are not clearly marked, but the locals can tell you where it is. There are several factors that make this area particularly attractive for investment.

(1) Higher Density

Most areas in the Costa Maya are restrictive in terms of number of bedrooms allowed in a house. This is based largely on the environmental sensitivity of the area, and varies considerably in the Costa Maya. As you might expect, the density

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allowed in the commercial area is considerably higher and building height restrictions not as stringent. Lots in the commercial district typically measure 9, 10 or 20 meters along the street with a depth of 18 or 20 meters. You can see that these are much smaller than typical residential beach lots, but the higher densities make them particularly attractive as an investment because hotels or condos with significantly more rooms can be built. The added potential for selling condos or renting rooms increase their value as an investment as compared to residences that are typically limited to 2 – 4 bedrooms.

(2) Electricity

As you may already know, electricity generated through power lines is still nonexistent in non-commercial areas of the Costa Maya. This has been a bone of contention for many years as many people were told or expected electricity to be available by now. This still has not happened and it's anyone's guess when it will. The commercial district to some extent is electrified and on the grid which eliminates dealing with generators and solar panels. For many people, being on the grid makes all the difference in the world. The commercial district of Majahual is electrified all through town up to the fisherman's pier. The intention is to extend it further south to include the entire commercial district. So then, having commercial property in an area that is electrified is a big plus and eliminates the hassle of dealing with peripheral energy equipment, such as solar panels and generators. I also recently heard that the cost of paying to run electricity in the non-electrified area of town is in the range of \$60,000 per kilometer for underground lines (*don't quote me on this*). I'm sure it's less for overhead lines if allowed by the town. Assuming other commercial owners along your route are interested, this cost can be shared, thereby *substantially* reducing the cost of having electricity.

(3) Potential High Tourist Area

It's anyone's guess at this point what the future holds for Majahual. Many have speculated that it is on a growth path similar to Playa del Carmen. I just don't know. There are signs, however, that Majahual will be very different in years to come. First of all, thousands of dollars have been spent by the Mexican government to rebuild the town in the aftermath of hurricane Dean. The biggest improvements include the malecon down the main street along the beach. You may argue with the design and choice of colors for the malecon, but it certainly gives the area a cleaner, more attractive look, in my opinion. Of course since vehicular traffic has been diverted to the two streets to the west of the beach, these are slated to be paved, a much needed improvement if you've ever driven those roads. The second street from the beach had just been paved when I was there last week and concrete curbs were being placed on the edge of the street. The other big projected improvement is the cruise ship pier itself. We haven't seen it yet, but the

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latest reports indicate that a third berth will be added to accommodate more and larger ships. One article I read announced the upcoming launch of a new cruise ship that will accommodate over 5,000 passengers. I understand the Port of Costa Maya will now be able to handle ships of this size. Imagine a ship this size docking at the Port of Costa Maya. What will the downtown area look like if even two or three thousand people venture into town? All of these factors, in my opinion, bode well for continued growth and appreciation for Majahual commercial property.

What's Available?

Well, along the main street and the first street to the west of town there are some lots left. But you can just about count them on one hand. These lots are generally located at the southern end of town, yet still within the commercial district giving them all the advantages just described. For the smaller 9 and 10 meter lots, expect to pay between \$130 and \$150K. Larger 20 meter lots are over \$200K. Does this sound like a lot of money? You'll have to decide. I was in Playa del Carmen today. How many of you wouldn't pay these prices for a lot like this on the beach in Playa or several streets back like 5th Avenue? Consider what can be done with a small 9 meter lot when the entire footprint is available to build. There are thriving businesses on 5th Avenue that have 3 and 6 meter storefronts, and remember, 5th Avenue is two full blocks off the beach. But that's Playa and this is Majahual. Nevertheless, it's hard to imagine that an investment of \$130 to \$150K in the commercial district of Majahual is not a great investment with high potential return. In my opinion, this is a "Best Buy" opportunity and one you won't regret in the years ahead. If you would like more information on purchasing commercial lots, please contact Denis Couture of MexicoCaribbean at mexicocaribbean@aol.com or through his website at www.mexicocaribbean.net . Denis has brokered and developed property in the Costa Maya since 2002 and is experienced and available to help you find the property that meets your needs.

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