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Developers and investors strike it rich with beachfront real estate in Latin America.

Exposure

BY MICHELLE SEATON



OVER THE COURSE of 30 years, Hal Wright has developed more than 300 hotel properties at locations across the United States. For the last nine years, however, he and his partners have concentrated on building and selling oceanfront homes in Costa Rica. “Where else can you build a beautiful palace on the beach for a six-figure price tag?” he says. “Our customers want drop-dead gorgeous views in an unspoiled environment—

monkeys in trees and no Wal-Mart.” Millions of these people are out there, Wright says.

Clearly, other developers agree with him. A land rush is underway along the western coastline of Mexico and down into Central America, including Panama and Costa Rica, and even to

the Dominican Republic over in the Caribbean. Top real estate entrepreneurs such as Wright, Donald Trump and Miami’s Jorge Perez are buying up choice tracts of oceanfront land. Developers are building resorts and luxury homes using the cheap local labor—or reselling their property at a

significant markup. As the real estate market in the United States implodes, development along beaches in Latin America is fueling a boom that may make investors millions. What’s more, those who are already in on the action believe there is plenty of room for others to jump onto the bandwagon.



TOP VIEW | AS THE U.S. real estate market implodes, developers and investors turn to Latin America, where inexpensive beachfront property and cheap labor are fueling a land rush. Those buying choice tracts of land are building resorts, luxury houses and high-end condominiums to sell to Americans looking for vacation and second homes. While many expect this boom to last at least another decade, individuals should carefully consider the political climate of the host country and the specific location of a property before deciding to invest.

Punta Mita, Mexico, near Puerto Vallarta, was a largely abandoned tract of land 15 years ago. Now, development is underway that will result in some 800 high-end residential units and three luxury hotels.

"This real estate boom will last for at least another decade," Wright says.

Many people—retirees, young vacationers, affluent families looking for multigenerational vacation homes—are ready to flee the tempestuous U.S. housing market and settle down part time in a place with ready access to the beach, temperate weather and maids who will work for a few dollars a day. Building costs for the beach homes these buyers want are minuscule compared to those for oceanfront houses in the United States. Wright says that in the more than 100 units of luxury housing he has built in Costa Rica,

construction costs have run roughly \$100 per square foot; similar projects in Florida today would cost a minimum of \$250. This is in part because labor south of the border is so cheap; contractors can hire workers for much lower pay. Total expenditures, including land, run less than \$200 per square foot, Wright says, but the units, when complete, sell for more than \$300 per square foot.

"It's more than a 30 percent return on investment," points out Wright, who believes that because of strong demand, prices will eventually rise to \$500 per square foot or more.

FIRST COME, FIRST SERVED

As an example of the kind of development springing up in Latin America, consider Punta Mita, Mexico, a small peninsula a few miles north of Puerto Vallarta. Just 15 years ago, this was a largely abandoned tract of land. Densely overgrown with vegetation, the peninsula's 1,500 acres of low hills held value only to the few dozen squatter families who had cleared space for their homes and small farms.

Still, Punta Mita featured pristine ocean views and nine miles of undeveloped beachfront. The family that held title to the land sold the entire parcel for an undisclosed sum in the early 1990s to DINE, one of Mexico's leading builders of luxury housing. DINE spent \$150 million to clear vegetation, build roads and bring in utilities; then it parceled out several choice lots, on which the company built impressive oceanfront villas. It also invited Four Seasons to build a resort on the site. In 1999, the Four Seasons at Punta Mita opened with fewer than 100 rooms, quickly reaching more than 80 percent average annual occupancy.

That same year, DINE offered 20 lots of oceanfront land, called Ranchos Estates, that varied from 1 to 1.5 acres. The prices started at \$1 million each, cash only, but the lots sold quickly—almost instantly—with many buyers snapping up more than one lot.

The developers are only too thrilled to recount stories about people who bet early and won big. As the development's allure grew, the Four Seasons added more rooms, including beachside villas that rent for \$9,000 a night in high season.

DINE has several other projects in Punta Mita, including the Las Palmas condos, which list for \$1.175 million and up and offer access to a golf course designed by Jack Nicklaus. Another effort, El Encanto, features single-level

Security and Gated Communities



IN THE FUTURE, there may be unpleasantness associated with being the foreigners who come in and buy up the beach, developer Hal Wright says. "In Costa Rica the government knows that tourism is going to be the source of improving the balance of payments. Still, there's a certain amount of resentment."

Punta Mita (above) is a gated community in Mexico, a nation where an estimated 40 percent of the population lives in poverty. Razor-wire fences define boundaries where land owned by the Mexican development company DINE meets community land. Every subcommunity of homes has its own security fence, with posted guards who question everyone intending to pass. These security precautions exist in part to keep tourists from wandering among the private villas, but also to limit access to guests and their possessions by the thousands of workers who clean rooms or sweep walkways for a few dollars a day.

Although anti-American sentiment in Mexico and most other Latin American countries is much weaker than in Venezuela, a large number of unemployed or underemployed people working for wealthy tourists is a political tinderbox that could ignite at any time. —MS

condos that have only a sliver of ocean view, but boast plasma TVs, tricked-out kitchens and more bathrooms than bedrooms. These cost \$1.45 million, and have been sold and resold. The St. Regis hotel will open in Punta Mita this year, and a third hotel will open in 2010. A private airstrip and a small planned village in the hills are also on the drawing board.

The flow of money seems endless. As long as there is a bit of land to sell, there is money to be made. There is so much construction here that every morning at 8:15, 1,500 workers from Puerto Vallarta show up in the backs of flatbed trucks, waiting to clear the security gates to begin gardening, building and cleaning for the day. Most of the laborers earn about \$7 a day.

In five years, when the build-out on Punta Mita is expected to be finished,



Tourism officials cheer the planned Trump Ocean Resort in Baja California, Mexico, but some developers worry about profits.

this once-sleepy peninsula will feature 800 residential units in a mixture of four-star hotel suites, luxury villas, golf homes and beachfront mansions. The least expensive hotel room will cost

Trump. In 2004, the real estate development company Irongate, based in Los Angeles, purchased property on Rosarito Beach in Baja California, Mexico. Then Trump signed onto the

In Mexico, Panama and Costa Rica, *the best tracts of land may already be spoken for.*

more than \$1,200 a night in low season, and the largest villa will cost tens of millions of dollars.

BEACH BUBBLE?

Investors funding and building developments like Punta Mita have, to date, enjoyed a strong run. The dramatic appreciation that has defined this gold rush, however, leads one to wonder whether a bubble is about to burst. Some investors, especially those who have lived and worked in these nations for years, think the peak may have been reached. Jeff Vance, who owns property in Panama, says that Panamanian builders are no longer buying new plots of land to develop because they think prices are too high. "They are saying, 'This piece of land was \$10,000 a few years ago and now it's \$100,000. It's too much.'"

Additionally, what was once a niche real estate opportunity has now blossomed into a full-blown land rush, attracting both legitimate and not-so-legitimate developers. "Costa Rica is done already," Vance says. "The relaxed surfer guys from Laguna Beach [Calif.] have moved down there, and everyone is calling himself a developer."

The niche opportunity now runs the risk of becoming overexposed. For example, there is the arrival of Donald

Trump. In 2004, the real estate development company Irongate, based in Los Angeles, purchased property on Rosarito Beach in Baja California, Mexico. Then Trump signed onto the project as a brand name, and Irongate held sales events in the area to attract buyers interested in the residences, which range in size from studio condominiums to units with two bedrooms. "We've sold \$115 million in one day," says Trump, who, with characteristic modesty, labels it "the biggest sale in Mexican history."

The arrival of Trump on the investment scene means one of two things, depending on one's perspective: Either the land rush in Latin America is solid, or it has peaked and is in decline. Tourism officials are thrilled that Trump has brought his name and publicity machine to the real estate scene in Mexico, but some developers believe too much publicity and development all at once will threaten the steady profits they hope to reap over a period of many years.

Letvia Arza-Goderich, a member of the Mexican Tourism Development Association and a lawyer with the Los Angeles firm Ballard Spahr Andrews & Ingersoll, is betting on the side of a solid land rush. "The fact that Trump is investing in these properties means that this is not a reckless investment," she says. "It's a phenomenon. Whenever Trump comes near a place, not only does he facilitate sales there, but the neighboring properties benefit. Their sales improve as well."