

Mexico Resort Real Estate Update

From The Settlement Company®

Welcome to our Second Quarter newsletter. Four significant events took place during the Quarter. These were; the twentieth Anniversary of The Settlement Company®, the twelfth Anniversary of The Mexican Association of Real Estate Professionals (AMPI) La Paz, the mid year meetings of The National Association of Realtors® (NAR) and the launch of a new tourism campaign for the city of La Paz.

Big Day for Baja Real Estate:

In early May, Adán Laracilla, President of the Mexican Association of Real Estate Professionals (AMPI) came to La Paz to participate in a daylong event relating to the real estate industry. About 140 industry leaders and representatives from three levels of government, including newly elected municipal officials attended the opening ceremony.

In addition to a real estate tour of the Costa Baja Resort and Marina, and an educational session, two anniversaries were celebrated. The AMPI Section in La Paz is now twelve years old. Adán Laracilla, National President was there for the event. He made a brief speech and said, "I commend the work AMPI has done to raise the standards and the level of ethics in La Paz real estate. I also commend current President, Jose Luis Gaytan for his on going work with the Section."

Adán also extended an invitation to for AMPI members to attend the association's fortieth annual Congreso Conference). The site for this year's event will be Merida Yucatan, starting October 3rd.

The Settlement Company® celebrated 20 years of service to the Mexican real estate industry. Founder Linda Neil and her company were showered with accolades. Perhaps the most memorable if not emotional compliment came from Susana Bueno, Director of Education for AMPI Los Cabos. She started her Business career as a teen age clerk at The Settlement Company office, in San Jose del Cabo. As a prelude to her session on education, Susana said. "If it were not for Linda Neil, I would not be standing here today.

Linda and Alicia Parra from The Settlement Company's San Jose office made an audio visual presentation, "Twenty Years of Real Estate in Baja California Sur". They commented "Twenty years ago contracts were being written on the back of cocktail napkins. There was no place to escrow funds and a neutral third party to receive documents did not exist." The visual part of the presentation showed photos going back to a time when what is now "hotel row" in San Jose del Cabo was bare land. It also showed Pedregal de La Paz, before any construction, even of infrastructure, had commenced.

In addition to the all day real estate session, La Paz was the scene of many cultural events, this quarter. Perhaps the most notable was the First Annual multicultural event. "Marearte." It was a six square block opening of galleries with works dedicated to the Sea of Cortes.

Hilton Worldwide big Mexico expansion under way

By Gay Nagle Myers

Hilton Worldwide expansion plans in Mexico call for seven hotels and resorts to open in the next 12 months, according to George Massa, vice president and managing director of development.

This year, Hilton will open a Hilton Garden Inn in Tuxtla Gutierrez; three Doubletree hotels in Queretaro, Merida and Mexico City; and a Hampton Inn in Ciudad del Carmen. A Hampton Inn in Guadalajara and a Hampton Inn & Suites in Los Cabos will debut in early 2012.

Hilton also has approved five hotel deals in Puerto Vallarta, Saltillo, Toluca, Zacatecas and Queretaro. The hotels are expected to open by the end of 2012.

Hilton Worldwide Mexico portfolio is expected to grow from the current 22 hotels and resorts to 34 properties by the end of 2012, according to Massa.

Realtors® Congregate In Washington

The National Association of Realtors® met in Washington, D.C. for the midyear meetings. While most attendees were from the United States, others were from around the world. Representing Mexico were Sergio Gomez, Vice President of the Association of Mexican Real Estate Professionals (AMPI) and John Glaab from La Paz, Baja California Sur.

A popular event during the week was the "2011 Symposium On Mortgage Liquidity: Ensuring Mortgage Availability for Creditworthy Homebuyers." Emmy Award winning journalist Diana Olick real estate reporter for CNBC moderated a nine person panel. Following a free flowing discussion on the subject, Diana Olick moderated a lively Q & A session. During that session, bankers took the heat on several issues, including the heavy restrictions they currently are placing on loans and the time frame for processing paper on transactions involving the sale of foreclosed properties.

I always enjoy the Certified International Property Specialist (CIPS) New Designee Recognition Breakfast, the International Networking Reception and the Committee Meeting of the Global Alliances Group. At the breakfast new

Designees receive their certificates and PINS. New Designees came from Singapore, Italy, Costa Rico, Korea, The Philippines and Mexico. In 2010, we are now over 4,000 worldwide.

Each year as a part of the meetings, there are embassy visits for CIPS Designees. Selected members go in groups of eleven to one of the four designated embassies.

(Three years ago, I was fortunate to have been selected to visit the Mexican Embassy. Our Group met with Mexico's NAFTA team. I have remained in contact with the Embassy, even, today.)

This year, I was selected for the visit to Spanish Embassy. Our group was led by Veronica Seva- Gonzalez, CIPS formerly of Barcelona and now living in D.C. Her mother is in real estate sales in Barcelona. We were warmly received by Fernando Merry, Head Economic and Commercial Counselor and Jurdana Izaguirre of the Embassy's Investment Department.

The 2011 Annual NAR Conference will be held in Anaheim, CA. November 11-14. Over 20,000 REALTORS are expected to attend.

The Perfect Site to Launch a \$ 1 million Tourism Campaign

The Costa Baja Golf Club turned out to be the perfect place to announce a new tourism promotion campaign for the city of La Paz. The event took place on the "like carpet" green lawn in front of the club house. On the verandah the state youth orchestra performed with solos by the soprano Loyda Vazquez. At the other end of the lawn, the youth choir from the state music school performed. The sun set on the sea of Cortes while the full moon was rising. The lights of La Paz gradually came on providing a scene of beauty over the Bay.

Below is an article reprinted, with permission, from the Baja Good Life Club's internet page. Late in June, officials from La Paz travelled to sister city Redondo Beach to kick off the campaign. A reception for industry leaders and a media conference took place. The article below is reproduced with permission.

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La Paz Tourism Board Declares Peace on the United States

June 15, 2011 12:00 PM Eastern Daylight Time

Over \$1 billion in balanced growth planned for next five years - in one of North America's Safest Cities

LA PAZ, Mexico--(BUSINESS WIRE)--La Paz, Mexico – has established the La Paz Tourism Board and launched a comprehensive awareness campaign. **The tourism board has released new data confirming that La Paz is one of the safest cities in all of North America.** It offers details on approximately \$1 billion in environmentally sensitive developments emerging over the next five years. Most importantly, the city near the southern tip of Baja California is gradually revealing what a few travelers and second-home owners from the U.S., mainland Mexico, and around the world have discovered: That it is a place blessed with great natural, recreational and cultural abundance.

The awareness campaign has been named, La Paz: City of Peace and Abundance on the Sea of Cortez, and the launch event and campaign kick-off takes place Tuesday, June 14, from the Costa Baja Resort in La Paz, Mexico. The campaign continues to the US for a media and community relations event on June 28 in the city of Redondo Beach, California, to announce a declaration of peace amongst sister cities.

“Those who have had the good fortune of discovering La Paz on their own have found that it offers a rare combination of overwhelming beauty, sense of community and balanced infrastructure,” said Agustin Olachea, President of La

Paz Tourism Board, and spokesperson for the La Paz Developers Tourism Council. "The awareness campaign ensures that La Paz – whose name is literally 'Peace' in Spanish – is recognized as one of the world's most safe and secure cities."

According to Irvine-based research group, Competitive Analytics, La Paz is one of the safest cities in the world. When La Paz (population, 220,000) is ranked among California (U.S.) cities between 100,000 and 500,000, it is the third-safest in murder and manslaughter in 2009, the latest year available for an accurately averaged comparison.

This peaceful environment has encouraged a select set of international developers to create new hospitality and residential destinations. These emerging resorts and master-planned developments serve travelers and second-home owners who prize both unending natural places to discover a healthy, cosmopolitan community life. Developments include Costa Baja Resort, Paraiso del Mar, Playa de la Paz, Azul de Cortez, Bahía de los Sueños and Maravia.

New Highway and Road Improvements for B.C.S.

The Governor of Baja California Sur (B.C.S.) was recently in Mexico City where he had a successful meeting with the head of SCT. (Mexican Department of Highways) and received good news for B.C.S.

Governor Covarrubias and the Secretary of Highways Dionisio Perez Jacome met in the federal highways office. It was confirmed that the four lane highway from La Paz to Cabo San Lucas will be finished this year. It was also confirmed the department's budget includes funds for construction of the libramiento (Bypass) from the airport in San Jose to Cabo San Lucas.

Perez Jacome advised the Governor that other funds will be available to improve routes including Zaragoza-La Purisima, Ciudad Insurgentes- Lopez Mateos, El Sargento- La Ventana and La Paz- Los Planes.

EVERYONE LIVING IN MEXICO SHOULD READ THIS THE NEW GLOBAL ECONOMIC REALITY

First: A reality check on Mexico

Mexico is in a unique position to reap many of the benefits of the decline of the US economy. In order to not violate NAFTA and other agreements the U.S.A. cannot use direct protectionism, so it is content to allow the media to play this protectionist role. The U.S. media - over the last year - has portrayed Mexico as being on the brink of economic collapse and civil war. The Mexican people are either beheaded, kidnapped, poor, corrupt, or narco-traffickers. The American

news media was particularly aggressive in the weeks leading up to spring break. The main reason for this is money. During that two-week period, over 120,000 young American citizens poured into Mexico and left behind hundreds of millions of dollars.

Let's look at the reality of the massive drug and corruption problem, kidnappings, murders and money. The U.S. Secretary of State Clinton was clear in her honest assessment of the problem. "Our insatiable demand for illegal drugs fuels the drug trade. Our inability to prevent the weapons from being illegally smuggled across the border to arm these criminals causes the deaths of police officers, soldiers and civilians," Clinton said. The other large illegal business that is smuggled into the U.S.A. that no one likes to talk about is Human Traffic for prostitution. This "business" is globally now competing with drugs in terms of profits.

It is critical to understand, however that the horrific violence in Mexico is over 95% confined to the three transshipping cities for these two businesses, Juarez, Tijuana and Nogales. The Mexican government is so serious about fighting this, that they have committed over 30,000 soldiers to these borders towns. There was a thoughtful article written by a professor at the University of Juarez. He was reminded of the Prohibition years in the U.S.A. and compared Juarez to Chicago when Al Capone was conducting his reign of terror capped off with The Saint Valentine's Day Massacre. During these years, just like Juarez today, 99% of the citizens went about their daily lives and attended classes, went to the movies, restaurants, and parks.

Is there corruption in Mexico? YES !!! Is there an equal amount of corruption related to this business in the U.S.A.? YES !!! When you have a pair of illegal businesses that generate over \$300,000,000,000 in sales you will find massive corruption. Make no mistake about the Mexican Drug Cartel; these "businessmen" are 100 times more sophisticated than the bumbling bootleggers during Prohibition. They form profitable alliances all over the U.S.A. They do cost benefit analysis of their business much better than the US automobile industry.

They have found over the years that the cost of bribing U.S. and Mexican Border Guards and the transportation costs of moving marijuana from Sinaloa to California have cut significantly into profits. That is why over the past 5-7 years they have been growing marijuana in State and Federal Parks and BLM land all across America. From a business standpoint, this is a tremendous cost savings on several levels. Let's look at California as an example as one of the largest consumers. When you have \$14.2 billion of Marijuana grown and consumed in one state, there is savings on transportation, less loss of product due to confiscation and an overall reduction cost of bribery with law enforcement and parks service people. Another great savings is the benefit to their employees. The penalties in Mexico for growing range from 5-15 years. The penalties in California, on average are 18 months, and out in 8 months. The same economic principles are now being applied to the methamphetamine factories.

FOX News continues to scare people with its focus on kidnapping. There are kidnappings in Mexico. The concentration of kidnappings has been in Mexico City, among the very rich and the three aforementioned border Cities. **With the exception of Mexico City, the number one city for kidnappings among NAFTA countries is Phoenix, Arizona** with over 359 in 2008. The Phoenix Police estimate that twice that number of kidnappings goes unreported, because like Mexico 99% of these crimes were directly related to drug and human traffic. Phoenix, unfortunately, is geographically profitable transshipping location. Mexicans, just like 99% of U.S. Citizens during prohibition, go about their daily lives all over the country. They get up, go to school or work and live their lives untouched by the border town violence.

These same protectionist news sources have misled the public as to the real danger from the swine flu in Mexico and temporarily devastated the tourism business. As of May 27 2009 there have been 87 deaths in Mexico from the swine flu. During those same five months, there have been 36 murdered school children in Chicago. By their logic, if 87 deaths from the swine flu in Mexico warrants canceling flights and cruise ships to Mexico, then close all roads and highways in the USA because of record 43,359 automobile related deaths in the USA in 2008.

What is just getting underway is what many are calling the "Largest southern migration to Mexico of people and real estate assets since the Civil War" A significant percentage of the Baby Boomers have been doing the research and are making the life changing decision to move out of the U.S.A. The number one retirement destination in the world is Mexico. There are already over 2,000,000 US and Canadian property owners in Mexico. The most conservative number of American and Canadian Baby Boomers who are on their way to owning property in Mexico for full or part time living in the next 15 years is over 6,000,000. Do the math on 6,000,000 people buying a \$300,000 house or condo and you will understand why the U.S. Government is trying to tax this massive shift of money to Mexico through H.R. 3056. The U.S. government calls this "The Tax Collection Responsibility Act of 2007". Those who will have to pay it are calling this the EXIT TAX.

Mexico: A better economic choice than China

Another large exodus from the U.S.A is high paying skilled jobs. The job shift in automobile sector, both car and parts manufacturing, is already known by most investors. In the last few months as John Deere and Caterpillar have been laying off thousands of workers in the U.S.A., and hiring equal numbers in Mexico. The most recent industry that is making the shift is the aerospace manufacturers. In the city of Zacatecas there is currently a \$210 million aerospace facility being built. With the 11 U.S. companies moving there, it is estimated to provide over 200,000 new high paying jobs in the coming years. One of the main factors for the shift in job south to Mexico instead of China is realistic analysis of total

production, labor and delivery costs. While the labor costs in China are 40% less on average, the overall transportation costs and inherent risks of a long distance supply chain, and quality control issues, gives Mexico a distinct financial advantage.

Mexico's real economic future

Mexico has avoided completely the subprime problem that has devastated the U.S. banking industry. The Mexican banks are healthy and profitable. Mexico has a growing and very healthy middle and upper middle class. The very recent introduction of residential financing has Mexico in a unique position of having over 90% of current homeowners owning their house outright. U.S. banks are competing for the Mexican, Canadian and American cross border loan business. It is and will continue to be a very safe and very profitable business. These same banks that were loaning in a reckless manner have learned their lesson and are loaning here the old fashioned way. They require a minimum of a 680 credit score, 30% down payment, and verifiable income that can support the loan. In most areas of Mexico where Baby Boomers are moving to, with the exception of Puerto Penasco (which did not have a national and international base of buyers), there is no real estate bubble.. The higher end markets (\$2-20 million) in many of these destinations are going through a modest correction. The Baby Boomers market here is between \$200,000 and \$600,000. With the continuing demand inside the Bay of Banderas, that price point, in the coming years, will disappear. This is the reason the Mexican government is spending billions of dollars on more infrastructure north along the coast all the way up to Mazatlan.

The other major area where America has become overpriced is in the field of health care. This massive shift of revenues is estimated to add 5-7% to Mexico's GDP. The name for this "business" is Medical Tourism. The two biggest competitors for Mexico were Thailand and India. Thailand and India's biggest drawback is geography. Also recent events, Thailand's inability to keep a government in place and the recent terrorist attack in Mumbai, have helped Mexico capture close to half of this growth industry. In Mexico today there are over 56 world class hospitals being built to keep up with this business.

Mexico is currently sitting on a cash surplus and an almost balanced budget. Most Americans have never heard of Carlos Slim until he loaned the New York Times \$250 million. After that it became clear to many investors around the world what Mexicans already knew: that Mexico had been able to avoid the worst of the U.S. economic devastation. Mexico's resilience is to be admired. When the U.S. Federal Reserve granted a \$30 billion loan to each of Mexico, Singapore, South Korea, and Brazil, Mexico reinvested the money in Treasury bonds in an account in New York City

According to oil traders, Mexico's Pemex wisely as the price of oil shot to \$147 a barrel put in place an investment strategy that hinged on oil trading in the range of \$38-\$60 a barrel. Since the beginning of 2009 Mexico has been collecting

revenues on hedged positions that give them \$90-\$110 per barrel today. Mexico's recent and under reported oil discovery in the Palaeo Channels of Chicontepec has placed it third in the world for oil reserves, right behind Canada and Saudi Arabia.

The following is a quote from Rosalind Wilson, President of the Canadian Chamber of Commerce on March 19, 2009. "The strength of the Mexican economic system makes the country a favorite destination for Canadian investment".

Mexico with the world's 13th largest GDP is no longer a "Third World Country", but rather a fast growing economically secure state. This is shown when comparing the most recent five year history of its financial markets as compared to U.S. markets.

DOW JONES AVERAGES MAY 2004 10,200 - MAY 2009 8,200 20% LOSS IN 5 YEARS

MEXICAN BOLSA MAY 2004 10,000 - MAY 2009 23,000 130% GAIN IN 5 YEARS

Visitor numbers are rising: The Bank of Mexico is responsible for collating and publishing foreign visitor statistics. Earlier this year, the figures showed that over 22 million foreign visitors arrived in Mexico in 2010—a rise on 2009's figures and one of the highest recorded numbers since these records began. Despite the swine-flu of 2009, the global economic crisis, and the drug-violence, people keep coming to Mexico. Statistics from foreign consulate records show that the overwhelming majority of visits to Mexico are trouble-free.

Mexico's economy grew at 5.5% in 2010. Industrialized nations turn green with envy just thinking of Mexico's economic growth rate. Years of sound economic governance, shrewd investment, and relatively low debt (public and private) have created an attractive environment for investors and foreign companies. Furthermore, Mexico is now one of the world's few 'trillion dollar' economies, and mature nations are today falling over themselves to work with Mexico—if you don't believe this, look up how many foreign trade missions have been taking place here in the last couple of years, led by top politicians and ministers of the respective countries vying for a piece of Mexican pie.

Most people remain unaffected by the drug-related violence. Recent figures published by the Mexican government showed that most of the homicides in the

country over the last few years have comprised of gang members killing other gang members. Tourists, business visitors, and foreign expats are not being affected by the drug-gangs, and statistics show that the overwhelming majority of visits to Mexico pass by trouble-free.

Mexico matters: the neighbor to the south of the U.S. is one of the world's most important nations—poised to play a major role in world affairs during the 21st century. Its shared land border with the States is a primary reason why drug lords want control of the overland trade routes into seemingly insatiable U.S. narcotic markets, where the illegal substances they peddle are readily available to those who seek them. For these reasons and others, the matter will not be resolved by Mexico alone, but by Mexico and the U.S. working in partnership.

Mexico's underlying story is strong and getting stronger. Notwithstanding the current drug-related violence, the country's macro economics are in good shape; Mexico has substantial oil and gas reserves as well as considerable mineral and precious metal wealth; foreign visitors keep coming back to visit despite the unsavory news headlines; foreign governments are actively courting trade and commerce with Mexico; expats living here are going about their lives normally; statistics continue to show that Mexico's levels of general crime and violence continue to be lower than those of most large U.S. cities; foreign expats we talk with say that they feel safer here in Mexico than they do in their home country.

Late Breaking News:

President Felipe Calderon was a recent visitor to Cabo San Lucas. He brought with him the good news that Los Cabos has been selected as the site for the next G20 Summit. Construction of a new convention center will start soon and work has started on Terminal 3 at the International airport is underway.

Mexico's President has had a busy time in recent weeks, opening new manufacturing facilities. These include a new plant by auto maker Mazda, a plant by the Italian firm, Zanini Auto Corp and a new aerosol plant for Unilever. Investors continue to find Mexico an attractive place to build plants. At the Unilever opening, the President announced that consumer confidence among Mexicans is at a record high.

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