



REAL ESTATE SECTOR

GOODRICH, RIQUELME Y ASOCIADOS

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The Mexican real estate sector is one of the most attractive branches for investment. The great boom taking place in the sector, driven by purchases and leases of real estate destined for commercial malls, housing, and tourist centers are great reasons for our clients to direct their investment portfolio to this sector.

BACKGROUND

The real estate sector constitutes one of the most vibrant areas in Mexican territory, which in turn has undergone great development due to the development of great projects, such as the construction of commercial malls, industrial parks, residential projects, corporate office complexes and tourist developments in Mexico's main cities.

The States undergoing the largest expansion in the real sector are Distrito Federal, Estado de México, Nuevo León, Jalisco and Querétaro. This is due to the large urban centers located in them and to fact that the majority of Mexico's population is located there. There are two tendencies in the real estate sector: the first one is the acquisition of real estate near these urban centers with the idea of creating innovative commercial malls, in exclusive zones, where the great retail chains are looking for a space to offer their products: the second one is the installation of commercial malls, in populations where none existed before or in those in which the population is rising, which in turn, causes the demand to rise.

Developing commercial malls are of two types:

a) Those geared towards department stores

b) Those geared toward convenience stores, supermarkets and hypermarkets. In these, investors and developers realize joint alliances and strategies with supermarket chains, so that these act together as anchor stores for those commercial malls.

Moreover, a series of important Mexican cities counting with land space equipped with the necessary services, have engaged in the promotion of the installment of great industrial parks. This is a growing sector with great demand. The proximity between Mexico and the US has helped a great deal. Today, several companies have decided to open branches in our country, with the purpose of creating factories, distribution centers and industrial plants for warehousing. In a similar manner, there is a need for the construction of industrial parks and industrial complexes, as well as distribution centers with enough space to store all types of goods, whether it is for the national or foreign industry with branches in México.

Another important area in real estate is the residential one, which has been undergoing constant growth due to the accumulated deficit of housing. Approximately half of Mexico's population is within the 14-29 year old range, and this in turn offers a positive outlook in the long run,





because in a few years this sector's demand will have to be met.

The geographical zones with the greatest demand in this area are the Distrito Federal and its metropolitan area, Nuevo León and Jalisco. Nonetheless, the zones located in touristic sectors, such as the Riviera Maya in Quintana Roo and Los Cabos in Baja California, also present a great demand for housing from their working population and those foreigners who desire to live in these areas, mainly those coming from the US and Canada.

Lastly, one of the most dynamic real estate sectors is the touristic one. The creation of great touristic complexes like Cancun, Hautulco, Loreto, Cozumel and Ixtapa is being promoted in the Mexican territory. The National Fund for the Promotion of Tourism (FONATUR) promotes the participation of foreign investors with the goal of developing hotel and residential complexes.



INVESTMENT OPPORTUNITIES

There exists a great number of opportunities for foreign investment in the real estate area, and the installment and development of industrial parks is one of them. An industrial park is a geographically limited surface designed for the establishment of industrial plants, counting with the adequate conditions like location, infrastructure, equipment and services, and a permanent administration for its operation. The installment of an industrial park seeks to that industrial establishments are done in an orderly fashion, as well as the disconcentration of urban and connurbated zones, the adequate use of zoned land, to provide ideal conditions so that the industry functions effectively and to stimulate creativity and productivity within a comfortable environment. In addition, it assists the strategies for industrial development in the region. The Ministry of Economy seeks to internationally promote the offer of infrastructure existent in industrial parks, through the Mexican System for the Promotion of Industrial Parks (SIMMPPI), with the goal of attracting foreign investment.

In terms of the housing sector, the National Housing Program 2007-2012 forecasts a promising future in the long run. It is estimated that on average 16 million more homes will be added to the 24.8 million already existing from 2005-2030, a number twice as large as that which was registered in 2000. The average rate of incorporation will be of 650 thousand homes annually.

Within the tourism sector, the CIP's (Integrated Planned Centers) have demonstrated their success. FONATUR stated that the 5 existing CIP's have jointly helped expand six fold entering tourism, with 244 hotels and 36,700 rooms, which represent 40% of the 5 star hotel supply, 40.6% of foreign tourism which enters Mexico, and 54% of tourism profit. Among the strategies and programs there is the revitalization of Cancun, the consolidation of Los Cabos and Ixtapa and the re-launch of Loreto and Huatulco, through the implementation of maintenance and construction programs, the commercialization of detonating projects with distinguished investors; with the goal of increasing the supply's quality and diversify attractions.

For the above reasons, the National Chamber of Commerce, Services and Tourism estimates that for the year 2012, 5 integral touristic regions will be created along with 27 nautical scales and the improvement of 21 coast locations, among which the most active today are the coastal zones of Nayarit and the Mayan Coast.



LEGAL FRAMEWORK

The acquisition of real estate properties in Mexico is done through a public deed, with the end in mind of providing legal security to both the buyer and the seller. In the same manner, this deed must be registered before the Public Registry for the Property of the State wherever the property is located.

Restrictions exist for both individual and legal entities when acquiring real estate. In accordance with article 27, fraction I of the United Mexican States Constitution, foreigners cannot acquire the legal ownership of land and waters within a 100 kilometer zone along the nation's borders, and 50 kilometers along the coast. They

are only permitted to use and exploit those real assets located within the restricted zone through the constitution of a trust, regulated by the Foreign Investment Law, Title II. The permits issued by the Ministry of Foreign Affairs to constitute trusts have the purpose of allowing the utilization and exploitation of real assets located in the restricted zone in favor of foreigner's or, Mexican corporations with a foreigners exclusion clause provided that the real asset is destined for residential purpose, for a maximum period of 50 years. The trust contract should be made firm in a public deed.

In accordance with the General Agreement published on March 2nd 1998, nationals from those countries with which Mexico sustains diplomatic relations, can benefit from what is stated in the last paragraph of article 10-A of the Law for Foreign Investment. This provision establishes that these nationals must present before the Ministry of Foreign Affairs only a written document in which they agree to what is provided in article 27 of the Mexican Constitution, Fraction I for the acquisition of real assets outside of the restricted zone. Nationals from those countries with which Mexico doesn't sustain diplomatic relations, must present before the Ministry of Foreign Affairs the aforementioned document and obtain the corresponding permit from this ministry, in accordance with the first paragraph of article 10-A of the Law for Foreign Investment.

"Our firm offers a wide array of services in the area of real estate law. It provides legal consultation in acts related with the acquisition, sale or lease of all types of real assets, and judicial/administrative procedures, with the goal of determining the risk of an investment done in national territory".

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