

A Reprint from *Tierra Grande*

Realtors without Borders

By Harold D. Hunt



The phrase “cross-border trade” usually brings to mind 18-wheelers carrying supplies and finished products back and forth across the Texas-Mexico border. In September, however, trade took the form of nearly 100 Texas Realtors and invited guests who participated in the first-ever real estate trade mission to Guadalajara, Mexico.

The five-day event was organized by the Texas Association of Realtors (TAR), the National Association of Realtors (NAR) and the Guadalajara chapter of Mexican real estate professionals known as AMPI (La Asociación Mexicana de Profesionales Inmobiliarios). The Texas delegation was led by NAR’s presidential liaison to AMPI, Adrian Arriaga, and the chairman of TAR’s international committee, Louise Hull Patillo.

Sergio Duenas, AMPI’s national president and Guadalajara resident, was instrumental in planning the trade mission. AMPI was originally established in 1956 and has grown from 30 regional chapters ten years ago to more than 60 today.

The Texas delegation toured local commercial and residential real estate developments, participated in continuing education classes and networked with Mexican AMPI members from the Guadalajara area, according to John Gormley, vice president of communications and marketing for TAR.

Some participants also toured the nearby Lake Chapala-Ajijic region, one of the most popular retirement destinations for Americans in Mexico.

Educational Opportunities

NAR offered two courses to participants: Transnational Referral Certification (TRC) and Doing Business in Mexico.

The TRC course educates real estate professionals about making and receiving cross-border referrals using the transnational referral system developed by the International Consortium of Real Estate Associations (ICREA). Only U.S. Realtors, members of NAR’s CIPS (Certified International Property Specialist) network or members of another country’s association affiliated with ICREA can become TRC certified.

Many of the trade mission participants chose to take the four-hour course, which included a 46-question certification exam. Benefits include access to an orderly, standardized referral system that creates legally binding agreements between real estate professionals in different countries.

TRC members can easily find a qualified referral partner in another country’s ICREA association via the Internet. Referral payments are guaranteed as long as the transaction is conducted between two international real estate professionals who have the TRC certification.

The Doing Business in Mexico course was led by Mitch Creekmore, senior vice president of business development for Houston-based Stewart International. Creekmore, co-author of *Cashing in on a Second Home in Mexico*, told participants that Americans moving to Mexico are primarily looking for proximity

to the United States, affordability, lower cost of living, quality health care and lower taxes.

Jose Pascual, senior vice president of mortgage financial services for BBVA Compass Bank, gave a presentation on how much easier it has become for Americans to obtain mortgages on Mexican homes.

BBVA, a Spanish banking group, acquired the Mexican bank Bancomer in the mid-1990s. With their recent acquisition of Laredo National Bank, Texas State Bank, State National Bank and Compass Bank, they have been able to create a seamless cross-border system for Americans seeking to purchase Mexican residential property.

“The beauty of this program is that we are totally linked between the United States and Mexico,” says Pascual. “We’re trying to make the experience as much like buying a home in the United States as possible.”

Transaction Process for Mexican Properties

Jaime Niembro of Ajijic Real Estate and Mercy Stirling de Duenas of Trilenium Bienes Raices provided insight into the details of a Mexican real estate transaction during the bus rides to the commercial and residential properties that participants toured.

Before 1973, foreigners were not allowed to purchase property in Mexico. Now foreigners may directly own rural or urban land in the interior of Mexico, with certain limitations on specific agricultural tracts. Coastal and border properties

may be owned only through a trust deed established with a Mexican bank.

The bank (the trustee) holds the trust deed for the person who is purchasing the property (the beneficiary). However, the beneficiary receives all ownership rights to the property such as the right to sell, lease, mortgage or pass the property to heirs.

As of 1994, trusts may be granted and extended in 50-year periods. If property currently held in a trust deed is purchased, a new 50-year period can be established or the existing trust deed may be assigned. Trusts are renewable at any time by simple application.

Many Americans have been told that the properties will pass back to the government at the end of the trust period. This is not the case.

A nominal annual fee is charged by the trustee bank for management of the trust. The trust (fideicomiso) is established by a notary (notario) whose services are required for the transfer of real estate.

Because of the large number of foreign-owned properties in Mexico, establishing a trust has become a routine procedure. The process is not complicated, and standard forms are used.

A direct property deed (escritura publica en dominio directo) confers outright ownership of the property. Mexican deeds include a history of the property and indicate the legal owner. An application process is required for each foreigner listed on a direct property deed. The application process takes a minimum of two weeks and is handled by the buyer's notary.

As of September 1995, a beneficiary can be designated in a direct property deed. Probate is no longer automatic and a will is not required to transfer ownership of the property when an owner of record dies. However, a Mexican will is still strongly recommended. A beneficiary in a direct property deed must be a spouse, parent or offspring.

Once an "Offer to Purchase Agreement" has been accepted, the closing process begins. Ajjic's Niembro validates the offer to purchase by requiring a 10 percent deposit held in a U.S. dollar escrow account when the offer is in dollars and in a peso account

when the offer is in pesos. The balance is payable upon signing of all papers at the office of the notary. Funds are held in escrow during the period required to complete the closing process.

Closing costs are paid by the buyer and depend on the value of the property. Costs include a transfer tax and fees for the notary, property registration, a tax certificate, the title search, a property appraisal and miscellaneous clerical expenses. Buyers should ask for a detailed preclosing cost estimate from the notary once an offer is made.

The seller pays all capital gains taxes and real estate fees. Capital gains consist of a 35 percent tax on the difference between the assessed value at the time of purchase and the time of sale with an adjustment for inflation.

Property taxes are low in Mexico. The property tax rate (predial) is .08 percent of the assessed value. A discount is

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given if taxes are paid annually. Assessed value for property tax purposes is determined at the time of sale. Property, liability and earthquake insurance are available at relatively low cost.

Benefits of Cross-Border Business

Arriaga believes that doing business in another country offers real estate professionals an opportunity to increase their financial bottom lines. He cites three essential components to success.

Partnering. Although Americans can establish real estate offices in Mexico, doing so is time-consuming and costly. Partnering is an efficient alternative.

Arriaga says a perfect partner is someone who "is smarter than you, works harder than you and has more money than you."

Keep in mind that Mexican real estate professionals are looking for the same characteristics.

Local focus. As an American Realtor, it is difficult to "sell" Mexico as a whole. Instead, zero in on a geographical area and get to know that market. This means research and extended visits to learn about the area and the people.

Both residential and commercial real estate licensees will face this challenge.

Sell on both sides of the border. Keep an eye out for Mexican citizens looking for homes or investments in the United States to shelter their hard-earned pesos.

Patillo believes that a future trade mission will likely be held in Texas to reciprocate the warm hospitality extended to Texas Realtors by the Guadalajara AMPI members. AMPI's president agrees.

"We hope to make trade missions between the NAR and AMPI an annual event around the country," says Duenas. ♣

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AMERICANS BUYING IN MEXICO are interested in small, quaint communities such as Tequila, which offers a low cost of living and a high quality of life. But ultramodern architecture, such as this condominium development in Guadalajara (opposite page), is popular with Mexican buyers.

THE TAKEAWAY

Selling Mexican real estate to Texans or Texas real estate to Mexicans is easier now than it was in the past. Partnering with cross-border counterparts is essential to success.



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