

PENASCO MARKET OUTLOOK 10 YEARS LATER

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The Puerto Peñasco residential market has changed dramatically over the past 10 years. In 1996, this municipality was characterized as a “ramshackle beach town” where no right minded Arizonan could possibly think of owning a house there, much less investing in real estate, according to the Arizona Republic newspaper. The over riding theme of the articles published in January of that year was in essence, “Bad Day at Rocky Point.” Wow, have things changed! Over the last 6 years, almost 3,000 residential units have been built and acquired not only by purchasers from Arizona, but also from New Mexico, California, Nevada, Colorado and Texas. A decade ago, Sandy Beach was a vacant 7 kilometer stretch of sand and dunes reaching out to the Cholla Bay subdivision. Today, this same beach has more than 10 developments of villas, casitas, condos, detached single family homes, retail, offices and even a seaside golf course. This Arizona destination is fast approaching \$1 billion in total investment, sales and infrastructure improvements since 2001. What may be even a grander statistic is that property values and price per square meter have tripled over the same time period.

So what is the *driving* factor (the pun intended) for the Peñasco market? Why has this market been so “hot”? In a word, it’s Arizona’s beach and it has a very close proximity to the state border. No commercial flights needed here....., nor are they available. One simply has to get in their car and drive no more than 4 hours from either Phoenix or Tucson. 85% of the buyers in Rocky Point, as it’s affectionately referred to by the Arizona populace, are in fact from Arizona. Puerto Peñasco was not on the hit list of destinations to buy in 10 years ago. Today, however, it has become the 4th largest residential sales market in Mexico with prices that rival Los Cabos and Puerto Vallarta in some the beach side developments. Major developers from Mexico and the United States that wouldn’t consider Peñasco in years past have acquired large land parcels for touristic, master planned projects. Late last year, in a major announcement, the developments companies of Grupo SBR (Sandy Beach Resorts) and Grupo Questro of Mexico City, signed a \$1.2 billion joint venture agreement. It is their intent to initially develop 630 acres with 2 hotels, 900 beach condos and a beach club, an 18 hole signature course surrounded by 2,000 residences complete with commercial and retail amenities.

Now, in 2007, the market is beginning a change. Bruce Greenberg, a Tucson real estate consultant and appraiser and owner of Montañaverde, feels real estate is all about cycles. He states that the Rocky Point market is experiencing a “re-adjustment period” which will continue over the next 2 years. He states that the market will see a return to a balance between supply and demand. During this time, he continues, it may be wise to consider a niche product that can still be successful given current market conditions. What Peñasco doesn’t have and is sorely missing is the retirement home/assisted living residence coupled with middle income housing for Arizonans in the median price range. Other Mexico markets and Rocky Point in particular are just beginning to offer this type of product and the subsequent needed amenities that would cater to the retirement and middle income buyer. Many retirees would like to find an affordable unit in a quality development that doesn’t have a \$400-500K price tag. Many interested buyers simply don’t have that type of disposable income to invest. They are concerned about Social Security, Medicare, their impending retirement and the fact they haven’t saved enough money

for their future. They ask themselves “where will the money that I’ll have go the farthest and provide the best standard of living in my retirement years”? Residences that can be acquired in the \$200-300K range would make real sense to prospective retirees and buyers. Especially to those that don’t have to get on an airplane to return to the States as needed. Many Americans want the lure of Mexico with its less expensive life style, lower property taxes, greater affordability of comparable services coupled with ease of access and close proximity to home. The “kicker” is the entrance fee in order to acquire this life style. If the product is done right with good amenities and priced such that it makes sense, and not at \$400 per square foot, there are many Arizonans and Americans that will want and acquire these concepts. It simply isn’t available yet but there is an ever growing demand and market for the retirement/median income development. It’s time has come in Mexico!