Real Estate in Central America, Mexico and the Caribbean

Book

Accepted Version

Real Estate and Urban Development in Central America, Mexico and the Caribbean.
Authors:
Claudia Murray, Camila Ween, Yadira Torres-Romero and Yazmin Ramirez
Editorial:
Routledge

Citation:

Murray, C.; Ween, C.; Torres-Romero, Y. and Ramirez, Y. (2020) *Real Estate and Urban Development in Central America*, Mexico and the Caribbean, Abingdon, Routledge.

ISBN Hardback - 978-0-367-22357-1

ISBN Paperback - 978-0-367-22362-5

ISBN Ebook - 978-0-429-27452-7

Introduction

The Caribbean, Mexico and Central American region (CAMEC) has received very little attention in the academic literature in terms of real estate and development, with some publications considering it as either part of Latin America or, for the Caribbean, as a group of island states. The approach is understandable given that this is a complex region with contrasting inequalities in terms of national incomes (for example poor nations like Haiti with high income islands like The Bahamas); different political and institutional arrangements with single party socialist nations like Cuba and overseas territories like Aruba; as well as resource rich countries like Mexico vis-a-vis small countries with monoculture economies like Belize.

Notwithstanding the differences, the selected region is besieged with shared complexities: on one hand, it lies in an area prone to hurricanes, earthquakes and volcanic eruptions. On the other, the Mexican/Texas border is the largest human migration corridor on the planet, which has now seen a rise of migrants affecting may countries including Belize, Canada, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama and the United States.[i] These nations are countries either of origin, transit, destination or return, (or in some cases, a combination of several of these factors) for the displacement of vulnerable groups. Other countries and in particular the English Speaking Caribbean, have a growing elderly population and some academics are asking whether the countries have the resources to deal with this growth of vulnerable groups, particularly when many relatives live abroad which increases the levels of isolation of the elderly as well as the resources needed for private and public elderly care systems (Rawlins, 2010).

Natural disasters and a constant fluctuations of population does not make urban development easy, as planners must take into account the unpredictability of responding to natural disasters and human migration. However, in parallel with this frantic movement of land and people, the CAMEC region is a trading hub for goods that not only link commerce between two oceans, but also form the bulk of the northern and southern cargo of the entire Americas continent. Indeed, the Panama Canal is the famous waterway that connects the Atlantic and the Pacific oceans by cutting across the Isthmus of Panama. A reconstruction program lasting 7 years, has delivered a new lane to the Canal for the transit of larger container vessels.[ii] Mexico, Nicaragua and El Salvador, on the other hand, all have the so called *maquiladoras*, or large scale duty free factories that assemble, manufacture or process raw materials in order to export finished products. There are mixed reviews about the contributions maquiladoras make to the local economies. On one hand, some authors have found evidence of the economic value and opportunity for job creation and consumption of local resources by the maquiladoras (Jordaan, 2011). Others have found that wage premiums exist, albeit only for skilled workers (Mollick and Ibarra-Salazar, 2013). Other authors suggest that despite the economic growth that maquiladoras might bring, skill premium has decreased by 2.7%, informality increased by 0.9% and overall welfare decreased by 3.7% in Mexican towns where maquiladoras have been developed (Heid et al, 2013). As it will be shown in this volume, the maquiladoras are part of a larger problem in CAMEC countries, where regional inequalities are exacerbated when transnational companies operate. Indeed when multinationals operate on an uneven playing field that is mediated by differences in locations, institutions and actors, the result can be an uneven distribution of gains (Murphy and McDonough, 2012). The effects in terms of real estate markets are reviewed here in this volume, where the mixed benefits are also evident and explained particularly in Chapter 3, which considers what happens when globalization and integration of production relations meet with the local real estate housing market.

For other countries that are trying to diversity their economies, and in particular the island states, the transition from agriculture economies to the service sector and tourism has provided a boost to national GDPs since the 1970's (Wiltshire, 2015). However, as the author suggest, the transition has not been supported by a structural transformation, including diversification of value-added services and competitiveness. The impact of the outbreak of Covid-19 can be devastating for these economies, as airlines are reducing flights across the globe, with some countries closing down airports all together in order to stop the spread of the virus.

It is still too early to consider the impact of Covid-19 to the local economies in CAMEC and indeed the world. However, some lessons from environmental disaster risk reduction and mitigation that have been put in place in the region in the past, might provide an insight of how countries will cope with the outbreak. Judging by this, the UN (2017) reports that the region has limited resources to cope with disasters. Most countries have high levels of corruption which not only hinder governance but also challenge human safety as the region has many crimes that go unpunished. Emergency measures taken by governments in extreme situations usually require less scrutiny in favour of speed of responses. Therefore, the question is if governments in the region will step up to the challenge and emerge with their reputations unscathed.

The first chapter of this volume presents data on crime rates (Table 1.13) and this has been a decisive factor to exclude certain countries from the real estate analysis in this volume. As explained in Chapter 6, high levels of crimes and political instability can be a deterrent for real estate investment in any country. Another factor that has reduced the number of countries included in this volume is availability and reliability of data. In order to make comparisons with other countries, the approach for this volume has been to collect UN data as well as CBRE real estate market data. Unfortunately, there are many countries no reporting as frequently as others do to the UN and they have been therefore excluded from some tables and graphics. This is particularly relevant for Chapter 7, which compares how countries are performing in relation to the Sustainable Development Gaols (SDGs). Despite the fact that all CAMEC countries are signatories of the Paris Agreement, there are many still not reporting sufficient data to evaluate their progress. For countries that are at high risk of suffering catastrophic consequences due to climate change, particularly in relation to the frequency of hurricanes as ocean temperatures increase, it is not clear why this level of neglect is occurring. It is hoped that with the advancement of new technologies, data collection will become more frequent in many developing economies.

Data collection and transparency can help CAMEC to develop more resilient real estate markets. It can also help to curb high levels of government and institutional corruption, which as Chapter 6 explains, constitutes another barrier to foreign direct investment (FDI). There have been several changes in the political parties governing the region with many new governments making pledges to increase political and data transparency. Mexico has seen the biggest change with the election in 2018 of Andres Manuel Lopez Obrador (AMLO) as president. His election saw the Institutional Revolutionary Part (PRI) come third in the campaign, ending a century of PRI domination in the polls amidst accusations of wide spread corruption in the party. AMLO first months in office were marked by the challenges presented by the US government and threats to curb migration and swiping reforms to the NAFTA agreement between the US, Canada and Mexico. In the event, the US did not build a wall along the US-Mexican bordered as per President Trump's threats, but migration has been reduced considerably, although the downward trend of Mexican-born migrants seeking refuge in the US has been reducing since 2010 as the Migration Policy Institute data shows[iii]. The ex-NAFTA countries have signed a new cross-border treaty, the so called US-Mexico-Canada agreement (USMCA), ratified by all countries in March 2020. The main changes in the agreement is a more stringent regulation on labourers' rights, which will reduce Mexico's advantage of low wages. Notwithstanding, if correctly implemented it can be a good leveller for wage inequalities currently affecting Mexico's job markets.

Other countries have also seen changes in politics as many voters turn to the polls to punish what they see as largely corrupt administrations. Such is the case of most Central American countries as well as the Dominican Republic in the Caribbean. Notwithstanding, latest figures from Transparency International show that corruption levels are raising in some countries, with the exception of Mexico, Costa Rica and Panama, which seem to be decreasing.[iv] This level of corruption impacts property rights, as the judicial system is subject to bribes. According to the

Heritage Foundation (2020), most courts in CAMEC countries are overwhelmed with corruption scandals involving the political elite (for example ex-presidents of Panama and of Guatemala are currently in prison).

Additionally and as Chapter 1 will show, most countries have large levels of urban informality, which impedes accurate collection of taxes for struggling municipalities. There is also low levels of income taxation for those in employment, and vast amounts are evaded by the wealthy in tax heavens like Panama and The Bahamas. Infrastructure building in these countries, as it will be explained here in Chapter 5, is extremely challenging given the little resources the governments have.

Nevertheless, the region also has very good examples like Costa Rica, who in 1948 took the decision to abolish the military and use the funds to promote education, environmental protection and cultural preservation. This availability of funds has placed the country amongst the most advanced in CAMEC, as the statistics presented in Chapter 1 demonstrates. As the last chapter in this volume explains, Costa Roca is also the only country in the region and amongst the very few in the world, that is on track to achieve the Sustainable Development Goals (SDGs) and targets for 2030 and 2050 that many nations have signed to in the Paris Agreement of 2015.

The aim of the present volume is to consider CAMEC's strength and opportunities in real estate and urban development that can contribute to a positive change to provide healthy lifestyles and cities. Following the publication of Real Estate and Development in South America (Murray, Monetti and Ween, 2018), the present volume completes the regional analysis by following a similar structure in terms of selecting best economies for real estate development. However, if the previous volume was concerned with sustainability of the markets and urban development, this book has a focus on the resilience of markets and development, i.e. how a region that is heavily reliant on tourism and logistics copes with the devastating effects that climate change and other catastrophes can have on man-made infrastructure.

The first chapter presents an overview of the CAMEC region, including demographic and economic data and a ranking of the strongest economies in terms of their RE markets potential. Chapter 2 covers commercial RE, focusing on the office, industrial, retail and hotel sector. Chapter 3 presents the residential market, including social housing policies and delivery. Chapter 4 brings an analysis of the different investment vehicles available as well as financing mechanisms for the development of commercial and residential properties. Chapter 5 presents the infrastructure sector, evaluating how state investment drives countries' productivity and GDP. Chapter 6 shows how politics, culture and economic cycles affect inward investment from the wider Latin American economies and other world regions. The final chapter (7) concludes with an analysis of real estate development in the context of the SDGs and the New Urban Agenda that were signed by most countries under study in this volume. The chapter has a larger regional focus, thus presenting data from the whole Latin America and Caribbean region. This is done so the reader can have a wider picture of how CAMEC is performing at regional level.

The submission of this manuscript to the editor was done at the outbreak of the world pandemic caused by Covid19. The data collection and analysis in this volume presents therefore a good benchmark for what the real estate markets and urban development looked like in a pre-pandemic world. Many changes are predicted in the way humans live and work in the near future, which will certainly affect the conclusions presented here. However, the authors hope that the book becomes a helpful point of reference to measure regional changes.

Reading, Berkshire, April 2020

Bibliography:

Heid, B.; March, M. and Riano, A. (2013) The Rise of the Maquiladoras: A Mixed Blessing, Review of Development Economics, 17, 2, pp. 252-267.

Heritage Foundation (2019),

Jordaan, J.A. (2011) FDI, Local Sourcing, and Supportive Linkages with Domestic Suppliers: The case of Monterrey, Mexico, World Development, 39, 4, pp. 620-632.

Mollick, A. and Ibarra-Salazar, J. (2013) Productivity Effects on the Wage Premium of Mexican Maquiladoras, Economic Development Quarterly, 27, 3, pp. 208-220.

Murphy, F. and McDonough, T. (2012) US Auto Companies' Ownership and Control of Production in Mexico's 'Maquiladoras', Cambridge Journal of Regions Economy and Society, 5, 3, pp. 413-434.

Rawlins, J. (2010) Ageing in the Caribbean: Exploring Some Major Concerns for Family and Society. Available at https://www.researchgate.net/profile/Joan_Rawlins/publication/239574335_Ageing_in_the_C aribbean_Exploring_Some_Major_Concerns_for_Family_and_Society/links/00b4952a667e18d38c000000.pdf Accessed 20/03/2020.

UN (2017) United Nations Multi-country Sustainable Development Framework in the Caribbean 2017-2021. Available at https://www.undp.org/content/dam/unct/caribbean/docs/UN-MSDF-2017-5-spread.pdf

Accessed 19/03/2020.

The Heritage Foundation (2020) 2020 Index of Economic Freedom. Available at https://www.heritage.org/index/pdf/2020/book/index_2020.pdf. Accessed 24/03/2020

Wiltshire, G. (2015) Towards A Caribbean Multi-Country Assessment (CMCA). A Base Document for Stakeholder and Partner Consultations. Available at https://www.undp.org/content/dam/unct/caribbean/docs/Towards%20a%20Caribbean%20Multi-Country%20Assessment.pdf Accessed 19/03/2020

---

[i] See UN Refugee agency report https://www.acnur.org/marco-integral-regional-para-la-proteccion-y-soluciones-mirps.html . Accessed 20/03/2020

[ii] See https://micanaldepanama.com/expansion/ for more details. Accessed 20/03/2020.

[iii] See data from Migration Policy Institute at https://www.migrationpolicy.org/programs/data-hub/charts/mexican-born-population-over-time Accessed 23/03/2020

[iv] See Transparency International data available at https://www.transparency.org/cpi2019. Accessed 23/03/2020