



Big Investment? Small Investment? Expert? Novice? Mexican Real Estate Bank Trusts offer real investment solutions

By Raúl O'Farrill, Founder, OTP Trust

There are many people who want to invest, develop, buy properties for rentals, or start a business in Mexico now, especially in Greater Rocky Point and along the Sonora Gold Coast. Why? Because the Rocky Point market has weathered the difficulties in the United States housing market and is poised for significant growth in the mid-term. (To read the OTPTrust 2008 Rocky Point / Sonora Gold Coast Market Analysis please visit: otptrust.com/article_rocky_point_2008_market_analysis.html)

But many investors don't feel they have the expertise to succeed, are afraid to take a risk, or do have not the liquidity they would like to catch the wave of this region at this time because, in fact, these are less liquid times than in the past. Maybe you think you don't have enough liquidity to move forward at this time (even though you know this is the right time to move forward...) then a Real Estate Investment Trust is the solution.

The structure of a Mexican real estate bank trust can accommodate multiple members. These trusts can range from a simple multiple-member real estate bank trust designed to hold one or a small number of properties -- where it is a very efficient way to pool the resources of several smaller investors -- to a Great Real Estate Investment Bank Trust that enables larger investment groups and larger investors to realize the largest real estate investment and development goals.

But first, a few brief thoughts about the bank trust mechanism itself.

A bank trust in Mexico is very different to a trust in the United States. First of all, only an approved bank can be trustee. Banks are regulated by the government and audited regularly. The trust is recorded at the public registry; the assets of the Trust are recorded at the public registry. Trust property is not part of the bank's assets and cannot be subject to bankruptcy, lien, or attached to bank obligations. In a properly structured acquisition title is actually reviewed by four parties: a title verification and processing company such as OTPTrust; realtors (possibly two, if the listing and selling brokerages are different); a notario; and the bank. In addition, the title should be insured by an United States-based title insurance company -- offering a fifth review of the title, and the priceless peace of mind that insurance brings.

Simply stated, for over 35 years these trusts have proved themselves a secure mechanism

for the more than a million and a half Americans and Canadians who are now enjoying the lifestyle and financial benefits of Mexican real estate ownership.

Mexican real estate bank trusts are highly adaptable mechanisms that can allow groups of investors to pool their resources.

How does this work? It's nothing complicated... the idea is to help a group of investors or to form an investors pool -- with small or large amounts of money -- to pool their resources for purposes of investing in Mexican real estate: like a mutual fund in the stock market or a REIT (Real Estate Investment Trust) in the United States.

How does it work?

- 1) An administration and investment trust is formed by an expert real estate advisor, a legal team, and with a specialized bank -- even better when it is an International Bank.
- 2) Investors join the bank trust by making deposits and receiving a certificate to back up the investment. That certificate is fully transferable, and can be transferred at any time allowing rapid exit for those who want to cash profits or need liquidity.
- 3) The bank trust is managed by a technical committee where all the investors are represented, and are advised by a realtor, an attorney, a market specialist, and a bank member. This technical committee instructs the bank how to invest the funds.
- 4) The technical committee forms a properties portfolio that can be for rentals only, land or condos speculation only, development only, or a combination of the all of them, depending on the main interest of the group, or a specific preconceived project.
- 5) The bank trust buys the properties selected by the technical committee and advisors and manage the properties within a pre-approved business plan.
- 6) Rental income -- and / or revenue generated by sales or trades of properties -- are deposited in the bank trust account generating interest, or invested in money market or stock market mutual funds (either in Mexico or the United States), or are reinvested in the acquisition of new properties for the trust.
- 7) At the end of the bank trust life (3 years, 5 years, 10 years, or 99 years as was decided at at the formation of the trust) properties are sold and assets and revenues distributed among investors.

Are these trusts only useful when buying property along the coast within the "restricted zone"? -- No! In fact these trust can be the perfect vehicle for groups of investors who wish to acquire real estate OUTSIDE the "restricted zone" on a fee simple basis.

Are real estate companies or developments currently using this structure? -- Yes. In Rocky Point there are companies operating with this kind of structure, or something different in its structure but similar in its results, like multi-fractional ownership.

How much do I need to invest? -- That would depend on the goals of the trust (to start a development? a Condo tower? create a pool of rental properties? buy land to build spec

homes?). On the other hand, if you want to start small the initial investment can be as modest as you and your group chooses (for example: a single rental property, a single lot for speculation or construction, etc.) and there are a number of participants in the trust, the individual initial contributions can be made quite small.

We are always interested in helping investment groups pursue their real estate investment goals in Mexico, and offer a number of articles and other resources on our website, otptrust.com

Please feel free to contact us anytime -- info@otptrust.com -- if there is additional information you would like regarding this efficient and inexpensive group investment mechanism!

Editors Note: Raul is always open to respond personally to questions or comments from our readers, and can be easily reached via email at rofarrill@ofarrill.tv

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