



Unlocking investment opportunities: Mexican real estate investment trusts

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Oscar A López Velarde and Jesus Martín Corona González of Ritch Mueller explain the tax-related benefits of FIBRAs, a Mexican investment vehicle tailored to an evolving sector.

The nearshoring trend and the attractiveness of Mexican beaches for international tourism have sparked a lot of interest in investing in real estate industrial assets and the hospitality sector in Mexico. However, the tax regime applicable to the real estate sector in Mexico can be complex and costly for Mexican and foreign investors.

The diverse tax regimes within the real estate sector were covered more deeply in Ritch Mueller's article [Real Estate Investments in Mexico](#), published on June 9 2022.

One investment vehicle that presents advantages for investing in real estate in Mexico is real estate investment trusts, known as FIBRAs based on their acronym in Spanish. These investment vehicles provide individuals and institutions with a more attractive tax regime, but they need to be publicly traded on a Mexican stock exchange. There are no Mexican private FIBRAs.

One of the key advantages of investing in FIBRAs is their favourable tax treatment, which also could be especially beneficial to structure investments in Mexico for some qualified investors in Mexico, including the private equity industry.

Distributions are subject to income tax on a net basis, unlike foreign residents, who are subject to tax on gross rental income. There is no dividend withholding tax and no ordering restrictions to make tax-free returns of capital. Mexican and foreign pension plans maintain their income tax exemption, and there is no obligation to make monthly advanced income tax payments. Additionally, it is possible to contribute assets in exchange for certificates and defer the payment of income tax on capital gains triggered upon its contribution. Capital gains for the transfer of FIBRAs certificates are exempt for Mexican individuals and foreign residents.

Opportunities in the Mexican real estate sector

Certain sectors, such as hospitality and telecommunications, can leverage exclusive tax benefits within Mexican regulations by establishing FIBRAs tailored to their industry-specific needs.

FIBRAs provide remarkable flexibility, permitting investments in greenfield or brownfield projects, without any restrictions. There is, in fact, no requirement to own a stabilised portfolio of real estate assets to conduct an initial public offering of a FIBRA.

This allows for the acquisition of existing real estate portfolios to trigger a tax basis step-up. Also, the FIBRA is an attractive alternative for fundraising through a public offering of its certificates and leveraging tax-exempt secondary offerings to bolster development funds.

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In a noteworthy trend, market interest is growing in acquiring well-established FIBRAs with subsequent delisting from the Mexican stock exchange, indicating evolving investment strategies in the Mexican real estate arena.

In conclusion, FIBRAs provide a compelling and tax-efficient avenue for investors seeking opportunities in Mexico's real estate sector. As this sector continues to adapt and evolve, strategic investors are poised to find opportunities for growth and development. It is essential, however, for potential investors to navigate the regulatory landscape and consider their specific objectives when exploring FIBRA investments.

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