

A Seller's Guide to La Paz Area Real Estate



Jim & Rebecca MacDonald of Baja Life Realty

Thinking of selling your La Paz area home? Whether you are looking for another home here in La Paz or moving elsewhere, it's a good idea to be prepared so you can get the best value for your home in the shortest amount of time. In this guide, we've compiled some tips to consider before you list your home for sale. Of course, these are just some of the things to consider when preparing to sell your home. We recommend hiring a trusted, competent real estate agent to help guide you through the process and ensure a successful outcome. Contact us at info@bajaliferealty.com - we are happy to answer your questions!

Choosing a Real Estate Agent

Selling your home in La Paz is a big decision. Whether you have lived in it part time as a vacation home or full time as a retiree, your home is a highly personal part of your life. Getting ready to leave it can be an emotional experience. We understand! As agents, homeowners and full-time La Paz residents, we've also been through this process. That's why, once you have decided to list your La Paz home for sale, it's important to select a real estate professional who will best represent your interests.

The right agent will:

- Be very familiar with your area of La Paz and the value of the homes in that area (including properties currently for sale and properties that have recently sold);
- Create a thorough plan to list your home at the right price and market it to the right buyers;
- Get the best purchase price for your home given current market conditions;
- Help you successfully navigate any legal and financial details that can help you optimize the net price you will receive from the sale.

We here at [Baja Life Realty](http://www.bajaliferealty.com) are real estate professionals with years of experience guiding our clients through La Paz area real estate transactions. We understand the legal complexities as well as the emotional impact of selling your home, and can help make the entire process of selling your home seamless from start to finish. We work with a highly trusted team of experienced resources, including real estate attorneys, notarios and contractors to make sure your transaction is safe, legal and enjoyable.

When Should I Sell?

Many sellers put their homes on the market at the start of the busy season, typically in November or December, to ensure the most amount of traffic. However, since everyone else is putting their homes on the market during that time, it can also be harder to make your home stand out from the crowd.

If you're nearing the summer season and thinking of selling, you have some unique advantages. Summers in La Paz are getting busier every year as fishing and diving enthusiasts come to the area to take advantage of the warm waters. Families also tend to visit in summer while their kids are out of school. Another good

reason to list in summer: there are fewer homes on the market, so the properties that are available tend to get more attention from more qualified buyers, versus “interested lookers” here on vacation who just want to get a feel for the La Paz real estate market.

Properties for sale in summer tend to get more attention from qualified buyers, versus “interested lookers” here on vacation who just want to get a feel for the La Paz real estate market.

How Much is My La Paz Home Worth?

The simple answer is that your home is worth what buyers are willing to pay for it. This can vary depending on market conditions, the condition of your home and your timeframe for selling. Of course, everyone wants to get the best price possible when selling their home. However, many sellers make the mistake of assuming buyers will pay whatever price they ask if the buyer really loves the home. Others insist on listing at a price that is equal to or higher than what they paid for the property, regardless of the current market. Unfortunately, the market does not factor the amount paid into the current value of your property. Pricing your home too high is a risk that can easily backfire, resulting in a property that sits unsold for months or even years.

Our agents are skilled at helping you find the right listing price based on facts instead of emotion. In general, the same rules apply here in La Paz as they do in the US or Canada. A buyer’s agent will compare your home to others on the market, as well as to others that have recently sold in your area, and advise their clients as to what they think is a reasonable offer comparable to those homes. (These are what real estate agents call “comparables” or “comps”.) As your listing agent, we go through this same process to come up with a fair listing price for your home that is designed to get you the best possible price within your desired timeframe to sell.

Preparing your Home for Sale

While pricing your home correctly is important, there are many other factors that can impact the perceived value of the house. Following are a few things we recommend you do to ready your home for sale.

Fix any issues before listing the property. One of the fastest ways to improve the perceived value of your home is to make minor repairs and fix maintenance issues. Paint that is cracking, peeling or faded, systems that don’t function correctly, water leaks, poor or no landscaping and other issues can quickly degrade the value of your home in the eyes of buyers. Fixing these issues often doesn’t cost much and can easily result in a higher final sales price. This is especially true of higher-priced properties. A buyer willing to spend on a higher-priced home will expect the home to be well maintained and in excellent condition.

Stage the home. This doesn’t mean you have to hire an agency and pay high monthly rental fees to bring in new furniture. In most cases, it means removing furniture and other personal items so that rooms look bigger. Removing personal items helps buyers imagine themselves living in the space, rather than seeing the house as yours. Talk to your agent about how to best stage your home to present it in the best light. A fresh pair of eyes on your



rooms and furniture can help you showcase your home in a whole new light.

Take high-quality pictures.

Good quality photos are one of the best marketing tools you have for showing off your home. They create more interest in your property, which leads to more prospective buyers and more excitement about your home. That excitement is what helps to create a good offer or even several offers! Poorly shot photos can actually be worse than no photos. Dark or fuzzy photos, images that show a cluttered room or that don't reflect the best attributes of the house may lead buyers to eliminate your house from their list without ever seeing it.

What Documents Will I Need?

A good real estate agent will provide a list of documents needed to successfully close a transaction. Don't wait! Make sure you have clear and complete documentation *before* listing your property, so that when an offer is accepted, you have everything you need to expedite the closing. Trying to find or obtain copies of these documents once you have an offer on the table can be stressful, and delay or ruin a potential sale. You will most likely need:

- Your property title: usually a copy of your *escritura* or *fideicomiso* showing you own the property
- Copies of passports and visas for all owners listed on the property title document
- Proof of payment of your property taxes and *fideicomiso* fees
- *Facturas* (invoices) and/or construction value documents from your contractors showing the value of improvements you have made to your property

This is just a short list of the documents you may need. Your real estate agent can provide you with a full list based on your individual property and situation.



Make sure your ownership documents are up to date

Many of the newer homes in La Paz and the surrounding communities were recently built, which means the seller purchased a lot and then built a home on the land. This typically means that the title document (either an *escritura* or a *fideicomiso*) may only reflect the purchase price of the lot and not the fully finished home.

In order to sell your home, the title documents must reflect an actual home and not just the lot. If your title only references the lot, you will need several documents that will legally establish the property as a home, and establish the legal value of that home on that lot.

What Costs Do Sellers Pay?

Every transaction has closing costs and fees, so it's always a good idea to understand those fees in advance. A good agent will give you a clear accounting of the fees and costs associated with selling your home. In Mexico, the seller is responsible for paying:

- Agent commissions (plus sales tax or IVA)
- Any back property taxes and *fideicomiso* fees;
- Any capital gains taxes that are owed.
- Any fees related to canceling an existing *fideicomiso*, if applicable (depends on the bank)

Just like in the US or Canada, it's important to pay your property taxes every year. If you owe fees and back taxes, these will be collected during the closing process, reducing your net proceeds. Additionally, the seller *must* be current on all fideicomiso payments or the bank will simply not review any documents related to the sale. Making sure your fees and taxes are up to date before you list your home will ensure a timely and beneficial closing.

The buyer pays all other costs and fees associated with closing the transaction. Surprises are no fun in real estate, so before you list your house, ask your agent to help you understand your specific scenario, so we can give you the most accurate estimation of these costs.

Will I Owe Capital Gains on My La Paz Home?

When you sell your home, you are responsible for paying capital gains taxes on any monetary gain from the sale of the property. Understanding this process is one of the strongest reasons we recommend engaging your real estate agent early as possible in the process when you consider selling your home. In general, capital gains are assessed on the difference between the price you declared as the purchase price of the home on your original title document (either a *fideicomiso* or an *escritura*) and your net sales price. Since capital gains taxes can be as high as 35%, there are some details that you will want to pay attention to in order to minimize your capital gains tax burden:

Your purchase price: if your title document includes your house (and not just the lot), you can check the current value of your home by searching the area within the *CLAUSULAS* section that says *CONTRA-PRESTACION*. Here you will see the value in pesos that was declared when the house was registered. Even though you may have paid in US dollars when you purchased your home, the transaction was registered in pesos because the peso is the official currency of Mexico. If the title document reflects only the value of the land, then you will need to register the house at the new value before it can be sold.

Making sure your fees and taxes are up to date before you list your home will ensure a timely and beneficial closing. The buyer pays all other closing costs and fees.

Did you make improvements? Just like in the US and Canada, you are able to claim any improvements that have been made to the official value of the home as part of your cost basis. However, in Mexico, only improvements that have *facturas* (official invoices that include sales tax or IVA) can be accepted for capital gains exemptions. If you do not have *facturas* issued by your contractor for the improvements, you are not completely out of luck. It is possible to re-state the value of the construction, called a "remanifestacion," and still save money versus paying the capital gains taxes on the original difference (see the "Re-manifesting Your Home" section below).



The net sales price: Your net sales price is the purchase price minus any real estate commissions paid. Most real estate agents' listing agreements will state that the commissions (paid by the seller) include 16% IVA (sales tax). The reason for this is that, in order to reduce your net sales price by the commissions, you must present a *factura* for those commissions, and a *factura* must legally include 16% IVA. Paying the commissions in this manner means you can legally deduct the commissions from your sales price.

How the Exchange Rate Affects Capital Gains

A common question sellers ask about capital gains taxes is: "Why do I have to worry about capital gains taxes when I paid \$100,000 USD when I bought it and I am selling it for \$100,000 USD?" The answer goes back to the fact that Mexican real estate transactions (both purchase and sale) are legally recorded in pesos, not dollars.



For example, let's say a homeowner bought a house at \$100,000 USD when the exchange rate was 15 pesos/US dollar, and is now selling his home for the same \$100,000 USD, when the exchange rate is 20 pesos/US dollar. This means that the actual purchase price was 1,500,000 pesos and the sales price is 2,000,000 pesos. So, even if you are selling your property for the same price in US dollars as when you bought it, in Mexican real estate terms you actually had a gain of 500,000 pesos. That means you would owe capital gains taxes on that amount (minus the sales commissions and/or any legal improvements).

How Can I Reduce My Capital Gains Taxes?

What can you do if you find out you do owe capital gains taxes? There are a few strategies we can suggest to help you legally mitigate how much you owe, but they require coordination with attorneys and the municipality to prepare for the closing. Here are two popular examples of strategies to mitigate taxes:

Re-manifesting your home: this is a popular strategy that can be used when the original manifested value of the home does not include additional construction or physical improvements. Your builder and/or an attorney can help you re-register the home's value based on documented improvements. Keep in mind that you must have the necessary documents to re-manifest your home. There is also a cost to re-manifest, but often times those fees are much low-

er than the capital gains taxes you would otherwise pay. Speak with your real estate agent for more details. This process also takes time to complete, so it's best to plan this before you list your house for sale to avoid unnecessary delays.

The exempt taxpayer: there are certain exemptions that can be claimed that will reduce your tax burden, but like any deduction, you must have sufficient documentation to claim it. Mexico's real estate laws include available exemptions for:

- Mexican citizens
- Temporary or permanent resident visa holders
- Mexican taxpayers with an RFC number (a Mexican taxpayer ID) and recent tax returns
- Property owners who have lived in the home for at least 3 years

The actual exemption depends on your specific situation and the exemption amounts change over time. We are experienced in this process and can help you optimize your tax savings based on the current legal rules.

Questions? Contact Us

Still have questions? We are here to help! Email us at info@bajaliferealty.com and we'll be happy to answer your questions.