

The Loreto Bay Company:

Green Marketing and Sustainable Development

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The 6,000-home Loreto Bay development in the Baja California peninsula markets itself as a sustainable alternative to traditional Mexican resorts. It has pledged to create more green power and fresh water than it uses, and donates 1% of home sale revenue to protecting the local environment. Selling the homes of Loreto Bay requires tapping into the affluent second-home buyers market, and then identifying those buyers who are willing to pay more for a sustainable home - while at the same time emphasizing the tranquility and luxury of the community to those who are not particularly interested in saving the planet. The design and marketing emphasis on sustainability has come at a cost, as some potential buyers are put off by the product, and the news media and academics have found Loreto's claims of sustainability to be flawed.

Loreto Bay offers a very attractive proposition to North Americans who want to exit the rat race: “Live Fully, Tread Lightly”. One can enjoy living in amidst the luxury of golf courses, sailing marinas, world-class spas and exclusive restaurants, without the noise, neon and exhaust fumes of 20th-century urban sprawl. Homebuyers in Loreto can enjoy the healthy pedestrian community-oriented lifestyle of Loreto, and feel good that they are helping the planet stay healthy as well, as their town is designed to be environmentally sustainable.

The idea is particularly attractive as urban sprawl is quickly dominating Mexico’s Sea of Cortez region. The population of Cabo San Lucas, some 230 miles south of Loreto,



is growing at 9.7% annually¹, doubling every seven to eight years. Spurred by a boom in homebuying by Americans, condo-and-golf resorts are being built at a rapid pace along the coastlines of Mazatlan and Puerto Vallarta, with the accompanying freeways, parking lots and Costcos.

Along the western shore of the Sea of Cortez, where Loreto is located, extremely low rainfall of 2-4 inches a year has led many to question whether the region can support the golf courses, swimming pools and hotel showers that are coming with this rapid growth.

¹ International Community Foundation; http://www.icfdn.org/publications/na2006/co/006_16.htm

While not claiming to be the solution to these issues, the Loreto Bay Company directly addresses these problems with a pro-pedestrian urban plan and promises to create more clean electricity and fresh water than it uses.

Coastal Real Estate Boom

The wave of privatizations undertaken by Mexican President Carlos Salinas in the early 1990s opened the door to foreign land purchasing in ways that had been forbidden earlier by the Mexican Constitution. The land reforms that followed the Mexican Revolution had locked up the majority of Mexican land into communal landholdings known as ejidos. With economic liberalization, ejido communities could decide to split the communal landholdings among their members. Suddenly, vast swathes of coastal desert in Baja California transformed from being economically unviable arid “farmland” into highly prized beachfront property. The other key reform was a relaxing of the Constitutional prohibition on foreign ownership of land within the “restricted zone” within 30 miles of the coast and 60 miles of the national borders. The North American Free Trade Agreement of 1994 also relaxed various ancillary aspects of foreign real estate ownership in Mexico, such as the ability of American professionals to work in Mexico, investment regulations, etc.

It took nearly a decade, however, for the real estate market in Mexico to really begin heating up. Famous cases of Americans getting burned in land deals in Mexico, such as the Punta Banda Case where some 300 Americans lost their homes due to a land title dispute, made people wary of sinking their savings into a Mexican home. But

as of 2006, \$60 billion in residential property is owned free-and-clear by foreigners in Mexico².

The homebuying boom is accelerating as players entering the market are making the process more familiar to Americans. Companies such as Prudential Real Estate, First American Title, and lenders like Deutsche Bank, Citibank or HSBC are both actively marketing their services and instilling greater confidence in the process among Americans³.

Foreigners still cannot legally hold title to their land, but the legal situation is relaxed to the point where all rights of ownership can be held, to improve, sublease, etc. the property under a perpetually renewable 50-year trust held by a bank.

Loreto: location, location, location

In the late 1960s, the Mexican government embarked on a long-term strategy of tourism development under the Fonatur program. Several of the sites, such as Cancun, have been wild success stories. Loreto, however, was not one of them. Over three decades the federal government has invested some \$200 million in the site⁴, but before the deal with the TSD was made in 2003, there was little development and the local population of Loreto was a mere 10,000 people, surrounded by hundreds of miles of desert and scattered villages.

With an airport, roads, golf course and a significant local labor force, it was inevitable that the real estate boom would come to Loreto eventually. However, the problem with Loreto as a tourist destination up until 2003 was that it lacked the

² “Will the Next Administration Prioritize Tourism?”, Mexico Watch Magazine, September 2006

³ *ibid*

⁴ “Mexican Resorts Show No Sign of Catching U.S. Housing's Cold”, Los Angeles Times August 26, 2006

critical mass necessary to attract tourists. The Camino Real hotel chain had built a beachfront hotel there, but there was little to do there, without the restaurants and nightclubs that other Mexican resort towns offered. The hotel struggled for lack of visitors, the airport could only support infrequent flights, and the golf course fell into unprofitable disrepair.

The infrastructure was there, but the Loreto tourism industry lacked the *raison d'être* that would make it a destination.

The Trust For Sustainable Development

The Loreto Bay Company story begins with the “new urbanism” movement and the reaction to American suburban sprawl. Promoting “human scale development”, designer Andres Duany built Seaside, Florida, which began in 1979. The Seaside project contained many elements that would later be seen in Loreto. The beach is has open and inviting access from the town center, as opposed to the common method of maximizing real estate value by selling a long string of private beachfront lots.⁵ Automobile traffic is actively discouraged in the high-density mixed-use town center, with a “five-minute walk”⁶ principle that puts shops and plazas within easy walking distance of residences. After the success of Seaside, a team of designers and developers joined with developer David Butterfield to form the Trust for Sustainable Development (TSD) in 1994. The advisory board of the TSD includes architects, urban planners, coastal water management engineers, and real estate developers.

⁵ P. 270 “An Introduction to Coastal Zone Management”, Timothy Beatley, David J. Brower, Anna K. Schwab. Island Press, 2002

⁶ “Suburban Nation: The Rise of Urban Sprawl and the Decline of the American Dream”; Andres Duany, Elizabeth Plater-Zyberk and Jeff Speck

The Trust: Non-Profit Until Construction

Theorizing about urban planning may be an attractive and low-cost intellectual exercise, but putting those theories to work by building a city requires investment - \$3 billion in the case of Loreto Bay - on a scale that would dwarf the resources of a non-profit. Thus the vision of the Trust is conducted in a non-profit manner, but it switches to for-profit mode once someone starts needing to pay for bricks and shovels:

“The Trust researches, identifies and finances exciting, sustainable project ideas to bring them to fruition. As the project nears start-up, the Trust creates a for-profit company to develop the community (or building). The for-profit company acts as Master Developer and oversees permitting, design and sale of building lots. It is this business model that ensures the sustainable strategies planned for will, in fact, be implemented in the physical development.”⁷

Thus a project has moved into the development phase, the Trust can switch focus to the next project and leave the building, marketing, and investment risk to the for-profit company.

The Trust funds itself through deals with the for-profit spinoffs:

“Outside investors or public companies have bought each of the Trusts’ projects within three to five years of development, usually at a high rate of return to investors. The Trust expects to recover costs and receive a share of project revenues as net earnings endow the Trust to pursue additional projects.”⁸

⁷ Trust for Sustainable Development website: www.tsd.ca

⁸ *ibid*

And there is overlap between the membership of the Trust and the for-profit companies. For instance David Butterfield, chairman of the Trust, is also chairman of the board of the Loreto Bay Company.

The Trust's Vision for Loreto

Considering the challenges and opportunity of the underutilized Fonatur investment in Loreto, the Trust for Sustainable Development saw the chance there to offer a distinctive product that would draw visitors to the site who were looking for something besides the neon lights of big Mexican resort towns. A big development of 6,000 homes would create the critical mass necessary to support attractions for visitors - and those attractions could be built according to a sustainable development plan, rather than in the hodgepodge fashion of other resort cities.

“Any company venturing out with a green marketing program must start with green design:”⁹ There are two pillars that hold up the distinctive design of the Loreto Bay product: new urbanism and sustainability.

New Urbanism in Loreto Bay

The new urbanism element is a further development of Trust board member Duany's vision of a human-scale town. High-density townhomes open onto narrow streets accessible only to pedestrians and golf carts. Traditional Mexican cultural elements such as central town markets and corner shops blend perfectly with the 21st-century model of post-automobile urban planning. The beach, golf course, pool, spa

⁹ “Green Marketing Begins With Green Design”, Vasanthakumar N. Bhat, Journal of Business & Industrial Marketing, 1993, Volume 8, Number 4, MCB UP Ltd

and restaurants are all designed to be accessible by walking out one's front door. The streets are so narrow that automobiles are kept out of the city center completely, with garages available on the outskirts of town for those with cars. The discipline of this design is so novel that small, narrow ambulances and fire trucks apparently are needed to provide emergency services.¹⁰

It is important to note that the nature of Loreto as a resort and retirement community is a tremendous advantage in selling the concept of a car-less town. Very few Loreto residents will be working, so cars aren't needed for commutes. If Loreto residents/tourists are there with their children, the kids will be on vacation so they won't need to be carted to school and soccer practice. In Loreto there's really no need to get anywhere in a hurry, so even American suburbanites can survive without a car.

Thus, compared with other Mexican beach resorts and even American high-density golf/retirement communities, both of which are pedestrian-friendly designs, the "new urbanism" of Loreto really isn't that new. One of the clever aspects of LBC marketing of its new urban design is that it isn't that different from other seaside golf-and-condo resorts -- so it appeals to the traditional homebuyer market -- while being just different enough to legitimately appeal to the environmentalist market as well.

¹⁰ Interview with Loreto Bay sales prospects, anonymous transcript on file

Sustainability Efforts

Although the urban model of Loreto Bay may not be radically different from other resorts, the commitment to sustainability definitely sets the product apart from other resorts.

“We will produce more energy from renewable resources than we consume” - LBC

The plan is to build a wind farm that will provide 20 megawatts of power, which will be more than enough to supply the development. This actually exceeds the pledge in environmental terms, as wind power is not only renewable but zero-emission.

This seems feasible, although the wind farms haven't been built yet. The wind project is slated for construction starting in 2008.¹¹ Mexican electricity rates are high due to the inefficient state monopoly on large-scale power production. The law has been relaxed to allow individual businesses to generate their own power, and to sell their excess electricity to the state power company. Thus the Loreto Bay Company has some advantage in that it can control its own power and resell it, without having to rely on the spotty quality of state-provided electricity.

“We will harvest or produce more potable water than we use” - LBC

Water is a critical issue for developments along the Sea of Cortez coast. Rainfall in the area averages 2-4 inches per year, and periodic droughts can last over a year. Especially considering the externalities involved in Loreto project, which will be discussed later, sustainable water supplies are critical to future success.

¹¹ Loreto Bay Company website; <http://www.loretobay.com/cms/page1438.cfm>

Water conservation projects are throughout the Loreto Bay development, from reduced-use water fixtures to watershed restoration to saline-tolerant golf course grass that will use less fresh water.

Willingness To Pay

Homes in Loreto Bay Company are more expensive than in similar resorts in Mexico. However, attributing that price premium to the “willingness to pay” of environmentally minded homebuyers would be an inexact science at best. Unlike cars or vegetables, real estate developments are unique and pricing is subject to many subjective factors. Resorts, in particular, are difficult to compare because buyers are looking for different things: some will pay more to be close to the action, others will pay more for peace and quiet away from the cities.

The Loreto Bay concept is defined in many ways by what it is not: it is not the gasoline-and-tequila-powered garish Mexican resort town. Yet the many amenities of such towns - restaurants, nightclubs, major airports, easy use of automobiles -- make them attractive, and Loreto competes for buyers with golf-and-condo resorts near cities in the region like Puerto Vallarta, Cabo San Lucas, and Mazatlan.

One such development¹² is a fairly typical example of a profitable strategy: dozens of villas and hundreds of condos are built to maximize ocean views and golf course access. Resort amenities are similar: luxury spa, swimming pools, restaurants, etc. A two-bedroom, 1200-sq.ft. oceanfront condo there is projected to sell for \$305,000 including resort membership. The same-sized townhouse, without an ocean

¹² Source not printed by request. Documents on file; contact author at jtuynman@ucsd.edu.

view, goes for some \$380,000 in Loreto¹³. A 10,000 sq.ft. lot at this typical resort is priced at \$600,000, while the same size lot goes for up to \$1.7 million in Loreto.¹⁴

A theme in literature on marketing to environmentally conscious consumers is that high price premiums - 20% to 30% is commonly cited¹⁵ - can be charged for certain sustainable products. When discussing real estate, such an environmental premium could hypothetically amount to hundreds of thousands of dollars ... a far cry from spending an extra buck on organic soap to support the planet. So, while it is tempting to use the above comparison to create an environmental “willingness to pay” figure, the real estate market has too many unique factors to find a specific price premium for Loreto.

Green marketing literature, however, does guide the analysis by emphasizing that in order for a product to gain a price premium for sustainability, it must match competing products in terms of quality. Thus, although sustainability is a key element to the LBC project, it offers all of the amenities one would expect at a high-end resort elsewhere: a luxury spa, a members-only club and restaurant, golf course and marina.¹⁶

Although the marketing materials¹⁷ of the Loreto development do not explicitly state it, their clear message is that luxury and sustainability are complementary qualities. What could be more luxurious and eco-friendly than having a professional

¹³ “Mexican Resorts Show No Sign of Catching U.S. Housing's Cold”, Los Angeles Times August 26, 2006

¹⁴ Interview with Loreto Bay sales prospects

¹⁵ “Do You Need to be Green?” Businessweek article;

http://www.businessweek.com/magazine/content/06_25/b3989601.htm?campaign_id=search

¹⁶ Loreto Bay Company website, www.loreto.com

¹⁷ *ibid*

massage and a salad of locally produced organic vegetables after sailing the bay amid cavorting dolphins?

Loreto Bay Foundation

The Loreto Bay Foundation is a non-profit independent organization funded by LBC home sales, with the mandate of protecting and improving the natural and human environment of Loreto. One percent of the gross of all new home sales and re-sales is donated to the LBF, which guarantees income to the foundation of at least \$25 million from the initial sales of the 6,000 projected homes, and a perpetual source of funding thereafter.

Real estate is all about location, and the LBF offers the Loreto Bay Company the opportunity to bridge the gap between altruism and the bottom line by improving its local environment, rather than making broad efforts to “save the planet” as a whole.

The fund makes donations to support the local wildlife reserves both on land and the Sea of Cortez. This support is crucial, as the cash-strapped Mexican federal government has designated these parks but has left it up to the local community to fund protection efforts.

The 17th-century town of Loreto, a colonial provincial capital, is the only cultural attraction in the area. For the first residents of Loreto Bay the town is the only site for shopping and services, and it will remain key for those even when the Loreto Bay development is complete. As such, the Loreto Bay Company has a vital interest in making the town of Loreto as clean, safe and prosperous as possible.

Investments in the town via the LBF are thus clearly a win-win situation for both locals and the real estate developers.

LBC marketing

It is not easy to sell high-end property to North Americans in the middle of nowhere, Mexico. The difficulty of the job prompted the Loreto Bay Company to enter a massive marketing effort, one that is considered impressive by LBC proponents and detractors alike.¹⁸ The company has sales offices in Phoenix, San Diego, San Francisco and Victoria, Canada. The sales team is constantly traveling up and down the West Coast for sales presentations, offering heartfelt testimony to the beauty and tranquility of Loreto to an audience that has been primed with free drinks. After attending such an event at the La Jolla Hilton, the author of this paper would have bought a property sight-unseen if student loans could have covered the down payment.¹⁹

LBC Green marketing

As mentioned earlier, calculations of willingness to pay for a sustainable product are strained by the unique nature of real estate and the huge sums of money involved.

Green marketing is where the Loreto Bay Company seeks to get the return on all of its efforts to offer a sustainable product. The overriding design concept of sustainability has created a wide range of outcomes, from providing zero-emission electricity to limiting automobile use, some of which are public benefit (low carbon emissions), some of which are private benefits (no car noise and traffic). Other

¹⁹ Author's research trip, La Jolla Hilton, San Diego

outcomes are negative for homebuyers, such as the inevitably higher expense of green power, and the inconvenience of not being able to park your car by one's home.

Selling a Loreto home to the green market, therefore, requires finesse. The basic marketing message for Loreto is that it is a peaceful, fun place to live or to visit ... but plenty of detailed information about the sustainability message is available for those who are interested. The marketing team is clearly aware of the pitfalls of “green marketing myopia”²⁰ and use sustainability as a selling point where appropriate without “beating people over the head with it.”²¹

This is seen in the skillful use of marketing materials that show the interconnection between luxury and sustainability. A photo of Loreto Bay dotted with sailboats gives multiple messages. For the green homebuyer, the zero-emission sailboats are in harmony with the dramatic coastline and the imagined dolphins beneath the waves. For the luxury-seeking homebuyer, the image can be seen as a regatta, with all the champagne elegance that would imply.



Although the sustainability angle may be slightly camouflaged, there is a sustained effort to sell Loreto Bay on its environmental merits. Targeted marketing of

²⁰ ““Avoiding Green Marketing Myopia.” The authors (Jacquelyn Ottman, Edwin Stafford and Cathy Hartman)

²¹ Interview with Stacey Boltz, Marketing Director, Loreto Bay Company

environmentally minded homebuyers is achieved through direct mail and e-mail campaigns to lists of members of environmental groups such as the Sierra Club²².

This method achieves the pinnacle of success when the affluent and environmental are targeted. A recent sales presentation in Walnut Creek, California was targeted to a group list made up of large donors to environmental causes. This event resulted in the largest number of potential buyers placing refundable deposits on Loreto homes of any sales event to date.²³

Markets Sacrificed for Sustainability

The disciplined design plan of the Loreto Bay new urbanist model has attracted many buyers, but deterred others from buying. In an interview with a California couple²⁴ who put up a refundable \$5000 deposit to go on a full sales tour of the Loreto site yet decided not to buy.

The couple's primary concern was over price. "Why live in Mexico part time in an American community, paying California beach prices?"²⁵ especially when a California home offers tax advantages that are not present for Mexican property. This concern was compounded by the lack of firm estimates by the Loreto Bay Company for what homeowners' dues and utility costs would be in the future. This cuts to the core of the costs of LBC's sustainability plan: how much will it cost to generate zero-emissions electricity, and then use that electricity to create fresh water from seawater in an environmentally sustainable fashion? Obviously, those costs will be

²² Interview, Stacey Boltz

²³ *ibid*

²⁴ Interviewees requested anonymity. Author (jtuynman@ucsd.edu) maintains interview transcripts on file.

²⁵ *ibid*

passed on to homeowners in their monthly utility bills, and the lack of information about those costs deterred these potential buyers.

The second issue was skepticism that the new urban high-density plan would create a quiet, peaceful community. In fact, their impression was that it would create the opposite effect. They envisioned that the narrow streets would be choked with golf-cart traffic, and that reveling vacationers would create problems with noise, security and privacy.

Sustainability by the Company's Definition

“Live Fully, Tread Lightly” is an attractive concept. Certainly Loreto Bay has made the choices to do that.

However, Loreto Bay's claim to be “North America's Largest Sustainable Community” is more difficult to prove. First off, there are no generally accepted standards for determining sustainability. If sustainability is measured simply by the creation of electricity and fresh water in a green fashion, then current plans at Loreto Bay may be able to achieve this. As the infrastructure is not yet in place, only time will tell. Already some compromises have been made in the sustainability infrastructure at Loreto, as a planned innovative wastewater management system was dropped by Fonatur, which went with a traditional industrial system.²⁶ It is to be hoped that Loreto Bay can profitably fulfill its promises to subsist on green, clean water and power.

²⁶ “Loreto Bay Co.: Sustainable or Greenwashing?” Baja Life magazine issue 20, 2006

Sustainability by Critics' Definitions

The word “sustainability” is taken to a much higher standard by many environmentalists and academics, and Loreto and other communities that call themselves sustainable have exposed themselves to criticism.

If a strict definition of sustainability is used, the external effects of a 6,000-home development populated largely by people from at least 600 miles away have to be taken into account. “You can have [renewable energy] and organic produce on the resort, but what about the people who come to work there? Developers don’t talk about the environmental impact of the towns that will grow up around these new resorts.”²⁷

Sustainable communities and tourist destinations have been criticized on theoretical grounds:

- Burning fossil fuel to travel hundreds or thousands of miles to visit a sustainable community involves a “sustainability paradox”²⁸. As in many sustainable communities, Loreto Bay residents may not need a car to get around town, but remain dependent on cars, ships and airplanes to get supplies and to come and go from Loreto²⁹.
- In a larger sense very idea of spending three billion dollars to build a community in a remote desert location simply to relax and enjoy nature is emblematic of the unsustainable consumer mindset that is devouring the

²⁷ David Younkman Interview

²⁸ “Restructuring the Tourist Industry” by Szilvia Gyimóthy, in *Tourism and Global Environmental Change: Ecological, social, economic and political interrelationships*, Stefan Gossling and C. Michael Hall, eds. Routledge, 2006

²⁹ P. 272 “An Introduction to Coastal Zone Management”, Timothy Beatley, David J. Brower, Anna K. Schwab. Island Press, 2002

Earth's resources. The idea that Loreto Bay is good for the planet could be seen as a myth of green marketing.³⁰

More specific criticism of Loreto's sustainability came from the "Alternative Futures for the Region of Loreto" report authored by a group of Mexican and American researchers.³¹ The report projected a startling population increase in the town of Loreto: based on studies of other Mexican resort towns, an estimated 15 people will move to Loreto for every home built there. Thus, the economic power of the residents of Loreto Bay's 6,000 homes will draw 90,000 additional people to the area. Even with skilled resource management, the researchers predicted water shortages and overfishing. Without such management, humans will simply overwhelm the local natural resource base, particularly the freshwater supply which will the researchers predict will see saline intrusion from seawater by the year 2025 without significant infrastructure improvements.³²

Sustainability vs. Environmentally Friendly

Criticizing the sustainability of the Loreto Bay Company could be compared to criticizing the Toyota Prius for not being environmentally friendly enough. A Prius may not solve the fundamental problems of fossil fuel use and suburban sprawl, but it does burn less gas than an SUV. Similarly, the Loreto Bay development contributes to many of the same problems that other Mexican resorts do - but it isn't as bad. With a

³⁰ The Myth of Green Marketing: Tending Our Goats at the Edge of Apocalypse; Toby M. Smith, University of Toronto Press Incorporated 1998

³¹ "Alternative Futures for the Region of Loreto, Baja California Sur, Mexico"; <http://www.futurosalternativosloreto.org/report/LoretoReport.pdf>

³² *ibid*

nearby town and the heavy Fonatur investment, somebody was going to build there, and that somebody would have built something worse for the environment than the LBC did.

A Step in the Right Direction

It's easy to catch the contagious optimism of the Loreto Bay Company sales team. At its best, Loreto Bay is a dream come true, a dream of tranquility, fun, good health, community, culture, and environmental stewardship. One could dream further and hope that Loreto Bay can show the world that luxury and sustainability are compatible, that new urbanism will arise to save 21st-century Americans from their isolation and obesity spawned by suburban sprawl.

Even in a sober analysis, one has to recognize the importance of symbols. If the Loreto Bay Company succeeds, it will be a showcase for sustainable living that will be experienced by tens of thousands of affluent, influential people. It can be expected that some of them will come to see the flaws in their suburban American neighborhoods, and use their experience in Loreto to lobby for more human-scale, sustainable development at home.

The Loreto Bay Company has sponsored two sea turtle conferences in Loreto, and considering that some one-third of Loreto homebuyers are committed environmentalists, it can be expected that the area will become something of a focal point for future environmental protection efforts.

Even Loreto's environmental critics admit that it is a step in the right direction. Hopefully its success will inspire others to keep stepping toward the development of communities and economies that are even more sustainable.