



## Welcome to 'Luxury Island'

Puerto Rico becomes the best high-end property deal in the Caribbean; U.S. and foreign buyers welcome!



By Alexander López pages 16-20

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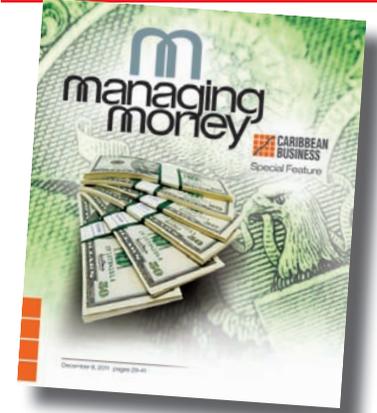
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### SPECIAL FEATURE



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# The best deal in the Caribbean

- ✓ The recession has left lots of high-end properties unsold in Puerto Rico.
- ✓ There is a growing number of high-income buyers outside the island.
- ✓ Puerto Rico offers unmatched incentives, conditions for them to buy here.



## Conclusion:

Let's get out there and sell!

BY ALEXANDER LÓPEZ  
alopez@caribbeanbusinesspr.com

Whether you are a millionaire looking for a sunny luxury retreat, an expatriate yearning to return to the island of your birth, or just looking for a piece of the tropical Caribbean on a budget, Puerto Rico has the ideal property portfolio.

The commonwealth government has created a broad series of incentives for the purchase of real estate on the island that should help developers sell much of the high-end homes

and condos sitting empty as a result of the island's long recession.

In addition to those incentives, the island boasts the lowest property taxes anywhere in the U.S., and mortgage interest rates under 4%. Additional tax shelter incentives on passive investments and a fixed tax rate of 4% for services exported from operations in Puerto Rico add to the attraction.

The total cost of buying and reselling a residential property, including all transaction costs (registration, real-estate agent and legal fees, and

sales & transfer taxes) apart from the sale price itself, expressed as a percentage of the property value, is the lowest in the Caribbean, and average cost per square foot in the city centers is the second lowest behind Jamaica.

Meanwhile, other jurisdictions under the U.S. flag are demonstrating that there is significant international demand for domestic real estate. According to the Miami Association of Realtors, an estimated 60% of home sales in South Florida involve a foreign buyer. As for sales

of newly built condos, that figure jumps to 90%.

Developers in the area have been working with the airlines to encourage the establishment of flights to new international cities where there are potential buyers.

As reported in the Wall Street Journal (WSJ), Fortune International focused heavily on Brazil to sell Jade Ocean, a 50-story building in Miami with infinity pools, a private movie theater and a children's playroom.

In an email, an American Airlines

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spokeswoman said, "It makes business sense to promote Miami not only as a place to visit, but also as a place to live."

Puerto Rico must look to foreign buyers to drive sales when local investors are limited and remain hesitant.

Currently, less than 2% of all properties sold in Puerto Rico are sold to nonresident buyers. There is a flat 29% capital gains tax on sales of real estate; however, new housing incentives under Law 132 provide no capital gains tax for new residential properties and a 50% reduction on future capital gains taxes for existing properties.

Hato Rey-based GB Realty Inc. works aggressively to put its clients in touch with international investors through global real-estate networks Leading Real Estate Companies of the World and Luxury Portfolio International.

"We are pushing the industry to place Puerto Rico on the map for the international/global market with all the sales & marketing tools that Leading and Luxury Portfolio provide our firm," said Ani González, vice president of GB Realty. "They have powerful advertising tools that will enable GB Realty's clients to market and sell in the international market. The real-estate industry has become driven by brand, and we believe in the Leading and Luxury Portfolio brands."

Similarly, Trillion Realty Group Inc., the exclusive affiliate of Christie's International Real Estate for Puerto Rico, including Vieques and Culebra, is meeting in December with the top 15 real-estate brokers of Brown Harris Stevens, the Christie's affiliate in New York City.

"We are going to present the best high-end real-estate properties to the top New York brokers to place Puerto Rico on the map of their exclusive clients and investors," said Letty Gutiérrez, a partner at Trillion. "Puerto Rico has excellent real-estate properties and opportunities. We are going there to share our knowledge of the benefits Puerto Rico has to offer."

#### TARGET: FOREIGN INVESTORS

In the mainland U.S., the rate of home sales to international buyers is higher than in Puerto Rico. In the 12 months ending in March, the total



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*—Secretary of State  
Kenneth McClintock*

U.S. home sales market was approximately \$1.07 trillion. Of those sales, \$82 billion were to international buyers—that's 7.7% of the total.

In fiscal 2011, which ended June 30, 3,393 new and 10,567 existing homes were sold in Puerto Rico. If the island were able to attract the same percentage of nonresident purchasers as the average in the mainland U.S., an additional 193 new and 814 existing homes would have been sold, for a total of 1,007.

Going one step further, if Puerto Rico had been able to sell to international buyers at the same rate as Florida, another 1,051 new and 3,278 existing homes would have been sold. This is the type of sales activity that is necessary to help bring the construction industry and the entire economy of Puerto Rico out of its current long-term recession.

Furthermore, foreign buyers are more likely to buy on the high end of the market. In the mainland U.S., the average price paid by international buyers was \$315,000; by comparison, the overall average was \$218,000. International buyers favor



*"I don't know of any jurisdiction that has this type of initiative."*

*—Economic Development &  
Commerce Secretary José Pérez-Riera*

detached single-family homes, 61% having chosen this type of property; however, 36% chose condominiums or townhouses—a proportion much larger than domestic buyers.

According to the "Profile of International Home Buying Activity 2011" report by the National Association of Realtors, 45% of all international sales were under \$200,000. In the \$200,000-to-\$500,000 range, 37% of the properties were sold to international buyers and 18% bought properties valued at more than \$500,000.

The report further indicated that foreign buyers paid cash for 62% of the properties. Puerto Rico has the luxury of not only being able to attract international buyers, but buyers from the U.S. mainland as well. There is no reason why the Puerto Rican real-estate market can't reach levels of nonresident penetration comparable with those found in other locations such as Miami and Panama City, Fla.

"Many people visit family in Puerto Rico and stay in hotels for seven to 10 days. They figure out that for the

price of staying in a hotel, they could rent an apartment for two months. Then they discover that for what they pay in rent, they could pay six months of a mortgage," said Puerto Rico Secretary of State Kenneth McClintock. "This is part of the market that we must target to reinvest in real estate in Puerto Rico.

"We need to market traditional tourism and residential tourism in an integrated, multidisciplinary manner to a broader spectrum of potential home buyers."

Foreign investors have yet another incentive to buy in Puerto Rico: as a path to U.S. citizenship, as reported exclusively last week by CARIBBEAN BUSINESS.

That is made possible through the EB-5 Immigrant Investors program, which allows a foreign national to establish permanent residency by investing \$1 million and creating or preserving 10 or more jobs in the U.S.

In certain rural or depressed areas of the U.S., the investment is reduced to \$500,000. These are known as designated regional centers and the government of Puerto Rico is currently exploring the possibility of acquiring this designation.

#### PRICES AT AN ALL-TIME LOW

The government has recently extended real-estate incentives that are unmatched by any of their type in the world. There are no future capital gains taxes on the purchase of new residential property, and there is a 50% reduction on future capital gains taxes for existing property.

In addition, there are zero capital gains taxes on the sale of existing properties, and there is a \$5,000 deduction from ordinary income for capital loss on the sale of existing homes for up to 15 years, prompting sellers to be less hesitant about lowering their price.

Property taxes and recording fees have also been significantly reduced on new and existing properties; and, there are a wide variety of financing alternatives as well.

The passing of these incentives has been beneficial to the local real-estate industry. Two real-estate brokerages have signed up with Coldwell Banker to sell high-end properties under the Previews International Luxury brand name.

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“At Coldwell Banker, we have the No. 1 resource program for selling luxury homes, specifically in the Caribbean, through our Previews International brand name,” said business development executive Guy Sánchez. “All the government incentives are a great help to our economy and industry, but only if the message gets out.”

There is an abundance of quality offerings at all price points throughout the island. The early part of the past decade produced an extensive level of residential-property development in all property types.

High-rise luxury condominiums in the San Juan metro area and on the coasts abound. Master-planned communities on the coast and inland provide resort-style amenities and an enviable quality of life. Several of them, such as Sabanera in Dorado and Palmas del Mar in Humacao, have top-notch private schools.

Accessible and high-end beach communities are available for second-home getaways or comfortable retirement spots. These beach communities are spread throughout the island, spanning from numerous projects less than an hour's drive from San Juan, in Loíza, Río Grande, Fajardo, Naguabo and Humacao to the east, and Dorado and Vega Baja to the west.

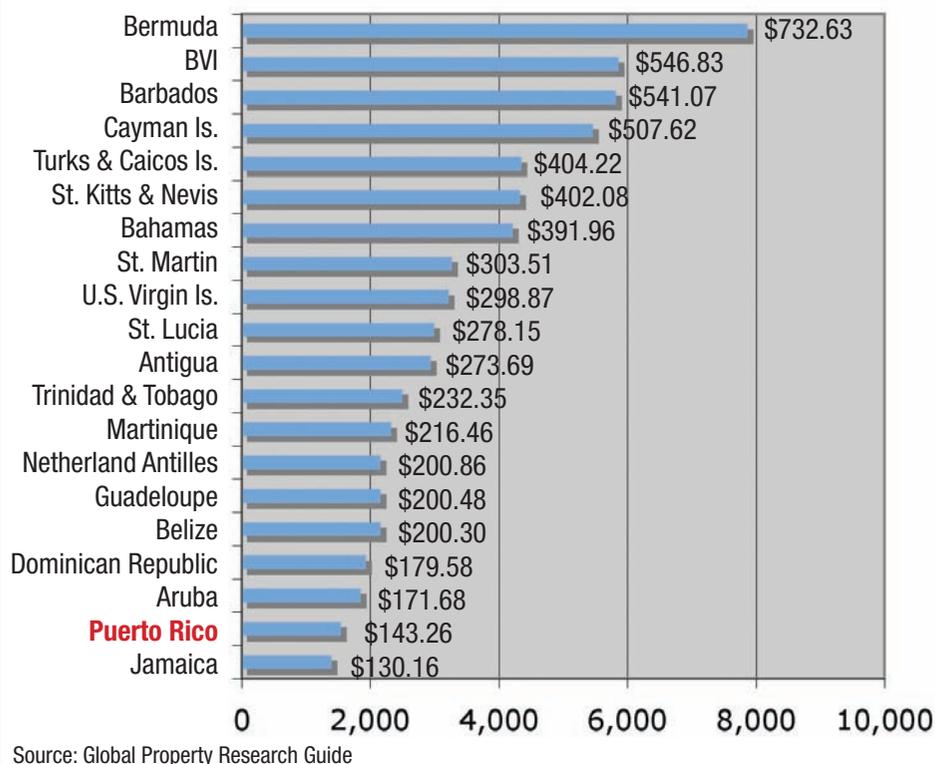
Prices are low in Puerto Rico. According to the Global Property Research Guide, coastal apartments in the San Juan metropolitan area cost an average of \$231,425 for a one-bedroom unit, \$373,687 for a two-bedroom and \$468,288 for three bedrooms.

There are absolute bargains in the marketplace now at every price point. A three-story, three-bedroom penthouse in “El Bosque de la Villa de Torrimar” in the upscale municipality of Guaynabo, a high-end suburb in the San Juan metro area, recently sold for \$275,000.

Currently on the market in Dorado, in the gated “Hacienda los Molinos” community, is a four-bedroom, six-bathroom, 4,800-square-foot, custom-built mansion with a pool on a half-acre lot for only \$499,000.

Even for the more cost-sensitive buyer, on the east coast of the island in the fishing village of Naguabo there are three-bedroom, two-bathroom units in the beachfront “Cala de Húcares” resort-style development

## Square feet prices, largest city, US\$



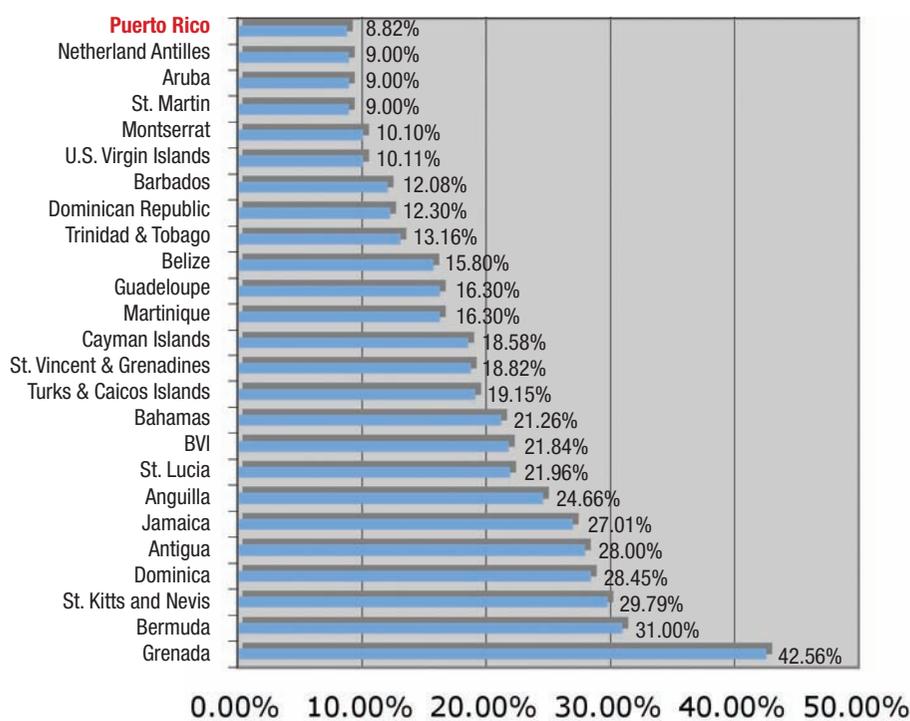
for just over \$150,000.

Of course, if you are looking for real luxury living, there are top-level condominiums with all the amenities and convenience in San Juan, and ultra top-level homes and townhouses with golf courses, pools and beaches within an hour's commute from San Juan, such as Coco Beach, Bahía and Dorado Beach East. These luxury condos and homes start in the \$700,000s and go up into the millions.

### EXPERIENCED BUILDERS AND SAFETY FIRST

Residential homebuilders on the island have more than half a century of experience in fortified construction. Unlike other parts of the Caribbean, virtually all residential construction in Puerto Rico consists of fortified concrete. Most luxury properties and many condominiums have power generators, cisterns and storm shutters. This makes the rare occasions in

## Property transaction costs (%)



which a hurricane strikes a mild inconvenience compared with other parts of the Caribbean and even Florida.

Frequently, storm shutters are integrated into the facade and are push-button operated. This allows them to double as a security system—residents who travel frequently can simply push a button to roll down the shutters and leave their homes impervious to the elements and would-be intruders.

In many islands, residential construction is of wood and gypsum board, which is highly susceptible to damage and destruction in the event of a tropical storm. Even in Florida, where most homes are made of concrete, most roofs are still wood. In Puerto Rico, the majority of properties are built completely out of concrete—effectively fortifying them against any climate anomaly.

### LOW TAXES, LOW RATES

Property taxes in Puerto Rico are minimal. Unlike many states, where the public-school system is financed primarily by real-estate property taxes, in Puerto Rico, real-estate property taxes are ridiculously low. The average real-estate tax in the U.S., including Alaska and Hawaii, is 1.38% of the assessed value of the property. The state with the lowest real-estate property tax is Hawaii, with a rate of 0.4%. By comparison, the property tax in Puerto Rico is only 0.0591%—less than one-sixth of Hawaii's.

Meanwhile, if the property is your primary residence and is assessed at less than \$150,000, it is exempt from taxes. The recent government incentives have even made taxes exempt on new residential property of any cost for five years.

Mortgage rates on properties in U.S. jurisdictions are at an all-time low and appear to be still dropping as ongoing concerns about the European debt crisis have investors seeking the relative safety of mortgage-backed securities that fund most U.S. home loans.

For instance, the rates on standard 30-year mortgages averaged 4% for the week ending Nov. 3, down from 4.1% the previous week. During the same period last year, rates on 30-year fixed-rate mortgages were at 4.24% before climbing to 5% in February. The all-time low for this

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type of mortgage is 3.94% in 1971.

The legal framework in Puerto Rico is an attractive component of the real-estate market.

Puerto Rico is a U.S. territory protected by the U.S. Constitution and laws. Intellectual property protection is the same as in the mainland U.S. The island benefits from the applicability of the U.S. Constitution and presence of the federal court system. U.S. currency is used and banking is regulated under the U.S. system (Federal Deposit Insurance Corp.). It falls under U.S. Customs & Border Protection jurisdiction and participates in U.S. trade agreements.

There is also access to federal funds for infrastructure, social programs, education and research among other areas.

Property rights are similar to those in the mainland U.S., with most properties having a title. In other jurisdictions, such as Panama, a common form of real-estate ownership is called "right of possession." This type of property is owned by the local or national government and is in essence leased under a defined set of parameters for a period of time.

Puerto Rico provides two levels of security for property ownership. All titled properties in Puerto Rico are recorded in the Property Registry, which details the succession of ownership of the property for centuries all the way back to early Spanish colonial times. Furthermore, title insurance is required for financed property and is extremely affordable for those buying with cash.

Because of Puerto Rico's territorial status, financing with U.S. federal government guaranteed loans is available. These loans, which include Federal Housing Administration, Veterans and Rural, can be bundled by banks and sold on the secondary market.

The effect of this is that local banks' interest rates are exceptionally low. Should an owner decide to sell the property, these advantages are an attraction for buyers, as well.

There are myriad recently passed tax shelter incentives for new residents of Puerto Rico. As previously reported (CB Nov. 10, Nov. 17), there is new legislation aimed at attracting resident investors (IRI by its Spanish acronym) as well.

Under the plan, a person who hasn't



*The view from the rooftop terrace at Sunset Paradise Villas in Rincón, one of Puerto Rico's many quaint guesthouses, which are also known as paradores.*



*A custom-built mansion with a pool on a half-acre lot in the "Hacienda los Molinos" community, with four bedrooms, six bathrooms and 4,800 square feet, sells for only \$499,000.*



*Puerto Rico is well-known for its beaches and corals, but the island also boasts a broad menu of inland tourism attractions enjoyed by tourists and residents alike: an old fortified city, the only tropical rainforest in the U.S. forest system, an extensive underground cave system, colonial towns, quaint spots throughout the island and much more.*

been a resident of the island for the past 15 years will be exempt from tax payments in Puerto Rico for all income generated from interest and dividends.

In addition, after becoming a resident of Puerto Rico, an IRI is completely exempt from capital gains taxes. These exemptions are valid until Jan. 1, 2036, providing ample time for individuals to benefit from the program.

There is also new legislation that seeks to stimulate exports by professionals and attract foreign talent. Exported services include those provided to individuals or organizations that have no link to Puerto Rico as defined by the law. The legislation provides for a fixed tax rate of 4% on income generated for eligible exported services.

This rate could be reduced to 3% if 90% of all gross income is generated by the provision of exported services. There is no tax on the payment of dividends and a 90% exemption on the payment of property taxes for call centers, corporate headquarters and warehouse & distribution centers.

The decree is valid for 20 years from the establishment of the business and can be extended 10 more years if the business can demonstrate that the extension would be in the best social and economic interest of Puerto Rico.

"I don't know of any jurisdiction that has this type of initiative," said Economic Development & Commerce (DDEC) Secretary José R. Pérez-Riera.

Through 2020, any net income generated from rental income is tax-free, making Puerto Rico an attractive market for investment properties.

Puerto Rico is undeniably the premier shopping location throughout the Caribbean. Unlike other destinations in the Caribbean, the island is home to the widest variety of goods and services in the region and attracts thousands of shoppers every year.

The island also showcases the largest mall in the Caribbean—Plaza Las Américas—with over 2.1 million square feet of shopping space occupied by more than 300 stores. The largest JC Penney store in the world, with a full four floors, is located in the mall.

The highest-grossing Radio Shack and Puma stores in the world

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are also located there, as is the 255,000-square-foot Macy's, which is the only one located outside of the 50 states.

There are also two major outlet malls, and dozens of high-end boutiques in the Condado section of San Juan and throughout the cobblestone streets of Old San Juan, which also features jewelry stores, souvenir shops, art galleries and designer factory outlets.

As previously reported (CB Sep. 15), a new shopping center for upscale locals and tourists is set to start construction in early 2012. New Century Development (NCD) and Michigan-based Taubman Centers are investing \$354 million in the Plaza Internacional hotel & casino, Puerto Rico's first completely upscale shopping-tourism complex. The high-end Nordstrom and Saks Fifth Avenue retailers are confirmed as anchor tenants at Plaza Internacional.

"Mercado Urbano," or Urban Market, was created by the Government Development Bank (GDB) earlier this year to stimulate entrepreneurship, particularly among the agricultural sector. The weekly event is currently host to more than 50 participants selling locally produced items such as honey, *chimichurri* sauce, flowers, coffee, incense, gourmet cheeses, artisan bread, sangria, chocolate liquor, fruits, vegetables and much more.

"The Urban Market provides a point of sale for local farmers to sell their fresh native products and stimulate the agricultural economy," said Guaynabo Mayor Héctor O'Neill of the event, which has expanded from Condado to various locations throughout the island including Isla Verde, Canóvanas, Mayagüez, Guaynabo and Ponce.

In addition, beginning in December, the GDB will be introducing an Urban Bazaar, modeled after the Urban Market but focused on fashion, service and artisanal products.

### HOTELS AND CASINOS

Regardless of where one lives in Puerto Rico, there is an abundance of hotels and guesthouses in every category.

There are more than 13,000 hotel rooms on the island, with numerous four- and five-star quality resorts

such as the W in Vieques and small, locally owned guesthouses known as *paradores*. There are more than 20 casinos on the island.

The Ritz Carlton Reserve, the only six-star hotel in the Caribbean, will be opening its doors in 2014. Hundreds of restaurants of all types make Puerto Rico a culinary paradise.

"Puerto Rico has more golf courses, marinas, high-end restaurants, casinos, tennis facilities, and all the major franchises that U.S. and Canadian luxury home buyers enjoy and look for," Sánchez said. "No other island offers such amenities and accessibility."



### ACCESSIBILITY

Puerto Rico's air access is by far the best in the Caribbean, and there is no passport needed for U.S. citizens. There are three airports with direct service to the U.S. mainland. Luis Muñoz Marín International Airport in Carolina serves as the region's hub, providing service to 20 cities in the U.S. and eight international destinations in the Caribbean, North America, South America and Europe including London; Madrid; Caracas, Venezuela; Toronto; and Montreal.

The airport receives more than 10 million passengers a year, making it the busiest airport in the Caribbean. Rafael Hernández Airport in Aguadilla and Mercedita Airport in Ponce also operate direct flights to the U.S. mainland and charter flights to Europe. There are a total of nine airports in operation on the island.

The island is comfortably accessible

in terms of travel time from the U.S. mainland and other regions. A typical flight between San Juan and Miami takes about 2½ hours; 3 hours from Orlando, Fla.; 3½ from New York; 4 from Boston; and 5½ from Dallas.

Additional airlines are continuing to add flights to Puerto Rico from various destinations with increasing frequency. This year, three airlines—British Airways, Condor and Westjet—added routes to Puerto Rico.

"The government of Puerto Rico has the commitment to continue attracting the entry of new airlines into our market," DDEC chief Pérez-

diverse culture for visitors and residents alike. The island was discovered in 1493 on Christopher Columbus' second trip to the Americas. San Juan is one of the oldest cities in the Americas and certainly the oldest in the U.S., and one of the most diverse cities on the island.

The climate is typically warm year-round, averaging 82 degrees Fahrenheit, although during the winter it can occasionally dip into the high 60s. Puerto Rico is in the tropical climate zone, with temperatures averaging close to 80 degrees in the lower elevations and 70 degrees in the mountains. Between

Riera said. "The arrival of these airlines is excellent news. Business and leisure travelers can be assured that Puerto Rico has all of the characteristics of, and is, the most diverse and complete destination in the Caribbean."

The major seaport on the island is located in San Juan, which is the largest cruiseship port in the eastern Caribbean and homeport to several cruiseship companies. The port receives 1.2 million cruiseship passengers a year.

The island's principal cargo ports are located in San Juan, Guayanilla and Mayagüez, and the island's largest deepwater port in Ponce is currently being redeveloped and will soon become one of the Caribbean's principal transshipment facilities.

### CULTURE AND CLIMATE

Puerto Rico offers a rich and

*Luis Muñoz Marín International Airport in Carolina serves as the region's hub, providing service to 20 cities in the U.S. and eight international destinations.*

the winter and summer, there is a temperature variation of about six degrees. The lowest temperature ever recorded in Puerto Rico was 38 degrees in the central mountain town of Aibonito.

El Yunque National Forest was a finalist for the New 7 Wonders of Nature designation, and Puerto Rico's beaches are among the best in the world, particularly Flamenco Beach in Culebra, which is frequently designated one of the top 10 beaches in the world by popular travel magazines. ■