



Fortuño's administration pushes innovative incentives to help consumers acquire homes

By José L. Carmona
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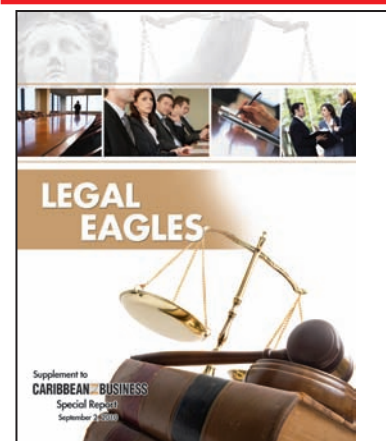
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Housing-stimulus bill could spur the sale of 10,000 new and existing units

Housing Secretary-designate Miguel Hernández-Vivoni touts initiative as the most aggressive effort presented over the past few years



BY JOSÉ L. CARMONA

josec@caribbeanbusinesspr.com

BY JOSÉ L. CARMONA

josec@caribbeanbusinesspr.com

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josec@caribbeanbusinesspr.com

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josec@caribbeanbusinesspr.com

BY JOSÉ L. CARMONA

josec@caribbeanbusinesspr.com

help them acquire new or existing homes. What's more, for the first time, one of the programs is aimed at incentivizing the rental market as well as the commercial real estate sector. It is good for residents and nonresidents as well, proponents say.

The new program started Sept. 1 and will end June 30, 2011.

The Combo program put in place by these administration early last year includes a second mortgage loan of up to \$25,000, on which the homeowner is waived from

paying interest for 10 years. It can be combined with a bonus to cover closing costs of up to \$10,000 or 5% of the property's cost, hence the name "Combo." The bonus program to cover closing costs recently received an additional \$30 million allocation to extend it to December of this year.

THE STIMULUS PROGRAM AT A GLANCE

Under the new program, called "Impulso Vivienda 2011" (2011 Housing Stimulus), anyone buying a

new home between Sept. 1 and June 30, 2011 will pay nothing for stamps and internal revenue vouchers, which represent a significant chunk of closing costs.

Those who buy an existing residence, or commercial property of up to \$3 million, will only pay half of what they currently would pay in stamps and vouchers.

In a typical new home worth \$300,000, the savings from waived stamps and vouchers could add up to \$5,000, the governor indicated

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during the program's unveiling.

In addition, those who sell an existing property during this period also will be exempt from paying additional stamps and vouchers to cancel their mortgage.

Owners of new property acquired between Sept. 1 and June 30, 2011 will be exempt for five years from paying property taxes to the Municipal Revenue Collections Center, including the special surtax that expires next year.

In addition, those who acquire a residential property (whether new or existing) or a commercial property worth up to \$3 million, with a capital gain from such a sale, will pay zero taxes on the capital gain. In the case of an existing home, they would only pay 50% on the capital gain.

The "Impulso Vivienda 2011" (Stimulus for Housing 2011) program also increases to \$5,000, from the current \$1,000, the available credit taxpayers can claim against their capital-gain losses if the sale of their home is completed within the program's timeframe. The credit can be claimed annually until the loss is covered.

The second program announced by the governor, "Mi Seguro Hipotecario" (My Mortgage Insurance), is aimed at new and existing residential properties worth up to \$300,000. Under this program, the mortgage bank can finance up to 105% of the home's sale price and the mortgage insurance would cover 17% of the risk, while the mortgage bank would assume the remaining risk of up to 88%.

The upfront commission would be paid by the bank, developer or seller, so the buyer won't have to make any cash disbursements at the time of purchase.

The third program, "Mi Nuevo Hogar" (My New Home), will provide a subsidized contribution for social-interest housing through vouchers equivalent to 5% of the sale price or appraised value, within the parameters of the Federal Housing Administration.

Through the fourth program, "Estímulo al Mercado de Alquiler" (Stimulus for the Rental Market), owners who make their property available for renters, whether new



*Housing Secretary-designate
Miguel Hernández-Vivoni*

or existing, will pay zero taxes for 10 years on the net rental income. This program takes effect Jan. 1, 2011 for existing landlords.

A SUPERSIZED COMBO

"The new measures presented by the governor to stimulate the housing sector are among the most aggressive presented in the past few years," Miguel Hernández-Vivoni, Housing secretary-designate, told CARIBBEAN BUSINESS. "I believe this program will have a tremendous impact."

Hernández-Vivoni said the housing-stimulus program is aimed specifically at consumers who, as a result of market conditions, are a little skittish about buying a property right now.

"It is a way of telling them this is the time to do it," he said.

By purchasing available properties, the Housing secretary-designate said, consumers will begin to make real estate transactions, which will help reduce the excess housing inventory in the market. This, in turn, will help local banks reduce their construction loan portfolios. That would increase the banks' liquidity, which they could then use to finance new projects and individual clients, he said.

"When someone buys a residential property, they usually invest additional money to make home

improvements and buy furniture, decor and appliances. That is a direct economic impact any way you look at it," Hernández-Vivoni said.

HOUSING SECTOR IMPACTED BY ECONOMIC RECESSION

No one can deny that the island's five-year old, self-inflicted *criollo* recession has impacted all sectors of the economy, especially the construction industry. Representing approximately 60% of the island's construction activity, new residential sales have dwindled considerably over the past two years. Revitalizing the housing sector would certainly jumpstart the construction industry, considered a backbone of the local economy.

It was precisely through increased construction investment that the island was able to dig itself out of recessions during the 1980s and '90s.

From the 2,920 new residential units sold during the second quarter (2Q) of 2008, the number dropped to 1,314 units in 2Q 2009 and to just 817 new residential units sold in 2Q 2010. The extremely low absorption rate of residential units is further compounded by the excess inventory of unsold new and existing units.

It is estimated there are approximately 10,776 newly constructed units plus another 9,065 un-built units with approved financing in the local market, for a total of 19,841 residential units. Prior to the announcement of the housing-stimulus bill, the housing sales projection for this year was at fewer than 4,000 new units, which would have represented a 20% drop from the 4,986 new units sold last year and way below the annual historical average of 11,000 new units sold.

STIMULUS COULD MOVE 10,000 UNITS

An initial estimate of around 8,000 new and existing housing units for sale that could benefit from the new stimulus plan based on current market trends has been increased to 10,000 units. Nonetheless, Hernández-Vivoni said, the administration will spur the sale of "as many units as possible."

"If we can sell all of them, so be it. But the new projection is based on approximately 10,000 new

and existing housing units. It's a combination of what the market was projecting to sell plus the ones we are incentivizing with the new stimulus plan," he said.

The Housing secretary-designate said Puerto Ricans treasure the notion of having their own home and the administration is going to work hard to help them achieve that goal.

"We are very excited and happy with this initiative, because we believe we're going to achieve our goal, which is to fulfill our commitment that everyone in Puerto Rico gets to own a safe home," added Hernández-Vivoni. "This housing-stimulus program will help move the inventory, as it applies to new and existing properties as well as residents and nonresidents. It's a big push for all housing in Puerto Rico."

PROFESSIONAL GROUPS, MAYORS BACK STIMULUS PLAN

Local trade associations representing developers and contractors as well as individual appraisers, realtors and even government officials and mayors have been quick to rally behind the new housing-stimulus bill. The groups include the Puerto Rico Home Builders Association, the local chapter of the Associated General Contractors of America, the Puerto Rico Bankers Association and the Puerto Rico Chamber of Commerce.

HOME BUILDERS ASSOCIATION: 'WE NEED TO RECOGNIZE WE'VE REACHED BOTTOM'

"These programs are extremely important because, all of a sudden, we have a system that recognizes the diversity of our housing market, from new and existing homes to rental housing," said Hans Moll, president of the Puerto Rico Home Builders Association. "These new programs will be key for the return of the move-up market and reversing the decline in home values. I believe we need to recognize that we have reached bottom."

With the new measures, Moll said, there is nothing more that can be done with available resources to revive and spur the local housing market. The sooner the existing inventory of nearly 10,000 new homes gets sold,

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the sooner home values will spring back and developers can begin to build new ones.

Moll stressed the potential of the stimulus plan for restoring value to residential properties, the main savings and investment vehicle for most local families.

Pointing out that the housing market is one of supply and demand, Moll said the 10,000 units available, combined with other factors, have led to reduced property values in some housing sectors.

"As inventory is reduced and balance is restored in the supply and demand, I have no doubt that the stimulus bill will have a positive impact on the recovery of local real estate values," he said.

For developer Adolfo "Tito" González, president of Desarrollos Urbanos, the proposed stimulus package for the housing industry is a step in the right direction.

"It will help provide a spark to incentivize the housing market," he said. "We need this package to be enacted in addition to further aggressive economic-stimulus measures across the entire economy to get it moving. We desperately need to create positive synergy among all sectors of our economy, and these measures will have a positive effect on motivating consumers, reducing overhead inventory and strengthening our banking system."

GENERAL CONTRACTORS ASSOCIATION: STIMULUS SIGNALS 'IT IS TIME TO BUY'

Edris Méndez, local chapter president of the Associated General Contractors of America (AGC), said he felt these programs would certainly help, as the brake on local housing sales needed to be released.

"These programs will be a great stimulus for everyone to get the economy going, since they signal it is time to buy. These measures aren't permanent, so anyone who was thinking about buying a home, the time to do so is now," said Méndez.

Méndez said the housing stimulus bill will at least help reduce the inventory of unsold homes, which should ultimately translate into more housing developments—not immediately—but in the near future, he indicated.



*Arturo Carrión,
vice president
Puerto Rico Bankers Association*

"It gives families a little breather, which combined with the savings from the conversion to natural gas for electric generation, should provide local families with some extra money that they can use for other economic activities," added the local AGC president.

BANKERS ASSOCIATION, CHAMBER OF COMMERCE: JOB 1 IS REDUCING HOUSING INVENTORY

Arturo Carrión, vice president of the Puerto Rico Bankers Association, stated emphatically that it was necessary to reduce the inventory of unsold homes to help developers pay off their construction loans. These in turn, he said, will help reactivate the local economy through the construction of new home projects.

"As long as the housing inventory remains high, it will be very difficult to reactivate construction in all sectors," said Carrión. "It seems to me that the purpose of this project is to reduce the housing inventory so that we can reactivate the financing of projects and, therefore, begin new construction where needed."

Meanwhile, the Puerto Rico Chamber of Commerce expressed its support of the housing stimulus bill.

"By supporting this important project, we reserve the right to submit amendments during the legislative



*Gisela Castro,
president
Tiri Real Estate*

process," chamber president Raúl Gayá indicated last week. "This project represents a novel solution to the profound economic crisis the island is facing, which has impacted all sectors of the local economy. As a consequence of this crisis, the construction industry, along with the real estate and banking sectors, remains at a standstill."

STIMULUS PROGRAM WILL HELP RESTORE CONSUMERS' TRUST

Gisela Castro, president of Tiri Real Estate, said the new housing stimulus bill is sorely needed because people have lost their confidence in the real estate market due to the loss in value and are undecided whether to buy now or not—even with historically low interest rates.

"When people see a stimulus of this magnitude, what's going to happen is, they are going to get their confidence back, as they're going to realize developers will be able to sell their new projects completely, which will allow properties to retain more of their value," Castro said. "In the case of existing homes, these now have extraordinary advantages under the new stimulus plan."

Castro noted those who buy a property during the program's window—between Sept. 1 and June 30, 2011—will not have to pay real property taxes for five years,



*Brendalí Sierra,
president
Brendalí Sierra & Associates*

including the new surcharge. She said it is a very attractive proposition, as these factors were impeding the credit qualifications of many buyers who now will be able to qualify.

"That was one of the things holding up potential buyers facing financial difficulties," she said. "In addition, residents and nonresidents will not have to pay capital gains on the sale of a new property, or only 50% on an existing one, if purchased during the window of opportunity. That's going to attract a large clientele from outside of Puerto Rico wanting to come here to buy."

The provision in the stimulus bill that provides a 105% loan to value is going to help those buyers who might not have the cash for a down-payment, but enjoy a good credit score of 600 or more and needed that extra "push" to buy a property, she said.

The experienced realtor noted that homes priced below \$300,000 continue to have the greatest demand, but lately she has seen an improvement in the market for homes priced between \$500,000 and \$600,000, as these were originally priced between \$800,000 and \$900,000 before the local recession began in 2006.

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EFFECT OF STIMULUS PROGRAM ON VALUES NEEDS TO BE MEASURED

For local appraiser Brendali Sierra, president of Brendali Sierra & Associates, the housing stimulus bill is a good initiative that will help move the island's housing inventory. However, she contends the government should evaluate the program's success and how home values are being impacted in six months, so that the program can be tweaked and improved.

"We must bear in mind that many newly built residential properties are competing with nearby existing homes and even with repossessed homes, so the impact of the program needs to be evaluated six months following its implementation. That way there's enough time to make the necessary changes and make it more effective," Sierra said.



*Guaynabo Mayor Héctor O'Neill,
president of the Puerto Rico
Mayors Federation*

MOST MAYORS SUPPORT BILL

Guaynabo Mayor Héctor O'Neill, president of the New Progressive Party's Mayors Federation, endorsed the real estate stimulus plan "without reservations," as he has been trying to implement a similar program in his municipality.

"This is a tremendous push for the economy," he said. "The housing market has been one of the most affected by the scourge of economic stagnation in Puerto Rico."

The veteran Guaynabo mayor characterized the stimulus package as "well conceived and well organized in its aim of moving the inventory of new and existing homes."

While most island mayors are supporting Senate Bill 1720, a small group of these, mostly from the Popular Democratic Party's Mayors Association, have expressed their opposition to the housing stimulus program, especially the provision that exempts homebuyers from paying real property taxes for five years.

With respect to the few mayors that are against the bill, housing secretary-designate Hernández-Vivoni said that while the measure will impact what the municipalities receive from the Municipal Revenue Collection Center (CRIM) for five years, that's the same amount of time CRIM takes to appraise a new property anyway,

so the effect is nil.

"The vast majority of mayors support the bill, because these properties in their municipalities remain unsold. So they are not collecting any taxes on these homes anyway," Hernández-Vivoni said. "By allowing these to be sold through this program, the mayors will be able to push forward other projects they want to move ahead and have not been able because they have not found developers or financing. This is going to help them. It will bring *patentes* [business licenses] and construction impact fees to the municipalities, so there's a general impact."

Since his appointment by Gov. Fortuño Aug. 11, Hernández-Vivoni said he has so far met with four mayors—of Guaynabo, Toa Baja, Aguada and Gurabo.

"I have a meeting scheduled with the mayor of Salinas; I want to meet with all the mayors," he said. "The doors of the department are wide open if they want to discuss the measure."

Reiterating that the vast majority of mayors support the housing stimulus bill, the housing secretary-designate said he understood the mayors' concerns with respect to the possible loss of revenue from CRIM, but said they will have a greater impact on their municipalities if these unsold



*Economist
José Alameda*

properties get sold through the program.

"100% of zero is zero," said Hernández-Vivoni.

It must be noted that Treasury Secretary Juan Carlos Puig, Government Development Bank President & Chairman Carlos García and Economic Development & Commerce Secretary José Pérez-Riera expressed their full support of the housing stimulus program during Senate hearings last week, insisting it will reduce the island's housing inventory, reactivate the local economy and create jobs.

CONCERNS RAISED OVER PROGRAM'S TRUE IMPACT

Local economist José Alameda said the intention of the housing stimulus bill is a good one, but he fears the local economy is in such bad shape that it won't be able to create the demand needed to get the housing inventory down, despite the incentives offered.

"Our economy is in a very prolonged recession. And the problem I see here is that our economy has shrunk. Some 10,000 establishments have closed. There is less production capacity, therefore fewer jobs. People are earning less, with inflation growing more than their income. Some 52,000 families have emigrated, who will no longer

need homes. In other words, we no longer have the housing demand we used to have to absorb the housing inventory," Alameda said. "You provide all these incentives to reduce the transactional costs for a certain period of time, but these buyers will probably not have the capacity to pay the mortgage and property taxes in five years."

With 20,000 unsold homes, Alameda said it is estimated the market will take between eight and 10 years to absorb these units. And that's without any new homes being built during the period.

Another local economist, who asked to remain anonymous, said that if the intention of the new housing stimulus bill is to move the inventory of new homes, it will succeed at the expense of the inventory of existing homes. But if the purpose of the program is to propel new housing construction, it will fail miserably, he warned.

"Developers will pay their pending construction loans, but will not build new housing projects," said the economist, pointing to what happened with the housing incentives program implemented during the Acevedo Vilá administration.

In 2008, the government approved a housing incentive program with vouchers that cost the government \$225 million in public funds, which was promoted as a stimulus for new housing construction once the available inventory was sold.

"The result? Housing construction did not recover in 2009. Home prices plummeted. The \$225 million reduced government revenue, therefore forcing more layoffs from Law 7," he said.

The economist noted the number of unsold homes is not altered because someone moves from an existing home and into a new one, but rather it is demographic changes that will foster the construction of new homes. He said that since the housing stimulus bill does not take into account that more children are living with their parents, it will not significantly alter the total demand for housing, but simply displace it from existing homes to new ones.

"The housing construction sector will recover when the current inventory is completely absorbed, both new and existing," he added. ■

Incentives in housing-stimulus bill include exemptions from capital gains tax, property tax and internal revenue stamps and vouchers

BY MARIO SANTANA
mario@caribbeanbusinesspr.com

The La Fortaleza housing-stimulus bill—House Bill 2814/Senate Bill 1720—creates 11 incentives meant to spur buying, selling and renting of real estate properties.

To qualify for one or more of the incentives, properties must be:

- A newly built housing unit suitable to accommodate a family, including:
 - Reinforced concrete predesigned homes and prefabricated homes, as long as their blueprints had been approved by last Dec. 30 and construction begins between Sept. 1 and June 30, 2011 and ends by March 31, 2012; or
- A “qualifying property” that is either:
 - An existing housing unit suitable to accommodate a family, or
 - A commercial or other type of nonresidential real estate property with a selling price of no more than \$3 million.

The incentives are the following:

- Rental income from all residential properties will be exempt from income taxes from Jan. 1, 2011 to Dec. 31, 2020;
- Capital gains of qualifying properties sold between Sept. 1 and June 30, 2011 will enjoy a 100% tax exemption;
- Capital gains of newly built housing units bought by the sellers between Sept. 1 and June 30, 2011 will enjoy a 100% tax exemption;
- Capital gains of qualifying properties bought by the sellers between Sept. 1 and June 30, 2011 will enjoy a 50% income tax exemption;
- Up to \$5,000 of capital losses resulting from the sale of a qualifying property between Sept. 1 and June 30, 2011 can be deducted from taxes without any limit on years to use the deduction (limited to taxpayers that are not a corporation or



a professional organization);

- Owners of newly built housing units purchased between Sept. 1 and June 30, 2011 will be exempt from property taxes for five years;
- Owners of newly built housing units purchased between Sept. 1 and June 30, 2011 will be exempt from Law 7's special state tax on nonexempt real estate property;
- All parties involved in the purchase of a newly built housing unit between Sept. 1 and June 30, 2011 will be 100% exempt from paying for stamps, vouchers and charges resulting from issuing and registering the following deeds: purchase and sale deeds, rental deeds, constitution of mortgage deeds, or cancellation of mortgage deeds (the issuance and registration of cancellation of mortgage deeds can take place after June 30, 2011);
- Sellers of qualifying properties sold between Sept. 1 and June 30, 2011 will be exempt from paying 50% of the stamps, vouchers and charges resulting from the issuing and registering of the purchase and sale deeds;



- Sellers of qualifying properties sold between Sept. 1 and June 30, 2011 will be 100% exempt from paying for stamps, vouchers and charges resulting from the issuing and registering of cancellation of mortgage deeds;
- Buyers of qualifying properties sold between Sept. 1 and June 30, 2011 will be 50% exempt from paying for the stamps, vouchers and charges resulting from

the issuing and registering of the purchase and sale deeds and the constitution of mortgage deeds;

The bill's tax exemptions applying to rental income and capital gains will be available for nonresidents of Puerto Rico, but not for those sellers and buyers who are personally related as defined by Section 1024 (b) of the Puerto Rico Internal Revenue Code. ■

New Housing secretary-designate set on agency's mission

Hernández-Vivoni plans to work more closely with other government agencies to help island's social interest population achieve dream of owning a home

BY JOSÉ L. CARMONA
josec@caribbeanbusinesspr.com

Housing Secretary-designate Miguel Hernández-Vivoni is set on continuing the government agency's mission to foster the development of social interest housing so that every Puerto Rican has his or her own safe home.

"I have an additional interest in the social aspect of the agency's mission. To me it is extremely important that everyone, especially those who live in our public housing projects, develop a sense of home ownership, because when you own something you tend to protect it," Hernández-Vivoni told CARIBBEAN BUSINESS during an exclusive interview. "Also, self-employment is extremely important to me—having micro-businesses in our public housing projects to help our low-income families, to give them the tools so they can develop and achieve their dreams."

In that sense, the Housing secretary-designate said people will see him working more with other government agencies such

as the Family Department, Police Department, Health Department and the Department of Economic Development & Commerce.

"I'm going to take all the components and the tools available at my disposal to help our social interest population achieve their dreams," he added. "Puerto Ricans treasure having their own home. The fortune of every Puerto Rican lies in having his or her own home, and we're going to work hard to make it happen."

Hernández-Vivoni said his agency is working aggressively to award property title certificates to those who live on land lots. Currently the Housing Department has an agenda to hand out property title certificates in San Juan, Mayagüez and Arecibo, but the goal is to distribute them in all towns and municipalities where the laws allow the title transfer of these parcels of land, he said.

The Housing appointee, a legislative advisor to Gov. Fortuño, was nominated by the governor Aug. 11, a week before the new housing-stimulus program was unveiled.

"We are excited and happy with



*Housing Secretary-designate
Miguel Hernández-Vivoni*

this initiative, because we believe we will be able to reach our goal, which is, like I said earlier, to fulfill our commitment that everyone in

Puerto Rico has his or her own safe home," he said.

Hernández-Vivoni noted that the Housing Department has many programs to help individuals obtain a safe home, such as Section 8 (federal rental subsidy for families), Law 173 (rental subsidy for the elderly) and the Housing Finance Authority's HOME program (which helps in the development and acquisition of social interest housing).

Plus there's also the existing "Combo" program, which provides a second mortgage of up to \$25,000 that is exempt from interest payments for the first 10 years, plus a bonus to cover closing costs of up to \$10,000, or 5% of the property's cost.

Hernández-Vivoni began as a La Fortaleza advisor in January 2008. Prior to that, he worked as a junior partner at Martínez, Odell & Calabria law firm in the real estate, construction and commerce loan department. He has also worked as a legislative advisor in the Senate. He earned a law degree from Universidad Interamericana. ■



Contractors cautiously believe things will get better

Industry remains resilient despite the loss of 60,000 jobs in eight years, 64% reduction in private-sector construction since 2000

BY JOSÉ L. CARMONA
josec@caribbeanbusinesspr.com

Without a doubt, one of the economic sectors hit hardest in the five-year old local recession has been the construction industry. Once considered the backbone of Puerto Rico's economy with an annual economic impact of nearly \$6.5 billion in 2005, the island's total construction investment in 2009 amounted to \$4.4 billion.

Edris Méndez, local chapter president of the Associated General Contractors of America (AGC), said the biggest impact has been on private-sector construction. In 2000, private-sector construction represented \$4.25 billion, and last year it amounted to just \$2.7 billion, a whopping 64% drop. Meanwhile, public-sector construction investment is now \$2.3 billion versus \$2.6 billion in 2000.

That decline in construction investment translates into the loss of 60,000 jobs, or 40%, over the past eight years, Méndez noted. At its peak, the local construction industry generated over 120,000 direct jobs and four indirect jobs per each direct job.



Edris Méndez, local chapter president of the Associated General Contractors of America (AGC)

"Where we have taken the biggest hit is in private-sector housing construction investment and construction of office buildings and commercial establishments—the type of projects that were being routinely developed a few years back," said Méndez.

When Méndez took the reins of the local AGC six months ago, he said contractors had begun the year with a lot of enthusiasm, hoping that public- and private-sector construction investment would continue.

"Private-sector investment has continued to decline, while public-sector investment has not fallen as dramatically as the private sector," he said.

Méndez acknowledged efforts by the current administration to jumpstart the construction industry, such as the approval of the Public-Private Partnership law, of which island contractors are just starting to feel the effects through the school modernization program and the planned natural gas pipeline project to be undertaken by the Puerto Rico Electric Power Authority.

While there have been some encouraging signs that the island's economy might be stabilizing, Méndez pointed out there's still more to be done.

"We still see that at banks, access to credit remains critical. In fact, the government has several agencies in syndication, such as the Department

of Transportation & Public Works and the Ports Authority, as well as other agencies, due to the financial problems they have been carrying from past administrations," the local AGC president said. "This is creating problems with payments to subcontractors."

Méndez indicated there are several contractors who allege that government agencies owe them more than 17 certifications [work orders] on several projects. These orders are over 120 days due, which creates a serious problem for local contractors' cash flow, he added.

"We feel optimistic that the island's situation should begin to improve. We're already seeing some activity and there's certainly more enthusiasm among members," said Méndez. "We see a fighting spirit of not wanting to give up, that we're still in the fight, believing things will improve."

Méndez said the AGC has more participants in this year's AGC golf tournament than last year, despite having a slightly lower number of room reservations for this year's annual convention. ■



Housing-stimulus slated to clear both the Senate and House earlier in the week

Important amendments introduced: One to grant a 10-year income-tax exemption to all residential rentals, another to compensate P.R. Legal Aid Society's income losses

BY MARIO SANTANA
mario@caribbeanbusinesspr.com

La Fortaleza's bill to spur Puerto Rico's housing market was on track to clear the House and the Senate earlier this week and to be signed into law by Gov. Luis Fortuño.

The measure—Senate Bill 1720—was slated to clear both chambers on Monday, but the Senate and House leadership decided to suspend that day's session shortly before it began due to the weather conditions caused by Hurricane Earl's approach to the island.

The Senate rescheduled the session for Tuesday, Senate President Thomas Rivera Schatz announced in a press release. House Majority Leader Rolando Crespo said that a session on Tuesday depended on the weather conditions.

The bill's approval capped a strenuous week of public hearings and meetings for both the House Treasury and the Senate Urban & Infrastructure Affairs committees. On Saturday, both committees agreed on the amendments to be introduced into the bill.

With the amendments, the bill's benefits are available for buyers and sellers of reinforced concrete-built predesigned homes and prefabricated homes, as long as the Regulations & Permits Administration (ARPE by its Spanish acronym) has approved their blueprints by last Dec. 30 and the construction begins between Sept. 1 and June 30 and ends by March 31, 2012.

Another important amendment extends the tax exemption on rental income to all residential property rentals, regardless if the rental began before the bill's enactment or will begin after June 30, 2011, which is the deadline for most of the other benefits in the bill. The tax exemption rental income will be available for 10 years, starting next



*Senate President
Thomas Rivera Schatz*



*House Majority Leader
Rolando Crespo*



*Senate Urban & Infrastructure Affairs
Committee Chairman
Larry Seilhamer*

Jan. 1 and ending Dec. 31, 2020.

Another key amendment limits to 30 days the Treasury Department's dateline to certify that a property qualifies for the bill's capital gain tax exemptions.

Another amendment addressed a major concern regarding the measure during the public hearings period: the Puerto Rico Legal Aid Society's loss of income as a result of the bill's exemption from paying for stamps for purchase and sale and other deeds. Part of the income of the Legal Aid Society, whose lawyers defend people who are charged with a crime but cannot afford to hire a private attorney, comes from the cancellation of its stamps on several deeds. For example, purchase and sale deeds cancel \$5 of the Legal Aid Society's stamps for each \$50,000 of the real estate's selling price. The labor union that represents the society's lawyers projected that the bill may cut 25% to 30% of the society's budget.

The amendment orders the island's Management & Budget Office (OGP by its Spanish acronym) to allocate \$3.5 million to the Legal Aid Society to compensate for its loss of income from stamp

cancellations. Senate Urban & Infrastructure Affairs Committee Chairman Larry Seilhamer said the society already has received over \$500,000 from stamps cancelled since the beginning of the fiscal year and that, together with the \$3.5 million, should be enough to cover any loss of income.

"This is \$1 million more than they received last year," said Seilhamer. "The Legal Aid Society strengthens itself with this."

The amendment also orders OGP to allocate \$1 million to the Justice Department special fund to modernize and mechanize Property Registry operations.

The last amendment orders the Treasury secretary to report the economic impact of the bill to the Legislature next March and July.

The Mayors Association, which groups Popular Democratic Party mayors, also expressed concerns over the loss of municipal income resulting from the bill's five-year exemption from property taxes for owners of new homes. The group's New Progressive Party counterpart, the Mayors Federation, strongly backed the bill, however, saying that the loss of property tax collections

will be largely compensated by the economic activity such sales will generate.

Municipal Revenue Collection Center (CRIM by its Spanish acronym) Executive Director Gloria E. Santos Rosado employed a similar argument when endorsing the bill. She said the loss of income would be compensated for by the increase in sales & use tax (IVU by its Spanish acronym) collections from the newly sold homes and by the economic jumpstart these sales would produce.

Lawmakers' aim was to have the bill ready for the governor's signature before the tax exemption and other benefits began yesterday.

However, before the legislation's incentives can be available, the Treasury Department must issue rules pertaining to the bill's initiatives. Seilhamer said Treasury Secretary Juan Carlos Puig promised to have the rules ready by the time Fortuño signs the incentives into law.

La Fortaleza filed the bill Aug. 19. Five days later the Treasury and Urban & Infrastructure Affairs committees began to hold public hearings. ■