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Puerto Rico Luring Buyers With Tax Breaks

By Julie Satow



New beachfront homes, along with a hotel, are planned for the Solarea Beach Resort.
Alcom Productions

Alex Lemond is among a new wave of New Yorkers trading in their Manhattan condominiums for beachside villas in Puerto Rico. The former hedge fund honcho moved to San Juan from New York last year, and his company, the Encanto Group, is investing hundreds of millions of dollars in developing luxury real estate on the Caribbean island.

Puerto Rico, a commonwealth of the United States, passed legislation in 2012 that shields new residents from paying most federal income taxes. After a slow start, Puerto Rico's status as a tax haven is beginning to catch on, and some are betting big bucks that the trickle of buyers moving there will soon become a stream. Local officials hope that new investment will help turn around an economy battered by several years of recession.

"I take at least five calls a day from new people considering moving here," said Gabriel Hernandez, a tax partner with the San Juan office of BDO Puerto Rico. When the law was first passed, Mr. Hernandez advised two people who relocated to Puerto Rico from the mainland United States; last year that number rose to about 15, and so far this year, he has helped more than 80 people make the move and is advising another 60 who are considering it.



Marc Grossman bought a home at the St. Regis Bahia Beach Resort and is considering relocating full-time to Puerto Rico. Kathy Kmonicek for The New York Times

Under the tax law, known as Act 22, you can pay minimal or possibly no taxes on interest and dividends, as well as capital gains. You must, of course, fulfill certain criteria, including living on the island for at least 183 days a year, although unlike many other tax havens, you don't have to turn in your passport. The island also passed a companion law that provides tax incentives to certain companies that relocate to Puerto Rico.

As of July, 115 people — nearly all of them United States citizens — have applied and been granted the tax exemption, with another 135 forecast to make the move before the end of the year, according to Puerto Rico's Department of Economic Development and Commerce. Last year, 151 people were granted the tax-exempt status.

"Our investment speaks for itself," said Mr. Lemond, the chief executive of Encanto. This year, the company acquired the Solarea Beach Resort, a four-building condo development, along with a 24-acre adjacent beach property and the Yacht Club marina, with 158 boat slips and a 30,000-square-foot commercial building. Encanto said in a news release in March that it plans to spend more than \$200 million on the properties, including the construction of a hotel and additional beachfront homes.

"Puerto Rico is basically the 51st state — there is no immigration, you don't have to spend millions of dollars on lawyers to figure it all out. All the infrastructure is already in place," said Neal Sroka, a broker at Douglas Elliman Real Estate who is working with Encanto.

The turning point for Puerto Rico's standing as a tax haven can be traced to last year, when the billionaire financier John Paulson began investing in the island. His hedge fund, Paulson & Company, acquired the St. Regis Bahia Beach Resort, where he is building a vacation home. In March, the firm acquired two beachfront

hotels in San Juan — La Concha Renaissance Hotel and the Condado Vanderbilt — and is spending more than \$500 million on renovations and expansion plans. Perhaps Mr. Paulson's biggest contribution to the island's reputation as a tax haven, however, was his dubbing the island "the Singapore of the Caribbean," a catch phrase that is now oft-repeated by seemingly everyone in the business of promoting Puerto Rico.

"It really began with John Paulson," said Luis D. Ortiz, an agent at Douglas Elliman who also appears in the reality television show "Million Dollar Listing New York." Mr. Ortiz, who was born and raised in Puerto Rico but now lives in New York, said he is working with eight buyers, mostly American, who are searching for homes to buy in Puerto Rico.

Margaret Peña Juvelier, a broker with Sotheby's International Realty, noted that two years ago "there was a tremendous amount of inventory and people were just renting." Today, she said, "everyone is buying and buying at a quick pace — they recognize if they don't jump in now, and they wait a year or two, prices will be substantially higher."

Real estate prices in Puerto Rico are down by as much as 45 percent from the top of the market in 2007, said Ms. Juvelier, a New York City native who moved to San Juan two years ago to open up the Sotheby's office and take advantage of the tax savings. For years, the island has contended with double-digit unemployment and a soaring cost of living that has led to an exodus of many of Puerto Rico's professionals and middle-class residents, who have moved to places like Florida and Texas.

And the island's economy remains shaky: It had a per-capita income of \$17,400 in 2013, far below Mississippi, the poorest state in the union. Its gross domestic product grew at just 0.3 percent last year and is expected to grow only 0.1 percent this year, according to the Puerto Rico Planning Board.

But island supporters say this only means there are still values to be had. "If you look at St. Barts or Miami it is way more expensive," said Ms. Juvelier, who is importing some of her Manhattan island branding to Puerto Rico, bestowing San Juan neighborhoods with New York City-type monikers like CoBe, short for Condado Beach, to varying success.

And it is true that Puerto Rico is a bargain. At the St. Regis Bahia Beach, for example, arguably some of the most expensive real estate in Puerto Rico, condos with oceanfront views are priced at around \$600 a square foot; in Miami, a similar unit would cost around \$2,000 a square foot.

Over the last 10 months, the St. Regis Bahia Beach sold nine condos, priced at \$800,000 to \$1.6 million, all to American buyers, according to Paulson & Company. The resort is also constructing six oceanfront villas, priced at \$10 million to \$12 million; two have already sold.

Other luxury developments are in the works on the island. The granddaddy of the Puerto Rican hotels is the Dorado Beach resort, set on 1,400 acres. The hotel was built by Laurance S. Rockefeller and opened in 1958, hosting celebrities like Elizabeth Taylor. It has undergone a \$340 million makeover, including the addition of a 115-room Ritz-Carlton Reserve hotel, a renovated golf course and oceanfront residences ranging from \$1 million to more than \$9 million.

"A third of the people who buy at Dorado are locals looking for a second home or to move from the San Juan area, and a third are people who have known about Dorado for 20, 30 years and want to buy a second, third or fourth home," said Kenneth M. Blatt, a principal of CPG Real Estate, which is developing the property with the Prisa Group. "The final third are moving specifically to take advantage of the tax incentives."

Marc Grossman, 46, bought a six-bedroom home at the St. Regis with his wife, Stephanie, and four children, and is considering relocating full-time to Puerto Rico from Sands Point, an exclusive enclave on the north shore of Long Island. Mr. Grossman, a senior partner at the Sanders Firm, a law firm based in Garden City, N.Y., recently opened an affiliated law office on the island and has hired 15 employees. Later this month, he is visiting a private school there with his family. “We are trying to determine when it would be best to transition my four children,” who range in age from 10 to 16, Mr. Grossman said.

While there is much to recommend Puerto Rico as a tax haven — it has better beaches than Switzerland, no immigration hassles like Ireland and is a lot closer than Singapore — there are the undeniably distasteful politics of fleeing New York to save on taxes. Many island supporters were anxious to tell me about how wonderful it was to relocate there. But many wouldn’t let me disclose their names.