
EXPLORER/ PARTNERSHIP

Puerto Rico



We've just wrapped up another successful Explorer Partnership trip to San Juan, Puerto Rico.

While the island is technically part of the United States, it definitely does not have the same infrastructure, economy, or culture.

We originally started planning this trip in early 2017. Puerto Rico was (and still is) going through a huge financial crisis, which has created a variety of different investment opportunities for those willing to look.

Then, we all know what happened next. First, Puerto Rico was 'brushed' by hurricane Irma, and then the island took hurricane Maria straight on. Wind

speeds of over 200mph were recorded on some parts of the island, which literally blew homes off of their foundations and into the jungle.

Hurricane Maria dumped salt into an already open wound.

But, from an investing standpoint, we all know where the best deals are found: Where the worst things have happened and few are looking.

So... we planned our trip.

To say that this trip was difficult to pull off would be an understatement. We've done trips and dinners all over the world, and this was by far the most challenging.

Power outages, internet connection issues, and businesses leaving the island meant that we had to create a different schedule three separate times.

And even when everything was set, we still ran into trouble. (Our transportation company shut down the day before the trip started, so we had to rebook buses for over 50 people within 12 hours. Although, I don't think anybody on the trip noticed...)

Anyway, the reason I bring that up is because the island is still recovering. Things are still getting figured out and we have lots of time to decide how (and even 'if') an investment there is worthwhile.

For me, and probably most investors, this is frustrating. I've literally spent hundreds of hours traveling back and forth to Puerto Rico trying to make things happen. And that's not even including the actual time on the island, driving all over the place, and meeting with different people to find out what is actually going on.

Because I've done so much research there, I feel almost obligated to take action. But, that would be the impatient thing to do.



The truth is that I've found lots of interesting real estate and other investment opportunities, but none of them are quite ready.

HOWEVER... that is just from the "invest right this second" standpoint. There are still some unbelievable opportunities that can be pursued until we wait for 'the right deal.'

I've broken these opportunities up into three different categories:

1. Real Estate
2. Taxes
3. Lifestyle

I'll review each category below.



REAL ESTATE

There is a legitimate real estate investing story in Puerto Rico right now. It's easy to assume that because of the financial crisis and hurricane that there are loads of real estate deals available.



While it is true that there are incredible deals, an investor must understand the bigger picture - and most importantly, know the right people.

To fully understand the real estate situation in Puerto Rico, you must first know what has been happening on the island.

Because of the financial crisis, which has been going on for years, many Puerto Ricans have left the island and headed to the States. Remember, Puerto Ricans are US citizens, so they are free to travel to the mainland of the United States whenever they want.

So, imagine that you are a Puerto Rican living in the capital of San Juan. Pretend that you own a food catering business. Now think about what has been happening over the past several years... literally hundreds of thousands of Puerto Ricans have left the island in order to find better jobs.

If you, as an owner of a food catering business, are continually seeing people leave, what do you think is going to happen to your business? Well, you're probably going to have less and less customers.

Eventually, you'll start to think about moving to the States in order to make more money. When you finally do decide to uproot your family and leave, you also end up letting several of your employees go. Those employees, now out of a job, also start to think of moving off of the island.

And the snowball continues to grow... as more people leave, the economy suffers more, which causes even more people to leave, and the cycle continues...

So that's easy to understand from an economic viewpoint. Now think about all of the housing on the island. What's going to happen to all of those homes when people leave?

Well, a variety of things can happen. Some Puerto Ricans are holding onto their homes as vacation destinations. Some Puerto Ricans are selling their homes on the open market. And some Puerto Ricans are simply walking away from their properties all together, and letting the banks foreclose on them.

Now, I'm going to let you guess which of the above scenarios is the most likely. Do you think these home owners, who are already cash-strapped, are going to keep these homes for vacation? You get my point...

Now, I want to further complicate the issue with two important things to know.

The first important thing to know is that there is no MLS in Puerto Rico. That means that there is no central database that tracks homes for sale, their listing status, or what stage of default they may or may not be in. This means the entire market is very difficult to analyze.

Without a central database to figure out the property market, there are a lot of unknowns. For someone sitting in Wisconsin trying to figure out the property market in Puerto Rico, it's nearly impossible.

But, for someone who is physically in Puerto Rico walking the streets and knocking on doors, there are exciting deals.

Just like any market - whether it's real estate, the stock market, or bonds - when there is less efficiency, there is often better opportunity to find extreme value.

The second important thing to know is that many homeowners in Puerto Rico have been under a moratorium.

Right after the hurricane, a moratorium was issued for those with a home loan. Initially this was only for a couple of months. However, this moratorium keeps getting extended.



That means that many home owners have *NOT* had to pay their mortgage since before the hurricane. The intention of the moratorium was to prevent a large scale housing crisis where homeowners would not be able to pay their mortgage right after the hurricane.



If this sounds strange, it's not. This happens all the time after natural disasters. For example, in California, home owners are often given a several month grace period right after large wildfires.

Again, the purpose is to prevent a large scale housing crisis. By giving home owners a couple months to get their life back together, the assumption is that everything will be OK after a little while.

But, remember about all of those people leaving the island? Those people (who are not fully accounted for) may own property that they have simply walked away from... and because they may have been under the moratorium, the banks won't know that they have walked away from the property until they don't pay their mortgage. And, since the home owners haven't had to pay their mortgage because of the moratorium, the actual number of homes that may fall into foreclosure is an unknown.

We do, however, have some rough numbers to go off of. [Immediately after the hurricane, several US states saw school enrollment of Puerto Rican children increase by tens of thousands of children.](#) Now that these Puerto Rican kids are enrolled in schools throughout the US, are they going to return to Puerto Rico?

That's the question that we don't know. But, it's safe to say that there will likely be an additional glut of housing that will hit the market later this year, when the moratorium expires and property owners don't pay their mortgages.

In summary, the real estate opportunity in Puerto Rico is real. However, due to an unknown supply, an impending foreclosure wave, and a lack of demand, the recovery could be long off. As an investor, this means we have plenty of time and should not rush in.

If you are looking to buy Puerto Rican real estate as an investment, a vacation destination, or as your primary residence, there are two different companies I recommend contact.

Blue Waters Realty

Claudia Rosario - License # 12490

Cell: 787-364-4924

Adriana Portilla - License # 18911

Cell: 787-633-1011

bluwatersrealtypr@gmail.com



Claudia and Adriana make a great team and are very connected to the Puerto Rican property market. They both grew up on the island and they now run their own real estate company - which means they only answer to themselves.

Also, they are both very connected with the banks in Puerto Rico, so they get to see properties coming to market before anyone else.

If you have a specific property you are looking for (say you're looking for a 2 bed, 2 bath apartment in the Condado area of San Juan), you can tell them exactly what you want and they'll keep an eye out on the bank foreclosure lists. That way, when a property pops up, they can notify you immediately.

Muñiz & Muñiz Realty

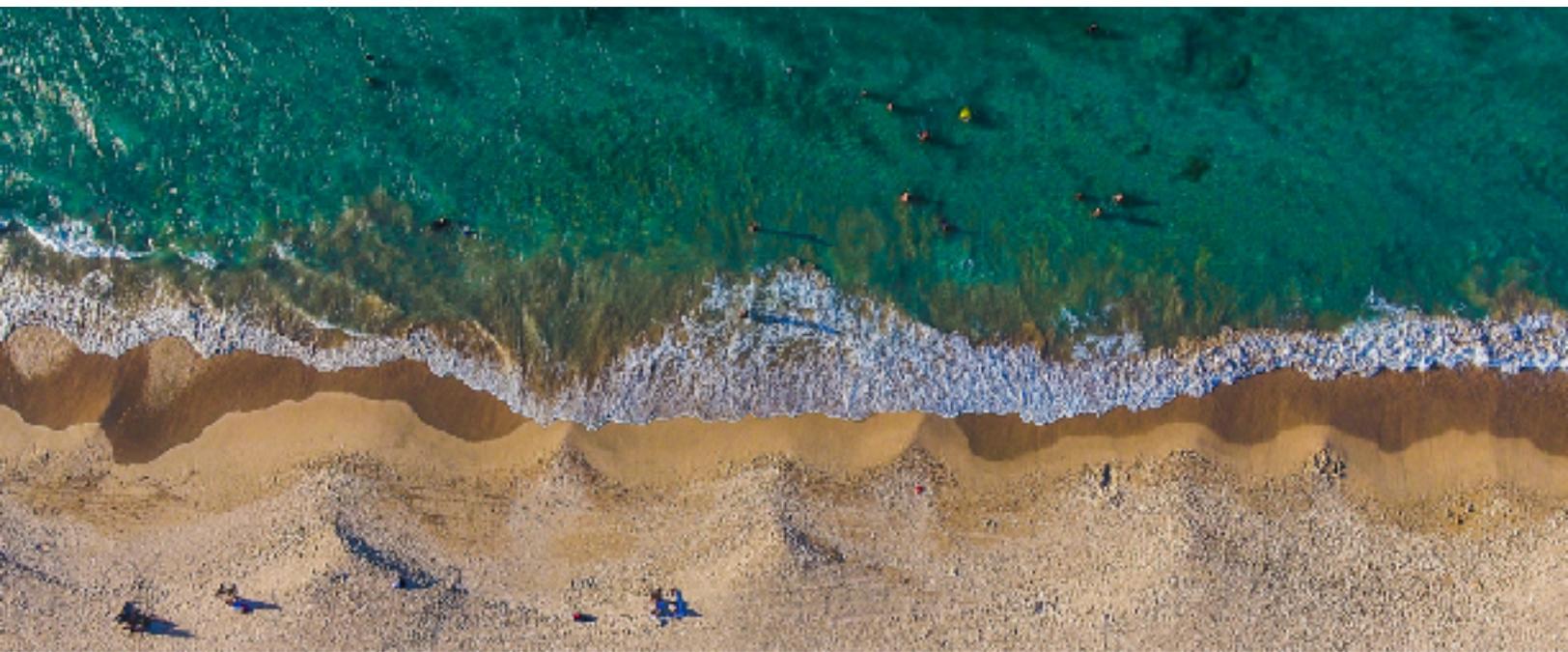
Aida Muñiz - License # 14499

Office: 787-667- 7384 Cell: 787-667-7384

realtorsanjuan@gmail.com

Aida is a great resource for higher-end properties in Puerto Rico. Her family is very connected with the Puerto Rican banking community and government, so she has some great insights into what properties are looking most attractive.





The beach in Condado, which is right in the heart of San Juan.

TAXES

This is perhaps the most attractive thing about Puerto Rico right now. The tax incentives that are available to US citizens AND non-citizens, are perhaps the best in the world (currently).

Before we review the different tax incentives available, it's important to understand why and how Puerto Rico can tax its residents.

For most US citizens, Puerto Rico's status as a territory is difficult to understand. I'm not going to attempt to explain the relationship, because there are lots of little details that are very confusing. The important part to know is that Puerto Rico has no senators and its representative in the US House of Representatives is a delegate with limited voting privileges.

Because that delegate has limited voting privileges in the US House of Representatives, residents of Puerto Rico are not represented in Congress the same way that residents of US states are.

This is important to understand when it comes to taxation. If we look back in history to the American Revolution, we'll see that one of the main issues was

'taxation without representation.' The American colonists were being taxed by the UK, even though they couldn't vote on what they were being taxed on.

Similarly, because Puerto Ricans can't vote in major US elections, residents do not pay a federal income tax.

If Puerto Rico residents were taxed at the federal level for their income, they'd be paying money to a government that they can't vote for. Clearly, that is not a fair system.

However, Puerto Rico does tax its residents at their own level, and it's actually quite high (about 33% for those who make over \$60,000 a year). Furthermore, sales tax is over 11% and there are various other taxes that Puerto Ricans are subject to.



This high tax rate on Puerto Ricans has also added to the exodus of residents moving to various US states. And the more tax payers that leave the island, the less money that is coming into the Puerto Rican government, which is already strapped for cash.

Puerto Rico is bleeding residents and is in dire need of immigrants, not emigrants. And those immigrants need to be people who are bringing jobs, money, and a steady tax revenue for the government.

However, in order to attract these people - those who bring money and jobs to the island - there would need to be some pretty big incentives. And that's exactly what Puerto Rico did. They created the best tax incentives that are currently available (mostly to US citizens) in the world.

There are many types of tax incentives available right now that apply to a variety of different sectors (tourism, medical services, real estate, etc.), but the two most well known are Act 20 and Act 22.

Act 20 applies to new corporations that are exporting services from Puerto Rico and the key terms are:

- 4% corporate tax rate
- 100% tax exemption on dividends or profit distributions
- 100% exemption on property taxes

Act 22 applies to new residents of Puerto Rico and provides a total exemption of income tax on passive income.

- 100% tax exemption on all dividends and interest income
- 100% tax exemption on all capital gains

As you can see, these tax incentives are very attractive. If you have a business that you can set up in Puerto Rico to export services (say you run a business where you service clients that are outside of Puerto Rico, but you live in Puerto Rico), then you can have an effective tax rate of 4% total (4% corporate tax rate + 0% personal taxes = 4% effective).

The key to all of this is that you must live in Puerto Rico for more than six months a year. But, for many people this is a completely fair trade off, especially because the lifestyle can be very attractive as well (which I'll explain at the end).

I'd like to emphasize that this tax incentive is real and people are currently moving to Puerto Rico to take advantage of this setup. This isn't some fringe tax haven scheme that involves you working with nefarious players.

To find out what the fine details are and to figure out how to take action, I highly recommend that you use a reputable law firm in Puerto Rico to sort everything out.

Here is the contact information for two different firms that we have been working with and also come highly recommended from close friends:



O'Neill & Borges

<http://www.oneillborges.com>

Inside contact: Amaya Iraolagoitia

Direct: 787-282-5726 email: amaya.iraolagoitia@oneillborges.com

O'Neill & Borges has been ranked as the top law firm in Puerto Rico multiple times and has an extensive network of resources to help you with whatever you need to get done. Contact Amaya and tell her that we sent you. She'll give you a free consultation to answer any questions you have and help you figure out if you should pursue moving to Puerto Rico.

Tax Law Solutions

<http://www.taxlawsolutions.net>

Inside contact: Garth Weidmann

Direct: 972-292-9087 email: gweidmann@taxlawsolutions.net

Tax Law Solutions has some tax structures that are very unique, but only apply to certain people. There is an opportunity to take advantage of Puerto Rico's tax incentives without having to move there. You need to make sure to contact them to see if it will work for you. Let them know that we sent you, so they know to explain this special setup.



LIFESTYLE

In my opinion, this is one of the most underrated locations when it comes to lifestyle. Let me explain...

It's no secret that many Americans living in the US are looking for more affordable places to live. This is especially apparent in the retiree community and in the younger professional community that can work remotely.

Although there are no official statistics, it's estimated that over 10 million Americans live abroad. And that number is only expected to rise.

When we look at other countries throughout the world, this trend is even more apparent. Citizens of many different countries are leaving their homes to live in locations that offer lower taxes, better weather, and an overall better lifestyle.

And with the trend of people being able to work where they want, this migration is sure to continue.

Now, Puerto Rico is not the ideal destination for everyone. The reality is that Puerto Rico is just a big island in the middle of the Caribbean. That means it's tropical (i.e. humid and hot), but receives a nice trade-wind which seems to keep the air moving.

The obvious attraction for most is the beach... and there are lots of them. Of the 272 miles of coastline, there are over 300 beaches. Whether you are looking to surf, dive, boat, or just get sunburned, there is a beach that is perfect for you.

Surprisingly, the beaches in San Juan (which is a major city with skyscrapers) are quite nice. In addition to miles of walkable beach, there are volleyball courts, exercise parks, and daily cleaning crews.

If you have to live in San Juan for work (or you like the lifestyle of the city), you can still enjoy the beaches - which can't be said for most major cities throughout the world.



If you want to be a bit more rural, there are many tiny beach towns around the island that offer affordable living options with first world amenities (stores like Walgreens, CVS, chain restaurants, and supermarkets are everywhere).

But, the beaches aren't everything. There are actually some incredible living options in the mountains of Puerto Rico, as we saw on our trip.

Because of the higher elevation, the mountain towns of Puerto Rico receive a bit more breeze and drastically cooler temperatures. These towns also have some incredible views.



Another very important thing to consider about Puerto Rico is accessibility. I'm mainly talking about flights in and out of San Juan.

Currently, there are over a dozen airlines that service Puerto Rico with many of those flights connecting directly to major hubs (Houston, Atlanta, New York, Bogota, Mexico City, etc.). This makes it extremely easy to access Puerto Rico from almost anywhere in the world.

Additionally, because Puerto Rico is part of the US, there is no immigration line when you land in Puerto Rico (if you have flown from the US). That means you step off the flight and walk directly out of the airport, as if you were flying from Los Angeles to San Francisco.

Two more important things to consider are language and currency. Most Puerto Ricans speak English and Spanish, and the island uses the US dollar. So, if you are shopping in the supermarket, you can buy your groceries with your credit card (with no currency issues) and ask questions with no problem.

For many people who move to new destinations, they are actually looking for a different language, currency, and culture. But, this quickly wears off, and what was once a novelty of a strange experience becomes a major inconvenience.

That is why so many people who move abroad end up coming home a couple years later. They realize that the grass really isn't greener on the other side.

Puerto Rico, on the other hand, seems to have a balance of Latin culture, while still maintaining some of the creature comforts that many look for.

However, to be clear, Puerto Rico is not perfect. There are problems with the island that many people will find to be a deal-breaker. The only way you will know if Puerto Rico is a good choice for you is to actually go there to experience it for yourself.

Wrapping it up, Puerto Rico has three huge opportunities right now: cheap real estate, very attractive tax incentives, and a tropical lifestyle with first world amenities.

Is it right for everyone? Of course not.

However, if you qualify for Puerto Rico's tax incentives, you'd be crazy to not consider taking advantage of what's available.

We'll be keeping our eye on what develops over the next year in Puerto Rico and remain ready to act accordingly...

Until then,

Cody