

# **LAND ACQUISITION & HOME BUILDING REPORT**

In addition to answering questions regarding general information that most investors want to know, the Land Acquisition and Home Building Report provides the planning and detailed analysis needed in order to determine all costs involved when purchasing real estate in Costa Rica.

The following subjects are discussed in detail:

**CONSTRUCTION PERMITTING PROCESS**

**LAND TITLE AND REGISTRATION**

**PROPERTY INVESTIGATION**

**SURVEY**

**APPRAISAL**

**FINANCING**

**TAX STAMPS**

**CLOSING COSTS**

**TRANSFER TAXES**

**REAL ESTATE COMMISSION**

**ATTORNEY AND NOTARY FEES**

**ESTABLISHING A CORPORATION**

**PROPERTY TAXES - LAND AND MUNICIPAL**

Contact; **tom@costaricahomebuilder.com**, for professional advice on how to purchase your piece of paradise. In Costa Rica call him at +506-393-0261 or email him at [tom@costaricahomebuilder.com](mailto:tom@costaricahomebuilder.com)

***MAKE COSTA RICA HOME BUILDER YOUR FIRST CALL, NOT YOUR LAST RESORT***

# LAND ACQUISITION & HOME BUILDING REPORT

Costa Rica's exotic attractions are a dream come true for many visitors and those fortunate enough to live here amidst the breathtaking volcanoes, tropical rain forests and awesome beaches. Many come to enjoy the tropical beauty and ideal climate. Others who are more entrepreneurial, see tremendous investment potential and an opportunity for a better lifestyle.

Most visitors fall in love with Costa Rica's natural beauty and wish they could stay forever. Many of them return sooner than expected to invest in the growing real estate market. Fortunately, most of these investors are successful and they remain here to enjoy their good fortune.

The positive business environment, low operational costs and an abundance of natural resources are the primary reasons why investment opportunities in Costa Rica continue to grow.

This report will provide you with the details you need to know when investing in real estate here. Costa Rica could very well be the exotic paradise you've always dreamed of. The climate is ideal, the Costa Ricans are friendly, peaceful people and the business community welcomes foreign investment.

# **LAND ACQUISITION & HOME BUILDING REPORT**

## **LAND PURCHASE CONSIDERATIONS**

Costa Rica is an extremely secure and friendly nation which prides itself on being receptive to prospective real estate investors. The Ticos accept investors from all over the world and foreigners enjoy the same rights to own property as Costa Rican citizens. The Costa Rican Constitution and Laws protect ownership of land and your legal rights to own titled property are not restricted in any way. It is not necessary to remain here for a specific period of time or become a citizen or resident to own property.

## **LAND TITLE AND REGISTRATON**

Records for the registration of titled property are located in the government office called the Registro Nacional. Title documents for each property are recorded on a central computer. Any changes in ownership, mortgages (hipotecas), encumbrances (usufructs), liens (gravámenes) or rights of way (servidumbres) should be recorded in the computer. A computerized copy of property information (informe registral) can be obtained with the correct registration number (folio real). If a property is old and has not been recorded in the computerized system, you will need its number, page and entry (tomo, folio y asiento). With this information you can reference the original registration book and then locate the correct page and entry on the page where the old property information was recorded.

## **PROPERTY INVESTIGATION**

Anyone can obtain a copy of the computerized property information. However, there could be problems that are not recorded in the computer that can end up costing you more money. You need to have an on-site inspection done by a professional who knows what to look for in Costa Rica. This report gives you the advantage of asking the right questions. Don't close on a property until all items under the Preliminary Requirements section in the [Housing Cost Analysis](#) portion of this report have been assigned a cost by a professional who knows what it takes to get things done here. Once you know all the costs involved, you can decide if Costa Rica is the right place for you and your budget.

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## **SURVEY - PLOT PLAN**

The property information printout (informe registral) from the Registro Nacional will contain the number (numero de plano) of the property survey or plot plan (plano catastrado). With this number you can get a certified copy of the plot plan from the Catastro Nacional which is in the same building as the Registro Nacional. The plot plan indicates ownership, dimensions and how many square meters are recorded for the property.

## **APPRAISAL**

Civil engineers can perform appraisals here. The minimum charge is \$325 with the standard fee of 1% of the properties appraised value. Travel expenses outside of San Jose would probably be an additional charge to you. Now with the advent of mass bank financing, appraisals are performed by in house bank employees or subcontractors working for the banks that are not required to be civil engineers.

## **FINANCING**

The financing available in Costa Rica has been very expensive as compared to North American rates. The buyer who is obtaining the financing pays all fees associated with the registration of the mortgage documents. This is a complicated and expensive procedure which should be carefully investigated to determine the benefits versus the costs and risks involved. There are other methods to create and record "mortgage type" transactions, without the excessive expense.

## **PROPERTY TAXES - LAND AND MUNICIPAL**

Property taxes in Costa Rica were only 0.6% of the valuation of the property, as determined by the government. These taxes have increased in recent years depending on which municipality you live in. The land tax (impuesto territorial) is charged on the valuation given to the property. The municipal tax (impuesto municipal) is based on the number of meters a property has fronting the street. If a building on the property has two floors, multiply the front by two, if three floors, multiply by three and so on. Both the land and municipal taxes must be paid before the National Registry will record any new sale. Additionally, all property owned by the buyer and seller must have the taxes paid up to date, not just the property you are trying to purchase. Land taxes can be paid at the tax office of the Finance Ministry (tributacion directa de la Ministerio de Hacienda) or the local Municipal Government offices.

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## **CLOSING COSTS**

You should pay no more than 6% of the sale price for all closing costs including your attorney/notary fees, registration fees, documentary stamps and transfer taxes. Mortgage costs and real estate commissions would be additional fees. The buyer and seller can split the closing costs, but this is entirely negotiable.

## **ATTORNEY - NOTARY FEES**

Attorney's fees are 1.5% of the first million colones and 1.25% of all amounts over one million. These percentages are based on the sale price, not the declared value. The attorney's in this country are also the notaries and are required to affix several different documentary stamps to the legal documents before they are presented (anotado) and pay a fee before they are registered (inscrito) at the government offices. At the closing, you should request documents that prove the sale will be registered in your name or in the name of the company you may have established to maintain ownership of your purchase. It is common for the entire recording procedure to take 45 to 60 days. For additional security have your attorney provide you with a receipt document when you pay the legal fees, stating that the attorney has written your deed (escritura) and will affix the required documentary stamps and pay for the registration of the property purchase documents.

## **TRANSFER TAXES - DECLARED VALUE**

Transfer taxes (impuestos de traspaso) are 3.1% of the declared value. Purchasers should be aware that Costa Rican property has a low property tax appraisal base, in relation to market value. It is customary practice to record the sale price of a piece of property at the registered, appraised value, which is usually much less than your actual purchase price. There are certain risks involved with this practice. You may want to obtain the services of a professional who has experience with the local system to determine the most suitable method based on your personal needs.

## **GOVERNMENT TAXES AND FEES**

Upon transfer of a property to a new owner an attorney/notary must pay a registration fee (0.5%) and affix certain documentary stamps (derechos de traspaso, 0.55%) These percentages are based on the declared value not the purchase price.

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## **REAL ESTATE COMMISSION**

Real estate firms in Costa Rica are not regulated as in other countries. Commissions vary from 3% to 10% of the selling price depending on what type of property you are purchasing. Payment of the commission can be split between the purchaser and seller and paid at closing.

## **ESTABLISHING A CORPORATION**

It is very common for foreigners to pay an attorney approximately \$500.00 to form a Costa Rican corporation (S.A. - Sociedad Anonima). Costa Rican corporations provide the owner or owners with the ease of property transfer upon sale or demise of the principals. If your attorney establishes the S.A. with yourself as President and your family or beneficiaries as Vice President, Secretary, Treasurer, Board of Directors and Stockholders: in the event of your demise, they can easily retain ownership or sell the S.A. and the property it owns without incurring inheritance taxes. A simple transfer of corporate powers and stock can be completed by all attorneys in Costa Rica.

## **OFFSHORE CORPORATIONS - BANKING PRIVACY**

If you do not want the ownership of assets or bank accounts to appear in your name, you must take further steps to establish a more secure shelter, because in Costa Rica, anyone can go to the public registry and find out who has been appointed as officers, directors, etc of a Costa Rican S.A.. Therefore, for further security and anonymity you may choose to establish an "Offshore Corporation" in a country whose national laws protect corporate and banking privacy. Call a professional who has experience with establishing these types of shelters to advise you on how to properly organize and establish the type of shelter to suit your personal needs.

# **LAND ACQUISITION & HOME BUILDING REPORT**

## **CONSTRUCTION PERMITS**

Before closing on a property that you intend to build on, you need to make absolutely certain that you'll be able to obtain a building permit for your construction plans. Do not rely on the opinion of the seller or sales agent concerning the ease of obtaining permits. This is technical advice that they are not qualified to provide.

1. Hire an unbiased professional to make certain the property has sufficient water, electricity, telephone and drainage. Consider his services as inexpensive insurance that can save you a lot of money and grief down the road. Don't rely on the seller's opinion that these services are obtainable. Many purchasers find out too late that the cost to bring the utilities to their property ends up costing far more than they were told. It's little surprises like this that can end up costing you a bundle and ultimately depletes the funds you originally budgeted for the construction of your dwelling.
2. You need to make sure there have not been any restrictions placed on the land that could result in denial of your construction permit. Have a knowledgeable professional check at all of the following government offices.
  - a. Public registry
  - b. Ministry of Public Works (Ministerio de Obras Publicas y Transportes) for future road construction projects.
  - c. Ministry of Health (Ministerio de Salud)
  - d. National Institute of Housing and Urban Development (Instituto Nacional de Viviendo y Urbanismo)
  - e. Municipality (Municipalidad); where the property is located
3. Be aware that "environmental impact" is a very large concern in Costa Rica. Make sure there are no environmental regulations that may affect your land acquisition and construction plans, such as national wildlife refuges and areas protected by the Forestry Law.
4. If you plan to build a residence that is larger than 754 sq. ft. (70m<sup>2</sup>) your application for permits must include the following:
  - a. four copies of your construction plans
  - b. two copies of your property deed (escritura)
  - c. four copies of the permit checklist (hoja de commission)
  - d. two copies of your properties plot plan (plano catastrado)
  - e. one copy of your electrical design plan prepared by a licensed electrical engineer
  - f. written confirmation of availability of water from the Instituto Costarricense de Acueductos y Alcantarillos (AYA)
  - g. one copy of your consulting contract with a licensed engineer or architect (contrato de s ervicios profesionales para consultorio)

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## PERMITTING PROCESS

The first part of the process is acquiring the permits and it may take a lot longer than you would ever expect without the help of an experienced professional. It involves satisfying the changing demands of several national and municipal government officials who issue the permits. This process can be simple if you contract with an experienced professional who understands the system here.

The process begins at the Permit Reception Office (Oficina Receptora de Permisos de Construcción) where your plans and application are presented and signed by an engineer or architect, licensed by the Costa Rica Association of Engineers and Architects (Colegio Federado de Ingenieros y Arquitectos) CFIA. This is the governing body that establishes the fees charged by its members. Most fees are based on a percentage of the value of your construction plans as established by the CFIA.

Because you are the owner (propietario) you will need to sign the application too (Contracto de Servicios Profesionales para Consultoría). And when you do, you are agreeing to the fees you will be charged throughout the entire construction process. On the application, look very closely at the sections, Projects and Others (Proyectos) and (Otros), the Total Contract Percentage (Total Contratado %). Before you sign, be sure you know what services you actually need from a Costa Rican architect or engineer.

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PHASE 1 - Construction Plans & Permits - Fase (1) Planos y Documentos. This phase is further divided into sub-categories that may not be necessary if you plan to build a small single-family residence.

1. Preliminary Studies: Estudios Preliminares: 0.5%: These studies should be completed if you're planning to build on undeveloped or rural property. Preliminary studies must also be completed if you're planning to build a commercial or tourist project that may impact surrounding property.
2. Preproject Design: Anteproyecto: 1.0 to 1.5%: This involves meeting with a professional to discuss your ideas and define your needs. With this information, preliminary plans can be prepared for your review. These plans should include a site plan and drawings of elevations as well as floor plans. Before you contract for this service, determine specifically what you want to build, so that you're not paying professional fees for conceptual ideas. If you're organized and able to show your contractor exactly what you want, you'll spend less time and money during this stage and throughout the entire construction process.
3. Construction Plans & Technical Specifications: Planos de Construccion y Especificaciones Tecnicas: 4.0%: This is the most important step in the overall process, because the cost and completion of your construction project depends upon the detail and accuracy of your construction plans and specifications. Once you have agreed on the layout and design, your construction plans can be finalized in order to satisfy the regulations of the government agencies that will issue your permits. A final set of plans should include the following: Site Plan; Foundation; Footings and Beams Plan; Electrical Plan; Plumbing, Mechanical and Sanitary System; Floor Plans; Front, Rear and Side Elevations; Roof and Drainage Design.

Additionally, you will benefit from detailed material and installation specifications. These specifications define the materials you have selected and any specific installation procedures needed to satisfy your requirements. The plans and specifications will become part of your construction contract along with a corresponding payment schedule. You should also have documents or provisions for changes or additions and notice of defects or errors so you can notify your builder in the event that any of these situations occur during the construction of your home.

4. Budget: Presupuesto: 0.5% global; 1.0% detallado: This service provides for the preparation of either a general, per square meter or a more detailed itemized budget of materials needed based upon your construction plans and specifications. In order for a budget to be accurate it must be prepared by an experienced professional who understands the type and quality of construction you want to build. He must also know the current availability of building materials near your property. Import duties and transportation costs can significantly affect your homes construction budget.

PHASE 2 - Control & Execution - FASE (2) Control y Ejecucion - This part involves the supervision of the hands-on construction. At this point you need to have an experienced builder who is capable of scheduling and instructing the tradesmen as well as organizing the delivery and installation of all the building materials required to finish your home.

1. Inspection: Inspeccion; 3% of the total construction cost: It is mandatory that a CFIA licensed engineer or architect sign your Consulting Contract and the "official book of inspections" issued with every construction permit. For this reason, you must contract with a licensed architect or engineer who will assume responsibility at the CFIA for the inspection of your construction project. He will inspect the work being completed as often as your construction requirements dictate.

2. Supervision: Direccion Tecnica: 5%: This requires a professional with the knowledge to direct the installation of the materials specified, according to your construction plans. This individual needs to be very detail oriented in order to coordinate the purchase, delivery and installation of thousands of different building materials.

3. Administration: Administracion: 12%: This is a full time position that requires a professional who is capable of maintaining complete control and responsibility for the execution and completion of the entire construction process from the day your construction begins until the day of your final inspection.

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The CFIA has established minimum tariffs that must be charged by its licensed members. The following minimum tariffs are required to be indicated on the Contract for Professional Consulting Services, Contrato de Servicios Profesionales para Consultoria, which is submitted with your construction plans.

FASE 1	Estudios Preliminares	0.5%
	Anteproyecto	1.0 to 1.5%
	Planos de Construccion	4.0%
	Y Especificaciones Tecnicas	
FASE 2	Direccion Tecnica	5.0%
Total minimum tariffs required		10.5%

If a contract is submitted for less than 10.5%, it will certainly be rejected by the CFIA. These tariffs may be greater, as on larger and more complex projects, but they may not be lower than 10.5%. On smaller projects the Estudios Prelimarios are combined into the Anteproyecto, which is then 1.5% instead of 1.0%, but the total remains the same.

It is possible to split FASE 1 and FASE 2 into two different contracts with the same or two different engineers, but it will likely be more expensive and duplicates the paperwork. On a simple residential construction project, it would be advisable to contract with one engineer or architect.

## **PERMITTING PROCESS SUMMARY**

The number of services you choose to obtain from professionals in Costa Rica will depend upon the difficulty of your construction process.

Any adjustments or changes that need to be made during your homes construction can be minimized by hiring an experienced building contractor who understands the Costa Rican culture and language. This previous experience combined with his knowledge of local building codes, requirements, suppliers, tradesmen, engineers and architects, will insure that construction of your plans will be completed as scheduled and within your budget.

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