

Where to Invest Your Dollars in 2008— *International Living's* top picks

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Lee predicts that this market will move upward once the U.S. buyer arrives. I agree with Lee on this point. But there's another—much bigger—factor at play that will have a major affect on this market.

Europeans have been coming here for years but it's about to become the next hotspot for European developers, investors, and second-home buyers. Until now, Fortaleza has seen a relative trickle of European buyers. Sure, they dominate the market today but you're only seeing the tip of the iceberg.

In Europe there is a great machine that drives real estate markets, made up of developers and promoters. This industry grew out of the property boom in Spain and became a multinational phenomenon as participants looked to diversify from a slowing Spanish market. They began by looking outside the Costa del Sol and ended up creating a market for northern European investors from Dubrovnik to Riga. I speak often with many of the guys involved in this machine, big developers with deep pockets—they think Brazil is the next big thing, and their sights are set on Fortaleza.

Wholesale land can still be bought at great prices, but like the retail end of the opportunity this is set to change once word gets out.

Today I spoke with one of my contacts on the ground in Fortaleza. He is in the business of finding parcels for predominantly European developers. He rattled off a series of recent deals. For example, 337 beach plots (with villas planned) which sold to a major developer from Spain. Another Spanish group bought six miles of beach. A luxury home builder from the U.K. has bought two miles of beach. All bought under the radar—that's how these guys operate.

They snap up parcels of land using local contacts to represent them in negotiations because as soon as word gets out that serious developers are interested in a market, sellers will dramatically increase the price.

It will be two to three years before these projects are released at a retail level. These groups aren't in the business of selling raw lots. They want to develop high-end master planned resorts. The big boys will raise the bar and price their projects more in line with offerings in the other markets they have been successful in. Lock down land today and you will be ideally positioned to get a piece of this upside.

One caveat: Beware guaranteed rentals returns anywhere, but in Brazil in particular. The rental market is in its infancy so any rent you are promised has most likely been added to the price of your condo. As I have seen in many other markets, quality beachfront will do best.

“Blood on the Streets” of Vieques

Michael Franco lives on the island of Vieques. While managing an eco-resort there from 2004 - 2006, he regularly liaised between the island's real estate brokers and guests of his hotel who were looking for property...and as a result got an inside look at this market (see page 15).

I've never been to Vieques, and don't know much about it other than what I've learned from Michael. The idea is sound. Pristine Caribbean beachfront in a misunderstood location screams

opportunity. Perceptions change fast particularly when backed by a real event such as the described military withdrawal and clean-up. Another real event such as the arrival of a high-end resort will brand the island, get the word out, and attract well-healed visitors. Who wouldn't like to turn the clock back and get a foot hold in neighboring islands such as St. Maartan? The fact that the Navy was there so long is most likely a big plus. This means that large tracks of land have been untouched for decades. A blank canvas. Understanding the Navy's clean-up plan, and aligning your investment strategy to that plan is key to this opportunity. You also need to be sure the hotel will happen. Who is the financier? What has Starwood committed to either as an investor or as a hotel operator? Finally, as a rule I would never recommend buying untitled land or a property sitting on untitled land. Tempting as the price may be... you never know what's around the corner.

Pioneer investing on the Samana peninsula

Infrastructure development drives real estate prices. This is particularly so when accessibility is increased within an already established and growing market. The Dominican Republic has proven its ability to attract tourists and real estate investors to areas close to international airports. I don't expect the Samana peninsula to be any different. Increased accessibility to the Samana peninsula will see the arrival of hoteliers and real estate developers...the guys that will bring bodies and drive the market. Expect to hear major announcements about this region in the coming year...and expect prices to catch up with the Dominican Republic's higher profile destinations within three years. Getting in now will put you ahead of the path of progress.

Top *IL* researcher Janaan Harp spent three months traveling all over the Dominican Republic, and presents her findings on page 37.

Bucharest's New Middle Class

As Eastern Europe opened up and her countries moved towards EU accession there was a scramble to snap up trophy real estate. From Prague to Krakow, embassy-belt apartments and prime commercial real estate suitable for multinationals rocketed in price as investors flooded in. Next came economic growth. Foreign investment and indigenous successes aided by low taxes, highly skilled workforces, and reduced bureaucracy created a new middle class. Salaries and confidence rose. Finance became available and each country's young and educated workforce wanted a home of their own. The opportunity in Eastern Europe has moved beyond its pioneer days. Today the opportunity lies in investing in quality residential units targeted at the emerging middle class.

As Steenie Harvey points out on page 21, Bucharest is no Prague in terms of architectural beauty...but what it does have is enormous pent up demand for residential property to satisfy this emerging middle class. Steenie has researched and reported on European real estate markets for *International Living* for the last 15 years, and claims that, in the case of Bucharest, she's seeing trends that suggest certain markets can be fairly predictable. I agree.

An economy can't undergo such fundamental change as Bucharest is going through without distortions emerging. Sitting in Bucharest traffic you might well curse her economic miracle...but you

Chapter 2

Vieques—An “Old Caribbean” Bargain

By Michael Franco

Mention the fact that you’re traveling to the island of Vieques, Puerto Rico to someone, and you’re likely to get one of two responses: “Where?” or “Isn’t that the place the Navy is bombing?”

Both reactions bode well for the potential Caribbean real estate investor.

The fact that many people haven’t heard of Vieques or that they associate it with the military exercises that took place there between the years of 1941 to 2003 has served to preserve it as a true tropical paradise.

Situated just seven miles east of the main island of Puerto Rico at the top of the Caribbean, Vieques is truly worlds away from its larger sibling.

Its twenty-one beaches are magnificent and largely deserted. There isn’t a single traffic light or chain store. Wild horses roam the streets. The vibe is Caribbean-funky and relaxed yet there are world-class restaurants to enjoy. And, perhaps best of all, the real estate market has lagged behind such expensive neighbors as St. John and St. Maarten where even tiny one-bedroom apartments range upwards of \$225,000. A similar property in Vieques would set you back just \$75,000.

Why this market, why now?

For a small island, Vieques has received a big amount of positive press.

It was voted one of the “twenty best islands to live on” by *Islands Magazine* in their 2007 July/August issue. *The New York Times* has written about Vieques at least four times in the last three years, touting, among other things, the island’s “warm waters, wild horses, and surprisingly good restaurants.” *USA Today* said that visitors to Vieques are finding the following: “Pristine beaches stretch for miles, the sweep of white sand interrupted only by swaying palms and tangles of mangrove. A bioluminescent bay lit by billions of microscopic organisms (and considered one of the finest in the world) delights kayakers on moonless nights. Rural guesthouses offer laid-back hospitality.”

Even the titles of the articles themselves point to a pulse of excitement about Vieques. The *Boston Globe* published, “Unpretentious Vieques, An Island In Transition,” *Forbes* wrote about “Vivid Vieques” and *CNN International* reported on “The Sweet Little Guest Houses Of Vieques.”

Yet despite consistent positive press, little has changed on this sleepy island and Vieques remains largely off investors’ radar.

Perhaps one reason is that there are no direct flights to Vieques from the U.S. mainland. To reach this tiny island, one must take a ferry or 25-minute connecting flight from the main island of Puerto Rico. This keeps casual visitors and day trippers away, which has the added benefit of helping the island stay relatively unspoiled and underdeveloped.

Then of course there is the misconception that the Navy is still occupying a portion of the island. In fact, the opposite is true.

The lands that were formerly held by the Navy were turned over to U.S. Fish and Wildlife in May 2003. The more than 18,000 acres which they vacated now comprise the largest wildlife refuge in the Caribbean—more and more of which will be opened to the public as an ongoing cleanup effort progresses.

Before the Navy’s handover of the land, the largest wildlife refuge in the Caribbean was located on nearby St. John, where property values are now all-but-untouchable. In fact from 2000 to 2007, property prices on Vieques’ chi-chi neighbor increased threefold or more. Now even small wooden cottages on St. John that would need a fair amount of work fall in the \$350,000 range—compared to the \$80,000 range on Vieques. Land on St. John is equally untouchable, with minuscule plots selling at \$150,000. On Vieques, it is still possible to find land for under \$50,000. And Vieques has not seen any of the rampant inflation that has marred its Virgin Island neighbor. Groceries, beer, wine, and liquor are all still highly affordable thanks to the large number of Viequense citizens who still inhabit the island.

However, should the same type of real estate spike happen on Vieques once the former Navy lands are completely opened, the bargains that can currently be found in the \$100,000 range will soon disappear. That’s why buying now on this small paradise where no piece of property is ever more than a 15-minute drive to the beach is a good idea.

And when will the Navy lands be completely opened? Predictions range from five to 10 years. But for now, approximately 20% of the lands are completely safe, open to the public, and home to some of

the most dazzling and deserted beaches in the Caribbean. Plus, because these lands are in the hands of the Fish and Wildlife service, building on them is forbidden. So, the bulk of Vieques' beaches are backed by nothing but sea grapes, palm trees, mesquite bushes, and pure peace and quiet.

A lucrative rental market

Working to restore the balance of the former Navy lands are several large environmental clean-up companies. Workers for these companies are combing the island's flora and removing and disposing of unexploded ordinance as well as any other detritus left behind by the military.

This is of interest to potential investors not only because of the prospect of so much untamed Caribbean land on which to play, but because the clean-up companies pay top-dollar for rental homes in which to house their employees. It is an unusual and lucrative rental market in the Caribbean and of great benefit to anyone who is considering buying a home that they might rather rent than inhabit for a few years.

Finally, another reason to look at Vieques right now is that Starwood's high-end "W" hotel chain is planning to convert Vieques's Martineau Bay Resort and Spa into one of their own properties in early 2009. This will be W's first resort and golf course in the Caribbean. It is largely predicted that this will cause property values to climb as the island benefits from the upscale clientele the hotel tends to draw and from the press-splash that is sure to follow the opening. Additionally, once this resort opens their doors, entrepreneurial-minded investors should be able to open businesses that offer goods and services to this new, lucrative market.

The "Old Caribbean" they only talk about on other islands

Travel most places in the Caribbean, pull up a seat at a bar where rum-soaked, sun-dried locals gather and you're bound to hear them talk about the way things used to be. Hardly any traffic. Beaches so deserted that bathing suits seemed like an unnecessary formality. Cheap eats in joints where a tank top was as formal as you needed to get. Affordable drinks at friendly bars.

Well, that's the way Vieques is right now.

Although Vieques is twenty-one miles long and five miles wide, only a five-by-five mile square that lies in the middle of the island and ranges the northern coast to the southern, is inhabited or, for that matter, inhabitable. The rest of the land comprises the wildlife refuge.

Access to the public portion of the refuge is currently available via dirt roads that make Jeeps (which are widely available for hire) feel like they've died and gone to heaven. And even though large portions of these lands are still closed due to the clean-up efforts, there are still plenty of nearly-empty, completely-magical beaches to discover along the way.

Titled versus untitled property

All property on Vieques falls into two categories: titled and untitled.

Titled property is basically what it sounds like. When you purchase the land or home, you get paperwork clearly stating that the title to the real estate belongs to you. Titled land tends to be slightly more expensive than untitled, however it comes with the peace-of-mind of undisputed ownership. It is also possible to secure a mortgage on titled land.

Editor's Note: If the idea of not holding fee simple title doesn't sit right with you, you should skip ahead a couple of paragraphs. Although experienced real estate investors can be comfortable with this method of purchase—under certain strict conditions—many people can have reservations. There exists enough real estate opportunities with fee simple title around the world (and in this report) for you not to have to investigate alternatives.

Untitled property, to state the obvious, does not come with a title. Untitled real estate is often less expensive and nearly always comes with possessionary rights in the form of a deed/*compraventa*. This is a private contract that allows you the ability to claim the property in the eyes of the Municipality, and to apply for utilities and building permits. Because banks won't float a mortgage on untitled land, it is sometimes possible to buy these types of properties with significant owner financing.

Purchasing bare, untitled land is perhaps the riskiest idea as there is always the chance that a native Vieques resident or extended family member could challenge your ownership of the property by claiming hereditary rights. That's why it is advisable in this type of purchase to clear the land quickly, build a home, and arrange utilities in your name. Purchasing an untitled home is much less risky, as you will actually receive paperwork stating you own the home and it would be highly unlikely that anyone else would lay claim to the land beneath it.

It is important to realize however, that financing can not be secured on untitled property unless it is provided by the seller.

Currently there is approximately a 50/50 split between titled and untitled property on Vieques, with the government issuing new titles all the time.

Where to buy

Real estate on Vieques ranges from small neighborhood wooden and concrete cottages with prices from \$80,000 to \$300,000, to sumptuous oceanfront villas starting at approximately \$750,000 and climbing all the way up into the millions. Plots of land are also available and can be found in the cool jungle-clad interior, the dry east-end, or along the sparkling blue coastline. These can range from \$50,000 for a quarter acre land-locked plot up to 2.25 million for large parcels that can be subdivided for development. Bare oceanfront land is rare on Vieques as so much of it falls in the non-developable wildlife reserve. (An important thing to remember is that the populated part of Vieques is only five miles by five miles in size—so things tend to be all within a 15-minute drive of each other.)

Vieques can roughly be divided into two halves. The northern half, often referred to as “the Atlantic side” is home to Isabel Segunda, the island’s small-town capital. The town is laid out around a central square which is currently being redeveloped. Small streets criss-cross around the square and during the day they tend to be dusty, hot, and congested. Nevertheless a trip to town is a great convenience as you can take care of your mail at the U.S. Post Office, go to the bank and/or cash machine, visit the drug store, stop in at one of several hardware stores, or stock up on groceries at the ambitiously named “supermercado.”

Isabel Segunda

Homes in Isabel Segunda are titled and can generally be had in the \$250,000 range. One such property currently for sale has three bedrooms, one bathroom, AC, a cistern, carport, laundry room, and a cute little back yard. Build a flight of stairs to the roof and this home, as with many others in Isabel Segunda, would have a view of the ocean. Isabel Segunda is a good location if you enjoy the convenience of walking to shops, markets, restaurants, and ferry.

Bravos de Boston

Stretching east out of town along the coast is the neighborhood of Bravos de Boston where homes tend to be well-spaced, artfully designed, and slightly on the pricey side. Most of the homes here are untitled, however the occasional titled property does come on the market. A home with two bedrooms and two bathrooms in an upstairs unit and two bedrooms and one bathroom downstairs on a quarter of an acre is currently listed at \$219,500. This property, with views of the ocean from the roof and just a few minutes walk from the beach, is a great deal.

The Eastern Hills

Beyond and behind Bravos are the areas of Villa Borinquen, Monte Santo, and Monte Carmelo. These areas hold Vieques’ most affordable, but mostly untitled properties in their rolling, scrubby hills. Great deals can be found in these neighborhoods such as an untitled three-bedroom, one-bathroom concrete and wood home on almost half an acre for just \$50,000 in Villa Borinquen or a simple untitled wooden one-bedroom, one-bathroom bungalow on 13,735 square feet with partial views of the ocean in the same neighborhood for \$55,000.

Titled deals in these areas include a brand-new all-concrete two-bedroom, one-bathroom house on a large lot for \$175,000 or a two unit income-producing residence with two bedrooms, one bathroom, carport, and back balcony in the upper unit and one bedroom, one bathroom downstairs. It’s an all concrete construction and is situated on more than a quarter acre of land for \$200,000.

These areas of the island tend to have poorer roads and are populated with more locals than expats. However, they have a rugged, wild feel to them that has its own charm and simply the best prices on Vieques.

Esperanza

On the south side of the island, known as “the Caribbean side,” lies the town of Esperanza. With a strip of funky shops, casual bars, island vendors selling homemade jewelry and crafts, and a promenade known as the Malecon that runs along the edge of the sail-boat infused sea, Esperanza is truly a quintessential Caribbean town.

Behind this colorful strip is a charming neighborhood with good values in titled, well-cared-for homes. For example, currently on offer is a five-bedroom, two-bathroom fixer-upper that would make a great B&B offered for \$207,000, as well as an extremely well-maintained two-bedroom, one-bathroom concrete house with air conditioning, fully equipped kitchen, and a large comfortable back yard area with an enclosed garden *casita* for \$225,000.

The benefits of owning in this area are that you can walk to the Malecon as well as Sun Bay—a mile-long, crescent-shaped dream of a beach with golden sand, glittering water, and palm-trees. Properties in Esperanza are also a good idea if you are planning to rent out your home because many of the clean-up workers and tourists like this area for its walkability, which means they don't need to buy or rent cars.

The Interior

Heading out of Esperanza to the west brings you to the lush, cooler interior barrios of Las Llaves, La Hueca, and Pilon. Arguably the most beautiful part of the island, real estate tends to be on the high side here with acres going for approximately \$200,000 each with a 2-acre minimum purchase required. However, while this part of the island enjoys cool breezes and plenty of shade from the emerald green jungle, it is always necessary to drive to the coasts for a beach fix.

Current all-titled offerings include a sprawling concrete home on 1 acre with great views featuring four bedrooms and two bathrooms for \$850,000, as well as a three-story, meticulously-maintained house on 3.5 acres for \$975,000.

Real estate resources

- **Rainbow Realty**, tel. (787)741-4312; website: www.enchanted-isle.com/rainbow.
- **Guayacan Realty**, tel. (787)741-0414; website: www.guayacanrealty.com.
- **Connections Real Estate**, tel. (787)741-0023; website: www.enchanted-isle.com/connections.
- **Island Real Estate**, tel. (787)741-7001; website: www.islandrealestate.net.
- **Vieques Realty and Rentals**, tel. (787)741-0330; website: www.viequesrealtyandrentals.com.
- **Banco Popular** (Mortgage Lender), tel. (787)741-2071; website: www.bancopopular.com.

A solid opportunity in the Caribbean market

In short, Vieques represents a solid opportunity for an investor looking to enter the Caribbean market by purchasing property on a stable island that is a commonwealth of the United States.

However, it is uncertain how long the real estate bargains will last in Vieques. Although property prices have nearly doubled since the Navy first left in 2003, there is still much more room for growth. Now that Vieques holds the distinction of having the largest Wildlife Preserve in the Caribbean, there is a strong chance that property values may mirror the meteoric climb they experienced in the all-but-untouchable market of St. John—a threefold growth in the last seven years alone. And, with the W hotel chain betting on the island, it's probably not a bad idea to follow suit!