

## There's a Silver Lining in Costa Rica's Gold Coast

April 17, 2009 There's a Silver Lining in Costa Rica's Gold Coast By PERRY GARFINKEL

AT the heart of the real estate wave in Guanacaste province in Costa Rica in 2006, some 20 residential projects had either broken ground, been announced or been approved. About 350,000 visitors landed that year at the regional airport in Liberia, quadrupling the figure from 2003, its first year of international flights.

In 2006, \$131.4 million was spent on personal property sales in Guanacaste, according to the Central Bank of Costa Rica, and Alexander Porras, an economist for the bank, estimated that most of that was in second homes.

But now the tide has turned. A number of highly publicized residential developments aimed at second-home owners and anchored by brand-name hotels and golf courses have been delayed on Guanacaste's so-called Gold Coast, a 60-mile stretch on the Pacific Ocean from the Papagayo Peninsula in the north to Tamarindo in the south.

Vacation-home sales have been reduced to a ripple. Individuals who built or bought with an eye toward selling have lowered or postponed their quick-flip expectations, trying instead to earn money by renting out their properties in a region that remains a popular tourist destination.

These days, there are still visitors who come to Costa Rica on real estate buying sprees, but they will see less than was projected three years ago.

That's not all bad news. For the serious or even the spontaneous buyer "this means deals can be had in some niche price ranges," said Christopher Howard, an American author in Costa Rica who has written a book on the topic that will be self-published in July.

The best deals are in the \$300,000-and-under market, "but properties at the high end haven't been hit too badly," Mr. Howard said. "In a way, this turn-down benefits the Guanacaste market. Things were developing too fast; prices were getting too high."

The best-known Guanacaste project to be delayed is Cacique, a venture backed by Stephen M. Case, co-founder and former chairman of AOL. He announced plans in August 2007 for an \$800 million development that included two luxury hotels, an array of high-end homesites and 300 private residential units on 650 acres. A year later Mr. Case halted development. Jorge Cornick, corporate relations officer for Cacique, said it would be delayed until the economic outlook improved.

Not far from Cacique, in Panama Beach, work had begun on La Punta Papagayo, a projected \$300 million development, but it's now been put off, too, said the Minneapolis-based developer, Blaine Kirchert. The Costa Blanca Hotel, which was on the property when he bought it, is open, but no progress has been made on another hotel, the 150-room Viceroy, nor on the planned 86 condos and 34 estate lots.

Ground was broken in January 2008 in Brazilito for the Azulera Resort Village, a 557-acre community with a \$300 million Hyatt Regency and 1,000 condominiums, town houses and single-family houses. Then construction stopped last fall. Anil Kothari, chief executive of the New Jersey-based Global Financial Group, the developer, said that work would resume in June, with completion in two years.

Despite the slowdown, opportunities have risen. A small number of individual homeowners are finding a market among vacationers seduced by the enduring appeal of the country, where annual municipal property taxes are 0.25 percent of the construction value of the home, where no rain falls from December to May, where 25 percent of the country's rich biodiversity is protected parkland and where a stable democracy has existed since 1899.

In February, Louise Chandler and Ken David, a couple in their early 50s from near Butte, Mont., walked into the Tamarindo Beach office of Bella Collina Realty and walked out with a "fire sale" deal: on April 1 they closed on a two-bedroom 1,100-square-foot town house. It was originally priced at \$142,000; they paid \$99,000. Lock Cooper, the sales director at Bella Collina, said the owners had sold because they wanted to trade up to a larger unit closer to the beach.

The new owners say they plan to spend two to three months a year there and rent it out the rest of the time. "It was purely an impulse buy. We were on vacation, fell in love with the country and didn't want to leave," Ms. Chandler said. "We just happened to pop into this agency. It was an unheard of deal — plus a pool and gated security."

Chris Simmons, an owner of ReMax Ocean Surf Realty in Tamarindo, said there were a few individual owners in every property he currently represents who were willing to shave 20 to 30 percent off listing prices. Developers are also posting special deals, he said, including at Crystal Sands in Langosta Beach, south of Tamarindo. Five beachfront condos there,

originally priced from \$800,000 to \$2.3 million, are being offered at 20 percent discounts.

But because "there are virtually no new projects breaking ground now," Mr. Simmons said, "I'm going to swim against the tide of conventional wisdom here and predict that the real problem we'll face is next year when we'll have no inventory to sell."

For now, though, homes remain available at the three major developments on the Gold Coast. They are Peninsula Papagayo in the northern region (a 30-minute drive from Liberia), a 2,300-acre luxury development anchored by a Four Seasons Hotel with its own collection of homes and lots for sale, the destination club Exclusive Resorts and a 180-slip marina that opened in December; Reserva Conchal in the middle (near Conchal and Flamingo Beaches), a 2,200-acre development with homes, lots and condos, with a Paradisus Playa Hotel; and Hacienda Pinilla (just south of Tamarindo Beach), a 4,500-acre project, with a JW Marriott resort that opened in early February.

Sales representatives from all three reported that since last September most of the signed contracts had been for condos, while lots and villas had moved very slowly.

Those who buy lots in such gated developments and have their houses built "definitely minimize their risk compared to starting from scratch on their own in this country," said Bryant Martin, 49, of Denver, who is Hacienda Pinilla's largest individual property owner. Along with buying a 12-room bed-and-breakfast on the grounds and turning it into a family vacation home, he also bought 13 beachfront acres (24 lots) to develop as La Dulce Vida. On another lot, he built a 4,000-square-foot four-bedroom house, which he put on the market on March 1 for \$1.5 million and rents out for \$7,500 a month.

"These development owners spend many millions on infrastructure — water, roads, electricity, permits — which in a third-world country like this can be a time- and money-consuming process," said Mr. Martin, who owns a company that sells high-end bathroom fixtures, windows and doors and has built homes in Colorado, Arizona and Mexico.

The Gaunacaste real estate ebb may turn out to be an inadvertent saving grace for a country known for its ecological treasures.

Jim Preskitt underscored that idea, pointing to a hillside across Culebra Bay from the executive offices of Peninsula Papagayo, where he is senior vice president. The forested hill dropped into the white-sand beaches of villages named Panama, Hermosa and Coco.

"That hill would have been dotted with a Rosewood, a Miraval and a One & Only hotel. But all those projects are stalled," he said. "Though we welcome the competition and the regional buzz, this slowdown may be nature's way of saying, 'Protect what you have.'"

Michael McNulty and his wife, Denise, were vacationing at the Four Seasons when they saw real estate opportunities in the development. He and his friend and business partner, Frank Rizzo III, bought four Papagayo lots in that frenzy three years ago and have since built two homes. Mr. McNulty said he hoped delayed development protected not only the environment but also their investment, which he calculated at about \$9 million.

"When we saw the economy sliding, we worried about our long-term investment, but now we find ourselves in an enviable position as pioneers here," said Mr. McNulty, 47, of Philadelphia, a founder of the early Internet business-to-business portal VerticalNet.com. The McNulty-Rizzo houses are the first of six built so far at Peninsula Papagayo and the only two currently available for rent. When not vacationing with family and friends, Mr. McNulty and Mr. Rizzo market the houses as vacation rentals at \$2,200 to \$4,500 a day, depending on the season.

Meanwhile, Mr. McNulty still harbors fantasies of flipping the properties. "Some day," he said, "a wealthy yachtsman from Dubai will pull in to the new marina, look up, see our house and say, 'We need a place to sleep tonight. Let's buy that one.'"