



ISSUES IN OWNERSHIP OF REAL ESTATE

U.S.A. – PUERTO RICO McConnel Valdés, LLC

CONTACT INFORMATION:

Silvestre Miranda Perez
McConnel Valdés, LLC
270 Muñoz Rivera Avenue, Suite 9
San Juan, Puerto Rico 00918
Tel: 787.759.9292 / Fax: 787.759.9225
Email: smp@mcvpr.com
Web Site: www.mcvpr.com

1. Is perpetual fee simple ownership of real property permitted? If not, what are the principal forms of ownership, or other principal form of ownership, of real property?

Yes, perpetual fee simple ownership of real property is permitted in Puerto Rico.

2. What instruments are used to convey fee simple ownership, or other principal form of ownership, of real estate?

The most common instrument to convey fee simple ownership in Puerto Rico is through a public document (Deed of Sale) duly recorded in the corresponding section of the Registry of Property of Puerto Rico. Titles of ownership or other real estate rights relating to real property which are not properly recorded in the Registry of Property are not prejudicial to third persons which acquire rights to such real property in good faith. 31 L.P.R.A. 1872.

3. How in this jurisdiction is the ownership of real property recorded or searched? Who generally performs the search?

Ownership of real property is recorded at the Registry of the Property. The Registry is organized by geographical sections and each parcel of land is identified by a property number unique to such parcel of land in each registry section. Property Registries are open to the

public, thus, title searches may be conducted by any person. Ordinarily title searches are conducted by a title abstractor working for a law firm or a title insurance company.

4. What assurances of ownership are available to purchasers of real property (e.g., title insurance or title opinions)? What is the cost of obtaining such assurances?

Title insurance is available in Puerto Rico. Title opinions are not usually rendered. Registrars of the Property also issue certifications of register inscriptions. Title Insurance policies are regulated by the Office of the Insurance Commissioner of Puerto Rico (the "OIC"). Rates are also set by the OIC.

5. What are the most common forms of investment vehicles? What are the most common entities employed to own investment real estate in a tax efficient manner?

The most common vehicles for real estate investments in Puerto Rico are Limited Liability Companies, the Corporations and the Special Partnerships. All of these vehicles may elect to be treated as pass-through entities for tax purposes, provided they meet particular purposes.

6. Has this jurisdiction adopted, or is it considering, legislation permitting the creation of real estate investment trusts or similar entities?

Real Estate Investment Trusts are permitted in Puerto Rico and are regulated by the Puerto Rico Internal Revenue Code of 1994, as amended.

7. What state or local transfer, stamp or similar taxes are levied generally on sellers or buyers upon the direct transfer of real estate?

The Tariff Act of the Registry of Property of Puerto Rico of 1970, as amended establishes the tariffs to be paid for each Registry of the Property operation. In general, any document filed in the Registry, including conveyances and constitution and cancellation of mortgages, is subject to tariffs fees based on the amount of the transaction. There is also a standard filing fee of \$10.50 for any document filed in the Registry. 30 L.P.R.A. 1767a to 1770c. Tariffs fees of the Registry of the Property are based on the amount of the transaction as follows: For \$1,000 or less, the charge is \$2; for \$1,001 up to \$25,000, \$2 for each \$1,000 or fraction thereof; in excess of \$25,000, \$50 for first \$25,000, \$4 for each additional \$1,000 or fraction thereof. Value for leases is fixed at stipulated rent for first twelve years of lease, or total rent to be paid. Where no value is stated in deed, fees will be base upon value assessed for property tax purposes or last value of property as it appears from Registry.

In addition to the Tariff Act of the Registry of the Property of Puerto Rico, the Puerto Rico Notarial Act, 4 L.P.R.A. 851 et seq., provides for additional stamp tax and legal aid tax on the original and certified copies of public instruments. Typically, this charge is \$1.00 per each \$1,000 of value of the transaction on the original of each public instrument and one half that amount on each certified copy.

8. What state or local transfer, stamp or similar taxes are levied generally on sellers or buyers upon the transfer of interests in entities which own real estate?

The Tariff Act of the Registry of Property of Puerto Rico of 1970, as amended, as well as the stamp taxes imposed by the Notarial Act, applies to transfers of interests in real estate. See prior answer for additional information.

9. How significant is local regulation and taxation of real estate? How significant is the variation of real estate law among political subdivisions of this jurisdiction?

There is no variation of tariff fees among political subdivisions (Municipalities) in Puerto Rico. Taxation of real property varies by Municipalities although the maximum contribution for taxable year 2007-08 is 10.23%. Real property taxes are assessed by the Municipal Revenue Collection Center (CRIM) based on appraisal values as of the year 1957.

10. Must ultimate beneficial owners of entities which own real estate be disclosed as a matter of public record?

Real property is recorded in the name of the persons or entity(ies) appearing on the Deed of Sale or conveyance as acquirers. If the ultimate beneficial owner is different from the named owner, the ultimate owner is not required to be disclosed.