



April 2009

REAL ESTATE UPDATE

Real Estate Investment in Uruguay**THE URUGUAYAN ECONOMY**

The Uruguayan economy has grown rapidly since the country's financial crisis in 2002, with an average annual growth rate of 7 percent between 2003 and 2007, and a growth surge in 2008 of an estimated 11 percent. The current world financial crisis is expected to contribute to a slowdown in the growth of the Uruguayan economy in 2009, but despite this, the economy is expected to grow between 2 and 3 percent this year. Greater declines in the Brazilian and Argentinean economies could have a significant impact on Uruguay, but many economic indicators, including increased wages, deposit accounts and private consumption, as well as the continuing availability of credit in the marketplace, appear to reflect that Uruguay is well-positioned for this economic downturn.

This bulletin identifies and explores some of the key issues concerning real estate in Uruguay.

OWNERSHIP OF REAL ESTATE IN URUGUAY

Under Uruguayan law, real estate is held either as public land or private land. Private land can be owned by one or more individuals or by national or foreign companies, such as S.A., SRL, Delaware LLC, Panama Corp. or BVI Co.

There are no restrictions on the type of real estate that can be purchased by foreigners, with commercial real estate, farms, beachfront properties and houses proving popular. Unlike some neighbouring countries in the region, such as Argentina, there are also no restrictions on transferring capital or profits to and from abroad, nor on entering into contracts that express the obligations in a foreign currency, such as US dollars.

BUYING AND SELLING REAL ESTATE IN URUGUAY

The general process of buying and selling real estate is as follows:

- The real estate is marketed, usually by the owner or by a real estate agency on its behalf.
- The buyer contacts its notary public, who drafts a preliminary contract that secures the purchase committing the seller and buyer. The preliminary contract sets the price, a penalty if either party breaches the agreement, the deposit (usually 10 percent of the price) and the completion date, which is usually 30 to 45 days after the preliminary contract.



- During the 30- to 45-day period the notary checks the title, makes the searches at the Land Registry and the Companies Registry (if a company is involved), checks the plans and verifies the tax situation.
- The notary then drafts the purchase deed. The document is signed by the parties and the purchase price is paid to the seller. The notary retains from the purchase price the amount due to pay capital gains tax and transfer tax (see below).
- Once these taxes have been paid, the purchase deed is registered at the Land Registry. This is when ownership is formally transferred to the new owner, which can then be evidenced by a certificate of title issued by the Registry.
- The total costs for the buyer are approximately 8 to 9 percent of the purchase price. This comprises a real estate agent fee of 3 percent plus value added tax (VAT), charged at a rate of 22 percent; the notary public's fee of 3 percent plus VAT; registration duties of 0.55 percent; transfer tax of 2 percent of the fiscal value of the property; and costs for searches and tax certificates.

WAYS OF "BUYING IN" TO URUGUAYAN REAL ESTATE

The most common ways of investing in real estate in Uruguay are personally or through a company (S.A. or SRL.) Foreign investors have tended to invest in agricultural land, forestry, hotels and beachfront real estate.

TAX ISSUES

Real estate transactions are subject to transfer tax at 4 percent of the fiscal value of the real estate, shared equally between the buyer and seller. The fiscal value of the property is the value given by the tax authorities to real estate and is usually lower than the purchase price.

On 1 July 2007, a major tax reform took effect that introduced the Non-Resident Income Tax (IRNR), levied at rates that vary from 3 to 12 percent on income from Uruguayan sources.

Rental income is taxed at a rate of 12 percent unless certain circumstances are met, such as the rental does not exceed a set minimum level, the owner waives his/her bank secrecy rights and the other capital income that he/she obtains does not exceed a set minimum level.

If a non-resident sells the real estate and a financial gain is made, they will be subject to IRNR tax of 12 percent on the gain.

INVESTMENT OPPORTUNITIES

Between 2000 and 2006, foreigners purchased a quarter of Uruguayan territory, according to the latest figures from the Uruguayan Ministry of Agriculture. Real estate analysts believe there is no end in sight to this trend. The view from Canepa Canepa, a major real estate company in Uruguay,



is that foreigners, especially Argentines and Europeans, are showing a strong interest in Uruguay. According to Caldeyro-Stajan, another real estate company, this is because Uruguay is showing increasingly favourable prices and political and economic stability.

Several large real estate projects are under way; one of the largest is the US\$200 million complex (comprising 15 apartment and office blocks) currently under construction in Ciudad de la Costa in Canelones. Foreign capital accounts for over 70 percent of this particular project. Large-scale investments are also in place in the beach resort of Punta del Este, where hotels and villa complexes are being developed.

Since the recession in 2002, real estate prices in Uruguay have recovered, but still offer exceptional value when compared to many European countries and those in neighbouring Argentina. Land is particularly cheap—agricultural land costs around US\$2,000 per hectare, a fifth cheaper than in Argentina, although land on the western border with Argentina can reach US\$7,000 per hectare in places. Real estate in the capital, Montevideo, costs from US\$50 to US\$80 per square foot (US\$100 if fully refurbished), with rental yields typically between 7 and 11 percent. Homes in beach resorts also offer highly competitive prices.

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