

# Of great appeal

## Puerto Rico's pro-tourism environment



A beautiful tropical Caribbean island that's easy to get to, uses the U.S. dollar exclusively and is governed by a pro-business executive who previously worked in tourism - what more could a potential hotel investor ask for?

Officially known as "Estado Libre Asociado de Puerto Rico" [Commonwealth of Puerto Rico] since 1952, Puerto Rico is an integral part of the United States. It is the only Caribbean destination (along with the nearby U.S. Virgin Islands) that offers passport-free access for U.S. citizens, meaning there are no customs or immigration formalities. More than 800 flights a week connect Puerto Rico with the rest of the world, mainly through San Juan's Luís Muñoz Marín International Airport.

Puerto Rico is a small island; at 3,415 square miles it's less than half the size of New Jersey, or three times the size of Rhode Island. Its 78 municipalities range from 171-square-mile Arecibo (site of the world's largest radio astronomy dish) in the northwest to tiny seven-square mile Cataño (home to the Bacardi rum distillery) in the east.

Yet this "Isla del Encanto" is anything but small when it comes to business. The island boasts a Gross Domestic Product of \$72.6 billion, translating into per-capita GDP of around \$18,200 - making it one of the most prosperous jurisdictions in the Caribbean. Manufacturing accounts for more than 40% of that total, thanks to the presence of hundreds of factories churning out everything from LifeSavers candy to Viagra pills.

Puerto Rico is also a regional financial powerhouse, with over \$100 billion in assets, 12 commercial banks, venture capital firms, a thriving securities sector and a developing international insurance center.

The island, whose official languages are English and Spanish, offers a business climate second to none. As such, the government offers a wealth of incentives and favorable tax laws combined with cash grants, tax credits and venture capital initiatives, making Puerto Rico the ideal place to do business.

In short, companies locating in Puerto Rico can enjoy the benefits and protections of operating within a U.S. jurisdiction - combined with the added tax benefits of operating as a foreign corporation.

The World Economic Forum, in its 2008-09 Global Competitiveness Report, ranked Puerto Rico 22nd - right behind Brazil and just ahead of Spain - among 134 nations and territories, for the sophistication of its financial markets. Indeed, Puerto Rico combines the security of being part of the United States with the advantage of being able to provide lucrative tax incentives that no U.S. state can offer.

In addition, the island boasts impressive meeting facilities like the Puerto Rico Convention Center in San Juan, which can host up to 10,000 people for international conferences and summits.

Tourism is a top priority for Puerto Rico's Governor Luís Fortuño, who served as executive director of PRTC from 1993 to 1998. The governor is actively pushing a strong business-oriented policy that's aimed at strengthening Puerto Rico's competitiveness and attractiveness for business.



San Juan's Luís  
Muñoz Marín  
International Airport  
connects Puerto Rico  
with the U.S. and  
the world.

# Forward thinking

## Strategic plan 2006-2011

The PRTC's five-year strategic plan, enacted in 2006, aims to boost the island's competitive position as a Caribbean tourism destination and increase that sector's contribution to the local economy.

This plan - the product of an extensive dialogue among all sectors of the tourism industry - focuses on five key areas: hotel development, product development, quality and service, transportation, and marketing and branding.

Simply put, the strategy is to brand Puerto Rico internationally, develop specific areas like ecotourism, gastronomy, water sports, medical tourism, casinos, golf courses and the wedding/honeymoon sector. Also on the priority list: expanding air access to the island and increasing overseas flights to cities like Ponce and Aguadilla, pushing regional tourism and emphasizing San Juan's "Golden Triangle" (Old San Juan, convention district and Condado).

"We try to always be ahead in promoting development of the tourism industry," said Angel Pérez Rivera, PRTC's director of incentives and investments. "Not only do we provide permits to companies willing to develop hospitality projects across the island; we also assist them with tax incentives in a very coordinated fashion."

### Tax and business incentives

Puerto Rico offers a variety of tax incentives to encourage hotel and tourism development on the island.

The most important of these is the Tourism Development Act, passed in 1993. This law covers hotels, condo-hotels, marinas, tourist-related theme parks, golf courses attached to

hotels and entertainment facilities located in airports or cruise-ship terminals, among other things.

The TDA provides a tourist investment tax credits program, under which a developer sells those credits in the Puerto Rico capital market, raising up to 10% of the project's cost. That cash may be used as part of the financing structure of a TDA-eligible tourism project.

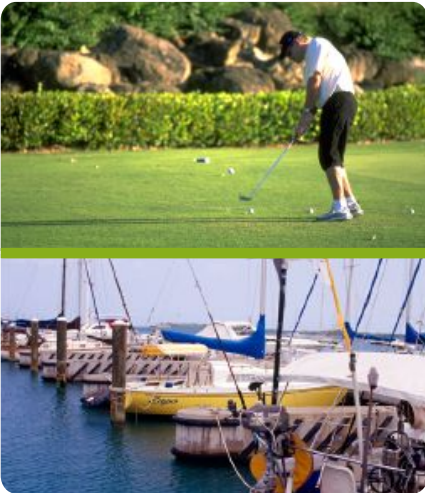
During the construction phase of eligible projects, developers qualify for a 90% exemption on municipal and property taxes, a 100% exemption on sales taxes, and a 90% exemption on income tax (except for the offshore municipalities of Vieques and Culebra, where the income-tax exemption is 100%).

These exemptions are all for a 10-year period, with an optional 10-year extension subject to continued compliance with TDA terms and conditions. Hotels can also benefit from a discounted energy pricing scheme which can slash their electric utility bills by 11%.

But the PRTC's incentives aren't only for big hotels.

Given the current state of the economy, the agency has established a division that offers financial advice to small inns, hotels and paradores (traditional bed-and-breakfast properties scattered across the island). This unit focuses on finding solutions to boost profitability in challenging times.

The first step involves visits to a specific property, where experts in hotel operations and quality control investigate each and every aspect of a property from an operational and guest-experience point of view. Step two includes the preparation of a 10-year financial plan using the uniform system of accounts for the lodging industry, in which PRTC breaks down the hotel's operational costs and revenues to identify any possible cost-saving and revenue-boosting opportunities.



# Popular by all measures

## Investment in the hospitality sector

Hotels big and small are sprouting all over Puerto Rico, with some \$2 billion worth of new hotel construction in nine luxury megaresort projects alone. These nine projects - currently in various phases of construction and development - will add 2,000 new hotel rooms to Puerto Rico's existing stock as they enter the market between 2011 and 2014.

Virtually all hospitality projects are financed by the private sector, while PRTC acts as a "master planner" in terms of selecting and endorsing potential tourism opportunities and facilitating the permitting process. Yet with all the building going on, Puerto Rico still has plenty of room for further develop-



ment. Some regions are relatively unexploited and are ideal destinations for investment. In eastern Puerto Rico, for example, a number of high-end golf and beach resorts are rising. These include the Trump International Golf Course and Residence Villas, the JW Marriott and the St. Regis Resort and Residences at Bahia Beach.

The north-central and northwest regions are home to the surfer meccas of Aguadilla, Isabela and Rincón. Major projects underway here include the 900-room Playa Hermosa in Vega Baja (\$750 million), the 278-room Island Cove condo-hotel project in Arecibo (\$70 million) and the 246-room Dorado Beach Ritz-Carlton (\$535 million).

Also on the drawing board: the 280-room Costa Playa Santa (\$80 million) and the 750-room Antigua Central Guánica (\$555 million), both in Guánica, and the 150-room Hotel Sunset in Rincón (\$70 million).

The San Juan metropolitan area is another key area for tourism investment. Small boutique hotel projects can be developed in the residential areas of Condado and Isla Verde - as well as

historic Old San Juan - mainly through property rehabilitation programs.

At the other end of the spectrum are very large projects, including the 503-room Sheraton Convention Center Hotel (\$209 million). The 305-room Condado Vanderbilt, a five-star hotel opening next summer along Condado's Ashford Avenue, represents a \$106 million investment.

The offshore island of Vieques is also booming. In September, Starwood's 156-room W Retreat - a \$137 million investment - is due to open. Along with seven smaller hospitality projects, they'll soon account for 388 new rooms on Vieques.

Medical tourism is another hot new concept. Primavera, an 854-villa project now underway in Gurabo, represents a \$282 million investment and

is part of PRTC's goal of making Puerto Rico a leading medical tourism destination over the next few years.

Building on the general momentum, next year Puerto Rico will host the 14th Annual Caribbean Hotel & Tourism Investment Conference (CHTIC) - a yearly gathering at which the region's top hoteliers, tourism officials, developers and bankers discuss and plan Caribbean investment strategies.

The event, set for May 4-6 at the new Puerto Rico Convention Center in San Juan, is co-sponsored by the Caribbean Hotel & Tourism Association and the Caribbean Tourism Organization.

"The Puerto Rico Tourism Company is hosting CHTIC to showcase opportunities Puerto Rico offers as an investment and business destination," said Jaime López, the PRTC's executive director. "This conference provides the venue and opportunities to create ties among all Caribbean tourism industry elements and build a stronger and more unified Caribbean destination product for Puerto Rico and the region as a whole."



# Tourism diversified

## The Humacao model



**F**orests, lagoons, beaches, a coconut plantation, a World War II naval bunker, monkeys, turtles and more than 90 species of birds can all be found in the Humacao Nature Reserve - an ambitious ecotourism project along the southeastern coast of Puerto Rico.

Developed by the government with active participation from the nearby communities of Humacao and Naguabo, this 3,186-acre reserve includes mangrove swamps, marshes, channels and a system of interconnected lagoons ideal for kayaking. The reserve also holds Puerto Rico's largest bloodwood swamp forest.

The Humacao Nature Reserve aims to promote not only environmental sustainability but regional economic prosperity through the establishment of a local, nonprofit microenterprise incubator program. The idea: to stimulate a flow of equity and loan capital into this region of Puerto Rico.

Services currently offered by these local micro-enterprises include kayak and bicycle rentals, guided tours, food and snack concessions, and handmade crafts. Under the program, 15% of all income generated by the reserve through admission prices and concession sales will be reinvested.

A visitors' center now under construction will, upon completion this December, offer space for more shops as well as an observation tower, an area for bird watching, administrative offices and laboratories.

The Humacao Nature Reserve is part of the Puerto Rico Tourism Company's efforts to diversify the island's tourism offer while encouraging rational and sustainable use of Puerto Rico's natural resources. The PRTC's ecotourism plan also seeks to develop parameters and design guides for ecotourism facilities, and establish a certification and endorsement system.

---

## Essential contacts

---

### Planning & Development Department Puerto Rico Tourism Company

**José Juan Terrasa Soler, MLA**  
Deputy Executive Director  
Tel: +1 787-721-2400 Ext: 2190  
Fax: +1 787-723-3572  
Email: jose.terrasa@prtourism.com  
Web: www.gotopuertorico.com

### Promotion & Marketing

**Mrs. Edna Z. Schmidt- Soltero**  
Chief Marketing Officer  
Phone: +1 787 721 - 2400 Ext.: 2016  
Fax: +1 787 725-4417  
Email: edna.schmidt@prtourism.com

The **Planning Division** promotes the sustainable development of the island's tourism sector, including that of hotels and general tourist attractions. It is responsible of the evaluation and the endorsement of private and public tourism proposals. For more information please contact:

**Mrs. Hilda M. Ortiz**  
Director Planning Division  
Puerto Rico Tourism Company  
Tel: +1 787-721-2400 Ext: 2062  
Fax: +1 787-723-3572  
Email: hilda.ortiz@prtourism.com

The **Tax and Incentives Division** of the PRTC evaluates applications for financial incentives once projects have been endorsed by the Planning Division of the PRTC. For more information on financial incentive packages please contact:

**Mr. Angel Pérez Rivera**  
Director Incentives & Investment Division  
Puerto Rico Tourism Company  
Phone: +1 787-721-2400 Ext: 2227  
Fax: +1 787-721-8473  
Email: aperez@prtourism.com

---