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Government Incentives Not Enough to Ensure Growth in the Real-Estate Market

Head of Seacastle PR discusses challenges in this sector

Giovanna Garofalo, The Weekly Journal 10 hrs ago



Edward L. Stutz, president of Seacastle PR LLC, affirms that the island's economic challenges hinder potential growth in the local real estate market. >Gabriel López Albarrán

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The president of real estate giant Seacastle PR LLC, Edward L. Stutz, affirmed to **THE WEEKLY JOURNAL** that Puerto Rico's real estate market remains virtually stagnant despite government incentives for investors.

Earlier this year, the government incorporated the federal Opportunity Zones program into the Puerto Rico Incentives Code, which offers tax exemptions and other benefits to investors who develop projects in distressed communities. Meanwhile, under Acts 20 and 22, grantees can receive thousands or even millions of dollars in tax breaks to incentivize investment.

However, Stutz observed that the overall condition of the island's economy—which has been in recession since 2006—is having a “significant impact” on the absorption of existing inventories, which includes commercial and residential spaces. He warned that without a strong economic footing, there isn't considerable enticement for individuals or companies to relocate to Puerto Rico right now.

“There simply is not a strong enough footing in the existing economy to help bolster all of the segments of real estate that need to have a focus and need to have an absorption of the existing inventories on island so that pricing can stabilize, pricing can start to come back and rise up again, and property value can start to increase,” Stutz said.

Moreover, he added that “the government needs to stabilize the finances of Puerto Rico and needs to give investors, consumers and residents a reason to be optimistic about the economy moving forward... Until there is some stability in that regard, I don't think that you're going to see stability in the real estate market.”

Mayors: Look Beyond Metro Area for Opportunity-Zone Investments

His view contrasts with others in the real estate industry, as well as the construction sector, who have said in recent months that the island's real estate market is moving in the right direction, not just in areas like Condado and Old San Juan, but also in other neighborhoods.

When asked if measures such as the Opportunity Zone program would encourage a boom in the real estate market, Stutz stated that the majority of investors or real estate professionals don't have the financial means to reap the benefits of this and other

public programs, given that they cater to a “very specific” group of businesses and investors. He noted that these incentives are generally geared toward larger acquisitions as opposed to small investments.

“Yes, these programs are a wonderful enticement for investment and they are a wonderful vehicle for people to be able to invest in Puerto Rico. However, you can offer all the effective incentives that you want, but there has to be a marriage between those investments and the underlying economy for those projects to be successful at the end of the day,” he affirmed.

Regarding desirable qualities in Puerto Rico’s real estate market, Stutz highlighted that the overall pricing on the island is “extremely enticing” to investors, but the underlying fundamentals of the economy need to be addressed to ensure growth in this sector.

San Juan Holds Crown in Real Estate

Seacastle’s president noted that the fastest-growing area in the local real-estate market is commercial spaces. He pointed out that neither the commercial or residential sectors are excelling at a high rate, but residential will always be second to commercial because it has the greatest inventory on the island.

Although San Juan is developing several residential projects, Stutz stated that these are on the higher end of the market and appeal to a different kind of investor, which is why he wouldn’t consider those projects to be part of the island’s macrostate.

Regardless, he praised San Juan and the metropolitan region as being Puerto Rico’s most desirable real estate haven with the most potential for improvement, stating that the island’s capital has all the elements that people “need and want” in terms of investment and where they want to live.

“Your infrastructure is the most comprehensive in those areas, your highway access—north, south, east, west—is superior in the metro San Juan area, and I think that those are the areas, if you’re looking at large-scale projects, that you’re going to have to identify,” he said.

Solving the Abandoned Property Crisis

Stutz clarified that Puerto Rico's diversity offers opportunities islandwide but, in terms of investment criteria, San Juan and other metropolitan municipalities are more suited to support large-scale investments and they have the greatest inventory available. Furthermore, San Juan has seen an upsurge of businesses and real estate developments in recent years, particularly in Santurce.

"Santurce is a wonderful template for how the rest of Puerto Rico should look at real estate development," he said, praising real estate developer Nicholas Prouty for revitalizing the area and encouraging businesses with the Ciudadela project on Ponce de León Avenue. Santurce's momentum, he said, is mainly attributed to small investments and real estate acquisitions.

"I think the measured fashion in which people are making these investments- small, concentrated investments that should have immediate success- is the only way to do it at this point, to be as conservative as possible, let your business take hold, let your business adjust to the existing economy right now, and grow how it's permitted to within the constraints of the economy. But we have to get the economy stabilized here before a lot of these types of projects can really start to take route," Stutz stated.

Prepa an "Impediment" in Real Estate Investment

Apart from the island's economic and infrastructural challenges, Stutz stressed that the Puerto Rico Electric Power Authority (Prepa) poses the greatest threat to real estate investment, due to its "high" electricity rates and management. The public corporation owes nearly \$13 billion to bondholders and pensioners despite being Puerto Rico's only entity authorized to distribute power on the island.

While the central government has begun to take measures toward establishing a public-private partnership (P3) to take over its transmission and distribution system, its ongoing debt restructuring process and rising rates could deter potential investors, Stutz warned.

“I can tell you with 100 percent certainty that out of everything we’ve talked about this morning, none of it has had as derogatory an impact on the success and traction of new businesses to Puerto Rico than Prepa and their absolute inability and/or lack of desire to structure electricity rates at a rate that would enable companies to afford relocating to Puerto Rico,” he said.



FOMB Proposes Plan of Adjustment to Restructure Puerto Rico Debt

According to Seacastle’s president, he is personally aware of at least half-a-million square feet of industrial projects that were terminated because companies were unable to reach a rate agreement with Prepa.

He also noted that the energy powerhouse requires new companies setting foot on the island to have an entirely self-sufficient electrical production facility, so when those companies factor the cost of building that upon their settlement, they opt for less pricey jurisdictions.

“It is the most nonsensical thing I’ve seen in my time here. Prepa really is the most significant impediment to the expansion of business in Puerto Rico and the attraction of business to Puerto Rico,” Stutz asserted.

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