

# PANAMA

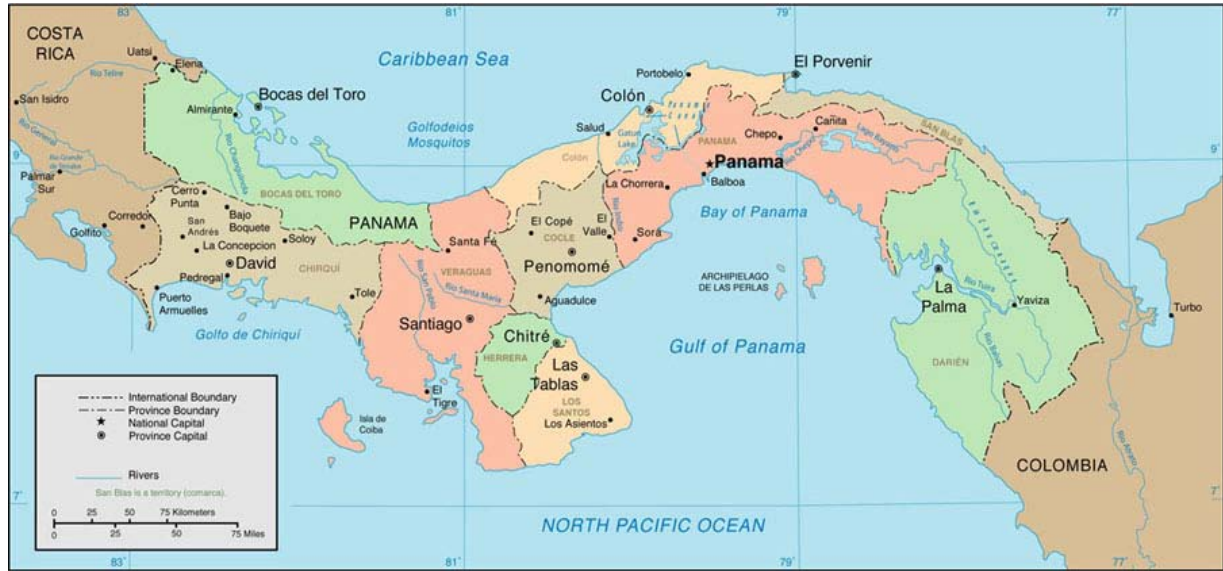


A Pathfinder Report  
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## BACKGROUND



### Panama

**Capital City:** Panama City

**Official Language:** Spanish

**Population:** 3,360,474

**Area:** 29,157 sq miles/75,517 sq km

**Independence** from Spain, 28 November 1821; independence from Colombia, 3 November 1903

**Currency:** Balboa. 1 Balboa=1 Dollar; Panama has its own coins but uses U.S. dollars for paper currency.

**Panama**, the Hub of the Americas, links central and south America. With Colombia lying to the east and Costa Rica to the west, this long narrow country has an abundance of both Caribbean and Pacific coastline. From tropical islands with white-sand beaches, to the folklore-rich Azuero peninsula, Panama's topography is varied. The dry interior starkly contrasts with the lush highlands, the breadbasket of Panama, famed for coffee and strawberries.

Panama is rich culturally, too: seven indigenous tribes inhabit vast comarcas, (reserves), and live a traditional lifestyle. The Kuna people live on the San Blas islands, where you can visit to experience how they live a way of life unchanged for centuries.

Panama City is the cosmopolitan jewel in the crown of Panama, with a unique Latin flair, gleaming Miami-style skyline, theatres, shopping malls, and world cuisine at a fraction of what you would pay back home.

Add in the Panama Canal, recently approved for a major expansion, and Colon Free Trade Zone, a financial center with 80 banks, and a business-friendly environment, and you have all the ingredients of a thriving business hub.

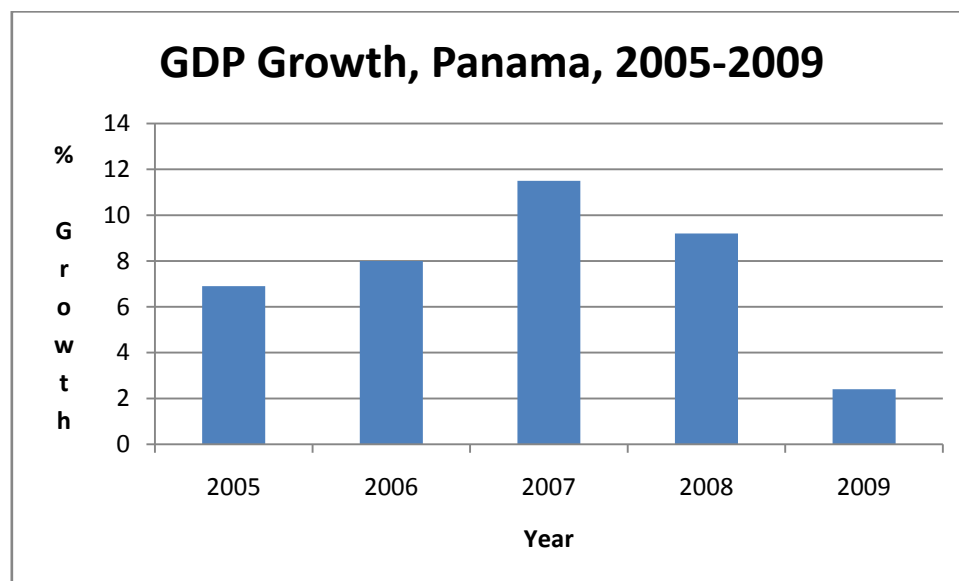
## Climate

Panama City's tropical climate doesn't suit everyone. Panama's dry season runs December to April, and rainy season from May to December. Humidity levels in the city run at 80% + all year, due in part to tracts of preserved rainforest which keep water levels in the Canal topped up. Outside the city, the humidity drops—apart from the Caribbean Coast. The Arco Seco is a dry zone that covers the Pacific beach and part of Azuero. In the Chiriqui highlands, six hours west of Panama City, the climate is more alpine, with average temperatures up to 20F cooler than the city.

## Economy

Economically, Panama's growth averaged 6.4% in the 50s, 60s, and 70s, one of the highest sustained growth levels in history. Following the closure of US military bases in 1999, and rising international interest rates, the economy entered a downswing. More recently, Panama has been booming. Real GDP growth averaged 5.9% in the period 2002 to 2006, and soared to 11.5% in 2007 and 9.2% in 2008. Despite a slowdown in 2009, partly caused by a drop in shipping revenues.

GDP growth is fuelled by the services sector, which contributes up to 80% of GDP—transport, shipping, banking, and tourism. Foreign direct investment quadrupled between 2000 and 2006, with the privatization of utility companies and the merger of local banks with internationals. Panama is perceived as stable politically and economically, with an emphasis on attracting businesses, and many multinationals choose to relocate their regional headquarters here for that reason—amongst them Caterpillar, Hewlett-Packard, and Proctor and Gamble.



## Real estate overview

Panama's real estate sector surged ahead in 2006, fuelled by demand from foreign investors for city condos in prime waterfront locations, and end-users purchasing beach apartments. Prices doubled in some locations between March 2006 to March 2007.

In mid-2007, the slowdown in the real estate market was precipitated by changes in visa laws affecting foreign investors, and tightened lending restrictions by local banks. The sales slowdown carried on into 2008, exacerbated by the world economic meltdown. It's not on the same level as some parts of Florida—you won't see properties being advertized for fifty cents on the dollar. You will see fire sales, though, of units from individual sellers who can't afford to close, and are trying to retain some of their payments (usually 30%) made during construction.

Ronan McMahon gives us a good overview of the current Panama market here:

"The condo market in Panama City has been showing anomalies for the past three years. Anomalies can mean one of two things: profit opportunity...or something's not quite right with the market. In the case of Panama, my view is that something's not quite right.

I exited the market here two and a half years ago. A unit I had bought pre-construction for \$1200 per square meter was valued at \$2100. Nice, considering I only put 5% down and made 3 further payments of 5% during construction. Next door, the same developer was selling pre-construction units in an identical new development for \$3000 per square meter. It just didn't make sense. So I sold...walking away from incredible short-term rental yields.

Today, the "official" price per square meter of a condo in Panama City is \$2,742. This means an average 100-square-meter condo will set you back close on \$280,000. This represents a 2.9% increase on last year.

The past five years has seen an unprecedented boom in the construction of condos in Panama. The skyline has been transformed with cranes and new construction. As condo buildings complete, some buyers (mostly from the U.S.) find themselves unable to raise the funds to close on their condos. They need to sell—or they will lose their deposit, and maybe more. Many buyers had planned on raising funds from lines of credit in their home country. This route is no longer available to them. They are joining the growing ranks of motivated sellers.

A motivated seller will sell for much less than the "official" price per square meter. With the right contacts and information, you can buy a quality condo for \$1,500 per square meter—more than 40% less than that "official" price.

One of your fellow readers for example has listed a 90 square meter unit, fully furnished, in a modern building in Bella Vista for \$159,000. This unit rented for \$750-\$875 per week short-term, and \$1600-\$1900 monthly in low season. 2008 occupancy was 90%. That translated to a net yield of 16%-17%.

Finding deals like this is difficult. There is no MLS in Panama...and real estate agents guard actual sales prices and volumes like state secrets. Agents and sellers use this secret information to keep prices high for the general public. Many sellers continue to be unrealistic about the prices they are demanding. Buyers are negotiating hard. The result is that sales volume is substantially down. Something's gotta give. Sellers will need to be more realistic. A stalemate between buyers and sellers can only go on for so long.

Three to five years ago, the opportunity in Panama was to buy pre-construction. ***Today, I recommend avoiding pre-construction here like the plague...unless you get your hands on a distressed sale.***



The volume of supply coming on the market here in the next two years is alarming. It's very difficult to get reliable information on how much supply will be delivered. Volumes quoted are typically based on permits applied for or received. This is not an accurate indication of true supply numbers. Looking at Panama City's skyline, you don't need to be a rocket scientist to know it has been overbuilt in the past three years. Most of the new condo construction is priced substantially above what a middle class Panamanian can afford, limiting the market to wealthy locals and foreigners.

**Closing costs:** Normally 1% of the sale price  
**Transfer taxes:** 2% of the sale price or the updated value of the property, whichever is higher

**Property taxes:**

Properties with a registered value of \$30,000 or lower do not pay property tax.

For properties of higher value they pay as follows: 1.75% from \$30,000 to \$50,000; plus 1.95% from \$50,000 to \$75,000; and 2.10% over any property value above \$75,000. This is a combined scale.

**Attorney fees:** 1% to 3% of the sale price

**Notary fees:** This is included in closing costs.

**Capital gains tax:** 10%

**Rental income tax:** Roughly 10% -27% if the property is owned by an individual and 30% if the property is owned by a corporation or foundation

**Property Tax exemption:**

Houses or apartments for residential use which construction permit is issued before **1st July 2009** and which completed construction is registered before **31st December 2011**, get a 20-year property tax exemption from the date of their registration or their occupancy permit, whichever is earlier.

### ***Where next for the market in Panama?***

The key question: What will be the impact of all the new supply coming on the market in the next two years?

Rental yields are still strong. The short-term rental sector has seen increased competition, though, as more supply came on the market but the influx of foreign multinationals has increased long-term rental demand, picking up the slack. Meantime, the hotel lobby is pushing to make short-term rental less attractive (for us investors) by requiring that short-term rentals comply with the same regulations as a hotel. That would mean a tourist tax and paperwork to deal with. A growing local middle class is also helping to fuel rental demand. When I was in Panama a few weeks ago, it was announced that the group that recently won the contract to expand the Panama Canal needs up to 1,000 rental condos to house workers for the project. The mood on the ground is positive. Panama's stellar economic performance continues.

I'm bullish on Panama's prospects. They have continued to grow throughout the recent crisis despite their exposure to banking and global trade. Their financial system is solid and they are extremely well placed to capitalize on a global recovery.

***Too much supply is too much supply, however. There's no getting away from that.***

Even assuming the economy continues to grow I expect the next 3-5 years here will be spent absorbing this supply. There's a lot going on here, and this is very much a market in flux.

***I'll be watching this market carefully...I'd jump on the right distressed deal... but for the moment I won't be investing in the Panama City condo market."***

We'd like to introduce you to Panama brokers, Kathy Canton: [Kathy@kathycanton.com](mailto:Kathy@kathycanton.com) , and Jim and Donna Hawley: [panama@panamasolrealty.com](mailto:panama@panamasolrealty.com) . These guys get their hands on great deals from motivated sellers. They will help you buy well if you are interested in finding a below market price deal.

P.P.S Of all the countries on our beat we'd still choose Panama as our top location for living or running a business. The future is bright for Panama...there's just too much supply in the real estate market right now.

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