

URUGUAY



A Pathfinder Report
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BACKGROUND

Uruguay

Capital City: Montevideo

Official Language: Spanish

Population: 3,494,382

Area: 68,037 sq miles/176,215 sq km

Independence: from Brazil, 25 August 1825

Currency: Uruguayan peso

With 120 miles of coastline boasting pristine beaches, a countryside of rolling pampas, colonial cities, small peaceful towns, and old-fashioned beach resorts, Uruguay is diverse, and largely unknown to North Americans.

The coastline is underdeveloped outside the major cities. The stretch from Punta del Este to the Brazilian border is one of the best in Latin America, with bustling seaside resorts, endless white-sand beaches, and wildlife reserves.

Half of Uruguay's population of 3.5 million live in Montevideo. The capital's style and feel is European, with ornate buildings, large plazas, and fine restaurants.

Punta del Este is a world-class beach resort, attracting a glamorous jet set for its world-famous New Year's Eve party. Colonia del Sacramento is a contrast to both—a beautifully preserved colonial city that draws tourists year-round, with its charming cafés and old-world feel.

Uruguay is Latin America's safest country—and one of its least corrupt. Poverty levels are the lowest in the region. The infrastructure works, from the good modern roads, convenient airports, and widespread Internet access. Even the tap water is drinkable. Economically and politically stable, Uruguay offers first world infrastructure and amenities—at Third World prices.

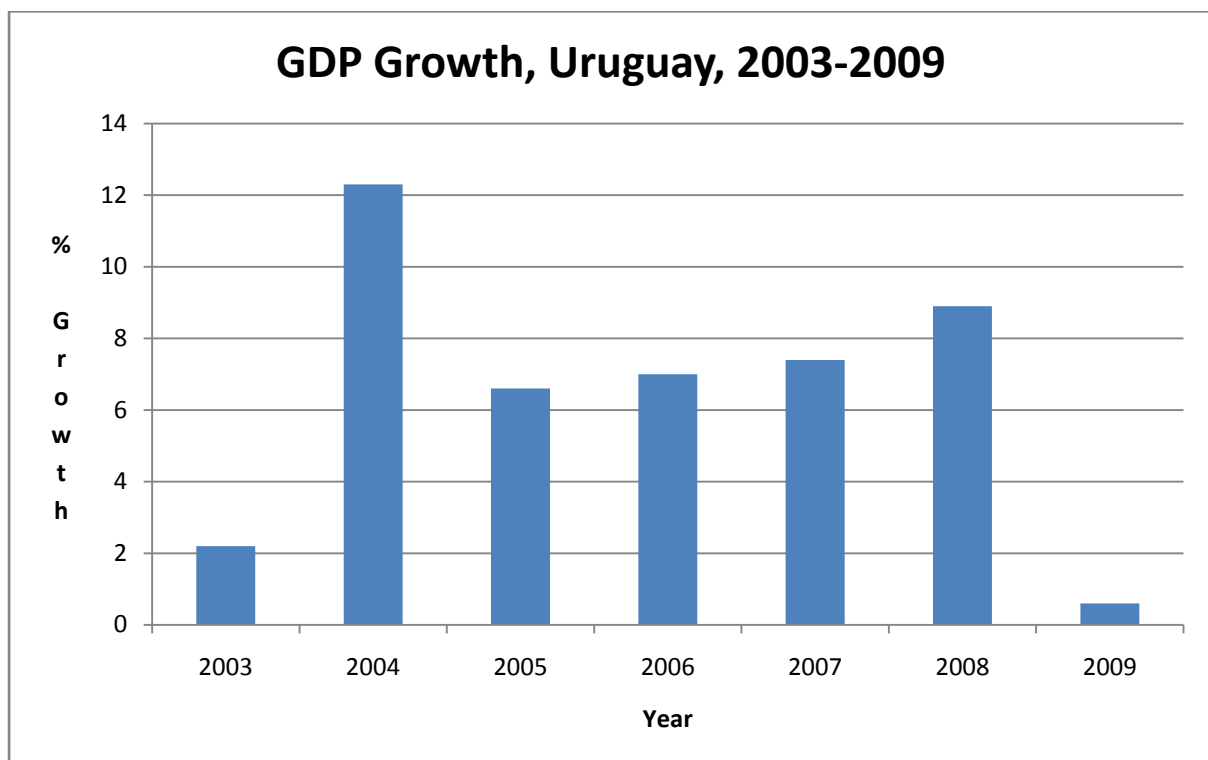
Climate

Located between Argentina and Brazil, Uruguay is South America's second-smallest country, after Suriname. Uruguay has four distinct seasons, with no extremes. Temperatures in Montevideo range from an average low of 43F to an average high of 59F in winter (June-August), and 61F to 82F in summer (December-February).

Economy

Uruguayan incomes were amongst the highest in Latin America during the 1950s. Then, in the 60s, the Uruguayan government introduced a series of tariffs to protect local industry, which resulted in low GDP growth and high inflation. Following a liberalization of trade in the 1970s growth increased. The government abandoned the fixed-exchange rate in 1982, and the peso devalued. GDP declined 16% from 1982-1984, starting to rise again in 1985. From 1996-1998, GDP growth averaged 5%.

Argentina's crisis in 2001 had a knock-on effect in Uruguay. Argentine investors withdrew deposits from banks in Uruguay, forcing the abandonment of exchange-rate policies. The peso fell to half its value against the dollar within weeks, and a sharp economic contraction followed. Real GDP fell 20% in four years, with 2002 being the worst year. Since 2004 the picture has been rosier, although growth slowed to 0.6% in 2009.



1% to 2% of 2008's growth is directly attributable to a new paper mill in Fray Bentos. At \$1.7bn, the mill represents the single biggest foreign investment in Uruguay to date.

Real Estate Overview



Real estate represents some of the best value in South America, and some of the most varied. Take Ciudad Vieja, the historic part of Montevideo. For decades, Ciudad Vieja was neglected and forgotten. But today, infrastructure investment and the restoration of properties are reversing that trend, and Ciudad Vieja is now an up-and-coming area for overseas property buyers.

Aside from a few areas however, Ciudad Vieja is not a preserved tourist zone. It's home to the financial and business district, and many of the business transactions in Montevideo take place here.

Living here as an expat, everything you need is within walking distance--banks, shopping, *Mercado del Puerto's* (Port Market's) restaurants, the boardwalk, the national theater (*Teatro Solís*), and a wealth of small museums.

Ciudad Vieja has an abundance of affordable colonial properties for sale: a 45 square meter (485 square feet) one-bed apartment, in a Spanish-style building, is \$45,000. The building has four apartments with a shared terrace and barbecue area. A 424 square meter (4500 square feet) house with 6 bedrooms, and a wealth of original features, is in need of remodeling—but it's priced at only \$129,000. For more information on these properties, contact Patricia Turner, (patriciaturner@reynoldspropiedades.com).

Many larger renovated buildings in Ciudad have an original ornate exterior hiding a modern loft-style interior. Loft style is rare outside Ciudad Vieja, but works well in many of the older buildings which have ceilings up to twenty feet high.

Almost half the buyers here are Spanish, snapping up properties for renovation.

In Casco Viejo, Panama, where I live, renovated colonial properties average \$2200 a square meter. A crumbling wreck that's just four disintegrating walls starts at \$1000 a square meter, and restoration costs \$1100-1200 a square meter. Montevideo's Ciudad Vieja offers a more budget-friendly alternative for colonial properties, with potential for capital appreciation.



Centro, the heart of Montevideo, is adjacent to Ciudad Vieja. Properties cost less than they would in Ciudad Vieja—Centro is not touristy, and wealthy city-dwellers prefer the swish suburbs of Carrasco and Pocitos. A 140 square meter (1500 square feet) apartment, dating to the 1920s, is for sale at \$110,000. The apartment has high ceilings, plaster moldings, and wood floors.

A better bet is property classed as commercial office space. I've seen many large apartments in central areas of Montevideo listed as office spaces. I'm not talking about dark, cluttered commercial spaces that you'd never live in. These are period apartments, with style, original features and elegance, that are simply too large for the local residential market.

Montevideo's middle class prefers a home in the exclusive Carrasco suburbs. Buyers looking for a city apartment usually want a smaller space. These apartments are also too large for short-term rental.

They do however rent long-term to companies and businesses, with leases of up to five years. One such apartment, 315 square meters, had an asking price of \$447,000. Rented as an office for a five-year term, the yearly rent was \$28,200 a year. That's a respectable 6.3% yield—if you paid the full asking price. It's worth noting that long-term rents in Montevideo bucked the global trend and increased in 2008 by an average 9% according to the National Institute of Statistics.

These larger, formerly-residential apartments are overlooked by the residential market, ending up hidden in commercial office space listings. I don't expect these apartments to be hidden for much longer. Increasing numbers of expats are relocating to Montevideo, and they prefer bigger, centrally-located apartments with period features...exactly what these "office" apartments offer.

I've seen more of these "office" apartments in the Centro district than anywhere else in Montevideo. Centro is Montevideo's downtown, with plenty of historic buildings. It's close to the financial and banking districts. The new presidential offices are in Centro. It's lively at night, with many restaurants and cafes. If you're looking for peace and

Real Estate Transaction Costs Uruguay

Costs when purchasing/selling property in Uruguay:

- a. Property transfer tax (ITP): 2% of the property's fiscal value (which is usually substantially lower than the market value, so the tax, on average, is 0.5% to 1.5% of the purchase price).
- b. Notary ("escribano") fees: 3.66% (composed of 3% fee plus 22% value added tax) of the purchase price.
- c. Registry stamp duties ("montepios"): 0.55% of the purchase price.
- d. (Optional, if a real estate broker intervenes): Real estate broker fee: 3.66% (composed of 3% fee plus 22% value added tax) of the purchase price.
- e. When selling, 12% capital gains tax.

tranquility, Centro is not the place for you—although you won't have to go too far to find a quiet plaza.

I uncovered the secret world of "office" apartments on a scouting trip last year. I asked a realtor to find me properties in Ciudad Vieja. She persuaded me to check out an office overlooking Plaza Independencia in Centro. She said there was potential. She was right. The building was beautiful, excellently maintained, and had a uniformed porter. The Canadian embassy occupied one whole floor.

The turn of the century apartment had graceful, classical proportions. It had plaster moldings, stained glass, parquet floors, and decorative tile floors: there was a whole room paneled in wood. It didn't have a proper kitchen...but at \$210,000 for 190 square meters, a kitchen was not a deal breaker.

There was a company interested in renting the space. I calculated an 8% rental yield. I made an offer, thinking I would rent it for a while and perhaps eventually live part of the year in the apartment myself. The seller immediately hiked the price—I guess he thought a foreigner would pay more. I didn't make a counter-offer. Instead, I asked the realtor to let me know when similar properties came on the market.

If you've always dreamed of a Parisian-style apartment, or a spacious retirement home, but couldn't afford it, these "office" apartments are worth investigating. Don't take too much time thinking about it though...the good ones don't stay on the market for long. Contact patriciaturner@reynoldspropiedades.com if you are interested in this type of property.

East of Montevideo you'll find Piriápolis, a picturesque seaside town. Piriápolis is back-dropped by Sugar Loaf, one of Uruguay's few mountain peaks, and surrounded by gaucho country, unchanged for centuries. It was Uruguay's first seaside resort—and remains a favorite for many.

Overlooking Piriápolis is Sugar Loaf Ocean Club, a private community located 90 minutes from Montevideo and 30 minutes from Punta del Este. The property is offset by Sugar Loaf Mountain to the back, and most lots have sea views (along with views of Piriápolis itself). Lots are available, from \$69,000.

Punta del Este is well-known as a playground for the rich and famous. It oozes glamour and style...and celebrities, in high season. It ranks as the number one tourist destination in Uruguay. It's also a perfect retirement destination—and you don't need a celebrity-sized bank account to buy a home here.



Punta del Este is South America's premier beach resort. Fifty kilometers of beach wraps around the *Punta*, or Point. There's shrubbery and woods, some close to the beaches. You get a choice of

beaches: Playa Brava's waves attract surfers, while those looking for calmer waters head for Playa Mansa.

The main shopping street, Avenida Gorlero, is a mix of souvenir shops, designer boutiques and sidewalk eateries. Punta del Este also boasts a marina and yacht club. A waterfront boardwalk (*rambla*) runs around the point, bordering the marina and the beaches.

The old town is low-level, and free of high-rises. The church and lighthouse (dating back to 1860) form the centerpiece for the quiet streets and detached homes.

Punta ranks as a near-perfect retirement spot. The quality of life is unrivaled. The town is safe. The beaches are beautiful. The pace of life is tranquil.

The streets are spotlessly clean, and the beaches picked clean of litter daily.

The area is centered on the town of Punta del Este itself, referred to locally as "the peninsula". From there, Playa Mansa stretches to the southwest, while Playa Brava goes to the northeast.

The coastal road is marked by bus stops called *Paradas*. Normally when you're given the location of a property, it references the *Parada*. (The numbers get higher as you get further from the Peninsula.) For example, a home may be on Playa Brava, *Parada 10*; another on Playa Mansa, *Parada 33*.

The price for luxury oceanfront properties hit a record-breaking high in 2009 with \$7.3m paid for a 1719 square meter/18,500 square-foot apartment. Go a few blocks back from the beach or a short distance from town, though, and prices drop dramatically.

A 110 square meter house (1184 square feet) is in excellent condition throughout, and is open for offers at \$150,000. It's a third of a mile from the closest beach. A house with a thatched roof, with 3 beds and 2 baths, is in move-in condition but further from the beach (a little over a half-mile). This home has 120 square meters (1290 square feet) of living space for \$107,000.

In fact, I was surprised at just how much inventory at reasonable prices there is in Punta del Este. An online search on one website for properties from \$80,000-\$175,000, revealed 234 houses and 339 apartments...and I only searched for those listings with photos.

For an affordable retirement home in a location with a unique appeal and desirability, Punta del Este certainly fits the bill. And you might even get the chance to rub shoulders with the visiting glitterati.

Northeast of Punta del Este, in the province of Rocha, you'll find the best beaches in Uruguay. Rocha is very much undiscovered by North Americans and Canadians. Inland, you'll find cattle ranches, and sleepy towns, most with populations of less than a 1,000 souls. The coast is where the action is. The beaches here are wide, natural and pristine. The deep-blue water contrasts with powdery golden sands. You won't find high-rises or all-inclusive resorts...yet.



What you will find are Uruguay's best seaside towns. La Paloma fills with tourists in high season, but it's still a small, friendly beach town. La Pedrera has an up market feel, with large weekend homes beside a sweeping curve of beach. Cabo Polonia is famous for its shifting sand dunes, and bohemian residents.

There's an abundance of nature reserves and parks in Rocha, many with lagoons ideal for bird watching enthusiasts.

Rocha's seacoast draws visitors from Uruguay, Argentina and Brazil. International developers are paying attention, quietly purchasing large tracts of land. Land values are increasing year-on-year.

One planned project is by Argentina's foremost developer, Eduardo Costantini. Estimated costs for his development run to \$350m. This is the first upscale development in the area, and will raise the bar for quality and luxury. In the next 5-10 years, I expect to see more developments get off the ground in Rocha. This is one area that's worth keeping an eye on.

One of the few developments you'll find in Rocha is Laguna Tranquila. Overlooking Laguna de Rocha (a 42 square mile lake), and surrounded by a protected area and national park, there's nothing like Laguna Tranquila for peaceful country living. One of Uruguay's most pristine and isolated beaches is close by. Developer Carl Wescott has lots from around \$62,000.

If you want to explore Sugar Loaf and Laguna Tranquila, along with Montevideo, Punta del Este and hundreds of miles of beautiful beaches, contact the folks at Uruguay Property Tour. On this six-day seven-night tour, you will experience Uruguay's undiscovered coast, and undervalued real estate, with tango nights and wine tasting thrown in. Check out the 7-day Uruguay property tour offered [here](#).

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