

HOT TROPICS REAL ESTATE NEWSLETTER

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The Hot Tropics Real Estate Newsletter comes out once a month.

Welcome! To those of you who are receiving the newsletter for the first time.



THIS ISSUE OF THE NEWSLETTER CONTINUES WITH THE BASICS OF INVESTING IN REAL ESTATE IN COSTA RICA.

The purpose of including this information in the Newsletter is to help one better understand the buying process, deal with possible complications and problems, and be better prepared once that ideal property is located. Again, this is definitely not Kansas.

Buying Property

In matters of land and property ownership, foreigners and Costa Rica citizens have equal rights under the law (unless the owner bought the land as part of a government program or if it is Maritime zone and concession land). Foreigners do not have to live in Costa Rica to own property there.

Once you have decided to purchase a property, the following are the basic steps that are followed. And remember, we are

here purposefully giving you some of the bad, as well as the good news. This is how it is:

Step 1: Sign an option to Purchase with the seller.

Step 2: Deposit funds into escrow.

Step 3: Perform title research; basic Due Diligence (review to ensure property is free and clear of defects).

Step 4: Closing- Execution of Transfer, Endorsement of Shares and/or Mortgage Deed and disbursement of funds.

Step 5: Register new owner with Public Registry.

Signing an Option

If you have found the property you like and have completed the negotiations, usually with your attorney in attendance, the first thing to do is to make sure nobody else can buy the property (from underneath you) while the title search is being conducted. This can be established by signing an Option to Purchase Agreement with the seller, in the presence of a lawyer. Usually 10% of the sale price is given as a deposit held in escrow until closing, at this time.

With an Option to Purchase Agreement the buyer is paying for the right to purchase the property at a predetermined price within a specified period of time. The owner has not yet renounced any ownership rights nor have any obligations been transferred with the signing of the Option to Purchase Agreement.

Research the Property Information

By law, all properties must be registered in the public registry, the Registro Publico. The attorney has to conduct a title search at the Registro Publico (Public Registry) concerning the property you want to buy.

Most properties have a title registration number called the "Folio Real." Once you have this number you can search the database. The Registro Publico's Report contains information such as the name of the title older, boundary lines, tax appraisal, liens, mortgages, recorded easements, and other records that could affect the title. Costa Rica follows the "first in time, first in rights" rule. Additions to a property title are prioritized according to the date they were recorded.

It's very important that the attorney searches the title back to the beginning, to its first registration, so there is no uncertainty about the present ownership of the property.

Closing: Write a Transfer Deed

The deed is the document that transfers ownership of the property. The transfer is made

with the buyer and seller signing the transfer deed (called an "escritura madre") in the presence of an attorney. The attorney then drafts the transfer deed and registers the sale at the Registro Publico.

Custom dictates that if the buyer pays in cash, he or she selects the attorney to draft the transfer deed. If the purchase is financed, then the transfer can be made in various other ways, and the choice of attorneys is usually up to the seller.

Closing Costs

By custom, buyer and seller split the closing costs, but the split percentages may be adjusted up or down to fit the occasion. Closing costs consists of

Taxes

You must buy Documentary Stamps- Agrarian, Hospital, Municipal, Bar Association, National Archive and Fiscal- totaling 0.55% of sale price. You must pay a Real Estate Transfer Tax at 3% of the sale price and a Registration Fee of 0.5% of the sale price.

It is customary in Costa Rica to register a property at a figure for less than its actual sale price. All transfer taxes and fees discussed above are figured as a percentage of the reduced sale price -with the exception of the notary, who uses the actual sales price as a basis.

The Notary drafts the documents. He or she knows exactly how much money changes hands. He or she collects the full .5 to 1.25% of the sales price.

Mortgage Registration

Usually, the person getting the (private) financing pays for the costs of drafting and registering the mortgage instrument. A mortgage may be issued at the time of the sale by adding a mortgage clause to the transfer deed.

Register the transfer deed:

To register your transfer deed the attorney must bring to the Registro Publico (Public Registry) the following documents:

1. Proof of payment of all taxes and registrations fees
2. Certifications issued by: a) Finance Ministry, confirming that all seller's property taxes were paid; and b) the local Municipality, stating that buyer and seller are up to date on municipal taxes.
3. Proof that all prior mortgages, liens and judgments (if any) have been resolved.

Once all fees are paid, make sure that the attorney who drafted the transfer deed does register it in the Property Section of Registro Publico. It should be registered with the Registro Publico within 45 to 60 days.

Check with the notary to make sure the deed has been properly filed and that all paperwork is handed over when officially registered.

The total time span between signing the Option to Purchase agreement and receiving the actual registered deed can take anywhere between 2 weeks and several months.

The time it takes depends on the type of property, accuracy of paperwork, registration of the seller, professionalism of the legal representatives and last but not least...Costa Rican bureaucracy!

Protecting your Property

One of the greatest concerns of purchasing real estate in a foreign country is to ensure that the transaction will be executed legally. The Costa Rican legal system, if followed correctly, does give ample protection to buyers, but if the transaction is not executed properly, loss can occur. To guarantee the security of any real estate investment, there are some tools that should be present in any real estate transaction.

Adequate legal representation and experienced Notary.

While a notary's primary duty is to provide Public Faith to a transaction, his/her job is also to act as the legal representative of the buyer, providing legal advice and representation throughout the process.

Escrow

Escrow service in Costa Rica not only includes the managing of funds for a property purchase, but, as well, all of the administrative work required to execute a closing, including being the central party responsible for ensuring that all documentation is in order before the closing. The primary function of escrow in Costa Rica is to prevent manipulation or mishandling of funds prior to closing.

The escrow agent is a neutral third party with responsibility for issuing checks and executing payments.

This system provides confidence to all interested parties (e.g. attorneys, brokers, seller, buyer) that funds are protected during the buying process and that all funds will be disbursed appropriately to all parties at closing.

(continued, next Newsletter)

Commentary

The last rains of the season are passing now. Costa Rica's summer is soon to arrive. The mountains are still steaming, exhaling mist, and for a month or so more will continue to promise an abundance of things, promising explosive tropical growth. And when the rains finally stop and the steamy mountains become still, then travelers and tourists from the north will begin to arrive in earnest. And so, too, will begin again the Great Debate on whether tourism and change is good or bad for all that is essentially Costa Rican.

Certainly, no country village, no city, absolutely no place anywhere, is utopian to those who were born there and who live there and who feel entrapped by their place of birth, their hometown. The newly arrived traveler, throughout the world, is more tolerant, more forgiving, ever more interested in the culture and the traditions of the new place than are the local people. As is the newly converted non-smoker or religious convert a greater zealot than those who were born into a religion or those who had never smoked, so too is the traveler to Costa Rica more keen on maintaining and protecting the original, primal nature of the place than are the natives.

The environmentally sensitive newly arrived traveler decries the proliferation of condos and enormous institutional "resort" hotels. The Ticos, for the most part, welcome them and enjoy the "modernizing" of their country and the employment that such places provide. It is the foreigners in Costa Rica who toil to preserve what remains of the capital's old adobe and Victorian tropical architecture, as well as throw themselves in front of bulldozers bent on plowing under another forested area, while Costa Ricans flock to every new building that houses a McDonalds, Pizza Hut or Kentucky Fried Chicken as though they were hallowed, sanctified places.

"Good god," says my friend from California, as we drive from the airport towards Escazu, "...TGI Friday, Tony Romas Ribs, Colonel Sanders...it looks like The Valley!" I nod and smile to myself, knowing that in another three minutes we will be winding up the hill to San Antonio de Escazu, and there we will see no more chain restaurants nor traffic jams, but instead there will be humble farmers with their machetes strapped to their sides, some leading their cows to pasture and waving as we drive by, and from the quiet shade of the mountainside there will be glorious views of the valley, the volcanoes, the tropical world. My friend will sigh, and say "Ahh. Now, this is more like it...".

— Harvey



Hot Tropics Real Estate Investment Fund

How it works. The Basics.

To clarify the basic mechanics of the Hot Tropics Real Estate In- vestment Fund:

1) To become a shareholder in the Fund, you will send funds to a corporate savings account, here in a Costa Rica national bank. These funds, once cleared, will draw interest for you at whatever rate the national bank is offering.

2) The shareholder will elect whether a) to have us directly invest their funds in whichever property that we determine to be an exceptional buy,(a steal), and we will immediately let the shareholder know that we are investing so-and-so amount of their shareholder funds in so-and-so property, on their behalf, or b) the shareholder will be given all available information on the property, and the shareholder will decide whether to have an amount, as specified, of his or her shareholder funds, used towards purchase of this property.

3) This will be a “first come, first served” arrangement. That is, the first shareholders to indicate approval, in writing, via email, in an amount adequate to acquire the property/project, will become the owners of that property/ project.

4) Those in group a), who would be allowing us to determine whether or not to invest their funds on their behalf, will have priority over those in group b).

5) The reason for not simply pooling all shareholder funds to affect a purchase, improvement, and resale, is that in such a case the profits would be too diluted to afford a high percentage of return on investment.

6) Shareholder funds will be “locked in” for a one-year period. If, after that year these funds have not been used towards purchase of any of the properties that we have proposed for pur-

chase, improvement, and resale, the shareholder funds can be invested in a Real Estate Investment Fund project, and the shareholder will have approval rights as to which investment project to select. Such projects will include commercial centers, condo projects, and raw land improvement and subdivision.

An example of such an investment project would be

Hot Tropics Investment Fund administrators have determined that a large drive-in, self-storage compound is needed and wanted and would be highly profitable. (There is, at present, only one such self-storage place in the Central Valley of Costa Rica, and it is small.)

Investment Fund administrators would invest your funds toward acquisition of land and development of such a selfstorage place, and you would receive profits in proportion to your investment, as sales of these units are completed. We would not get into traditional REIT arrangements of monthly rentals and income, but would only develop and sell such units, and you will directly receive profits from these sales, in relation to your investment.

8) The Hot Tropics Real Estate Fund administrators will be responsible for paying “hard” costs, and will take their fees in a 2/10 arrangement. That is, 2% will be taken from funds submitted at the front end, and 10% of profits realized, at the back end, upon distribution of profits.

Here is an example of the entire process

The fund administrators locate a house for sale, in a distress situation. The developer/builder does not have the funds to complete the house construction.

The developer/builder will sell this 4-bedroom house for \$290,000, in this incomplete condition. We determine that it will cost \$8,000 to complete the construction. It will cost an additional \$2,000 to install grass and landscaping. We know that the house, once completed and with landscaping, will sell quickly if offered at \$400,000. Other houses

in the same development, with less square footage, have sold for \$460,000, recently.

We send out complete information to all shareholders in the Fund, detailing acquisition, improvement, and resale profit potential of this house. Two shareholders in the a) group (those that are allowing us to act on their behalf and invest for them) are selected to invest \$75,000 each towards property acquisition and improvement, and two shareholders from the b) group (those who want to pre-approve any investment of their funds) each immediately indicate that they wish to invest \$75,000 in the purchase and completion of this house.

Purchase and improvement costs, total:	\$300,000
Property sells for:	\$400,000
Taxes, legal and registration fees:	\$10,000
Gross profit:	\$ 90,000
Fee to Fund administrators:	\$9,000
Net profit:	\$ 81,000

Profit distributed to four equal shareholders: \$20,250 per shareholder, (on an investment of \$75,000 per shareholder.)

The above is an example only, and is considered conservative.

Hot Tropics Real Estate Investment Fund

A New and Safer Form of Investing

The best performing real estate investment instruments in the United States over the last few years have been Real Estate Investment Trusts or REITs.

These are a good investment for those who want regular income. REITs allow investors to buy into non-residential investments (malls, office buildings, etc.) for the purpose of generating monthly income through rentals and interest on mortgages.

The Hot Tropics Real Estate Investment Fund invests for the purpose of substantially higher yield with a targeted turn-around, or “flip” period of one year and does not intend to invest for the purpose of generating income stream. This Real Estate Investment Fund has as its investment strategy the simple and very old concept of “buy low, then sell high, in a brief period of time.”

There are many other advantages with investing in the lucrative real estate market in today’s Costa Rica. This is still a developing country and in such an environment, the upside on “buy low, sell high” can be very, very profitable to the smart investor.

Many people naturally hesitate when they consider buying into such a developing country as Costa Rica. Those who do not live here have legitimate concerns about moving to and investing in this small, extraordinary country, with its foreign language and with so much unknown about local laws, customs and procedures.

To alleviate that nervousness, to create a wider “comfort zone”, and to make it easier for larger numbers to take advantage of the very remunerative investment conditions in today’s Costa Rica, we have created the Hot Tropics Real Estate Investment Fund.



A REVIEW OF Hot Tropics Real Estate Investment Fund Basic Terms & Conditions

1. Shares are available to our clients, at either \$50,000 USD per share, for Class A, and \$10,000 for Class B shares. There are no limits to the number of shares that one can buy. This is an open ended Real Estate Investment Fund. One can buy shares at any time and these will be held in trust in your name by a reputable, recognized legal firm. There are certain advantages to Class A shares, and these will be stated in company bylaws.
2. Hot Tropics will focus its property searching strategy to locate very exceptional deals. These are to be, by definition, properties with short term resale, or “flip” potential with exceptionally high profit.
3. We will review and evaluate and then advise you of any spectacularly good buy in the pre-construction market for condos, single-family residences, and emerging pre-construction land development deals.
4. We will send out a detailed information sheet to all shareholders, complete with photos

and relevant comparative data as to why we consider that particular property to be an exceptionally great deal.

5. As a shareholder you will have a given period of time to decide whether or not to use your investment shares towards the purchase of that specific property. You can come to Costa Rica to view the property yourself, or you can trust our expertise to act on your behalf to invest your shares, or not, as you wish, towards the purchase of that specific property.

6. Hot Tropics will set realistic expectations about the short-term profits to be made on the resale of these properties and will advise you as to these expected performances and any possible associated risks relevant to these choices. All properties will have a targeted turn-around time of one year.

7. As a shareholder you will always have an option as to how you choose to receive your profits. These can be reinvested in additional shares of the Hot Tropics Investment Fund or we can send your profits to any designated point, whether a bank account here, or anywhere you specify. Remember that there are no capital gain taxes in Costa Rica and that your earnings can also be entered in a bank account in the name of your own personally held and controlled corporation, here in Costa Rica.

Goal and Final Product

The primary goal of the Hot Tropics Real Estate Investment Fund is to reduce the risk of real estate investment in Costa Rica while delivering exceptionally high returns under all market conditions.

Final Product of the Fund

Annual return on investment of 50%, with such returns disbursed regularly and expeditiously to shareholders of the Fund, unless such returns are to be reinvested as requested by the individual shareholder.

We are at last formally registered and authorized to receive your funds for investment.

Shares of the Hot Tropics Investment Fund are offered at:

\$50,000 USD per Class A share.

\$10,000 USD per Class B share.

Class A shareholders will have a higher priority position in purchasing offered properties.

Both Class A and Class B shareholders will be invited to attend an annual shareholder meeting in Costa Rica.

Wire Transfer Instructions

For those of you who might like to read some of the documentation required to complete registration of the Hot Tropics Real Estate Investment Fund with Costa Rica government agencies, here is the link:

Government Documentation

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