

THE REAL ESTATE PURCHASE PROCESS

Moving to Costa Rica

INTRODUCTION

As a client interested in purchasing real estate and relocating to Costa Rica, you should be aware of several key aspects:

1. Property Ownership: In Costa Rica, foreigners enjoy the same property ownership rights as locals. You can buy fully titled property, subject to certain conditions if it's concession property (near the beach).

2. Purchase Process: It involves choosing a property, making an offer, and conducting due diligence to ensure clear title. The process is straightforward but requires attention to legalities.

3. Legal Assistance: Engaging a competent attorney is crucial for navigating the legal aspects, including title transfer and understanding local laws.

4. Costs and Financing: Be prepared for various costs such as closing fees, legal fees, and potentially, financing challenges. Banks offer mortgages to foreigners, but it can be complex.

5. Residency Considerations: While property ownership does not require residency, if you plan to stay long-term, understanding the residency application process is important.

6. Cultural Adaptation: Adapting to local customs and legal practices is essential for a smooth transition.

7. Additional Considerations: Understand the implications of owning property within a corporation, the responsibilities if it's part of a Homeowners Association, and the tax implications.

THERE ARE NO CLEAR RULES

- NO Licensing of Real Estate Agents.
- NO Official Multiple Listing System (MLS).
- NO centralized pricing comparables.
- Little oversight over sales Real Estate development projects.
- Slow and inefficient Judicial Court System.
- Complex permitting and construction procedures.
- Corruption issues.
- Extensive environmental hurdles.
- Title fraud considerations.

Let's Get Started



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Finding the Right Property

In Costa Rica, the absence of a centralized Multiple Listing System (MLS) means property listings can vary among real estate agents. It's important to choose an agent with local expertise in your area of interest, as they often have better community connections and access to more listings.

Having a real estate attorney involved early in the property purchase process in Costa Rica is crucial for legal oversight. An attorney ensures legal oversight, verifying property titles and drafting necessary documents, thus safeguarding the buyer's interests in a market where discrepancies in listings are common. This legal support is essential for a smooth and secure property acquisition.

You can find properties through agents, direct interactions with sellers, or purchases from real estate developers.

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Ownership of Property

In Costa Rica, foreigners have **equal property ownership rights** as Costa Rican citizens, without the need for legal residency or local partners. Property can be purchased individually, jointly, or under a Costa Rican or foreign company, with the best ownership form depending on individual circumstances, a decision best discussed with a local attorney.

The Costa Rican government maintains a national property recording system, freely accessible, to check for any liens, annotations, or mortgages against a property.

The property recording system is centralized in the National Registry (Registro Nacional) which is located in the capital city of San Jose and is under the supervision of the Ministry of Justice.

The Property Section (Registro de la Propiedad) of the registry acts as a depository of documents that have been executed and filed in the system.

All titled property in Costa Rica has a title registration number that can be searched on the National Registry property database. Any person can open a free account to access property records. To obtain title certifications or copies of documents the National Registry will charge for those services.

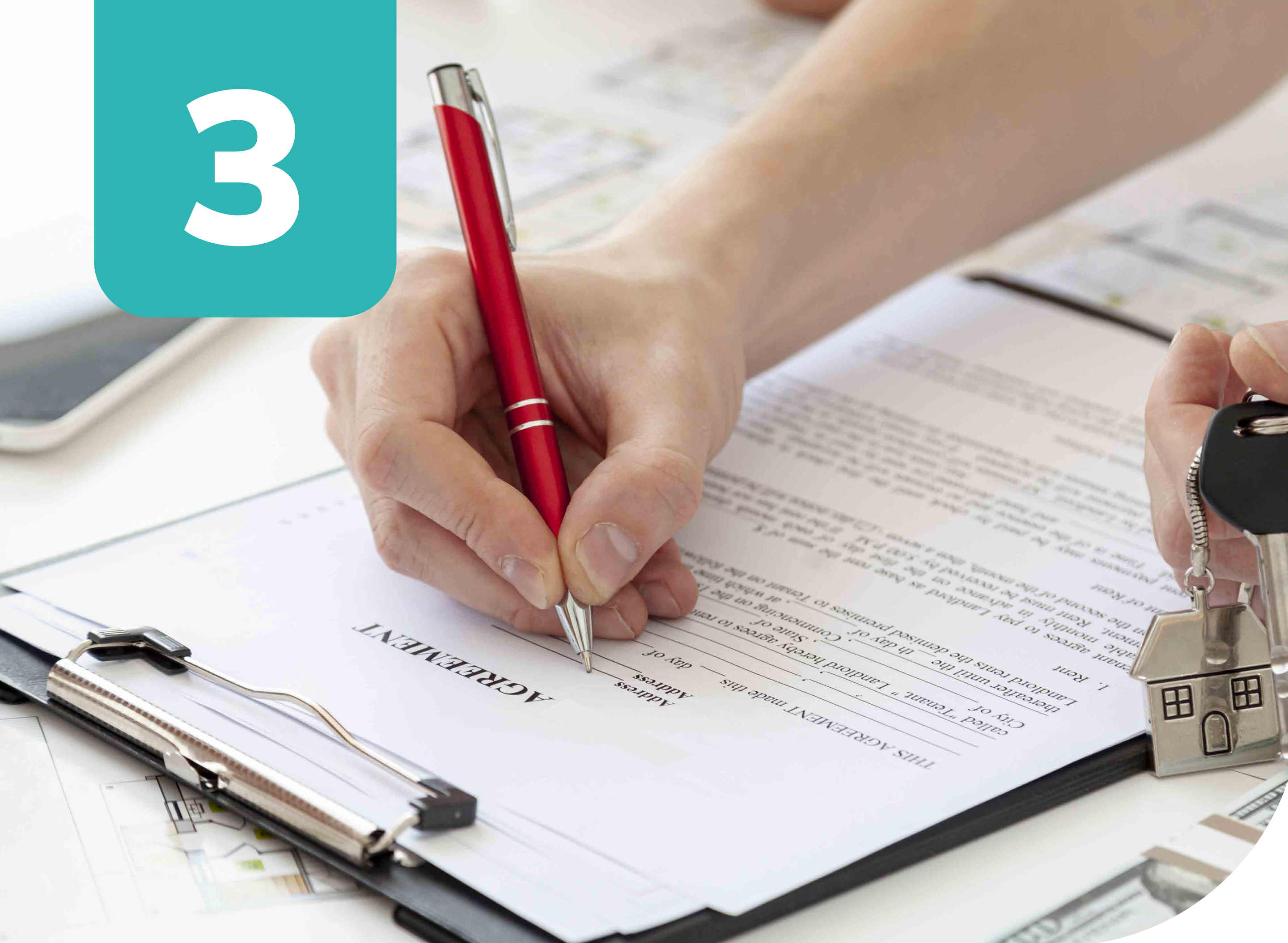
You can access the National Registry of Costa Rica here!

Who Can Own Property in Costa Rica?

- Foreign property owners have the same rights as Costa Rican citizens.
- No Residency Required.
- No Local Partners Required.



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The Purchase Agreement

The Purchase Agreement is a crucial document in real estate transactions, serving as a detailed guide to ensure clarity and address potential issues during the purchase process. Its thoroughness is key to preventing misunderstandings and addressing any contingencies that may arise.

Purchase Agreement

The undersigned (herein "Purchaser") hereby offers to purchase from the owner (herein "Seller") the real estate located at _____ in the city of _____ County of _____ State of _____ the legal description of which is: _____

Upon the following terms and conditions:

Purchase Price and Conditions of Payment

The purchase price shall be _____ Dollars (\$ _____) to be paid in accordance with subparagraph _____ below:

- **Cash:** The purchase price shall be paid in its entirety in cash at the time of closing the sale.
- **Cash Subject to New Mortgage:** The purchase price shall be paid in cash at the time of closing the sale subject, however, to Purchaser's ability to obtain a first mortgage loan within _____ days after the acceptance of this offer by Seller in the amount of \$ _____ payable in not less than _____ monthly installments, including interest at a rate not to exceed _____% financing. If such financing cannot be obtained within the time specified above then either Purchaser or Seller may terminate this agreement and any earnest money deposited by Purchaser will be promptly refunded.
- **Cash Subject to Existing Mortgage:** The purchase price shall be paid in cash at the time of closing the sale after deducting from the purchase price the then outstanding balance due and owing under the existing mortgage in favor of _____ dated _____ 20____ in the original amount of \$ _____ of such mortgage debt is approximately \$ _____ as of _____ 20____.
- **Cash with Assumption of Existing Mortgage:** The purchase price shall be paid in cash at the time of the closing of the sale after deducting from the purchase price the then outstanding balance due and owing under the existing mortgage in favor of _____ dated _____ 20____ having a present balance of approximately \$ _____ as of _____ 20____ which the purchaser hereby assumes and agrees to pay in accordance with its terms and to perform all of its provisions; purchaser shall pay any and all payments coming due after the closing of the sale. Any transfer fees required by the mortgage shall be paid by _____.
- **Sale by Land Contract:** The purchase price shall be paid in accordance with the certain land contract attached hereto and incorporated into this contract by this reference. The down payment to be made at the time of closing this sale shall be \$ _____ and the balance of \$ _____ shall be paid at the rate of _____% per annum.

Earnest Money Deposit

As earnest money Purchaser deposits \$ _____ with the broker which shall be applied to the purchase price at the time of closing the sale. In the event that this offer is not accepted by Seller this earnest money deposit shall be promptly refunded to Purchaser by the broker. In the event that this offer is accepted by Seller and Purchaser shall fail to perform the terms of this agreement the earnest money deposit shall be forfeited as and for liquidated damages suffered by Seller. Seller is not, however, precluded from asserting any other legal or equitable remedy, which may be available to enforce this agreement.

Be as detailed as possible.

Contract must comply with Costa Rican law.

Do not leave issues up for interpretation.

Be clear about the default provisions.

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Escrow Services

As part of the purchase process, we generally recommend using an Escrow company. This offers some of the following benefits.

- 1. Security of Funds:** An Escrow company acts as a neutral third party that securely holds funds during the transaction. This reduces the risk of fraud or misappropriation of funds, as the money is only released when all agreed-upon conditions between the buyer and seller are met.
- 2. Transparency and Accountability:** Escrow services provide a transparent process where both parties can track and verify each step of the transaction. This accountability ensures that both the buyer and seller adhere to the terms of the agreement.
- 3. Reduction of Risk:** By using an Escrow company, the risks associated with the transfer of large sums of money are significantly reduced.
- 4. Compliance with Money Laundering Legislation:** Escrow companies in Costa Rica are subject to money laundering compliance laws. As such they will require you to provide source of funds documentation as well as Know Your Customer forms.

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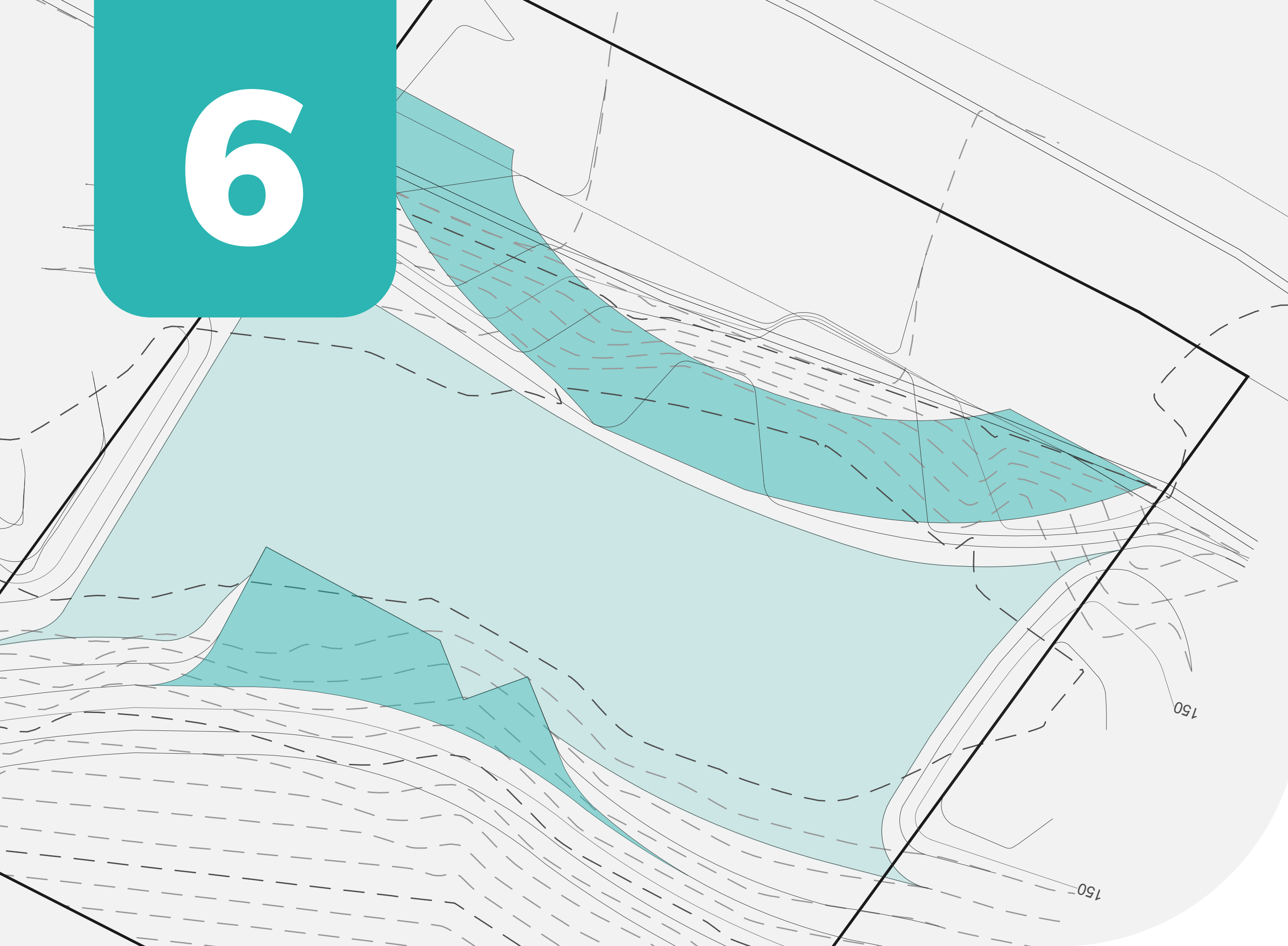
Due Diligence

Due diligence is a thorough investigation of both the legal and physical aspects of a property you are considering purchasing.

This process includes confirming that the property matches the seller's claims and is free from legal complications, such as liens, mortgages, or judicial burdens.

Typically, your Real Estate Closing Attorney will manage the legal aspect of due diligence, ensuring a smooth title transfer for the property. Depending on the property's specifics, consulting additional experts might be necessary. For instance, a home inspector may be required to evaluate the property's physical state. In cases of properties with complex boundaries, a survey engineer might need to review the existing survey map to prevent future boundary disputes or encroachments.

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Property Surveys

In Costa Rica, every piece of titled property is required to have an associated property survey map, known as a "Plano Catastrado," which is linked to the property's title. These surveys are exclusively prepared by licensed survey engineers, who are the only professionals authorized to submit survey maps to the National Registry's survey office, Catastro Nacional.

Presently, Costa Rica is engaged in a nationwide initiative aimed at updating the national property survey database.



Consequently, some regions of the country have been incorporated into the new and updated survey system, while others have not. In light of this, it is highly advisable to engage your own surveyor to conduct a thorough examination of the property you intend to purchase. This ensures that there are no discrepancies between the existing survey map and the actual physical reality of the property. Although this step might not be necessary for properties within a condominium development, it is particularly important for raw land or larger properties situated in rural areas, where inconsistencies are more common.

Property Survey Map

Plano Catastrado

Registration Seal and Number

Municipal Approval

Lot Size

Property Title Number

Surveyor Name and Signature

This image is what an official survey map will look like. It will indicate the registration reference number and specific information on the property being surveyed such as the property title number, exact location and the size of the property.



If you hire a surveyor to do an overview of the existing survey map with their physical inspection then they will render an opinion such as the image on the left that identifies any differences that they discover during their inspection of the property.



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Real Estate Closings

Establishing a relationship with a real estate closing attorney is crucial to safeguard your interests. Your attorney will conduct all the necessary due diligence to ensure that the property is free of any liens or encumbrances.

A The Real Estate Closing Process

1. Find your ideal property. The initial step in purchasing property is to locate your ideal property, either by collaborating with a real estate agent or independently. In Costa Rica, there are no real estate licensing laws, no multiple listing system, and no title insurance. Therefore, it's important to seek referrals for reputable real estate agents and engage your attorney as early as possible in the process.

I am buying a property. What do I need to get from the seller?

Title number
(Matrícula de Folio real)



Survey Map
(Plano Catastrado)

2. Make an offer. Once you find the property make a verbal offer to the agent or seller and if accepted then you can proceed to draft an Offer to Purchase or a Real Estate Purchase Agreement. Earnest money deposits in Costa Rica are typically between 5 to 10%.

3. Sign the formal contract. Once the offer is accepted you should have your lawyer draft up the formal Real Estate Purchase agreement which will set forth all the terms and conditions of the transaction.

4. Due Diligence. Conduct your due diligence on the property.

5. Sign the Property Transfer Deed. This is the final step that will transfer title to the property in your name. The deed must be prepared and signed before a Notary Public. Generally, your Real Estate Closing Attorney will be the Notary Public also handling the closing transaction. The Notary Public will record the title in the National Registry Title Office.

B Closing Costs

The total closing costs to transfer title from Buyer to Seller including the Notary legal fees is about 4% consisting of the following:

1. Real Estate Transfer Tax. The government collects a property transfer tax (Impuesto de Traspaso) which is equal to 1.5% of the registered value of the property.

2. National Registry Recording Fee. The National Registry imposes its own recording tax of .05% on documents presented for recording to the National Registry. (Derechos de Registro).

3. Documentary Stamps -The government also charges for documentary stamps. These stamp taxes amount to approximately .037% of the registered value of the property and include the following:

The Costa Rican Legal Bar Association Stamp; Municipal Stamp; Fiscal Stamp; Agricultural Stamp and the National Archives Stamp.

4. Notary Fees. The Notary responsible for drafting and recording the contract of sale and overseeing the closing is entitled to a Notary Transaction Fee.

This fee is determined by a mandatory, tiered minimum fee scale as follows:

- For the first 10 million Colones, the fee is 2%.
- For amounts exceeding 10 million but less than or equal to 15 million Colones, the fee is 1.5%.
- For amounts between 15 and 30 million Colones, the fee is 1.3%.
- For any amount over 30 million Colones, the fee is 1%

It's important to note that this fee covers the drafting and filing of the property transfer deed. Any additional services, such as drafting purchase agreements, managing escrow, and other related tasks, may incur additional fees.

Check Out our free closing costs calculator on our website that will give the total closing costs as indicated above by entering the property sales price.

Real Estate Calculator Link

I. PROPERTY SALES PRICE

Enter the Property Sales Price

€108,964,000

\$200,000

Exchange Rate Buy: 538.86

Exchange Rate Sell: 544.82

II. PROPERTY TRANSFER TAXES

	Colones	US Dollars
A. Transfer Tax 1.5%	€1,634,460	\$3,033.18
B. National Registry Stamp .5%	€544,820	\$1,011.06
C. Misc. Stamps		
1. Legal Bar Association	€16,500	\$30.29
2. Agrarian Stamp	€163,446	\$303.32
3. Fiscal Stamp	€629	\$1.16
4. Municipal Stamp	€217,928	\$404.42
5. National Archive Stamp	€20	\$0.04

III. NOTARY TRANSACTION FEE

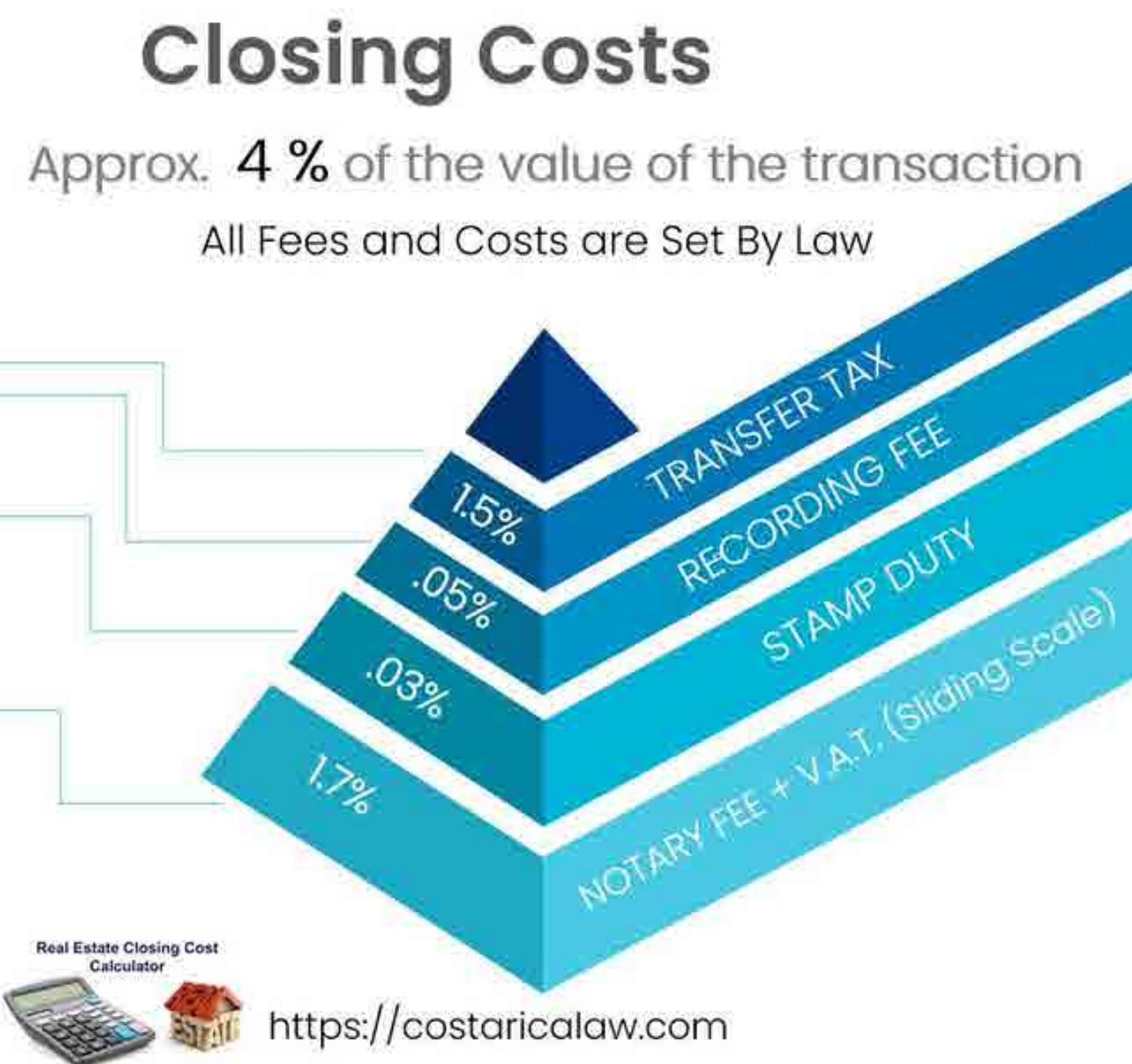
	Colones	US Dollars
Subtotal Notary Fee	€1,268,390	\$2,328.09

IV. VALUE ADDED TAX (V.A.T.)

	Colones	US Dollars
V.A.T. 13%	€164,891	\$306.00

Total Property Transfer Costs

	Colones	US Dollars
Total Property Transfer Costs	€4,022,080	\$7,464.05



DOING THE MATH

For a US\$300,000 Purchase

Transfer Tax: US \$4,542.86

National Registry Fee \$1,514.29

Documentary Stamps

Agrarian: \$454.29

Fiscal: \$1.19

National Archives: \$0.04

Bar Association: \$52.38

Municipal: \$605.71

Notary Transaction Fee: \$3,369.05

Value Added Tax (VAT) : \$437.98

Sworn Declaration of Funds + VAT : \$130.22

TOTAL: \$ 11,108

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Using a Costa Rica Company

In Costa Rica you can own your real estate in your personal name or in the name of a Costa Rican company. Which option is best for you should be done after a review with your Attorney.

The main advantage of using the company is that it limits personal liability. The company is treated as a separate entity separating personal assets from any potential liabilities associated with the property.

In the past it also provided some estate planning benefits but those have been limited to some extent by legislation which in some case forces heirs to probate the shares of stock.

On the downside, owning a company comes with escalating compliance obligations. These include: (1) paying an annual company tax and an education stamp tax; (2) filing an inactive tax return; (3) completing a shareholder/beneficial owner disclosure form; and (4) potentially needing to report the ownership of a foreign company, depending on your country of origin.

If you opt to have a Costa Rica company to own your real estate then in addition to the cost to set up the company you should budget at least US\$1,400 per year to keep it compliant and cover Attorney and CPA management fees.

Quick Reference: Typical Costa Rica Companies

The Corporation (S.A.) requires a Board of Directors with at least three officers which are President, Secretary and Treasurer

The Limited Liability Company (LLC) can operate with a single Manager. You also have the option of naming multiple managers as required.

The shares of the corporation (S.A.) may be transferred by endorsement of the share certificates and the Limited Liability

Company (SRL) must be transferred by signed agreement between the parties.



Choosing between personal ownership and company ownership of property in Costa Rica depends on various factors, including your legal status, privacy preferences, tax situation, and long-term plans. It's advisable to consult with legal and financial professionals to understand the implications fully and make a decision that best suits your individual needs and objectives.



Property Taxes

Property taxes in Costa Rica are handled by the local municipal government of the area where the property is located. The prevailing property tax rate is set at 0.25% of the property's value. Typically, most municipal governments collect these taxes on a quarterly basis. You also have the option to pay the full year in advance.

The property owner must file a “Property Declaration Form” (Declaración de Bienes Inmuebles) every five (5) years. Most Municipal governments maintain a property valuation database and expect you to establish values in your declaration that are within their valuation parameters. If a property owner does not turn in a property declaration form then the Municipal government has the authority to send an appraiser out to the property to appraise the property.

**Example: US\$300,000 property x 0.25%
= US\$750 per year tax**



Other Taxes

The Luxury Home Tax. Residential homes or condominiums with a construction value exceeding approximately \$281,000 are subject to an additional luxury tax ranging from 0.25% to 0.55%.

Capital Gains Tax: Since July 1, 2019, a capital gains tax has been applicable. Primary residences are not subject to this tax, but investment properties are charged a 15% tax on the profit earned from the purchase date to the sale date. However, for properties bought before July 1, 2019, owners have the choice to either pay 2.25% of the sales price or the standard 15% tax on the increase in value.

Income Tax. Costa Rica follows the principles of territorial taxation, which implies that taxes are only levied on income generated from sources within Costa Rica. Therefore, if you retire in Costa Rica and your income, such as a pension or other sources, originates from outside the country, it will not be subject to taxation.



THE HOA

Homeowners Associations (HOAs) in Costa Rica are governed by a combination of laws and regulations, which are primarily designed to ensure the proper management of shared spaces and common services in residential communities. Here are some key aspects of these laws and regulations:

Legal Framework: In Costa Rica, HOAs are typically governed under the "Ley Reguladora de la Propiedad en Condominio" (Condominium Property Law), which outlines the rules and responsibilities of both the HOA and its members. This law facilitates the division of property into individually owned units and commonly owned spaces.

As part of your due diligence, it is advisable to thoroughly review a copy of the HOA regulations. This will help you gain a clear understanding of your rights and obligations. Additionally, examining the HOA's financial statements is crucial to comprehending the financial health of the HOA before making your purchase.



Property Utilities

When you purchase your new home or condo in Costa Rica you will need to switch the utility accounts into your name from the previous owner.

The Water. The main water provider in Costa Rica is the government owned AyA (Acueductos y Alcantarillados). In certain rural areas where there is no direct service they have authorized community associations called ASADA's to manage water services.

Electricity. The two main providers in the country are the CNFL (Compania Nacional de Fuerza y Luz) and the ICE (Instituto Costarricens de Electricidad. In some rural areas Cooperatives will be the service provider. For example in some parts of Guanacaste it would be CoopeGuanacaste.

Internet. Depending on the area you will have several options as to Internet providers. The government owns Kolbi and you also have private companies such as Liberty, Tigo, Claro, TeleCable as well.



Financing your purchase

In Costa Rica, foreigners have limited financing options for real estate since all banks will require that you have a legal residency status.

Seller Financing. Depending on the market conditions there is the option of having the Seller finance a part of the sale.

Private Lenders. There are some companies that are offering expat lending in Costa Rica. They typically lend for shorter time periods and interest rates in the 9 to 15% range.

The Banks. If you have residency. Local banks will loan up to 70% of the appraisal value. All loans are adjustable rate mortgages with a limited period of time fixed and then adjustable. Depending on the area you will have several options as to Internet providers. The government owns Kolbi and you also have private companies such as Liberty, Tigo, Claro, TeleCable as well.

CONCLUSION

Costa Rica stands out as one of the world's premier retirement destinations, celebrated for its hospitable atmosphere and the warm, friendly nature of its people. The combination of a relaxed lifestyle, strong family values, a sense of community, accessible healthcare, delightful climate, contributes to its status as one of the happiest countries globally. Economically, its highly educated and bilingual workforce makes it an attractive hub for foreign direct investment, drawing hundreds of multinational corporations to the free trade zones.

Through my years in Costa Rica, I have noticed that expatriates who thoroughly research, make wellinformed decisions, and seek reliable advice often enjoy the most rewarding experiences.

We hope you find the information helpful.

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