



## Puerto Rico Overview

- Puerto Rico, located in the northeastern Caribbean, is a Commonwealth, or unincorporated organized territory of the United States. With a population of approximately 4 million people, Puerto Rico is one of the most densely populated islands in the world.
- As a Commonwealth territory of the United States, Puerto Ricans have common citizenship, currency, and defense; however, they pay no federal income tax and cannot vote in presidential elections. Puerto Rico has authority over its internal affairs and its residents elect a new governor every four years.
- Puerto Rico has one of the most successful economies in the Caribbean and its residents enjoy one of the highest wages in Latin America. United States federal laws and regulations apply to all sectors of the Island. For this reason, many firms, encouraged by duty free access and tax incentives that result in thriving exports and imports from the region, have invested heavily in the city,
- Important industries in Puerto Rico include pharmaceuticals, electronics, textiles, petrochemicals, technology, and processed foods. With over 5 million visitors per year, tourism is one of the most important sources of income for the island.
- San Juan, the second oldest city in the Americas after Santo Domingo, is Puerto Rico's capital and largest city. San Juan is the financial, cultural, and political center of Puerto Rico. Half of the island's population resides in its metropolitan area of San Juan. It is estimated that more Puerto Ricans live in the United States than in metropolitan San Juan, and more people of Puerto Rican birth or ancestry live in the United States than in Puerto Rico.
- Puerto Rico has one of the highest college attendance per capita rates in the world, and a large percentage of the student and professional population speaks English. The airport and the seaport of Puerto Rico are among the most active in the region, serving as the points of contact for the rest of the Caribbean.

## History, Geography, & Climate

- Christopher Columbus discovered the island and named it San Juan Bautista in honor of Saint John the Baptists. Later, the name was changed to Puerto Rico and the capital was named San Juan.
- In 1898, as a result of the Spanish-American War, Puerto Rico became part of the United States. Since 1917 Puerto Ricans are United States citizens.
- Puerto Rico's total area is 5,324 square miles, of which 3,508 square miles is land and 1,816 square miles is water. Puerto Rico consists of the main island and various smaller islands, including Vieques, Culebra, Mona, Desecheo, and Caja de Muertos.
- The main island is located 60 miles east of the Dominican Republic and 40 miles west of the Virgin Islands. It is close to 110 miles long (from Punta Puerca to Punta Higuero) and 40 miles wide (from Isabela to Punta Colon).
- The average annual temperature in Puerto Rico is 80 °F and the average annual rainfall is 62 inches. The months of February, March, and April are the driest, and the hurricane season is between the months of June and November.

## Labor Force & Education

- Due to the high productivity of the workforce and the excellent quality of products produced in Puerto Rico, many multinational companies have decided to operate on the island.
- A survey of United States firms with operations in Puerto Rico revealed that Puerto Rican employees are equal to or better than their counterparts in other countries, such as Japan, United Kingdom, United States, and Canada, on measures of productivity (94%), skills (92%), initiative (90%), and efficiency (97%).
- Puerto Rico has a labor force of 1.4 million, of which 28.2% work in services, 22.1% in government, 21.1% in trade, 11.1% in manufacturing, 7.0% in construction and mining, 4.6% in transportation and public utilities, 3.5% in finance, insurance, and real estate, and 2.1% in agriculture.
- Puerto Rico's local professional class fills 75% of all manufacturing management positions. More than 30,000 Puerto Ricans work in the clothing industry and more than 60,000 Puerto Ricans in the tourism industry that generates over 7% of the island's GNP.
- Although Puerto Rico follows United States minimum wage laws, its average hourly wage is \$8.08/hour, much lower than the United States average. The country's estimated unemployment rate is 12.0%.
- A high level of education among the workforce is one of the main reasons for the high productivity on the island. The total literacy rate is 94.1%. All students are taught to speak English from elementary through high school.
- Puerto Rico has more than 50 institutions of higher education. Some of the most important universities in Puerto Rico are: University of Puerto Rico, University of the Sacred Heart, and Polytechnic University of Puerto Rico. University of Puerto Rico is one of the oldest and more prominent universities in the Caribbean.
- Puerto Rico has one of the highest college attendance per capita rates in the world. Every year, more than 24,000 students earn higher education degrees, while 9,000 of these students earn a science or engineering degree.



University of Puerto Rico

## Transportation

- Puerto Rico has one of the most advanced transportation systems in the Caribbean. The islands are well connected by freeways, expressways, and highways. San Juan's metropolitan area is served by a large fleet of buses and a 10.7 mile metro system. Predominantly all service and manufacturing companies on the island are within two hours of either a seaport or an airport.
- Luis Munoz Marin International Airport, located eight miles from Old San Juan in Carolina, is the most active airport on the island and serves as the get-away for the rest of the Caribbean; more than 12 million visitors pass through it every year. The airport provides service from more than 30 domestic and international airlines. Among all United States airports, it ranks 22<sup>nd</sup> in terms of cargo movement. Fernando Ribas Dominicci Airport is the second most prominent airport in Puerto Rico. Today, there are about 17 airports in Puerto Rico.



Port of San Juan

- The seaport of San Juan is the most important on the island, and it is one of the busiest in the Americas. It also ranks among the top 20 seaports in the world in terms of container movement. It has about 40 shipping lines that supply regular transport services to almost 80 domestic and foreign ports.
- Puerto Rico is located between the intersections of major trading routes (North America and Europe to Latin America and the Caribbean), thus making it one of the most important transportation hubs in the Americas.

- Shipping and transportation to the United States is deemed domestic, providing additional economic benefits for companies shipping goods to the United States. All goods shipped to the United States can enter duty-free.
- Average shipping times from San Juan to the east coast and the Gulf ports of the United States takes an average of three to four days, while shipping to the west coast is approximately ten days. Shipping to Europe averages 14 days.

**Government**

- As a Commonwealth territory of the United States, Puerto Rico’s head of state is the President of the United States. Every four years, Puerto Ricans elect a governor and legislators. The governor then appoints the members of the judicial branch. Puerto Rico has limited representation in the United States Congress and it enjoys a significant degree of administrative autonomy similar to that of an independent state.
- Puerto Ricans pay federal import/export taxes, federal commodity taxes, and social security taxes, but most residents do not pay federal income tax. Puerto Ricans can also enlist in the United States Military.
- Puerto Rico has four political parties: the Popular Democratic Party seeks to continue as a Commonwealth territory, the New Progressive Party seeks statehood, and both the Puerto Rican Independence Party and the Nationalist Party seek independence.
- Even though Puerto Rico is a territory of the United States, it has its own Olympic team and competes as an independent nation in sport tournaments and the Miss Universe Pageant.



El Morro; one of the main tourist attractions in the island

**Economy & Incentives**

- In the early 1900’s agriculture was the main contributor to Puerto Rico’s economy, but over the past 60 years manufacturing and other industries have replaced agriculture as the main industry. Important industries in Puerto Rico include tourism, pharmaceuticals, electronics, textiles, petrochemicals, technology, and processed foods.
- With over 5 million visitors per year, tourism is one of the most important sources of income for the island, generating about 7% of the GNP.
- Puerto Rico is classified by the World Bank as a high income country due to its GDP per capita of \$19,600. However, this amount is less than 50% of the United States national average.
- Since November of 2006, a 5.5% sales tax was implemented. Each municipality applies a sales tax of 1.5%, bringing the total sales tax to 7%.
- The government of Puerto Rico promotes a pro-business environment by offering companies cash grants, venture capital initiatives, financial incentives, and credits.

San Juan	
City Population	445,000
Metropolitan Population	2 million
City Area	48 mi <sup>2</sup>
Puerto Rico	
Population	3.95 million
Population Growth Rate	0.393%
Total Area	3,508 mi <sup>2</sup>
GDP Purchasing PP	\$77.41 billion
Real GDP Growth	-1.2%
GDP Per Capita	\$19,600
Inflation Rate	6.5%
Labor Force	1.5 million
Unemployment Rate	12.0%
Currency	U.S. Dollar
Literacy Rate	94.1%
Official Language	Spanish
Capital	San Juan
Average Annual Temp.	80 °F
Average Annual Rainfall	62 inches

- A study by KPMG, a tax and advisory firm, proclaimed that among the 44 US cities in the study, San Juan has the lowest business operating costs. KPMG also ranked San Juan, in comparison to 98 other cities, as the number one most cost effective city for medical device manufacturing, the second least expensive city for telecommunications industry, the third least expensive city to assemble electronics, and the fourth least expensive city for pharmaceutical production.
- Puerto Rico contains the largest non-contiguous Foreign Trade Zone (FTZ) in the United States. This means that companies can store and transport packaging materials, finished goods, components, and raw materials tax-free within the FTZs.
- Foreign Trade Zone benefits in Puerto Rico include:
  - Deferment of federal customs duties, deferment of Puerto Rico excise tax.
  - No payment of Municipal License Taxes on exports outside the United States.
  - No duty paid on damaged, scrapped and obsolete merchandise.
  - United States customs duties are not owed on labor, overhead, and profit attached to production operations in a FTZ
  - Reduction of time and effort in the activation process.
- There is a 7% maximum corporate income tax rate. Some eligible companies pay as little as 2%. “Pioneer Industries” receive a 2.0% special corporate tax rate.
- Other incentives offered by Puerto Rico include a highly educated, bilingual workforce, low-labor costs, duty-free access to the United States, low transportation, a strategic location, and shipping costs to the United States quality infrastructure and communication systems, and a multitude of financial incentives, making the city a manufacturing and exporting powerhouse.

### **Real Estate Market Overview**

- The commercial real estate in Puerto Rico continues to expand, particularly in metropolitan San Juan, where most of the international companies are headquartered. The capital is home to numerous deluxe hotels, fine restaurants, museums, historical buildings, beaches, and shopping centers.
- The total office space is 7.2 million square feet, of which 1.7 million are currently available. Office space is predominately located in Hato Rey, Guaynabo, Rio Piedras, Bayamon, and Old San Juan.
- The total space in the industrial market is about 44 million square feet, including public and private properties. The top five industrial areas are Las Piedras, Cataño, Carolina, Guaynabo, and Toa Baja.
- The total space in the retail market is 19.7 million square feet, with 4.5 million available. All sectors of the market are expected to remain stable for the rest of the year.

### **Office Market**

- The district of Hato Rey, a sub-market of San Juan, is the Caribbean’s most important financial and office center. It contains “La Milla de Oro” (The Golden Mile), which is one of the two main categories for this sub-market and the preferred area for financial institutions. Many local and international banks are headquartered in this area.
- Demand for office space has been moderate in the past few years, with absorption averaging of around 200,000 square feet per year. Due to the size of the island, parking space in most office districts is limited.
- Old San Juan, Hato Rey, and Guaynabo are some of the most important office districts in Puerto Rico. Old San Juan has many older facilities, plus some areas have poor access and limited parking. Hato Rey is located in the center of San Juan and it is the most important financial and office district (the golden mile is located in this district). Guaynabo, which includes the San Patricio and Buchanan areas, is a very important commercial area, with many retail and industrial facilities and with easy access to the main highways.
- The office market is expected to continue to be stable in the next 12 months, with demand and supply at similar levels as in the past five years.

Office Market 4Q 2007 (USD/Sq. Ft./Month)					
Total Space A/AB		7.2 million Sq. Ft.		Available Space A/AB	1.7 million Sq. Ft.
District	Rent Class A	Vacancy	Rent Class B	Vacancy	
CBD	\$2.00 - \$2.92	8.0%	\$1.50 - \$1.75	9.0%	
Off-CBD	\$1.58 - \$2.25	6.7%	\$1.25 - \$1.58	7.0%	
Suburbs	\$1.92 - \$2.83	7.0%	\$1.33 - \$1.67	6.0%	

Retail Market 4Q 2007 (USD/Sq. Ft./Month)		
District	Rent	Vacancy
CBD	\$2.91 - \$3.33	3.0%
Off-CBD	\$1.83 - \$2.33	4.0%
Street Shops	\$1.58 - \$2.08	4.0%
Malls	\$2.92 - \$6.67	2.0%
Suburbs	\$1.50 - \$2.08	4.75%

#### Retail Market

- Puerto Rico's retail market is experiencing significant changes and growth due to the expansion of global brands and the continued development of luxury residencies. New space has been added to shopping malls, particularly to Plaza Las Americas (the largest shopping mall in the Caribbean), to meet demand from regional and international retailers. Plaza Las

Americas currently has over 250 stores, including the world's largest J.C. Penney store, Gap, Old Navy, Banana Republic, Sears, and Macy's.

- The Guaynabo area continues to be one of the main retail areas due to its proximity to San Juan's most important highways and shipping terminals.
- Rental and vacancy rates are expected to continue at the same level during the rest of the year.

#### Industrial Market

- The industrial market in Puerto Rico has remained relatively stable in recent years. Business parks with a free trade zone continue to attract users of light industrial space. Las Piedras, Cataño, Carolina, Guaynabo, and Toa Baja Industrial Parks are the most desirable industrial areas in Puerto Rico.
- PRIDCO (Puerto Rico Industrial Development Company) is a government agency that owns 139 industrial parks and administers the investment incentive programs for Puerto Rico.
- Rental and vacancy levels in the industrial market are also expected to remain stable.

Industrial Market 4Q 2007 (USD/Sq. Ft./Month)	
Sector	Rent
Warehouse (Private)	\$0.54 - \$0.62
Manufacturing (Private)	\$0.54 - \$0.62
High Tech/R&D (Public)	\$0.15 - \$0.46

Rent - 12 Month Forecast	
Office	Stable
Retail	Stable
Industrial	Stable

#### Some multinationals in Puerto Rico

- Puerto Rico has several international bank branches in San Juan including: Citibank, FirstBank, Banco Bilbao-Vizcaya and Banco Santander (the second largest bank in Puerto Rico).
- Firms such as American Airlines, Ericsson and AT&T have call centers in Puerto Rico.
- Multinational companies like Colgate, Palmolive, Kimberly Clark Puerto Rico, Inc., Bacardi – Martini Caribbean Corp., Mitsubishi Motors Caribbean, Inc., and Unilever have distribution operations in San Juan.

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