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# Real Estate in Cuba

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**Muriel Martin - DMAR 4-18-2017**



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## A QUICK TIMELINE

1933 - Machado overthrown in a coup led by Sergeant Fulgencio Batista.

1934 - The US abandons its right to intervene in Cuba's internal affairs, revises Cuba's sugar quota and changes tariffs to favor Cuba.

leads a 9,000-strong guerrilla army into Havana, forcing Batista to flee. Castro becomes prime minister, his brother, Raul, becomes his deputy and Guevara becomes third in command.

**1960 - All US businesses in Cuba are nationalized without compensation.**

1965 - Cuba's sole political party renamed the Cuban Communist Party.

1976 - Castro elected president.



1980 - Around 125,000 Cubans, many of them released convicts, flee to the US.

1993 - The US tightens its embargo on Cuba, which introduces some market reforms in order to stem the deterioration of its economy. These include the legalization of the US dollar, the transformation of many state farms into semi-autonomous cooperatives, and the legalization of limited individual private enterprise.

2002 June - National Assembly amends the constitution to make socialist system of government permanent and untouchable. Castro called for the vote following criticisms from US President George W Bush.

2004 October - President Castro announces ban on transactions in US dollars, and imposes 10% tax on dollar-peso conversions.

2005 January - Havana says it is resuming diplomatic contacts with the EU, frozen in 2003 following a crackdown on dissidents.

2007 July - First time since 1959 that Revolution Day is celebrated without Castro present.

2008 February - Raul Castro takes over as president, days after Fidel announces his retirement and start multiple reforms.

**Credit: BBCNews - 1/201**

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## COMMUNISM AND OWNERSHIP BEFORE 2011

- **1959: Cuba was overrun with American business and politics.** Tourists could stay in American-owned Hiltons, shop at Woolworth's, and withdraw money at American-owned banks. American-owned petroleum refineries sat amid American cattle ranches, sugar factories, and nickel mines, and an American-owned telecommunications firm controlled the country's phone lines. According to a 2008 report from the US Department of Agriculture, Americans controlled three-quarters of Cuba's arable land.
- **1960: Cuba's revolutionary leader Fidel Castro nationalized what was previously private property.** Some of these assets were the vacation homes and bank accounts of wealthy individuals. But the lion's share was US owned sugar factories, mines, oil refineries, and other business operations. President Eisenhower punished Castro by a **near-total embargo on American exports.**
- **Nationalization: all homes became the property of the state.** Cubans were given the right to live in the homes they occupied and pass them on to friends or relatives. **They were also permitted to swap houses. Selling or buying was prohibited.** Renters were given control of their apartments, paying half their previous rent to the state, and after five or ten years they gained full ownership. Cuban who left lost all right to compensation.
- Landlords were offered a choice between a lump sum payment or a monthly payment for life to compensate for their loss. **Property owners keep their ownership but were stripped from control,** as the state gave itself the "derecho de tanteo" or right of first refusal, whenever a homeowner wanted to sell. The inability to buy / sell minimized the property right itself to almost nothing.
- A 1984 law explicitly permitted the sale of housing between private parties, but only with the state's authorization, and authorizations were rare.
- 2003, a new law prohibited such sales altogether.
- **Concretely, Cubans created a real estate market under the law to swap residential housing units among themselves:** side payments were routinely and discreetly made to compensate the person giving up the higher-value property. Legal papers were often executed to make these ostensibly money-free transactions official. In other cases, homes were sold illegally for cash but the property titles were not updated to reflect the new owner. That made for risky ownerships and inaccurate reporting.

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## CHANGES ON OWNERSHIP IN 2011

### **New laws of July 2011, allowing individuals to buy and sell properties**

- simplify approval processes,
- reduce prohibitions on citizen actions,
- review and simplify the 188 laws, regulations, and legal procedures from various ministries that apply to housing.
- **legalize small and medium-sized private businesses**

Now ownership of a home means it can be made liquid: the result is instant capital formation, the creation of wealth through the granting of a new legal use for assets.

### **UPDATING TITLES:**

**In 2011 only 6% of the total residences had their titles registered, and most of those needed updating.**

To register a title, a homeowner first has to ensure that the property is accurately described in the title. If the title is out of date, a municipal architect must survey the property and amend the description in the title, reflecting changes and improvements. The architect assesses the value of the property, assigning it a "legally assessed value" valid for five years, which is written on the title and is far below market value.

The owner takes the title to the municipal property registry with proof of identity and, if applicable, proof of payment of real estate transfer tax.

**In 2013 the "great majority" are registering their titles to their homes for protection and legal security:** 1/3 was tied to a housing transaction, 2/3 were just records updates.

### **BUYERS PROFILE:**

**Limitations: maximum of 2 homes/individual:** a principal residence and a "holiday home".

- Foreign Nationals: NO
- EXCEPT few apartment buildings in Havana where foreigners can buy: the Atlantic Building, a 25-story tower on the Malecón, where a penthouse can be worth \$2.5M.
- Cuban Nationals residents: YES
- Foreign Nationals Cuban Legal Residents (married to a Cuban nationals and Long term work): YES
- Cubans Nationals Legal residents of another country: NO except,
- since 2012, you can get the status of "**residents of real estate developments and resorts**" owners or renters of housing in real estate developments and their family members. They may stay for one year, renewable in one-year increments.

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- Foreign Corporations: introduction to “**surface rights**” for up to 99 years, with the possibility of renewal after that: allowing a business to improve and use a piece of land while the state retains ownership of the land itself. A joint venture between a foreign company and a Cuban entity would acquire surface rights, build the golf course and real estate development, sell housing or lease it for long terms, and share proceeds from the entire business.
  - Cuban Corporations: YES thanks to the **Surface Rights in perpetuity** only “for the construction of housing or apartments dedicated to tourism.”

### **BUYING POWER:**

with basically no lending opportunity, only 2 groups of buyers:

- **locals using their own savings** or who use the proceed of their home sale,
- **locals backed by persons from outside** with usually much more cash
- Governments Grants and Loans: only to low income families, only for repairs, updating and construction projects, starting a new business and assist farmers. Private farmers would be allowed to lease up to 67 hectares (165 acres) of land and cultivate it themselves.
- **it's definitively a Buyers' markets: so many sellers and so few Buyers.**

BUYERS' search tools:

- Personal Internet searches
- Internet searches by persons who charge for the service
- Brokers (corredores) legal only since 2013, for home sales and swaps. Commission 5-10% of the sale price
- Neighborhood visits, asking residents if they know of properties for sale
- Radio and television announcements and classified ads
- Prices are not published, just names and telephone numbers and general information about the property.

### **PRICING EXAMPLES:**

**There is no database of home sales.** Municipal records of home sales transactions are not available to the public and extremely inaccurate: **asking prices are highly negotiable.**

- In the Plaza municipality of Havana the average price of one-bedroom or two-bedroom apartments is 25,000 CUC.
- Freestanding houses in Havana with two to four bedrooms are on the market for 60,000 to 200,000 CUC. Similar apartments in another neighborhoods are on the market for 15,000 CUC.

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Prices range from \$10,000 for a small, run-down flat in Old Havana to \$500,000 for villas in sought-after districts, such as Siboney and Miramar, and more than \$2m for penthouses in modern blocks. **The average price last year was just \$16,000.**

### **SELLERS' PROFILE**

- must be the **legal owner, holding the title and certificate** that the property appears in the municipal property registry. Power of attorney exist and are approved.
- if two owners hold title to the property, both must participate in the sale.
- typical seller is someone with extra space, someone died, or divorced, or the children moved out: selling the big house, buying a smaller one cash
- - sales are slow because buyers need first to sell their own homes to obtain the cash to make their purchase.
- **actual sale prices are highly negotiable between buyer and seller** and denominated in CUC. Reported sale price is usually well under

### **BROKERS' PROFILE:**

- liscence? Board? Regulated?
- legal profession only since 2013. 5% to 10% commission.
- Seller and buyer Agency but mostly act as a **Transaction Broker**.
- advertise on the internet, street posts or networking

### **TYPICAL TRANSACTION:**

Step one: Buyer deposits the sale price in the bank, denominated in Cuban pesos, and the bank issues a cashier's check valid for 60 days.

Step two: Buyer and seller appear before a notario with the bank document certifying payment, and the new title is prepared. To speed the process and avoid waiting in line, some use the services of expeditors who typically charge 50 CUC each to the buyer and seller.

Step three: Both parties pay tax – income tax for the seller, transaction tax for the buyer – equal to four percent of the transaction price.

Step four: The buyer registers the updated title at the municipal property registry.

In the colonial section of Havana, the transaction requires approval of the Office of the Historian.

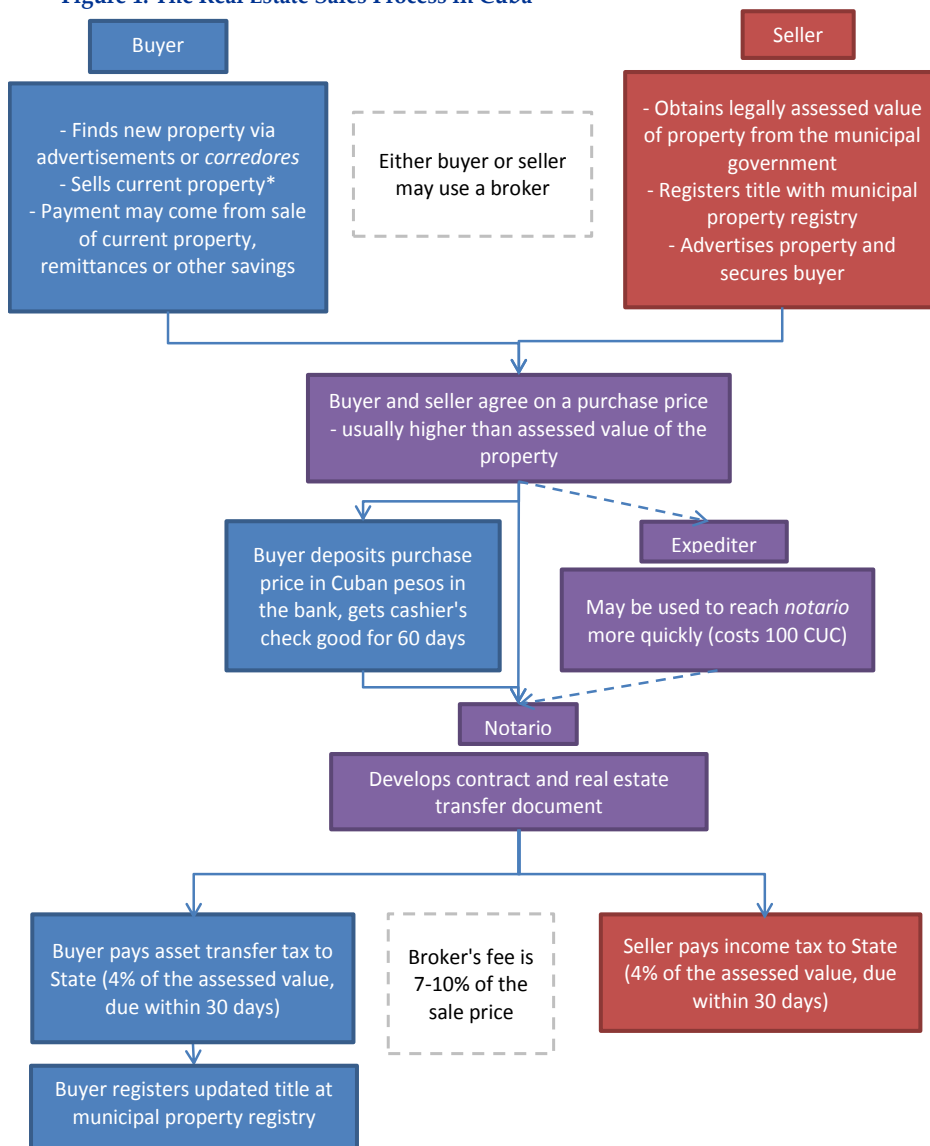
It is known that some declare the transaction as a donation rather than a sale.

Example:

A family refuse the help of an Agent because of the 5-10% fee. They found by themselves a two-bedroom apartment for 17,000 CUC, 2,000 CUC below the original asking price. **They** paid 100 CUC to an expediter who secured an appointment with a notario who processed the transaction. They declared the transaction value to be 4,700 Cuban pesos, or \$188, and paid about \$8 in tax on the transaction. The notario did his work and the transaction was complete in less than three hours.

no deadlines, no inspections, no disclosures....

**Figure 1. The Real Estate Sales Process in Cuba**



\*Cuban law permits ownership of only one primary residence and one vacation home.

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## THE MONEY MARKET:

- The currency system is strange and complicated, **operating on a dual currency**. One American dollar is worth one convertible peso (CUC), which is worth 24 ordinary pesos (CUP). But in transactions involving the government, the two kinds of peso are often valued equally. Government accounts are therefore nonsensical. A few officials with access to ultra-cheap hard currency make a killing. Inefficient state firms appear to be profitable when they are not. Local workers are stiffed. Foreign firms pay an employment agency, in CUC, for the services of Cuban staff. Those workers are then paid in CUP at one to one. That is, the agency and the government take 95% of their wages. Fortunately, tourists tip in cash.
- **a few government-connected elite has access to hard currency and foreign goods, and most of the rest of the population live in dire poverty** and suffer from shortages of even very basic goods.
- maximum wage, about \$20 a month for almost every job in the country. Professionals such as doctors and lawyers can make (only) \$10 extra a month.
- **Government Loans and grants for low income families are never for a transaction, only for improvements.**
- President Obama recently relaxed the restrictions on **foreign remittances** from Cubans living in the US. Up to \$5Billions a year now flows into Havana and much of it ends up in the real estate transactions.

## MARKET CONDITION: HOUSING SHORTAGE

- residential housing consists of 3.9 million residential units, 85% privately owned. 11.2 million occupies 3.9 million units, averaging of 2.8 residents/house
- National Housing Institute figures in 2013, **Cuba needs to build 60,000-70,000 new housing units per year** to alleviate its housing deficit. But only a fraction of that number is being built – 16,000 per year by the state at current rates, and 8,000-10,000 by homeowners themselves. Hurricane Sandy alone destroyed 22,396 homes in eastern Cuba in 2012. Recently private construction cooperatives are the main building entities.



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## WHAT TO EXPECT NOW

Tourism ministry officials say that **6 more Mega-Projects (resorts with golf and residences) are targeted for development through 2020**, and 6 more are contemplated after that, mostly in the provinces of Mayabeque, Matanzas, Pinar del Rio, and Holguín.

Each will require investments in excess of \$300 million.

The property reforms also count as **Human Rights** improvement:

- expands economic freedom and advances private property rights by ending a prohibition on normal transactions, thus creating wealth.
- ends a long-despised aspect of Cuban immigration law by repealing the requirement that emigrants forfeit their property to the government.
- **might also encourage a flow of people in the reverse direction:** Cuba starting to be more liberal would attract a lot of new comers. Also, now those leaving will be able to sell their home and keep the proceeds.

President Raúl Castro announced that new policies will be adopted to encourage greater foreign investment: it may **open the door to housing projects developed with foreign capital.**

With better policies, Cuba could generate \$10 Billions a year in foreign exchange, twice as much as the island earns now from merchandise exports. Given the budget deficit, expected to hit 12% of GDP this year, that would come in handy. **Whether it will happen depends on two embargoes: the one the United States imposes on Cuba and the one the Castro imposes on its own people.**

- The United States embargo: American credit cards don't work, Americans are not technically allowed to visit the island as tourists. (They have to pretend they are going for a family visit or a "people-to-people exchange".) Mr Obama allowed American hotel chains to dip a toe into Cuba; one, Starwood, has signed an agreement to manage three state-owned properties.
- **Taxes are confiscatory.** Turnover above \$2,000 a year is taxed at 50%, with only some expenses deductible. A beer sold at a 100% markup therefore yields no profit. Almost no one can afford to follow the letter of the law. For many entrepreneurs, "the effective tax burden is very much a function of the veracity of their reporting of revenues," observes Brookings, tactfully.
- **Promoting small private businesses.** The number of Cubans registered as self-employed has jumped from 144,000 in 2009 to 535,000 in 2016. Legally, all must fit into one of 201

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official categories. Doctors and lawyers who offer private services do so illegally, just like hustlers selling black-market lobsters or potatoes.

- **reducing the number of people on the state payroll by 20%** and boost self-employment. In two years, more than 300,000 people have moved into private enterprise. The largest private venture is also **illicit (but tolerated)**: an estimated 40,000 people copy and distribute flash drives containing El Paquete, a weekly collection of films, television shows, software updates and video games pirated from the outside world. Others operate in a grey zone: at the question “Is that legal?” most answers are “I don’t know.”

- **Cubans doubt that there will be any big reforms before February 2018**, when Raúl Castro, who is 86, is expected to hand over power to Miguel Díaz-Canel, who is said to favor better internet access and a bit more openness. But the kind of economic reform that Cuba needs would hurt a lot of people, both the powerful and ordinary folk. Suddenly **scrapping the artificial exchange rate, for example, would make 60-70% of state-owned firms go bust, destroying 2M jobs**, estimates Juan Triana, an economist. Yet without accurate price signals, Cuba cannot allocate resources efficiently. Unless the country **reduces the obstacles to private investment in hotels**, services and supply chains, it will struggle to provide tourists with the value for money that will keep them coming back. Unlike Cubans, they have a lot of choices.

“**Cuba is the top emerging tourism market in the Caribbean** by a mile, and it’s in the top five emerging markets globally,” Macdonald says. “It’s a long slog getting stuff done but the potential is huge. The entrepreneur runs Esencia, an Anglo-Cuban firm, that wants to build Cuba’s first new golf course since the revolution, with 800 homes available for foreigners to buy.

The reality is that most of the money will come from Cuban-Americans, providing a vital source of hard currency: an estimated \$1 Billion/year in the form of remittances.

**Tens of thousands of exiled Cubans, who left the country after the revolution, still claim rights over properties.**

One western business leader, who has set up a financial services consultancy in Havana, says: “Cuba is bankrupt. Ministers may not like it but they know the only way to balance the books is to encourage the local market and to allow overseas investors to build homes and golf courses and maybe eventually buy villas in Havana.”

Exciting perspectives... To be continued!

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## GUESTS SPEAKERS

### MURIEL MARTIN-GOLD

Muriel has been raised by expats parents and grew up in exotic places like Djibouti, Hong Kong and Pakistan. Her family returned back to Paris, France where she studied and graduated with a BS in Marketing and Finance. Answering the traveling call, she came to America to get an MBA and specialized in international marketing. After moving to Denver more than 20 years ago, Muriel worked for a builder for 7 years and became a Real Estate Broker in 2002. She received the Rookie of The Year Award in 2002. Over the years, thanks to her background, language skills and involvement in the international communities of Denver, her practice centers on International Relocation. Muriel sits on the Global Committee of DMAR.

Brokers' Guild, Cell: 303-898-2134, [mmartingold@aol.com](mailto:mmartingold@aol.com)

### JEFFREY CAMPOS

**Jeffrey Campos** has a rich history of developing partnerships with industry, community, and government leaders that drive revenue gains under strict market and budgetary, he was appointed as the Executive Director for **Global Chamber Denver** in late 2015. Campos looks forward in connecting Denver's leaders, companies and communities in more successful cross-border trade and investment to accelerate global business growth, increase community success to change the world. Campos is also a current Partner at **Elite Advantage LLC**, a Marketing Firm created in 2011 with a multicultural view that covers the full spectrum of communications, marketing, public relations, relationship management and community outreach for client companies operating across a diverse list of industries and economic sectors.

Prior to starting his own marketing firm, the **Hispanic Chamber of Commerce of Metro Denver** Board of Directors selected Jeffrey Campos as the President & CEO in March 2005. Through his leadership, the chamber grew to be one of the largest Hispanic Chambers in the country and the second largest chamber in the State of Colorado. He was also instrumental in connecting Hispanic Businesses and leadership with the Metro Denver business community through public policy and business development initiatives.

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## **TREVOR C. JONES**

Trevor C. Jones co-founded Lynx Global Intelligence in 2015. Mr. Jones' background includes research focusing on geopolitical risk, counter-terrorist messaging, intelligence studies and complex decision making during humanitarian crisis. He has served as a Fellow at both the Denver Council on Foreign Relations and Secretary of State for Colorado and has presented his research on Complex Adaptive Systems to the United States Department of State. Trevor holds a BA in Psychology from Tulane University in New Orleans and an MA in International Security from the University of Denver. Trevor is a member of the International Association of Genocide Scholars and has completed a certification in Humanitarian Action at Duke University in Geneva, Switzerland. Mr. Jones has owned several businesses and serves on the Board of the Denver Global Chamber where he assists in facilitating international trade and promoting Denver as a global city.

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## **R. SONNY BETTANCOURT**

Mr. Betancourt's professional background consists of Federal Government service, consulting and contracting in National Security, Logistics, International Real Estate, Intelligence, Global Trade and Renewable and Traditional Energy. Highlights include U.S. Secret Service, Department of State, Department of Defense, DNI, Department of Energy, Newport Resources and translation work. Areas of expertise include intelligence, international project management, private diplomacy, global trade, energy security and defense. Mr. Betancourt is affiliated with the Denver Council on Foreign Relations, Global Chamber and has taught Energy Security courses. Sonny brings a lens codified in public, private, government and academic experience to Lynx Global Intelligence. He holds a BA in Political Science from Arizona State University and an MA in International Security from The University of Denver with concentrations in energy security, intelligence and strategy and arms control.

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## INDEX OF REFERENCES

I am by no means an expert on the Cuban matters. This presentation is a compilation of research from different sources, articles and reports:

- The Economist - 3/2017
- Financial Times - 6/2016
- Washington Post 3/2014
- Huffington Post 4/2017
- Boston Globe 4/2014
- Foreign Policy at Brookings. Excellent report from Phillip Peters. [www.bookings.edu](http://www.bookings.edu)
- [www.onei.cu](http://www.onei.cu)

## ADDITIONAL INFORMATION AND RESOURCES

Listings for sale and for rent:

For details of Carbonera, visit [www.esenciagroup.com](http://www.esenciagroup.com)

[www.cubissima.com](http://www.cubissima.com)

[www.revolico.com](http://www.revolico.com)

[www.espaciocuba.com](http://www.espaciocuba.com)

[www.rent-in-cuba.com](http://www.rent-in-cuba.com)

[www.havana-concierge.com](http://www.havana-concierge.com)

Recently relaxed the restrictions on foreign remittances: <http://www.ft.com/cms>

[www.CubaOpportunitySummit.com](http://www.CubaOpportunitySummit.com) Oct 23rd 2017. Nasdaq Marketsite, NYC

[www.cubantrade.com](http://www.cubantrade.com)

