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Business News

Nicaragua, the new beachfront frontier

Investors, second-home buyers looking in Central America are exploring the potential of the country's western coast.

By Diane Wedner, Times Staff Writer
March 11, 2007



Lofty view

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Boom by the bay

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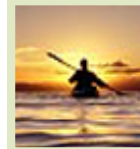
San Juan del Sur, Nicaragua — WHAT second-home buyers yearn for in Central America is Costa Rica before the building boom. They want ocean views and unspoiled land, without the steep prices, crime and American fast-food chains. They want Panama before Donald Trump.

Adventurous Americans, Canadians and Europeans willing to dodge livestock and potholes for the two-hour car ride south from Managua to this sleepy fishing village on the west coast of Nicaragua are finding just that. Three-bedroom homes with unfettered views of shimmering bays and turquoise water start at \$155,000; condos, from \$129,000.

Undeveloped land with ocean views — sites of a quarter-acre — start at \$35,000. Construction costs generally range from \$55 to \$75 per square foot. To investors, it simply screams "ground floor."

Sure, Costa Rica is still a destination for many U.S. retirees and near-

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retirees — condos at Marisol at Punta Dominical in the southwestern coastal region of Costa Rica, for example, start at the mid-\$200,000s, and come with three community pools and nearby hiking trails. Then there's also the province of Guanacaste in the northwest region, where luxury condos start at \$500,000. Seems the word is out.

"The prices keep going up," said Barbara Black, a 61-year-old Woodland Hills resident who, with her husband, Jay Goldenberg, 62, purchased two beachfront condos in Costa Rica three years ago, one for \$250,000 and one for \$275,000. Those units today are worth \$750,000 to \$850,000. The couple plans to retire there.

"There are some condos here for \$200,000 and little beachfront houses in Costa Rica for \$2 million," she said, adding that a rise in crime has prompted many complexes, including hers, to hire private security companies.

In Panama, also known as the "new Costa Rica," the town of Boquete has condos starting at \$260,000. Trump Ocean Club International Hotel & Tower in Panama City, to open in late 2009, will feature 68 stories of hotel rooms and condos, with a yacht club, casino and business center. Condo-hotel prices start at \$375,000 for a studio.

But Nicaragua's San Juan del Sur has retained its small-town charm: Burros are parked between cars in front of homegrown businesses such as El Gato Negro — the Black Cat — a popular bookstore and cafe for expats, and children play in the church plaza, which is in the middle of a face-lift. Wooden houses with tin roofs are painted in bright colors, and open-air restaurants with palm-thatched roofs line the main street along the beachfront.

Paradise comes with a few blemishes, however: mosquitoes, roosters that don't know day from night, vegetable peddlers hawking goods over megaphones and the incessant sound of hammers and drills from home construction. It's rainy half the year — about 29 inches of rainfall annually — and hot most of the time. For now, living here means relying on unreliable electricity and shaky infrastructure in general, and having a dearth of medical care. But, ah, the beaches.

"Nicaragua is wedged between the two best real estate markets in the Western Hemisphere — Costa Rica and the U.S.," said expat Sam Stewart, a former Peace Corps volunteer and current ReMax Tierra Nica agent. "We're the ugliest house on the nicest block."

OK, so it's not perfect yet. But relative ease of purchase, tax incentives, low crime and a laid-back lifestyle on a gorgeous stretch of coast make Nicaragua appealing.

Be prepared to pay cash, however. Although lending is available to foreigners through Nicaraguan banks, interest rates are steep.

Nothing could deter Jan and Duane Sanow from purchasing land in Nicaragua. The Minnesota owners of a manufactured-home dealership, 50 and 49, respectively, had searched the coasts of Mexico and in Panama for an investment/vacation property for 10 years, but didn't find what they wanted.

"We were always at the tail end of the development boom," Jan Sanow said. "This time, we're at the front end."

The couple purchased a quarter-acre beachfront parcel for \$220,000 on which they're building a five-unit condo development, a mere 150 feet from the water at Coco Beach, a deserted strip of white-sand seashore 10 miles from San Juan del Sur with a view of Salinas Bay and Costa Rica, to the south.

When their complex is completed — at a construction cost of about \$800,000 — there will be a swimming pool, on-site laundry, air conditioning and gated parking. Just don't look for a Ralphs. There's always the traveling vegetable vendor, however, and Puesto del Sol — an al fresco restaurant — down the beach. The two-bedroom condos, in 1,300 square feet, will sell for \$275,000.

The Sanows say they're thrilled to have found a beachfront investment they can afford, a 45-minute drive north from Costa Rica's border. And they like to emphasize the positives. "There's a strong sense of community here," Jan said. "It's a great place for expats."

Fasten your seat belts, though. The 20-minute drive from San Juan del Sur south to Coco Beach winds along a spine-fusing dirt road. Plans call for that road, over the next few years, to become a paved coastal thoroughfare connecting Nicaragua and Costa Rica.

For now, the bumpy *camino* is festooned with a canopy of tropical trees that serve as a playground for howler monkeys and screeching parrots. Four-wheel-drive vehicles scramble around ox- and mule-drawn carts carrying fruits and construction supplies.

New developments dot the way, including Las Fincas de Escamequita, an eco-friendly community of 1- to 5-acre parcels for sale from \$65,000. Homes will be solar-powered and feature other green amenities. Owner Donn Wilson, from Solano Beach in San Diego County, has set aside an additional 450 acres as a wilderness reserve.

Despite the widespread perception of Nicaragua as politically chaotic, the nation has enjoyed peace and the constitutional democracy for more than 16 years. The Sandinistas won the election last November, making their longtime leader, Daniel Ortega, president again. This is, apparently, a new Ortega who is promising economic prosperity through foreign investment and tourism, a distinct change from the principles under which his last regime operated. Still, poverty remains a major issue — Nicaragua is the second-poorest nation in the Western Hemisphere, according to the U.S.

State Department — and unemployment is at 17%.

During the Sandinista Revolution of 1979, many private properties were confiscated by the government. Lawyers still are sifting through ownership claims, which is why it's important to hire an attorney to establish clear title, said Managua-based attorney Terencio García Montenegro, of García y Bodán. The real estate transactions are fee-simple, meaning ownership is absolute. Title insurance is available to protect U.S. buyers today.

Tax incentives encourage some foreigners to buy in Nicaragua. Americans 45 and older who can prove monthly income of \$400 or more can gain Nicaraguan residency status. They may bring a car worth up to \$10,000 and furniture valued up to \$10,000 into the country duty-free, García said. Income derived from abroad is tax-exempt.

Chris Barry arrived in San Juan del Sur from San Francisco in 1988 and in 1997 bought a parcel of ocean-view land tucked into the hillside above the town. It evolved into the Pelican Eyes Hotel & Resort, or Piedras y Olas, the area's most upscale resort, offering luxury accommodations and fine dining.

The success of the enterprise helped him set up a nonprofit providing educational funds and occupational training for the local youth, as well as expand his business. The project now offers homes for sale on a condo-hotel model that defines the high-end of the local market — furnished studios start at \$200,000, two-bedroom town houses cost \$580,000 and two-bedroom villas, now \$650,000.

Santa Rosa, Calif., residents John and Ardys Jones, both 51, recently purchased one of those villas with friends for \$426,000. For the first five years of occupancy, the partners will divide the three months per year they're entitled to use the villa; under the terms of their contract, Pelican Eyes will rent the villa to guests the rest of each year. After five years, the partners can use it all of the time. The couples hold the title to the villa and pay \$600 to \$800 in monthly fees, which include insurance and property taxes. They keep 60% of the rental income.

Nearby, ReMax Tierra Nica agent Stewart, 26, and his fiancée, Dana Eager, 25, are putting the finishing touches on a three-bedroom home. The expats will live on the bottom floor and rent out the top, which has a view of Nacasclo Bay, one of countless inlets carved into the coastline. The total cost when completed, including a swimming pool, will be \$190,000.

Still, it's a leap of faith to buy in a city that has only one small hospital and an infrastructure that barely serves the population of 19,000.

That's why business partners Ken Ross, based in San Juan del Sur, and Laguna Niguel-based Alex Wilson, co-owners of Paradise Development Holdings, installed the water lines for their 130-acre development at

Paradise Bay, as well as sewer and water lines for the locals living along the road up to the site. The parcel sits atop a hill with Pacific Ocean views. The 150 sites, each a third of an acre, will sell for \$80,000 to \$150,000. Completed homes are expected to cost \$165,000 to \$270,000. There is no lack of materials and local skilled labor.

Ross, a contractor and big-time surfer who moved to San Juan del Sur in 2000, and Wilson helped create a waste pickup system for the city. The goal: to improve the quality of life for everyone, while maintaining the town's character.

"Some investors think of this town as the next Costa Rica," Stewart said. "But developers here don't want that.... We're all striving to keep a fishing-village feel to the place."

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(INFOBOX BELOW)

The basics of buying in Nicaragua

U.S. buyers can find good real estate values in Nicaragua but purchases are not without risk. Here's how the process works:

- First, find an agent. ReMax, Century 21 and Coldwell Banker are among familiar, U.S.-based companies selling land and homes in San Juan del Sur. Or firms such as Paradise Development Holdings, which owns 2,000 acres of land, know the ropes and can guide buyers through the process. Sellers pay the agents' commission of 6% to 10%; buyers pay the closing costs of about 3%.
- Once a property has been selected, hire a Nicaraguan attorney to undertake a title search and confirm that the property has no encumbrances. Conflicts can arise about who the legal owner is, said Managua real estate lawyer Terencio García Montenegro. In most cases, a lawyer can resolve the issue, he added. Title search fees range from \$300 to \$900. Additional closing costs apply as well. Florida-based First American Title Insurance Co. provides coverage for ownership issues, liens, mortgages and contracts. Once title is settled, a 30- to 60-day escrow begins.
- Overwhelmingly, cash is used for most home purchases in Nicaragua. At the beginning of the purchase, a 10% deposit is paid and the remainder is paid at the closing. Homes bought in new developments require multiple payments during the building process, García said, including a 25% deposit at the beginning of the transaction, with additional payments

during construction and the final 20% at the closing.

- Financing through Nicaraguan banks is available with proof of income and collateral. Interest rates are higher than in the U.S., though, and range from 9% to 11%. U.S. mortgage lenders are not in Nicaragua yet, but will be fairly soon, said Jeff Seabold, president of Beverly Hills-based CS Financial. Success in the Mexican market has fueled confidence in areas farther south.
- Non-citizens pay a one-time transfer tax on a new property of about 1% of the assessed value. Annual property taxes are 1% of the assessed value. Tax withholding on rental income is 21%.

— Diane Wedner

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