

Infrastructure, Housing, Historic Zones, and Renewable Energy



This chapter encompasses key industries that play vital roles in Puerto Rico's housing, energy accessibility, and preservation of its heritage. It includes provisions for the development of affordable housing properties, historical preservation efforts, and support for manufacturers of green and renewable energy. The incentives provided are aimed at individuals and corporations looking to expand housing options for low-income and middle-class tenants, the older adult population, and individuals in need of assisted living.

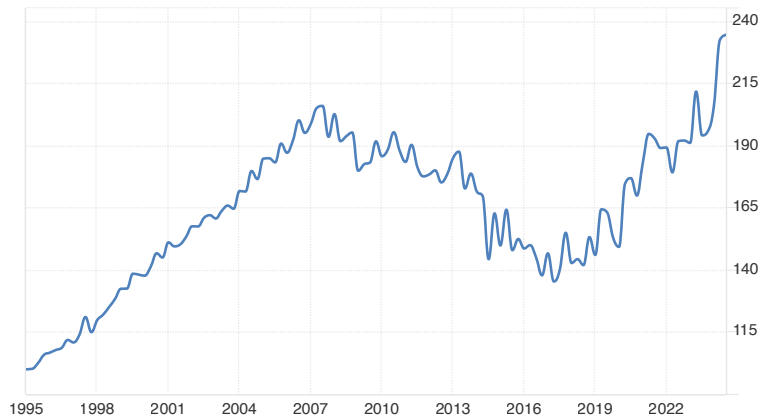


→ Housing¹

Data provided by the Statistics Institute of Puerto Rico highlight that the local housing price index (HPI), which measures changes in single-family housing prices, reached 212.11 as of Q2 2023, up a staggering 65.4 points since Q1 2020.² This marks the index's first new all-time high since Q3 2007, a clear indicator that affordable housing in Puerto Rico is in decline.³

In 2020, the United States Census Bureau assessed Puerto Rico's housing inventory at a total of 1,598,159 residential properties. Out of these units, 1,340,534 are occupied, and 257,625 are vacant.⁴ Furthermore, the Center for Habitat Reconstruction published an additional 2021 report highlighting the over 300,000 properties in disrepair.⁵

Puerto Rico House Price Index



Source: tradingeconomics.com | Statistical Institute of Puerto Rico

- 1 Puerto Rico Incentives Code, Sec. 2071.01, 13 L.P.R.A. § 45651 (2023).
- 2 "Puerto Rico House Price Index - 2023 Data - 2024 Forecast - 1995-2022 Historical," Trading Economics, n.d. <https://tradingeconomics.com/puerto-rico/housing-index>.
- 3 Statista. "Real Estate in Puerto Rico." Statista, accessed August 26, 2024. <https://www.statista.com/outlook/fmo/real-estate/puerto-rico#value>.
- 4 United States Census Bureau, U.S. Census Bureau QuickFacts: Puerto Rico, n.d., <https://www.census.gov/quickfacts/PR>.
- 5 Centro para la Reconstrucción del Hábitat, "Proyectos," n.d., <https://www.crhpr.org/proyectos>.



The following four types of developments and property uses are designed for the private sector to work side-by-side with the government to develop, restore, and repair the over half-million properties that sit vacant and in disrepair.

Eligible Businesses

1. **Affordable Housing**

This designation includes the construction or rehabilitation of affordable housing to be rented or sold to low- or middle-income families, as well as housing for Puerto Rico's middle class.

2. **People Dedicated to Construction and Rental for Elderly Persons**

Individuals, entities, and businesses that build for or rent to older adults who do not possess a home and whose income falls within the federal government's income limits apply under this designation.

3. **Government-Subsidized Developments**

This designation includes developers of affordable housing whose projects are approved and subsidized, in part or in full, by the government of Puerto Rico.

4. Assisted Living Developers

This designation includes developers who create assisted living housing. Assisted living including caretakers, nurses, specialized machinery, and potential medical services aiding residents in their daily needs.

Eligibility Requirements

1. Development must begin the construction or rehabilitation of housing units after January 1, 2019.
2. Development must submit a list of costs approved by the Secretary of the DDEC before commencing the construction or rehabilitation.
3. Upon the sale or rent of each housing unit, development must be duly certified as a low-income family, moderate-income family, middle-class family, or older adult.
4. Assisted living will require a joint determination between the DDEC and the Puerto Rico Department of Housing (PRDOH).
5. Development must establish a maximum rental payment amount that is at most 30% of the income consideration of the United States Department of Housing and Urban Development (HUD).⁶

General Benefits

1. The decree is for 15 years.
2. Corporate income tax from the sale or rent of housing units is 4%.
3. There is a 100% exemption from personal and real property taxes.
4. Unlike other incentives, no tax exemption on dividends or profit redistribution will be granted to developers, investors, or stakeholders.
5. There is a 90% exemption of any other municipal taxes.
6. There is a 100% tax exemption on the sales and use tax.

⁶ Data per region may be accessed here: https://www.huduser.gov/portal/pdrdatas_landing.html

→ Puerto Rico's Historic Zones⁷

A Historic Zone is an officially designated geographical area established in collaboration with the government of Puerto Rico, the Institute of Puerto Rican Culture, and the Puerto Rico Planning Board. These zones encompass a collection of structures that possess notable historical, artistic, cultural, or environmental significance. Each of these zones contributes to and represents a part of Puerto Rico's heritage, and their structures offer opportunities for observation and contemplation.

Since 1949, the Historic Zone designation has been awarded to only 11 locations in nine municipalities. To be considered a Historic Zone, a structure or plot of land must be located within the following municipalities: Arecibo, Arroyo, Caguas, Coamo, Guayama, Manatí, Ponce, San Juan, and Vega Baja.

Eligible Businesses

1. Improvements, Restorations, Reconstruction, or Developments

This designation applies to companies or individuals who enhance, renovate, rebuild, or develop real estate properties for rental purposes within vacant lots in Historic Zones.

Eligibility Requirements

1. The property must receive a Certification from the Institute of Puerto Rican Culture.
2. The property must reside within one of the 11 Historic Zones.
3. Decrees are dependent on the scope of renovations and restorations.
 - a. **Partial Renovation (5-Year Decree)**
 1. The partial restoration of historic buildings must include the facade and other main architectural elements, such as the *zaguán* in the entryway and main stairs.
 2. A non-historical building is eligible if it undergoes renovations to align with the aesthetics and

⁷ Puerto Rico Incentives Code, Sec. 2071.01, 13 L.P.R.A. § 45651 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>



qualities of a historical property and is found in a Historic Zone.

b. **Complete Restoration (10-Year Decree)**

1. There is a complete restoration of a historical building.
2. There is a complete restructuring that involves the incorporation of over 50% new elements into the building so that it may align with the surrounding historical sites.

c. **Potential Extension (10-Year Decree)**

1. The Secretary of the DDEC has the authority to grant a 10-year extension of the tax exemption benefit for the properties, provided that the Institute of Puerto Rican Culture certifies their deserving preservation, minimal substantial alterations, and the commitment to maintain or improve their condition compared to their state before restoration.

General Benefits

1. The length of the decree varies from 5 to 10 years per property, depending on the scope of the renovation/restoration.

2. The incentive has a 4% corporate income tax for all revenues obtained from properties in Historic Zones.
3. It has a 100% tax exemption on personal and real property.
4. Note: unlike other incentives, no tax exemption on dividends or profit redistribution will be granted to developers, investors, or stakeholders.

7.3

→ Green and Renewable Energy⁸

To date, 97% of Puerto Rico's energy grid is dependent on fossil fuels. Only 3% is from renewable sources, according to the Puerto Rico Electric Power Authority.⁹

Eligible Businesses/Eligibility Requirements

1. Owners and Operators of Green Energy Units

Any individual or business that produces or sells green energy at scale to industries or businesses is included. As such, corporations, clients, and operators may apply for this incentive.

2. Alternative Renewable Energy Producers

This includes companies that produce energy through gas derived from landfills, anaerobic decomposition, fuel cells, or waste heat.

3. Sustainable Renewable Energy Producers

These are companies that produce energy through solar panels, wind turbines, geothermal installations, biomass incineration, biomass-derived gas, and other sustainable renewable sources such as micro-algae, hydroelectric, and marine energy.

4. Property Dedicated to Green Energy Production

This is a designation that applies to all properties used for green energy production and its phases. Income derived from the leasing of said property will receive the benefit of this

8 Puerto Rico Incentives Code, Sec. 2071.01, 13 L.P.R.A. § 45651 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

9 Financial Oversight and Management Board for Puerto Rico, "2023 Certified Fiscal Plan for the Puerto Rico Electric Power Authority," n.d., <https://bvirtualogp.pr.gov/ogp/Bvirtual/reogGubernamental/PDF/PROMESA/PFPR23-english.pdf>

incentive, as long as a tenant installs, operates, assembles, maintains, or sells green energy at scale.

5. Storage Energy System

This designation applies to any business that installs, operates, assembles, maintains, or sells energy from a designated Storage Energy System (SES). The SES must be an interconnected system with an aggregate capacity of at least 1 megawatt (MW). The SES must absorb and store energy generated and make it available when needed by consumers or the power grid.¹⁰

6. Highly Efficient Energy Producer

Any individual or business that produces or sells highly efficient energy (efficiency rate above 60%) at scale to industries or businesses. Corporations, clients, system owners, operators, or owners of a property dedicated to such activities may apply for this incentive.

General Benefits

1. Corporate income tax is 4%.
2. The tax exemption for renewable energy businesses is valid for 15 years with a 15-year extension upon request.¹¹
3. The investment in a green or renewable energy company can be deducted entirely if such investment is used for the company.
4. It allows renewable energy generation businesses to benefit from the sale of Renewable Energy Certificates (RECs). A REC is a certificate equivalent to 1 megawatt-hour (MW).
5. Any canceled RECs can be deducted against ordinary income for their acquisition cost or tax base.
6. RECs are exempt from 75% of municipal and state property taxes.
7. Contractors, developers, and businesses of sale, production, or assembly of renewable energy equipment will be exempt from up to 75% of personal and real property taxes and 50% of municipal taxes. In addition, businesses (contractors

¹⁰ 13 L.P.R.A. § 45018 (a)(28).

¹¹ See 13 L.P.R.A. § 48523 (a) & (c). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

and subcontractors) will be exempt from up to 75% of any municipal construction tax or decree.

8. Contractors will also be exempt from taxes on raw materials, machinery, and other materials necessary for construction and the business.
9. It provides a 100% tax exemption on the sales and use tax, including specific raw materials, machinery, and equipment used in the operations of the business.

Illustrative Examples

Affordable Housing in Historic Zones

Abril, an architect and the daughter of a Puerto Rican real estate developer, noticed a lack of community spaces and housing options for artists in San Germán. Inspired by the cultural history of the town, she proposed a project to her father to transform an abandoned colonial building in the historic district into a mixed-use space. Her father supported her vision and purchased the rundown property, giving Abril the opportunity to bring her idea to life. Abril conducted extensive research in local archives, discovering old architectural drawings and photos that guided her design.

Abril's project combines art and affordable living. She formed Creations by the Plaza LLC, which will operate a gallery and artisanal shop on the first floor, showcasing work from local artists. The two upper floors, managed by San Germán Living Inc., will be converted into six affordable live-work lofts for artists. To ensure affordability, Abril consulted with the Puerto Rico Department of Housing to establish rent guidelines. She then submitted her project costs to the DDEC and received the necessary approvals, including certification from the Puerto Rico Historic Preservation Office.

Abril applied for separate decrees under the Puerto Rico Incentives Code. Creations by the Plaza LLC qualifies for a 10-year tax decree, benefiting from a 4% income tax rate and a 100% exemption on property taxes for both real estate and inventory. San Germán Living Inc. secured a 15-year tax decree, which provides a 100% exemption from property taxes, a 4% tax rate on rental income, and a 90% exemption on municipal taxes.

Green Energy

Eduardo runs a wind turbine installation company, GreenWind Solutions, in Arizona, specializing in residential properties. After learning about Puerto Rico's tax incentives for renewable energy,

he decides to expand his operations to the island. He establishes GreenWind PR Inc. and sets his sights on building a presence in Puerto Rico.

Eduardo signs a 5-year lease for a vacant industrial space in Mayagüez through a government program that offers properties for \$1 leases (see Chapter 10). The facility serves as a storage and distribution center for imported wind turbine equipment. In his first year, Eduardo secures contracts to install wind turbines for 75 single-family homes across the island. The excess energy generated by these turbines is converted into Renewable Energy Credits (RECs), which are managed and sold by GreenWind PR.

GreenWind PR Inc. qualifies for a 15-year tax decree, with the possibility of a 15-year extension. Under the decree, corporate income is taxed at 4%, with property tax exemptions of up to 75%, full exemptions on sales and use taxes, and up to 50% exemption on municipal taxes. Additionally, the RECs benefit from a 75% exemption on municipal and state property taxes.

Cost to File

Applications generally cost \$1,005 without legal assistance. Decrees take 18 months or more to obtain.

Cost to File		
Filing	Transaction Fee	Service Fee
Construction and Development in Historic Zones (If the Applicant is a Developer)	\$5	\$1,000
Construction and Development in Historic Zones (If the Applicant is an Individual Owner of the Real Estate Property)	\$5	\$100
Construction and Development of Affordable Housing, Elderly Persons, or Assisted Living	\$5	\$1,000
Green Energy Business and Highly Efficient Energy Business	\$5	\$1,000
Property Dedicated to Green Energy Production	\$5	\$1,000
Property Dedicated to Green Energy Production - Machinery	\$5	\$1,000
Property Dedicated to Highly Efficient Generation	\$5	\$1,000

