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COSTA RICA

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## Costa Rica Construction Permits increase in 2008, not affected by crisis in the United States

As of the end of August, Guanacaste placed second to San José out of Costa Rica's seven provinces in the number of construction permits rubber-stamped by the Engineers and Architects Federated Association (CFIA). Overall, a total of 6,700,711 new square meters of construction have been approved during 2008 — a 25 percent increase over the same period last year.

Of Guanacaste's 1,171,488 square meters processed between January and August, most correspond to construction project in Santa Cruz canton (414,369), followed by Liberia canton (276,666) and Carrillo (237,681).

"This growth surpasses expectations by the construction sector, which has been watching with worries the real estate crisis in the United States, the hike in petroleum prices and the increase in the cost of construction materials, as well as the recent implementation of more restrictive banking policies in the Costa Rican credit sector and the government's announcement that a period of 'skinny cows' is coming, marked by a slowdown in the country's economy," said Olman Vargas CFIA executive director.

Added Vargas: "In evaluating the behavior of this sector in recent years, it's important to remember the so-called construction 'boom' that occurred in 2005 and 2006 with increases of 21 percent and 58 percent, respectively, with respect to the previous year. By 2007, there was moderate growth of 7 percent. This means that from a total of 4,157,293 square meters in 2004, construction permits doubled in three years, reaching 8,465,111 square meters in 2007."

For this year, CFIA expected growth no bigger than 10 percent compared to 2007, and was even fearing an important slowdown in the sector considering the ongoing macroeconomic conditions. The great surprise is that, on the contrary, requests filed with CFIA show a growth in square meters of 25 percent compared to 2007.

"When analyzing the statistics we have in detail, we see that the number of registered permits has fallen, but some of (the projects) are of such magnitude that they have contributed to growth in a significant manner," Vargas explained. "In other words, there are fewer construction projects, but some of them are so large that they sector as a whole has remained growing. It can be concluded then that the so-called 'mega-projects' are keeping the construction sector dynamic."

The head of CFIA said that at the beginning of 2008, construction was only expected to increase in the single digits, due to the reasons indicated above. However, by the third quarter of the year, such low expectations have been proven wrong and, based on the sector's behavior throughout the year, a similar growth percentage of about 25 percent is expected to hold up until the end of the year. The only caveat at this moment is to follow-up on the requested permits and see how many of the projects are actually erected (typically 92 percent), as such a number could change significantly this time around.

According to CFIA files, it can be observed that development hotspots around the country have changed. While in the past two years the most development was seen on the coastal regions such as Guanacaste and Puntarenas, this year it has concentrated on the province capitals and their suburbs, particularly in the province of San Jose and Alajuela. In the Caribbean province of Limon, there's important development activity compared to last year, despite the fact that this region remains last in the total-square-meters ranking.

There's also been significant growth in "exonerated" construction, that is, projects financed by the government that don't need to pay registration taxes. This sub-sector grew by 71 percent compared to last year. Half of these type of projects are in the provinces of San Jose and Puntarenas.

Construction financed by private capital (non-exonerated) grew by 19 percent. This is concentrated in San Jose, with Guanacaste and Alajuela in second place.

More than half of approved projects (in square meters) are for residential projects, followed by commercial and industrial construction.