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Time to splash out in the Caribbean

By Tanya Powley

Luxury homes in the Caribbean have become more affordable following price falls of up to 20 per cent in 2009 – making now a good time to buy, according to property agents.

Most parts of the Caribbean saw falling property prices in the first half of 2009, with some homes losing a fifth of their value, according to Knight Frank's Wealth Report published this week.

Prior to the credit crunch, the Caribbean had experienced a property boom driven by more direct flights and improved infrastructure. Prices rose by around 50 per cent in the five years preceding 2007. "Now is a very good time to buy," says Charles Weston Baker, head of international property at Savills. "Over the last five years, prices have been going up in leaps and bounds and people were put off by prices rising too much."

It is still possible to buy properties at good discounts to 2007 values – in spite of the recent fall in the value of sterling against the US dollar – the currency in which deals are done. New developments currently include The Landings in St Lucia, Ocean's Edge in St Kitts, and Blue Waters Residences and Tamarind Hills, both in Antigua. Prices at Ocean's Edge start from from $359,000 for a one-bedroom apartment.

But while UK buyers preferred smaller islands at the peak of the market, agents say the downturn has seen a return to established markets that offer good infrastructure, direct flights and a proven re-sale market. "We've really seen a lot of buyers returning to Barbados," says Julian Cunningham of Knight Frank.

Barbados has historically been one of the most popular destinations. But, until recently, many UK buyers – except the extremely wealthy – have been priced out of this market.

In comparison, St Lucia is less developed than Barbados and therefore property prices tend to be substantially lower. "People have gone back to their core buying principles – they want to know that if they buy a property, they can easily sell it," Cunningham says.

Caribbean property is also attractive from a tax perspective, agents point out. For example, there is no VAT, capital gains or inheritance tax in St Lucia. According to Oliver Gobat, director of sales at The Landings, the island is now in the process of changing its laws so that buyers investing more than $350,000 can gain residency status.

In St Kitts, purchasers investing a minimum of $350,000 may apply for economic citizenship which allows for a second passport and permanent residency. Economic citizens are not required to live in St Kitts but may be resident there. If they are, there is no inheritance tax, capital gains, VAT or income tax to pay.

Property buyers who become resident on these islands should not have to pay the UK equivalents of these taxes, as many – including St Lucia and Antigua – have a dual taxation treaty with the UK, which means that a buyer will not be taxed twice on the same assets.

However, as each island differs in its tax rules, it is important to consult a tax expert before buying in the Caribbean, agents say.

There are also other costs to factor in. In St Lucia, for example, foreign buyers have to acquire an alien land holding licence, which costs around $1,850. Then there is two per cent stamp duty and conveyancing to add, which can amount to up to $8,000. On selling a property, a vendor's tax is payable at the rate of 10 per cent by individuals.

But agents say a popular way to avoid this tax is to purchase the property in the name of a St Lucian registered company. Selling the property will then only incur a 0.5 per cent share transfer tax.

"A lot of property in the Caribbean is bought under a company structure," says Cunningham. "This can save you money but it is important to realise it could also reduce your potential sales market as some buyers will be put off." He says the company structure is most prevalent in properties worth more than $3m.

If financing is required, mortgage brokers warn that there are currently only a few lenders providing Caribbean mortgages to overseas borrowers. But this is likely to improve over the next year as lenders start to relax their criteria, says Clare Nessling of Conti, the mortgage broker.

"Mortgage interest rates are pretty reasonable at around five or six per cent. You'll generally be expected to have at least 30 per cent deposit, the minimum loan is $250,000 and the mortgage can be on a repayment or interest-only basis," she says.

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