

Retirement: Bulletproof Your Portfolio: In America's Shadow, Paradise Found

BY STEVE BERGSMAN

There's no doubt about it: a villa in Naples, Italy, offers a more exotic retirement than a condo in Naples, Fla. And who wouldn't prefer an oceanfront home in Roatan, Honduras, to a time-share on the Jersey shore?

Alas, buying retirement havens overseas also raises a litany of issues -- from personal safety and the quality of medical care to currency risk and political stability.

One good way to steer clear of trouble is to invest in exotic real estate in places where the Stars and Stripes still fly. For those of you who haven't spun a globe recently, the U.S. maintains political oversight over five inhabited island groups -- mostly lush, tropical and idyllic.

Two are popular Caribbean retreats -- the U.S. Virgin Islands and Puerto Rico. But there are also American Samoa, Guam and the Commonwealth of Northern Mariana Islands, all in the far Pacific. With the exception of American Samoa, these are "organized territories," in that the U.S. Constitution applies to all local governments and inhabitants, just as it would in the 50 States. American Samoa is an "unorganized territory," which means Congress determines which parts of the Constitution apply to the local government and citizens.

The Caribbean markets, for all their appeal, haven't offered much protection from one particular force: slowing home sales. These markets surged from 2001 to 2006, as the 9/11 terrorist attacks led Americans to vacation closer to home, but the boom ended in 2006 as nervousness about residential real estate in the continental U.S. affected buyers who needed to sell property to buy elsewhere. In fact, 2006 "was one of the worst years I've seen," notes Merry Nash, owner of Islandia Real Estate in St. John, Virgin

Islands. Now, she says, "inventory stands about 30% above normal, but the market did get more active earlier this year."

Some pros expect the Virgin Island market to turn up in 2009, so now could be a good time to start house-hunting. But houses aren't cheap. A 2,000-square-foot home with an ocean view usually costs more than \$1 million -- sometimes much more.

Puerto Rico is a much different market, dominated by natives, rather than vacation-home seekers. It, too, however, experienced a miserable 2006, but for different reasons. That year, the governor and the legislature couldn't agree on fiscal and tax-reform proposals. In March, the government basically declared itself bankrupt, and 95,000 public employees had a surprise two-week vacation. At that point, the housing market keeled over.

Residential real estate, which had been appreciating about 6% annually, has been in reverse since then, says Jorge Zabala, a real-estate agent for Coldwell Banker Commercial Isla del Coqui, in Guaynabo, P.R. "The housing market in Puerto Rico is still going down. Depending on where you are on the island, home prices dropped from peak about 5% to 30%."

But Puerto Rico should bottom out in 2009 and could offer the best bargains in the Caribbean. Buyers will find plenty of places to consider. The most popular attraction for mainlanders is San Juan's beachfront corridor, which stretches from Condado to Isla Verde. This is mostly a mid-rise and high-rise condo market, and prices vary widely by location and age of the buildings. The range: from the low six figures to over \$1 million.

Another popular area is just outside San Juan, in a series of gated communities that make up Dorado. These are mostly

large homes -- singer Ricky Martin has a house here. At the bottom of the market, there are still some smaller houses and condominiums around, and they go for less than \$1 million. But the bigger properties still fetch around \$4 million to \$5 million.

If you really want a bargain on exotica under the U.S. flag, go west, very west.

The U.S. has political sovereignty over American Samoa, located in the South Pacific, and Guam and the Northern Mariana Islands. These latter two are both part of the Mariana chain, which is so far west of Hawaii that it's almost due south of Tokyo.

The Tumon Bay area of Guam looks like a mini-Waikiki, with a line of high-rise hotels (Westin, Hilton, Marriott, Nikko, etc.) along the beach. However, since most of the tourists come from Japan, every sign is in English and Japanese.

Like Hawaii, Guam's economy also gets a big lift from the American military. Last year, Washington announced it is committing \$15 billion over a decade to build up the island's infrastructure.

As a resort island, Guam historically has depended on the vicissitudes of the Japanese economy. When that country's economy flourished in the 1980s, so did Guam. When it nose-dived a decade later, Guam's real-estate market dropped off a cliff. Raw land that once sold as high as \$1,500 a square meter fell to \$250 to \$300.

But the market is clearly on the mend, thanks in no small part to Uncle Sam's plans to station some 8,000 marines in Guam. Real estate began to make a comeback in 2006, and 2007 was a record year, with almost \$700 billion in sales, says **Nick Captain**, president and owner of The

Captain Co. in Hagatna, Guam. The median price of a home has doubled since 2003, to \$205,000, he says. A 2,000-square-foot house by the water sells for about \$600,000, about 40% less than in the Virgin Islands.

Guam is also much cheaper than Hawaii, and not as isolated as you might think. Though it is seven hours from Hawaii, good short-haul airlines make it easy to reach Japan, the Philippines or China. The big worry in Guam is weather; the island sits in the western Pacific's typhoon zone. In the past decade, it's been hit by two super-typhoons.

One hears a lot about bugs and dangerous reptiles in Guam. Termites definitely can be a problem, but the hype about the brown tree snake, which supposedly has overrun the island, is definitely overblown.

The inhabitants of Guam's neighbor to the north, the island of Saipan in the Northern Marianas, should only have to worry about typhoons and bugs. A resort locale for the Japanese, Saipan has been ravaged by everything but the Biblical plagues. The Northern Marianas have suffered the loss of airline flights to Japan, a collapsed economy, a weak government and allegations of international money laundering.

Result: Real estate is so thoroughly deflated that Saipan is probably the cheapest property market under the U.S. flag. In 2007, land and built-out property was selling at about 10 cents on the dollar. The 310-room Nikko Hotel, once one of the major resorts on the island, was sold recently for \$3 million, says Roy Alexander, president of Alexander Realty & Development in Saipan, who adds: "The owners gave it away."

As for residential real estate, Alexander says, "I did a deal this year with a foreigner who bought an acre of land with an ocean view for \$135,000." Try getting that in Malibu or Palm Beach.

But there's one big snag: You can't actually buy property in the Northern Marianas. Instead, you lease it, sometimes for as long as 55 years. According to the island's constitution, only descendants of native Mariana Islands peoples can own land. This law may be loosened in 2012; at a minimum, lease lengths may be extended to 75 years.

The legal hurdles are well worth jumping, for Guam and Saipan are beautiful islands with endless beaches, lush lagoons, mountainous interiors and wondrous reefs for diving. U.S. history buffs also will find plenty to like: The World War II battles in this part of the Pacific were lengthy and particularly brutal and,

to this day, especially in Saipan, many vestiges of the war are evident in the islands.

Perhaps the prettiest of all U.S. island territories is American Samoa, a deeply forested, tropical speck of land in the South Pacific, east of Fiji and west of French Polynesia. As with Guam and Saipan, to reach it you head to Honolulu and then take a plane from there. The flights, all done overnight, take five hours.

American Samoa is the least developed of the territories because, as on Saipan, buying property there isn't easy. Only about 10% of the land is privately owned; the rest is communal family land. American Samoa's law generally prohibits the transfer of land ownership to anyone who is less than one-half Samoan. But, it is possible to lease communal land, and the lease can be extended to 55 years, with an option to renew. Not surprisingly, properties don't change hands very often on the island.

"About three years ago, a client of mine sold two acres of absolutely stunning beachfront property for \$350,000," says Henry Kappel, an attorney who is now a legislative counsel on the island. He uses his own home as a benchmark for property prices. The 1,800-square-foot house sits on a nice half-acre lot with just about every kind of exotic fruit tree imaginable -- mango, papaya, banana, pineapple and more -- and it was appraised at just \$285,000.

Talk about a tasty bargain.

STEVE BERGSMAN is a frequent contributor to Barron's. His newest book is *Passport to Exotic Real Estate*.
