

Acts 20 and 22 touted as an opportunity for local businesses

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Architectural firm Álvarez-Díaz & Villalón one of several local companies exporting services

When architectural firm Álvarez-Díaz & Villalón (AD&V), headed by architect Ricardo Álvarez-Díaz and Cristina Villalón, opened in 2001 with a slew of residential projects and development contracts on the pipeline, little did they know that seven years later, they would have to rethink their whole way of operating.

"Just like many of you, I found myself in an interesting situation when 2008 came along," Álvarez- Díaz told a crowd of local developers and contractors during the most recent annual summit of the Puerto Rico Home Builders Association, held last month. "We had to basically adjust our business model to survive," he said.

Álvarez-Díaz spoke as part of a panel highlighting the benefits that the tax incentives under Acts 20 and 22 of 2012 as well as the EB-5 immigration program offer to local businesspeople. The AD&V president is also scheduled to participate in a similar panel dubbed "Export Services: The New Opportunity for Entrepreneurs," during today's 2014 Executive Economic Forum held at the Ritz-Carlton, San Juan, hotel.

Faced with the challenge of a rapidly deflating economy, the firm chose to take a contrary approach to what many of its competitors were doing. "We decided on expanding instead of minimizing our existing operations," Álvarez-Díaz said. "Our rationale for doing so was that, once the economy would start to recover, we'd be in a more favorable position, infrastructure-wise, to obtain large-scale projects."

Unfortunately, the degree of recovery for the sector that the firm was betting on hasn't yet come to pass. "I honestly thought that the recession would only last three to four years," he noted. "We had already carried out significant expenditures in our expansion efforts, so there was no way to backtrack."

In light of such difficulties, the incentives provided by Act 20 in particular proved a godsend. In short, Act 20 establishes a flat 4% tax on earnings from companies that export professional services to markets abroad. Said legislation is meant as a companion law to Act 22, which provides highly attractive tax exemptions to eligible individuals residing in Puerto Rico.

In a way, Act 20 drove the firm to realize that, even though the number of projects in the local market had substantially decreased, there were plenty of other business opportunities worldwide. "The law made it able for me to stay here, while at the same time obtain work offshore that benefits the local office. Act 20 allowed us to properly focus in that regard."

However, taking full advantage of Act 20 required the firm to step outside its comfort zone. "The main challenge lies in obtaining the proper kind of exposure in other markets," he added. The firm started out by calling its clients one by one, to see if they had any offshore projects on their slate. "If they had

anything on the pipeline, we would convince them to include us, being that they knew us from previous projects."

The firm also took a conscious decision to limit its offerings to the types of projects it really excelled at. "Many firms make the mistake in specializing in 70 types of services. That approach may work in Puerto Rico because there aren't that many firms around, but outside the island it's a huge mistake because you're basically set to compete against huge companies that have the resources to properly deliver on those 70 services."

Instead, AD&V found its niche in retail and high-end residential development, an approach that soon caught the attention of global players such as Design International (DI), a firm founded in Toronto in 1965 and currently based in London.

Much like the missing piece of a jigsaw puzzle, AD&V's chosen specialties happened to fill a necessity that DI wanted to strengthen. As a result, the local firm started nabbing various subcontracts for the industry giant.

At one point, Design International wanted to reestablish its presence in the U.S. with a regional office, and Álvarez-Díaz saw a golden opportunity. "I convinced them to establish a presence in Puerto Rico instead of the U.S. mainland due to the incentives that we had."

As a result, Design International Americas was born, with an 80% stake owned by DI and the rest by AD&V. Álvarez-Díaz is in charge of all projects carried out through the regional office, among them a contract for a retail-store design with Apparel Group, a global fashion and lifestyle brand conglomerate owned

by investors based in Dubai, and which is preparing to open its first department store in Oman.

"There's this perception among many people— and I was one of them, I confess—that Acts 20 and 22 cater exclusively to people from outside the island," the AD&V president said. "I can now say that is absolutely false; in fact, Act 20 was a lifesaver for us."

Economic forum provides new opportunities

The story of Álvarez-Díaz & Villalón (AD&V) is by no means the only instance of a Puerto Rican enterprise that has successfully exported its services abroad, nor should it be. It is with such an idea in mind that the 2014 Executive Economic Forum is being held today.

Touted as the "second great economic transformation" in Puerto Rico—Acts 20 and 22, as well as the EB-5 immigration program, represent a golden opportunity for local companies to become active competitors on the world stage.

"Every industry has the potential to adapt, reinvent itself and see things from a different perspective," said Brenda González-Santini, president of Adworks, one of the main organizers of the event alongside the Department of Economic Development & Commerce (DDEC by its Spanish acronym).

The forum kicks off with a keynote by DDEC Secretary Alberto Bacó Bagué, followed by an in-depth look into transitioning economies by Vicente Feliciano, economist and president of Advantage Business Consulting.

Leading representatives from international legal firm Akerman LLP, Flagship Services Corp. and the Puerto Rico Tourism Co., among others, will be on hand to discuss the new financing alternatives provided by the EB-5 program.

In the afternoon, Lufthansa Technik's CEO, Elmar Lutter, will head a panel titled "Networking in the New Business Segments." A later panel, dubbed "180 Degrees to Opportunities and Success," will feature Albert Koch, vice chairman of AlixPartners.