

# Tourism turning real estate

## How to deal with residential tourism investment in the global South?

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### Key points

- Incentivising residential tourism and real estate investment in the South [of: in developing countries] may compromise long-term inclusive and sustainable development: short-term tourism is often preferable from a socioeconomic and environmental point of view.
- Specific residential tourism projects can be sustainable and responsible; however, the long-term process of land-based speculative development should be viewed with scrutiny.
- Besides causing direct displacement of people from their land, residential tourism can trigger broader processes of land-based exclusion, especially through land price inflation.
- Donors should be careful in supporting real estate and land-based development disguised as tourism, particularly in socially and environmentally vulnerable contexts.
- Institutional reform and capacity building of local governments and institutions is urgently needed to improve the implementation and control of land and environmental regulations that safeguard sustainable development.
- Civil society and local communities should be guaranteed a strong say in all matters related to residential tourism development. In many countries, however, their influence is limited, especially since the central government and private sector increasingly recentralise and privatise the control of natural resources.

### Background

Residential tourism to developing countries, sometimes called lifestyle or retirement migration, is on the rise. Relatively well-to-do citizens from Europe or North America move, temporarily or permanently, to tourist destinations in the South where they buy or rent property. These residential tourists migrate in search of a more relaxed lifestyle, a lower cost of living, better weather or the beautiful natural surroundings. In certain countries in Latin America, Africa and Asia, both the number of residential tourists and the size of the related land investments have increased markedly during the past ten years. Population ageing, increasing living costs, changing lifestyles and better communication and transport opportunities in Europe and North America provide a fertile ground for residential tourism to grow.

While tourism is generally regarded as a 'green' sector – especially compared to other investment sectors such as mining or plantation agriculture – residential tourism is causing mounting pressures on land and local resources. The traditional short-term tourism sector focuses on providing lodging, food and sightseeing. However, due to the new developments, tourism in many areas in the South is increasingly connected to real estate investment and land speculation. Transnational land and real estate investment and mobility now constitute some of the main drivers of capital accumulation in Central America.

### Costa Rica

One of the main and until recently fastest growing residential tourism destinations in Latin America is Guanacaste province, located on the northwestern coast of Costa Rica. The area has been a popular destination for short-term tourism for a long time, with tourists coming to enjoy the sunny beaches. Since 2002, residential tourism and the real estate market have undergone rapid growth in this sparsely populated region on the Pacific Ocean. The project developers and investment



Figure 1: Map of Guanacaste

capital mostly come from the USA and Canada. Two thirds of the projects are (co-)financed by North American capital, while forty per cent of the projects are either completely or partly financed by Costa Rican investors. Collaboration between North American and Costa Rican investors is common.

### Socioeconomic effects of residential tourism

The socioeconomic effects of residential tourism are still poorly understood. However, it is clear that the impact of this new kind of tourism is different from conventional short-term tourism. Research shows the differences in spending patterns between short-term and residential tourists. A study in Spain shows that non-hotel lodging (apartments, residences) contributes less to the local economy than traditional hotels: the local multiplier effect of hotel guests' spending is up to eleven times higher, thus creating more diversification of the local economy and more local employment.<sup>1</sup> On the other hand, adding residential elements such as houses or plots for sale may be an important diversification strategy for short-term tourism resorts, as this can help to reduce vulnerability to

seasonality and international trends and shocks.<sup>2</sup>

In Guanacaste, employment and business opportunities in tourism, construction, real estate and the related service sectors increased strongly between 2002 and 2008, when the region saw the rapid growth of both short-term and residential tourism. The two kinds of tourism in Guanacaste are strongly interrelated, which makes it difficult to measure their effects separately. However, a comparison of both groups' expenditure patterns suggests that residential tourism is less beneficial to a diverse local economy. Residential tourists, especially permanent residents, mostly spend their money on land and real estate investment, plane tickets, grocery shopping and domestic support services. Short-term tourists spend much more on hotels, restaurants, sightseeing tours and local shopping (see graph 1). While residential tourism thus provides profitable opportunities for real estate development (and may at the same time trigger an increase in low-paid and vulnerable employment in the construction industry or domestic work), short-term tourism is generally more beneficial to the small-scale businesses of local residents. A greater focus on residential tourism can thus lead to greater inequalities between local groups, an

1 Deloitte, & Exeltur. (2005). Impactos sobre el entorno, la economía y el empleo de los distintos modelos de desarrollo turístico del litoral Mediterráneo Español, Baleares y Canarias – Resumen Ejecutivo. Madrid: Exeltur.

2 McElroy, J. L., & De Albuquerque, K. (1992). The economic impact of retirement tourism in Montserrat: some provisional evidence. *Social and Economic Studies*, 127-152.



**Graph 1:** Weekly expenditure per category in \$US. Source: author's survey

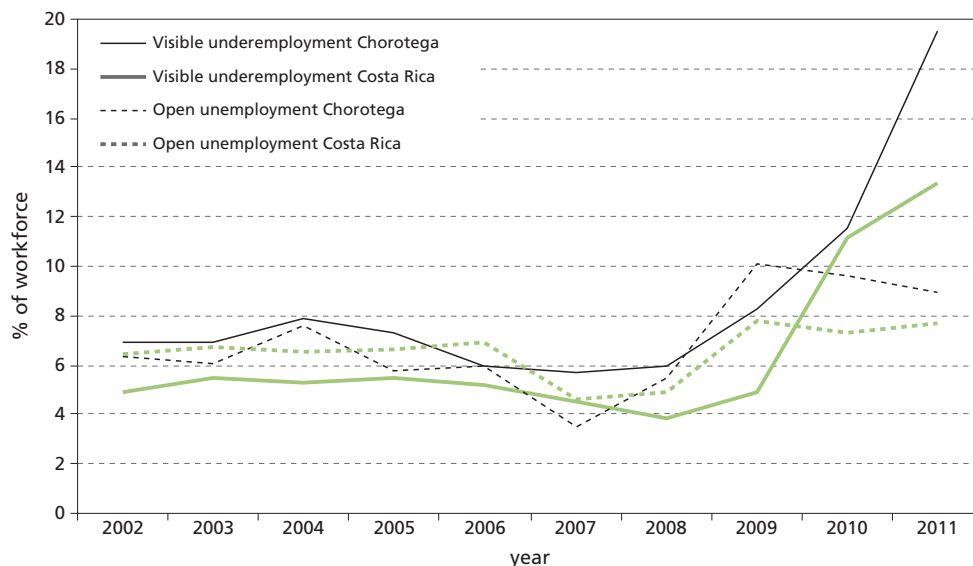
effect that is exacerbated when residential tourism causes the displacement of the small-scale tourism sector.

### Longer-term impacts

The rapid growth of residential tourism in Guanacaste has made this Costa Rican region more dependent on the North American real estate market and credit opportunities. The risks that this entails became painfully clear in the aftermath of the 2008 global economic crisis: poverty, unemployment and underemployment have increased at a much higher rate in Guanacaste than in other regions of Costa Rica (see graph 2). Residential tourism and the real estate market can be moneymakers, but at the same time this growing

sector is particularly vulnerable to international economic developments. This is especially so because residential tourism focuses on the sale and transfer of land, rather than on the development of broader services. Land becomes an object of investment and speculation, and as such is closely connected to a volatile and risky financial sector.

Another reason why residential tourism can be problematic in the long term, is that external investments in land often lead to the displacement and exclusion of local populations who are denied their land rights (see box 1). The economic impact of residential tourism is moreover interwoven with environmental aspects in complex ways. Residential tourism can cause landscape deterioration and environmental problems such as water scarcity (due to overexploitation



**Graph 2:** Open unemployment and visible underemployment in Chorotega region and total. Costa Rica 2002-2011. Source: own elaboration based on INEC household surveys 2002-2011.

## Residential tourism: a 'land grab'?

The 'land grab' literature increasingly focuses on the worldwide development of real estate markets and the increase in land speculation, also in rural areas. Large-scale land acquisitions for tourism in urban or peri-urban areas have also attracted the attention of researchers. Their studies suggest that rapid development of residential tourism in developing countries can endanger local populations' access to land and may lead to displacement, as has been the case in Cancún, Mexico<sup>1</sup>, on Nicaragua's Pacific coast<sup>2</sup> and in Bocas del Toro in Panama<sup>3</sup>. It is often indigenous and peasant groups that are most severely affected. In Guanacaste, recent pressures on land have not caused large-scale displacement. This is thanks to the low population density of the area, low agricultural use of land, and the spatial characteristics of the

- 1 Torres, R.M., Momsen, J.D., 2005. Gringolandia: The Construction of a New Tourist Space in Mexico. *Annals of the Association of American Geographers* 95 (2), 314-335
- 2 Bonilla, A., Mordt, M., 2011. Turismo en el Municipio de Tola (Nicaragua): exclusión y resistencia local. *Opiniones en Desarrollo (Programa Turismo Responsable)* 11, 2-28.
- 3 Gómez, I., Kandel, S., Morán, W., 2009. Conflictos y respuestas territoriales ante el auge inmobiliario del turismo. El caso del archipiélago de Bocas del Toro.

investments that primarily take place on hills and isolated beaches. Residential tourism in Costa Rica's coastal area has, however, caused spiraling land price inflation (see table 1). Gentrification and higher land prices can indirectly cause displacement: higher property taxes may push people out, distress sales become more common, and new programs for social housing or agricultural reform are more difficult to carry out. The main problem of high price levels is pre-emptive exclusion: lower-income groups will be unable to buy new property in these areas. In Guanacaste, land and housing are indeed inaccessible to most local and poor migrant groups.

*The increase of property prices for residential tourism projects in Guanacaste coastal area: 2000-2011.*

| Property prices in \$ per square metre | 2000      | 2009-10-11 | Average annual increase |
|--|-----------|------------|-------------------------|
| Residential lots total                 | \$ 67.70  | \$ 187.50  | 17.7%                   |
| Condominiums/houses                    | \$ 793.00 | \$ 2717.30 | 24.3%                   |

Source: Author's research & additional literature, see PhD thesis.

of aquifers) and contamination of groundwater, surface water and the sea. On top of this, rapidly increasing land prices threaten the possibilities and likelihood of nature conservation. Paradoxically, nature and environmental services are highly valued by residential tourists and an important comparative advantage for nature tourism destinations such as Costa Rica. The conservation of nature is therefore essential to sustaining residential tourism in the long run.

### The role of governance and land use planning

The Costa Rican state is generally considered a strong state that has elaborate environmental legislation in place as well as various strong central state institutions. In Guanacaste province, however, the state played an ambiguous role in promoting residential tourism. The growth of the sector was made possible by government support and incentives, but mostly by leaving regulation to the private sector. The lack of government implementation and control of environmental and spatial regulations has led to chaotic and unplanned development of residential tourism in Guanacaste. A particular weakness lies at the level of local government. Municipalities and lower level government institutions (such as the Environmental Assessment Agency) lack the capacity

to coordinate the implementation and control of effective coastal land and environmental governance.

The majority of land in Costa Rica is private property. However, the law on the maritime-terrestrial zone (law no. 6043, Ley sobre la Zona Marítimo Terrestre (ZMT), of 1977) stipulates rules for the use and protection of the first 200 meters of coastal land: the first 50 meters are inalienable public land, and the remaining 150 meters are a restricted zone. These 150 meters are government property; land concessions are issued (5-20 years renewable) and construction is allowed under strict conditions only. The ZMT law is meant to guarantee that coastal land is used for public benefit, that the socially and environmentally vulnerable coastal areas are protected, and that tourism is developed in a sustainable way. However, reality shows a different picture: government regulations on the use of coastal land are not adhered to. A real estate market for coastal land has appeared; concessions are granted to foreign tourism companies and combining concessions increasingly leads to land concentration. Privatization of the public inalienable zone (the first 50 meters) due to a complicated historical land tenure situation or entry barriers to public beaches is another growing problem. Coastal communities with land use permits are claiming stronger land rights, but these have so far been denied.

A main culprit of the current situation are the serious deficiencies in land-use planning and the fact that the private sector plays an ever bigger role in the elaboration of land use plans.<sup>3</sup> The developments in Guanacaste show that even strict national laws and elaborate checks and balances cannot always prevent damage, particularly given local government's traditional weaknesses and the weak presence of various central government institutions in peripheral areas, the conflicting mandates of state institutions, very rapid developments and powerful economic interests.

Costa Rica's government and tourism sector have embraced voluntary regulation for sustainability through the Certification for Sustainable Tourism (CST). This scheme, however, has not yet been extended to residential tourism. While doing so would be a step forward, voluntary regulation will not provide the solution to all problems. In Guanacaste, certain tourism and real estate developers have introduced corporate social responsibility practices (sometimes in collaboration with the government), and these have worked quite well. However, these projects have unintentionally attracted a variety of often less responsible developers; all the projects together can still cause problems if no binding regulations are being enforced. In a few cases the government has implemented strong regulations, such as with the development of the public-private tourism resort Papagayo Gulf Tourism Pole and the renovated beach boulevard in Playas del Coco. Results, however, have been mixed: while large-scale expropriation was prevented and 'islands of sustainable development' were created, the luxury resort project has also been criticized for cheaply giving away land concessions without delivering development.

### The role of civil society

With a central government that lacks coherent policy, and with weak local government and a private sector that does not offer all the solutions, citizens and civil society have an important role to play in improving the implementation and control of regulations, and in achieving positive change. In Costa Rica, civil society and organised communities have opportunities to participate in decision-making on residential tourism. According to national law, they have a say in territorial planning, tourism planning, environmental assessment processes and water management. The successful protests in the interior of Guanacaste against the exploitation



of local aquifers for tourism and residential projects on the coast proved that local action can indeed be effective. The power of communities and civil society to influence local affairs remains limited due to several factors:

- Their participation is superficial and non-binding
- They often exercise their influence ex post (e.g. through judicial cases), preventive action is rare
- There is a weak connection between civil society and local government
- The population of the area is diverse and fragmented (i.e. native population, residential tourists, labour migrants) which makes it harder to act as one

This situation may become more critical as the Costa Rican central government and the private sector are increasingly recentralising and privatising the control over natural resources such as water.

### Complexity of sustainable development assessments

Three factors complicate the sustainability assessment of residential tourism:

- The overall development effects can be understood only by exploring the connections between the ecological, economic and social aspects of sustainable development.
- Long-term effects, which are hard to study or predict with certainty, need to be taken into account as an integral part of sustainable development assessments.
- The impact is not limited to the local or regional level: distant regions are also directly affected by residential tourism through flows of capital, goods, people, etc. These flows need to be taken into account to arrive at a profound understanding of the effects of residential tourism that cannot be provided by static, bounded impact evaluations.

<sup>3</sup> Programa Estado de la Nación, 2010. Informe Estado de la Nación en desarrollo humano sostenible 16. Programa Estado de la Nación, San José, Costa Rica; Román, M., 2009. Dinámica del mercado inmobiliario en la costa pacífica de Costa Rica. In: Center for Responsible Travel (Ed.) The Impact of Tourism Related Development along Costa Rica's Pacific coast. Center for Responsible Travel, Washington, DC / Stanford, CA.





## Recommendations

Many states in developing countries go to great lengths to attract residential tourism investment. The long-term socioeconomic and environmental effects of this development are not yet known, however, there are indications that residential tourism may compromise inclusive and sustainable development. When regulating, promoting or attracting tourism and real estate-related investments and projects in the global South, national governments and other relevant stakeholders such as donors, NGOs, investors, banks and pension funds should take into account the following recommendations:

### 1. Reflect on the type of tourism to be attracted

Given the strong interconnection between conventional tourism and real estate elements in today's tourism industry, governments should be aware that attracting large-scale tourism often entails attracting real estate. The side effects of this, perhaps most importantly land speculation, should be well thought through before directly or indirectly incentivising residential tourism.

### 2. Invest responsibly

Investors and related actors such as banks or pension funds should reflect on the type of tourism they promote: holistic and longitudinal impact assessments and consultation as well as a careful choice of local partners, are a sine qua non for responsible investment. This is especially urgent in the case of residential tourism (or tourism resorts with real estate elements). Long-term investments are preferable, and social inclusivity, land issues and water availability require special attention.

### 3. Sustainable tourism development requires institutional reform, particularly in improving implementation and control of regulations

Given the very rapid developments and powerful economic interests in the residential tourism sector, governments need to be well equipped to lead these developments in the right direction. Ambiguities and conflicting mandates of state institutions, as well as the often weak implementation and

control capacities of especially local governments where land and environmental regulations are at stake, need urgent attention.

### 4. Effective governance for sustainable development requires more democratic decision-making on local affairs and natural resources

Given that local communities will bear the brunt of the potentially adverse socioeconomic and environmental impact of residential tourism, civil society should be guaranteed a strong say in all matters related to this development. Where displacement of the local population is at stake, attention should not be paid only to direct displacement, but also to the long-term effects and broader processes of exclusion that may be triggered by land price inflation and land speculation.

### *About*

This Policy Brief is based on the author's Ph.D. dissertation, entitled *Whose place in the sun? Residential tourism and its implications for equitable and sustainable development in Guanacaste*, published by Eburon Publishers in 2012 and available from <http://dspace.library.uu.nl/handle/1874/257921>.

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### *Selection of publications*

- van Noorloos, F. (2014). Transnational land investment in Costa Rica: tracing residential tourism and its implications for development. In M. Kaag & A. Zoomers (Eds.), *The global land grab: beyond the hype* (pp.86-99). London: Zed Books
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For more publications in professional and peer reviewed journals and books, see: [www.uu.nl/staff/hjvannoorloos](http://www.uu.nl/staff/hjvannoorloos)

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More information about LANDac and our activities is available on our website: [www.landgovernance.org](http://www.landgovernance.org).

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