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Demystifying Cayman real estate law: Closing costs

DECEMBER 2023

Buying or selling a property in the Cayman Islands is a significant financial undertaking. While the prospect of owning a piece of paradise is exciting, it's essential to navigate the intricacies of closing costs and fees involved in Cayman Islands real estate transactions.

This guide will provide you with an understanding of what these costs encompass, how they can impact your budget, and strategies to manage them effectively, ensuring a smooth experience in this tropical real estate market.

What are closing costs in the Cayman Islands?

Closing costs are a standard component of any real estate transaction in the Cayman Islands, involving various expenses that buyers and sellers need to address at the closing table. These costs encompass a wide range of services, from administrative tasks to legal and government-mandated fees.

1. Stamp duty

Stamp duty is a significant part of closing costs in the Cayman Islands. It is a government-imposed tax on property transactions. The amount of stamp duty varies depending on the property's value and the nature of the transaction plus there are discounts available to Caymanian buyers. Please see my previous article dedicated to this topic. Typically, the buyer bears the responsibility for stamp duty but this can be negotiated between the parties.

2. Legal fees

Hiring a qualified Cayman Islands real estate attorney is a crucial step in any property transaction. Legal fees are part of closing costs and cover services such as contract review, title searches, registration and ensuring the transaction complies with local laws.

3. Valuation fees

Before finalising a property sale, a valuation or appraisal may be required. This is to determine the property's market value, and the cost of this service falls under closing costs. Where you are seeking bank financing (or indeed a stamp duty waiver), a recent valuation will be a usual requirement and it is not unusual for the lender to specify that the valuation be from one of their approved valuers.

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4. Property insurance

Property insurance is essential to protect your investment in the Cayman Islands. Buyers are often required to pay for the first year's insurance premium at closing. Please note that this is often covered under the strata fees if applicable to the property.

5. Survey fees

On bare land transactions, a survey may be needed to assess the property boundaries and verify the property's dimensions. This cost is typically the responsibility of the buyer.

6. Banking fees

As a buyer, if you are borrowing money to fund your purchase there might well be fees associated with the loan. It is also important to remember the stamp duty is payable on any borrowed money which is in addition to stamp duty payable on the purchase price.

7. Conveyance fees

Conveyance fees cover the legal process of transferring property ownership. These fees are typically paid by the buyer and often payable along with legal fees.

Estimating closing costs in the Cayman Islands

Estimating your closing costs accurately is vital for budgeting purposes. To get a clear picture of what to expect, consider the following steps:

1. Consult with your real estate attorney

Engage a local real estate attorney who can provide you with an estimate of the closing costs specific to your transaction.

2. Calculate stamp duty

The Cayman Islands Government's website provides a Stamp Duty Calculator, allowing you to determine the stamp duty amount based on your property's value and type of transaction.

3. Account for other costs

Include legal fees, valuation fees, property insurance, survey fees, and any other applicable costs specific to your property transaction.

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Reducing closing costs in the Cayman Islands

While some closing costs are non-negotiable, there are strategies to manage and reduce these expenses:

1. Explore stamp duty waivers

In some cases, certain property transactions, such as first-time Caymanian homebuyers or those purchasing property in designated development zones, may qualify for stamp duty waivers or reductions. Research whether you are eligible for any exemptions. Identify and itemise any chattels (for example, furnishings and appliances) which are being sold with the property. An apportionment of your purchase price to the value of these chattels is a legitimate way to reduce stamp duty exposure, as chattels do not attract stamp duty.

2. Negotiate with the seller

Buyers can negotiate with sellers to share or cover some of the closing costs, which can ease the financial burden.

3. Efficiently manage legal fees

Discuss legal fees with your chosen real estate attorney, and ensure you understand the scope of services included in their fee.

Cayman Islands closing cost pitfalls to avoid

Navigating closing costs in the Cayman Islands requires careful attention to detail. Avoid these common pitfalls:

1. Failing to calculate stamp duty accurately

Stamp duty calculations can be complex, especially where relevant currency is not Cayman Islands dollars. Ensure you use the correct formula and rates, and consult with a local attorney or government resources for guidance.

2. Overlooking legal advice

Real estate transactions in the Cayman Islands require legal expertise. Skipping legal advice may lead to unforeseen issues.

3. Not considering insurance

Property insurance is essential but often overlooked. Failing to secure insurance coverage can leave your investment vulnerable. Again, it is a usual requirement and condition of bank financing.

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Conclusion

Closing costs and fees are an integral part of any real estate transaction in the Cayman Islands. By understanding these costs, budgeting effectively, and exploring cost-saving strategies, you can navigate the closing process with confidence. Whether you're a first-time buyer or a seasoned investor, being well-informed about Cayman Islands closing costs will empower you to make sound financial decisions and ensure a smooth and successful real estate transaction.

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