


# Everything you Need to know About the Landlord and Tenant act in Costa Rica

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In Costa Rica there is a law governing the relationships between the Landlord and Tenant for two specific situations:

- 1) When renting houses, apartments or condos
- 2) When renting a property for commercial, industrial or professional purposes. This Rental Law has been in effect since 1995, with only a few amendments since then. It has a number of different rules for similar situations, so knowing the details can be a big help for those expats being on either side of the relationship Landlord or Tenant.

In general terms we can mention that the following rules are applied to the above-mentioned property leasing contracts:

- The contract can be either verbal or written. For obvious reasons, a written agreement is always better to clarify the specific obligations of each party.
- The law establishes a minimum term of **3 years**, meaning a renter who duly accomplishes his or her obligations can legally stay for the period of time, no matter what the contract says. If the contract has a term beyond three years, the higher term rules.
- Public services and utilities have to be paid by Tenant. The Landlord is responsible to cover local property taxes as well as the Luxury Home Tax, if applicable. In the case of Condominiums, it's very important to establish who is responsible to pay the HOA fees and if the rental price includes that or not.
- Landlords are obligated to be registered with the Tax Ministry -Hacienda- and provide electronic invoices to their Tenants. Not complying with this can bring tax fines to the Landlords.
- With the new Fiscal Plan recently approved, all lease contracts for houses, apartments and similar which monthly payment are higher than 1.5 base salary -currently 646,500 colons or \$1,078 approximate- will have to pay 13% sales tax.
- If the property title gets transferred into a new proprietor's name, the Tenant has the right to stay until the term of the contract finishes. Evictions can't be requested based on a change of ownership.
- Necessary improvements due to normal use and passage of time are to be covered by the Landlord. Improvements due to damage caused, or abuse of the premises, are to be covered by Tenant.
- Tenants require permission from Landlord in order to make changes to the structure or perform permanent improvements. Any permanent improvements made by Tenant automatically become part of the property without the right to claim a refund.
- At the end of the term, if the Landlord wants the Tenant to vacate the property, the Landlord will have to provide a written notice at least 3 months prior to the term of expiration. Otherwise,

the contract gets automatically renewed for another three years or higher term if agreed on the contract.

- Tenants cannot sublease the property or assign the rights of the contract to any third party. The exception is when transferring an operating business. There is a special procedure named Purchase of Mercantile and Industrial Establishments ruled by article 478 of the Code of Commerce. Landlords have to respect the change in this case.
- The landlord is entitled to request a refundable security deposit from Tenant in order to cover eventual damages or unpaid invoices. When renting homes such deposit is equivalent to 1 month's rent, while commercial rentals have no limits.
- The landlord has the right to perform an external/internal inspection of the property once per month.
- The tenant cannot change the originally agreed use of the property. This means a home cannot be turned into a restaurant, and a restaurant cannot be turned into a night club, without further authorization. However, on home rentals, installing a small professional office to provide services, or starting a small craft or domestic business without disturbing others does not breach this rule.
- The tenant can legally pay rent up to 7 days after the agreed payment date. This means if the payment date is the first day of each month, Tenant can still legally pay anytime before the eighth day of each month. In the case the Tenant makes late payments, meaning later than mentioned extension, and such situation is not corrected immediately by Landlord, it opens the right for Tenant to continue paying late.
- When a property is rented to be used as a home, the rental price used to get automatically adjusted fifteen percent every year if the contract was made in colons. However, an amendment introduced during 2016 lowered this percentage considerably, creating a very complicated formula to calculate the annual increase based on inflation indexes published monthly by the Ministry of Housing. If the rental price is in US dollars or any other foreign currency no annual increase applies.
- When a property is rented for commercial or industrial purposes, there is no limit on the annual increase, whether the rent price is in colons or foreign currency.
- Very important to take notice that in case of rental for commercial/industrial purposes, the contract pays a Fiscal Tax or Timbre Fiscal. The way to calculate is as follows: the initial monthly payment is multiplied for all the months of the agreed term. The result is calculated based on 0.5%. So, a contract with a rent payment of \$1,000 to 3 years term, pays the approximate US \$180 on Fiscal Tax, payable at the moment to sign the contract. If this is not done, and an eviction process is submitted presenting such contract as proof, the Court might impose a fine equivalent to 10 times the owed amount, meaning US \$1,800.

Regarding places to be rented as homes, the law also creates a difference between what is considered Normal Homes or Social Interest Homes. These later are those with a value up to 58.6 million colons -around US \$98,000-. Basically for those Tenants renting a social interest home, if Landlord needs to start an Eviction Process for lack of payment, Tenant can stop the eviction by paying all delayed rents and legal expenses to the Landlord.

When renting Condos, it is necessary to take in consideration that Tenant needs to acknowledge they have read and will respect the internal bylaws as well as other dispositions contained on the Condominium Property Act. When the Home Owners Association meetings take place, Tenant has the right to participate and make suggestions but is not allowed to vote. Only homeowners can legally vote.

Some special situations are also ruled by this law. If a landlord decides to build a maximum of two homes or commercial places on the same land where his or her home is located, and such places have a common entrance along with the Landlord's home, Landlord is entitled to terminate the contract anytime providing 1 month notice to vacate the property. After that term, if the Tenant is reluctant to leave the premises, then Landlord is entitled to request and Administrative Eviction from the Ministry of Security in order to have the Tenant taken out with help of local police.

It is necessary to consider that any eviction process in Court can take time. In fact, some renters like to rent places paying first month rent and security deposit, then stop paying rental until the Tenants know that the eviction order is signed. At the time renter just moves out. One tool that can be used by Landlord is to request the Judge to perform a visit in order to make an inventory of all Tenant's belongings, to be held as a guaranty for payment. This might motivate the delinquent Tenant to leave earlier.

As mentioned above, the law grants a minimum term of three years. However, there are two other exceptions:

- Trust contract. If the property to be rented is an asset included inside a Trust Contract, the person with legal faculties to rent the property will be the Trustee. In this case it the Trustee is only authorized to rent for a maximum term of 1 year, then that term rules.
- Usufruct right. One property owner can legally transfer the usufruct right of a property into a different person's name. This is a type of lien against the property, meaning the usufruct beneficiary is the one entitled to rent the property. If such beneficiary right only gets this benefit for less than three years that means the property can't be rented for any longer time than what remains.

All situations other than renting homes or commercial/industrial places have different regulations. Some situations excluded from the Tenancy Act are as follows:

- Hotels, Bed & Breakfast and Motels.
- Homes and premises rented with the purpose of Tourism.
- Spaces rented for vehicle parking.
- Homes granted to a person to live without paying any rent, or homes granted to employees by the employer.
- Farms and properties rented for agricultural purposes.

For Landlords, it is important to be cautious at the moment of rental. Getting references or performing credit reports on Tenants is highly recommended, considering that a bad Tenant can create very big problems, and any eviction process might be expensive and time-consuming. Tenants also need to understand their rights in order not to suffer any abuse from Landlords. Remember, get it in writing!

**About the Author:** Allan Garro was incorporated as a lawyer and public notary in 1996. He specializes in Litigation, Corporate, and Real Estate Law. He has also acted as an external legal consultant to Congress. He has been the author of more than 100 published English Language articles and can be reached at [\[email protected\]](#)