

A Real Estate Boomlet in Latin America.

Latin America's largest economic powerhouses, Mexico and Brazil, are enjoying a real estate revival that neither country has seen in years. Big-picture economic fundamentals, politics and recent laws welcoming foreign investment are helping to trigger building sprees in residential and commercial properties, observers say. As Rogerio Basso, a Miami-based Latin America specialist for Ernst & Young's hospitality and real estate advisory service, puts it: "There are good expectations for growth in both countries." The region's boomlet follows lows of 2001, when regional real estate prices dropped 25%, with office space reporting the sharpest falls. Reasons for the slide varied. In Mexico, there was considerable fallout from the terrorist attacks in the U.S. In Brazil and Chile, markets suffered the effects of Argentina's lingering recession.

Brazil: Calmer Waters, Calmer Markets

Observers say three areas in Brazil's real estate market - middle-income housing, tourism and "build-to-suit" industrial warehousing - are poised for impressive growth within a three to five-year horizon. Although the ascent of President Luiz Inacio Lula da Silva, Brazil's charismatic and center-left leader, initially scared off foreign investors and temporarily put a kibosh on projects there, macroeconomic fundamentals have since calmed down. The real, Brazil's currency, has stabilized to around 3 reals to the dollar (it hit a low of 3.8 reals after the election) but more crucially, interest rates are now around 16% after hitting 25% in 2003. "We are seeing [the market] re-ignite now," Bedsole says.

The sprawling state of Sao Paulo is experiencing an uptick in light industrial and warehouse offerings as it succeeds in luring companies from the U.S., Bedsole adds. And with Wal-Mart's arrival in Brazil amid a rash of shopping center construction, Basso predicts a burst of build-to-suit properties in Brazil's larger cities and along the southern agricultural belt where strong soybean prices have stimulated local investments. Custom-designed real estate could produce Wal-Mart-like distribution centers or grains-friendly storage centers.

The nation's homebuilders are preparing for increases in home buyers as new laws give Brazilians greater access to cheaper financing. In addition, bankruptcy legislation offering developers greater foreclosure powers is expected to encourage more investment geared toward the working class sector, Basso notes.

Recent laws more welcoming to foreign investors have led to a boomlet of foreign-owned hotels in tourist-friendly zones. Laws, passed about five years ago, have brought in such investors as U.S.-owned chains Holiday Inn and Fairfield Inn, the French-owned Accor, Spain's Iberostar and Portugal's Pestana.

But in their zealousness for profits, certain projects have over-reached. Basso points to Costa do Sauipe In north-eastern Brazil where some multinational hotels - betting that foreign tourists would want to stay in luxury facilities such as theirs - now face high vacancy rates. "They have lost money," Basso says. Prudent investors, he suggests, should always pay close attention to local and international tastes.