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A 467 square meters (5,027 square foot), 4-bedroom apartment with killer views of the Ipanema beach in Brazil's top tourist destination is going for 17 million reais, or \$5.8 million. Photographer: Ricardo Perri/Judice & Araujo via Bloomberg

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by
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(Bloomberg) -- For investors with dollars, the dream of a condominium by Rio de Janeiro's most famous beaches is suddenly within reach, just in time for the Olympic Games.

A 467-square-meter (5,027-square-foot), four-bedroom apartment with views of ocean swells rolling up on Ipanema Beach sells for 17 million reais, or \$5.2 million. That's about half the price in dollars from a year ago thanks to sliding property prices and a rout in the local currency, according to Judice & Araujo, a Rio-based luxury home broker.

A 39 percent decline in the real the past two years, the most among 16 major currencies tracked by Bloomberg, is starting to entice foreign investors, said Frederico Judice Araujo, a partner in the company. Fueled by a surge of expatriate oil and mining workers, Rio was the world's 12th most-expensive city in 2011 -- ahead of New York and London. It has since fallen to 65th, according to cost of living studies by consulting company Mercer.

"Things for foreign buyers are getting better and better," Judice Araujo said by telephone. "There are people that weren't active in the market a few months ago that are now considering some buying opportunities at more attractive prices."

Olympic Frenzy

The discovery of elephant oil fields buried miles beneath a layer of salt in the Atlantic seabed in 2007 boosted demand for residential and office space as the energy industry mobilized to extract the newfound riches. Flagship oil company Petroleo Brasileiro SA lured oil equipment and service suppliers to start or expand operations in an effort to win work in what was expected to be a growing profit center for the offshore oil specialists.

Then the announcement in 2009 that Rio would host the 2016 Olympic Games sent the city into a building frenzy, with government officials rushing to double hotel capacity, extend subway lines and modernize airports and renovate entire neighborhoods.

"The massive investments in pre-salt required by Petrobras attracted a lot of companies in the oil and gas segment," Cristiane Spercel, a homebuilders analyst at Moody's Investors Service, said in a telephone interview. "Now, with all the delays, the cutbacks in capital expenditures, the investigations into large construction companies, we see a slowdown."

Judice Araujo said prices for luxury apartments in Rio's Zona Sul, the city's most upscale district, fell 10 percent to 12 percent last year and have continued sliding at a more moderate pace since December.

The real declined 0.7 percent to 3.2630 per dollar at 2:37 p.m. in Sao Paulo, the weakest on a closing basis since April 2003. That's second-worst performance among the world's main currencies tracked by Bloomberg.

Blocked Roads

To be sure, day-to-day life in Rio isn't all sunshine and samba. The city of 6.3 million people has one of the continent's biggest slums, Rocinha, and muggings jumped 31 percent last year to 48,972, according to data from Rio de Janeiro state. Olympic-related construction is disrupting traffic across the city, including in the exclusive neighborhoods of Ipanema and Leblon. Efforts to halt sewage flowing into the Guanabara Bay, which will host Olympic sailing events, won't be completed in time for the Games.

Rio's dependence on locally-based commodity companies like Petrobras and miner Vale SA has also put the city's economic outlook on precarious ground.

Banned Builders

Petrobras has banned more than 20 companies which have been cited in bribery investigations from bidding for new contracts at a time oil prices have collapsed due to growing production and faltering demand. A lack of consensus over graft costs has delayed the release of Petrobras's earnings and temporarily shut it out of international debt markets, threatening the company's spending plans.

Company officials are taking longer to sign or renew contracts and release the results of public tenders, said three people familiar with recent Petrobras procurement negotiations, who asked not to be identified because the deals aren't public. That's freezing the oil and gas supply chain and sending shock waves in Rio, from the real estate to the executive recruitment market.

"We have some cases of commercial tenants, who were Petrobras suppliers, who haven't been collecting and are behind on rent," said Leonardo Schneider, the vice president of Rio's branch of Secovi, an association of real estate agencies. "These executives, these professionals that work at the companies that are changing and shutting down, also have their homes and their expenses."

Economic Contraction

The slowdown in the energy industry coincides with a surplus of new properties in Rio, leading to a weaker real estate market, said Pedro de Seixas Correa, a professor at the Getulio Vargas Foundation specializing in the construction industry.

"The market is suffering this negative economic outlook and will continue doing so," he said in a phone interview. "When we have a reduction in business activity, revenue falls and the real estate market is immediately impacted."

Selling prices in local currency for three-bedroom apartments in Rio rose 4.5 percent in the year through February, the slowest since at least 2008, according to the FipeZap home price index. That's below the city's inflation rate and compares with annual increases of as much as 45 percent in 2011.

Brazil's economy unexpectedly contracted for the second-straight month in January as the government tightens both fiscal and monetary policies to tame inflation. Analysts surveyed by the central bank on Monday cut their 2015 GDP forecast for the 11th straight week, to a contraction of 0.78 percent. That would be Brazil's worst performance since the economy shrank 4.2 percent in 1990.

But bad news for Brazil's economy may be a good lure for foreign buyers, said Darlan Carlos Souza, a partner at Rio-based real estate agent Wagner Diniz Imoveis.

"We did some surprising sales paid in cash, without the need for financing," he said in an interview. "Those who saved their money are doing a great business buying now."

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