



GLOBAL PROPERTY  
**Buyer's market in Brazil – just in time for the Olympics**

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*This is the sixth in a series of stories on global property that examines the shifts and trends in the housing market on the international stage.*



Wealthy apartment area in Rio de Janeiro with Corcovado Mountain in the background. (iStock)

With a faltering economy and a government in crisis, these are not happy days for Brazilians. As the real-estate market cools as a result, however, now could be a prime time for Canadians seeking a vacation home or an investment property to head to South America.

Consider that certain ocean-area condos are selling at cut rates – some of them by as much as 20 per cent less than this time last year – and you could be sipping a Caipirinha on your sun-splashed deck in time for the 2016 Summer Olympics.

"Our situation, our economy is not good," says Frederico Judice Araujo, a partner in Judice & Araujo, a Rio de Janeiro-based firm specializing in luxury properties, who notes that properties in the best neighborhoods of Ipanema and Leblon have come down by an average of about 10 per cent from this time last year.

"We always have these cycles. After booming for a couple of years, we are at the lower end of the cycle. Brazil wasted a great opportunity; our economy is huge, but right now we have high inflation and high interest rates, and unemployment is growing in our country. All forecasts for 2015 point to the economy contracting by 1 per cent."

Mr. Judice Araujo says foreign buyers are typically interested in the northeastern part of the country, with Rio de Janeiro being an obvious draw because of its beaches, night life and dining; Sao Paulo, inland and further south, is more of a business centre.



2016 Olympic mascot Vinicius is seen on the top of the Sugarloaf cable car in Rio. (Alex Ferro/Reuters)

"Prices are going down," Mr. Judice Araujo adds. "We see clearly some foreigners who were not that interested in our market for two or three years coming back because of this situation. We see this as a good moment for foreigners to analyze some investment options in Brazil."

The market in South America's largest country has recently experienced tremendous growth, with residential property prices more than doubling in Sao Paulo between 2008 and 2012 and nearly tripling in Rio de Janeiro within that same period, according to Capital Economics, an economics research firm. In the past couple of years, however, the market has slowed, due in part to two factors: overdevelopment and the declining price of oil, which has hampered the real, the country's currency, and has slowed homebuyer demand.

"Brazil right now is in a bit of a real-estate recession," says Dale Ripplinger, a Regina-based real-estate agent and vice-chair of the International Consortium of Real Estate Associations (ICREA) board. "It's interesting because so much of this almost mirrors what's happening in Saskatchewan. Prices doubled in Regina and Saskatoon from mid-2007 to the end of 2008 and then tripled between 2007 and 2011. We've overbuilt, and the oil slowdown is hurting us. It's very similar.



Condo in Sao Conrado, an affluent neighbourhood of Rio de Janeiro known for beaches and hang gliding, offers view of the ocean. (Judice & Araujo)

"Prices are declining [in Brazil], but it appears they are deflating slowly, avoiding a big burst or hard landing," adds Mr. Ripplinger, past-president of the Canadian Real Estate Association. "Rather than a crash it's been a bit of a soft landing, much like in Alberta and Saskatchewan."

For investors with dollars, it's almost a perfect storm unfolding in the home of bossa nova and Brazilian footballer Ronaldinho.

The 2007 discovery of enormous oil fields located deep beneath a layer of salt in the Atlantic seabed jacked up the energy industry's demand for residential and office space. The country frantically built infrastructure in preparation for the 2014 World Cup. And the construction frenzy continued following the 2009 announcement that Rio de Janeiro would play host to the 2016 Summer Olympic Games.

Its economy is indeed struggling, and it's a situation that doesn't appear likely to improve anytime soon. One of the world's worst performing currencies, the real fell on Monday, closing at 3.04 Brazilian real per U.S. dollar, the biggest drop among 31 major currencies tracked by Bloomberg. The value of Brazil's currency has fallen roughly 30 per cent during the past nine months.

"The sharp depreciation comes amid a deteriorating outlook for 2015," the economist Angela Bouzaris of FocusEconomics wrote in a March 15 report. "Low commodity prices are expected to weigh on export revenues going forward and the country is expected to record a large current account deficit."

**What can you buy for \$1-million (Cdn.)?**



A 1,044-square-foot condominium in the Sao Conrado neighbourhood of Rio de Janeiro offers an unobstructed view of the ocean from its verandah with bar. It is divided into entrance hall, living room, dining room, media room, bedroom with en suite bathroom, whirlpool and kitchen with eating area. Two parking spaces. The condo has its own playground, swimming pool, sauna, entertainment room, fitness center and 24-hour concierge. (Judice & Araujo)

A corruption scandal continues to shake the government, too. President Dilma Rousseff is facing hostility from Congress and civilians alike because of a multibillion-dollar kickback scheme uncovered at state-run oil company Petroleo Brasileiro SA. Several executives from Brazil's top builders have been indicted, while the investigation has implicated scores of politicians, most from Ms. Rousseff's Workers' Party. The scandal and the economic downturn have resulted in large-scale protests in the streets, with Ms. Rousseff's approval rating hitting an historic low. The country's political turmoil threatens to further damage its economic woes.

Inflation, meanwhile, is mounting. At 8.3 per cent in March, the rate is the highest it's been since 2003. The country's benchmark interest rate has also escalated, with Brazil's central bank raising it to a six-year high of 13.25 per cent in late April.

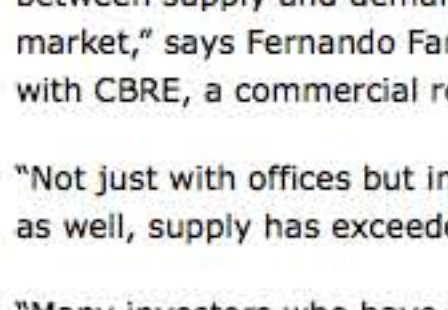
"When you've got 2.5-per-cent mortgages here [in Canada], 12 per cent [or more] is not very attractive," Mr. Ripplinger says.

These are clearly hard times for Brazilians, but buyers around the world are taking note.

"The weakening of the economy ... and higher interest rates plus an imbalance between supply and demand means it is a buyer's market and a tenant's market," says Fernando Faria, director of global corporate services in Brazil with CBRE, a commercial real-estate company.

"Not just with offices but industrial and retail and residential [real estate] as well, supply has exceeded demand, so prices have gone down.

"Many investors who have been studying our markets for a while now – not just Canadians but investors from the U.S., Europe and the Middle East – they are all aware that this is a good moment now," he says.



(Judice & Araujo)

Canada, for example, has invested heavily in Brazil's real estate market. Last October, Canada Pension Plan Investment Board (CPPIB) announced its plans to invest about 1-billion real (\$396-million U.S.) in commercial property there, bringing its real estate commitments in Brazil to more than \$1.8-billion (U.S.) The Toronto-based pension fund opened an office in Sao Paulo last year.

"If the CPP Investment Board sees some commercial opportunity, that's probably a bit of an endorsement," Mr. Ripplinger says.

The Chinese government has also shown significant interest, with the first forum of China and Community of Latin American and Caribbean States taking place in January.

With the declining value of the real, investors have more buying power. Mr. Ripplinger says that Brazil is especially appealing for those with cash and who don't need any financing.

"Brazil could be an opportunity, particularly for those looking at investing for the long term," he says. "Investment is a long-term proposition. Brazil offers a lot of potential."

**Brazilian real to U.S. dollar**

