

## The Olympics effect before and after, in Rio and Beijing



Rio de Janeiro, where residential prices are expected to rise by at least 50 per cent between now and the Olympics in 2016.

Photograph: Getty Images

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TOM HENNIGAN in Sao Paulo

Cities that host the Olympics can expect a race to invest in property, even in a recession. But what happens afterwards? We report from Rio de Janeiro, where residential prices are expected to rise by 50 per cent before 2016, and Beijing, where property is still booming

WHEN THE HEAD of the Olympic movement, Jacques Rogge, announced earlier this month that Rio de Janeiro would host the summer games in 2016 Pelé cried, thousands partied on Copacabana Beach and shares in Brazilian builders shot up on the São Paulo stock exchange.

To get the so-called Marvellous City ready to host the event, Brazil plans to invest almost €2 billion on the games themselves with another €7.5 billion going on related infrastructure and security projects. Rio's industry federation, Firjan, calculates that total public and private investment in the state related to the games will pass €50 billion.

This is a welcome boost for a city that has suffered years of economic decline and social decay and the property sector expects to be a major beneficiary. A report by Brazil's sports ministry projects that of the 55 industries in Rio set to benefit from this cash injection, civil engineering comes top, set to take 10.5 per cent of the pie, with the property sector set to get 6.3 per cent.

Low inflation, low interest rates and a major government housing programme means the Olympic announcement comes at a good time for the local industry, which quickly overcame a recent dip due to the global credit crunch.

"There is a combination of positive factors boosting the Rio property market right now and this has now been crowned by the city winning the 2016 games," says Alexandre Fonseca, vice-president of Ademi, an association of Rio real estate executives.

The need to build beds for guests alone has builders rubbing their hands in anticipation. To win the games Rio promised to have 40,000 three to five-star beds ready for those coming to cheer on athletes. Currently the city has just 22,500. While cruise ships will provide temporary luxury accommodation during the two weeks of the games, new hotels will be built in the coming years.

The Olympic Village itself will be in Barra da Tijuca, a beachside suburb that has already been the focus of much development in recent years. The region is now to get a metro line to link the Olympic Village to the rest of the city and already estate agents are predicting that this is the residential area that will feel the impact of the games most.

"The areas that will have more investments regarding new buildings will be Barra da Tijuca, nearby Recreio and the city's western zone, due to two factors: they are near the Olympic arenas, and because constructors have already bought big areas there," says Leonardo Schneider, vice-president of Secov, the Rio building industry's main lobby group.

Rio is jammed in between the mountains and ocean, which gives it its spectacular setting but which also limits its growth. Barra da Tijuca has been the natural expansion corridor for the city's middle and upper classes but poor transport links with the rest of the city make many people reluctant to move there, holding back prices compared to similar neighbourhoods near the centre.

"Barra da Tijuca has an excess of supply. There is space there for the city to grow but the middle class is reluctant to move in because of the transport issue," says Rodolfo Júdice e Araújo, director of Júdice e Araújo estate agents. "The metro will solve this and greatly heat up the Barra market. You could see a rebalancing in the upper end of the market as families sell out of very expensive neighbourhoods like Leblon and Ipanema and buy better properties for less in Barra."

Residential prices in the city are predicted to rise by a minimum of 50 per cent between now and the games in 2016, says Fonseca of Ademi, with the rise being greater in better-off neighbourhoods that will benefit from investment in infrastructure.

Another less salubrious neighbourhood that developers are betting on is Rio's old port, which is well positioned but run down. The authorities plan to spend €140 million on urban regeneration in the area which will see the building of 500 homes as well as a theatre, restaurants, bars and a new museum in the first round of renewal.

Rio has long been a favourite with foreign buyers, especially those looking to escape the northern winters in Europe and the US while also taking advantage of the city's healthy short and medium term buy-to-let market, boosted by such draws as the city's annual carnival and New Year's Eve celebrations.

"Already 20 per cent of our business comes from foreigners," says estate agent Júdice e Araújo. "It is a segment of the market that has increased greatly and which we believe will continue to grow." He says 200sq m (2,152sq ft) apartments in glamorous Ipanema costs €500,000, up from €300,000 just two years ago.

The better properties in sought-after neighbourhoods provide investors with a rental return of around 9 per cent a year, says Araújo. Those not wanting to buy but who are interested in exposure to Rio's market, can invest in one of the many leading construction companies or REITs (real estate investment trusts) listed on the São Paulo stock exchange.

In Brazil earnings on property related paper are tax-free for private investors, locals and foreigners alike.

One Irish developer who has looked at the Rio market is not ready to jump on the Olympics bandwagon. "The issue with Rio is that it is not as big as São Paulo," says Colin Durkin, who is based in Brazil. He says that desirable neighbourhoods such as Leblon and Ipanema are already full and most sites in Barra da Tijuca are held in the land-banks of a small group of major local developers with ties to Brazil's biggest builders. Much of the land is sewn up so finding sites is an issue. Also planning can be more complicated compared to São Paulo where sites are easier to find and there are fewer planning risks," says Durkin.

In recent years Brazil has clamped down on coastal development so a planning decision can take two or more years for projects in the greater Rio area. This is in contrast to São Paulo where land is already zoned and planning approval is usually given in a matter of months as long as the architect adheres to the local zoning laws.

And while Rio celebrates its recent run of success – it not only got the 2016 Olympics but will probably be in the final of the 2014 World Cup and local company Petrobras recently announced a massive investment to tap into new oil discoveries off the coast – there are those who urge caution. After all when London won the right to the 2012 games there were similar predictions of an Olympian property boom, and while it did cause an initial bounce in areas around the Olympics they are now feeling the recessionary pinch.