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GLOBAL PERSPECTIVES

to local, international & lifestyle real estate

▶ SPOTLIGHT ON BRAZIL



Brazil is Hot

The economic climate in Brazil has radically improved over the last 20 years. Its years of dictatorship and runaway inflation are well into the rearview mirror, and a strong democratic government focused on stabilizing the economy has generated miraculous results. Brazil has become an engine for job creation, which in turn has successfully brought millions of lower-income families into the middle class.

As the largest country in Latin America, Brazil has over 200 million people within its borders. The population has grown 17 percent since 2000. São Paulo, the financial hub of South America, is the largest city in the southern hemisphere, the eighth largest in the world and is predicted to be one of the fastest growing cities through 2025.

As a vibrant middle class has arisen, so has consumer demand for goods and real estate within and outside of Brazil. Suddenly wealthy, the upper-middle class is shopping for property as once only the upper class was able to do. Growth in consumer demand has in turn attracted international investors eager to participate in this emerging market.

This issue of *Global Perspectives* looks at how the Brazilian market has grown, its current challenges and outlook for the future, and where international money has been flowing. You'll also learn how Brazil's newly created wealth is having a positive effect on real estate markets in the U.S. and other parts of the world. Ola and welcome to Brazil! **GP**

BOOMING BRAZIL

As little as twenty years ago, Brazil was a country plagued with the highest inflation rate in the world and beset by political problems, financial instability and poverty. Today it is an economic powerhouse that has surpassed the U.K. in GDP to become the world's sixth largest economy. Brazil has become a growth engine for South America and a magnet for foreign direct investment from multinational companies.

The Making of the Middle Class

A key driver of Brazil's success has been the emergence of a large middle class. During the 1990s the government enacted stringent economic policies to rein in inflation, encourage capital formation and prime the economy for growth. After a decade of market turbulence, Brazil's economy blossomed in the 2000s and has continued to grow ever since. In the last ten years over 18 million jobs have been created which moved 36 million people into the middle class. That's more than the entire population of Canada.

Real average incomes rose 9 percent from 2002 to 2012. The middle class, now around 55 percent of the population, is flexing its purchasing muscle and driving demand for consumer goods, cars and homes. The Brazilian middle class has become a prime target market for real

estate professionals, largely replacing wealthy international buyers who used to dominate the São Paulo and Rio de Janeiro markets.

A Nascent Mortgage Market

Consumer demand has been buoyed by record-low unemployment, at 4.9 percent for November 2012, and a rapid expansion in credit. While the mortgage market was almost nonexistent in the 1980s and 1990s, it began to take off in 2009 and has grown rapidly ever since. As the central bank has lowered key rates into the single digits, mortgages have become affordable to the middle class, although most property transactions are still conducted in cash.

The Brazilian mortgage market is largely funded by the government through *Caixa Economica Federal*, a government-owned

bank which issues the majority of home loans. Private funding has been scarce because of Brazil's history of inflation. The government has addressed this by requiring private banks to use a portion of their savings deposits to originate mortgages, which are subsidized by the government.

The government is also trying to stimulate foreign investment in the private market for mortgage-based securities, which now provides just two percent of mortgage funding and lacks foreign participation. The government's actions include lowering the benchmark interest rate to drive investor demand for higher-yielding mortgage securities, giving tax-exempt status to foreign investors, and investing USD\$1.4 billion per year of the public workers'



compensation fund into private mortgage bonds to generate liquidity in the market.

Meeting the Demand for Housing

The homeownership rate in Brazil is over 70 percent but a large portion of society is still living in antiquated or substandard housing. A top priority for the government is upgrading the housing supply so that middle-class and lower-income households can own affordable quality homes.

Currently the market is woefully undersupplied. "The housing deficit in Brazil is presently at 8.2 million households, with 89 percent falling in the lower level of the social pyramid," says João Teodoro da Silva, president of Conselho Federal de Corretores de Imóveis (COFECI), one of the professional associations of Brazilian real estate agents. (See sidebar.)

Through a social housing initiative called *Minha Casa Minha Vida* (My Home, My Life), the government has allocated over USD\$50 billion for the construction of three million homes by 2014. Most will be constructed for lower-income families and financed through mortgages provided by *Caixa Econômica Federal* and subsidized by the government. The Brazilian government is hoping to attract international investment to help fund this effort.

Rising Home Prices

The housing deficit and rapid growth of the middle class have put tremendous upward pressure on home prices. In recent years, prices in Brazil's major cities have risen faster than anywhere else in Latin America. From January 2008 to July 2012, average house prices rose 91.7 percent in real terms

in São Paulo and 118.4 percent in Rio de Janeiro, making them among the most expensive markets in the Americas.

Housing Bubble?

Economists are now debating whether Brazil's housing market will experience a significant correction. During 2012 and early 2013, prices leveled out and became more in line with real income growth while credit expansion slowed.

"I do not believe we are in a bubble," says Francisco Pessler, Advisor to the President of COFECI. "I think we have seen the market peak and now we are in an adjustment phase." He points out that the underlying metrics of the economy support his view that the market will continue to grow, but at a slower pace:

- mortgage debt is just 5.5 percent of the GDP in 2011;
- the demand for homes will far exceed supply for years;
- the mortgage default rate is very low, at 1.9 percent in 2012; and
- bank supervision is strong and underwriting standards have not been relaxed.

Money Flows in From Abroad

Brazil industrial and service sectors have become a magnet for foreign investment. A 2011 study by Ernst and Young found that Brazil was the second most popular global destination for foreign direct investment in terms of value and fifth in terms of number of projects. The value of FDI projects has tripled since 2007 from USD\$19 billion to USD\$63 billion.

(continued on page 4)

NAR Cooperating Associations in Brazil

COFECI

- *Conselho Federal de Corretores de Imóveis*, or COFECI, has over 270,000 real estate agents and is organized into 26 regional councils known as CRECI.
- Known in English as the Brazilian Federal Council for Real Estate professionals, COFECI is the largest and oldest real estate organization in South America, celebrating its 50th anniversary last year.

SECOVI

- *Sindicato das Empresas de Compra, Venda, Locação e Administração de Imóveis Residenciais e Comerciais de São Paulo*, is a São Paulo-based association representing developers and professionals who dedicate a precious part of their time to promoting better performance of realty activities on a sustainable basis through advocating public policies that meet the needs of the population for affordable housing.
- SECOVI, known in English as the São Paulo State Housing Syndicate (Secovi-SP), has been active since 1946 and represents 40,000 real estate businesses and condominiums within São Paulo State.



Many Ways to Invest in Brazil

- **Luxury and second homes**
- **Residential income property**
- **Commercial property**
- **Mortgage-backed securities**
- **Stock in major developers**
- ***Minha Casa, Minha Vida***

(continued from page 3)

BOOMING BRAZIL

Investor funds have been flowing into sectors across the economy. Commercial properties in São Paulo attract foreign technology and business service companies using Brazil as a base to extend operations in South America. Automobile manufacturers from around the world have invested in manufacturing facilities. Mining and energy resource companies are building processing plants. Multinational engineering and construction companies are tackling Brazil's infrastructure needs. (See sidebar.)

Much of the growth in FDI is driven by the consumer demands of the new middle class. "The expansion of the internal marketplace in Brazil attracts more and more multinational companies wishing to establish local plants to manufacture closer to these consumers," says da Silva. "The big cities attract the lion's share of

investments," he says. "But what is striking is the amount of money that has entered the country for investments in the interior or in regions that until 10 years ago were not on the national roadmap, much less for international capital inflow."

Northeast Brazil is one of these areas. The coastal cities of Fortaleza, Recife and Natal are among those hosting FIFA World Cup games in 2014 and funds are pouring into the hotel, restaurant and retail sectors. In preparation for the games, infrastructure has become a top priority. New construction and upgrades to existing airports, highways and rail systems for the games will enable better transportation and logistics across the country for future growth.

Oil and gas reserves off the southeast coast are also attracting multinational energy companies to the region. The recent discoveries of huge pre-salt oil and gas reserves will spur exploration and development and will have positive spillover effects on other industries like manufacturing.

Brazil's Largest FDI Investors

As of 2011

Country	\$M	Industries
United States	12,358	IT, manufacturing, business and financial services
United Kingdom	12,248	Business services, manufacturing, mining and metals
Japan	4,954	Manufacturing, energy, IT
France	4,899	Petrochemical, bioenergy
China	4,487	Energy, manufacturing, IT, logistics, infrastructure

Source: Ernst & Young

Residential Investment Opportunities

Foreign investors can participate in the growth of the residential property market beyond just investing in major Brazilian housing developers.

As a part of the *Minha Casa Minha Vida* initiative, the government is looking for private equity to fund the construction of social housing projects. Individuals can purchase single or multiple units from

a developer, or become involved in joint venture development opportunities.

Developers of qualifying projects receive a government subsidy and tax incentives to lower their costs. In return, they sell the homes at a pre-agreed competitive price. The program offers as much as 100 percent financing to lower-income households through the Caixa National Bank at very low interest rates.

With high subscription rates, the main challenge facing the program is maintaining adequate housing supply to meet demand. Private investors can participate for as little as USD\$35,000. To find out more, go to myhousemylifebrazil.com.

Luxury and Vacation Property

Brazil has emerged as one of Latin America's luxury and second home destinations. Twenty years ago only wealthy Brazilians could afford high-end residences, but now the newly rich upper middle class is purchasing second homes. Rio de Janeiro and São Paulo have become magnets for international buyers who are looking for modern, secure and integrated developments.

"Around 2004 we began seeing investors coming in from Portugal, Spain and Italy who were buying luxury properties and resort second homes, especially in the northeast," recalls Pessler. "Unfortunately, most of these sales were transacted through their home country agents. We responded with an initiative to reach out to agents in other countries, promoting these properties through our own people."



Known for its beautiful beaches, the northeast coast has become a popular vacation destination for Latin Americans. The cities of Natal, Recife and Fortaleza on the most northeastern coast have experienced a property boom, especially with the buildup around the World Cup. As infrastructure and airports are upgraded for the games, demand will grow.

American Participation in Brazil

Though Brazil has been in the international investment spotlight for several years, individual U.S. investors have not participated to the extent of Europeans and the Chinese. "It's a little like skydiving," says Jonathan Asbell, CIPS, of Keller Williams in Boca Raton, Florida, who also currently serves as NAR President's Liaison to Brazil. "Everyone thinks it's a great idea until they have to jump out of the plane."

A few Americans have stuck their toe in the water through investing in the *Minha Casa Minha Vida* program. Others have participated through real estate investment trusts like Rio Bravo Investimentos, which to Americans is a more familiar instrument.

The Brazilian government is boosting the popularity of Brazilian REITs by recently removing a six percent tax on the financial transactions of foreigners buying REITs.

Challenges Ahead

Even though Brazil has a burgeoning middle class and is rich in natural resources, deficits must be addressed to sustain growth. "There is a shortage of skilled professionals, an excess of regulations and taxes and a lack of proper infrastructure to support this quick demand," reports da Silva. Pessler adds that "joint efforts between the government and the private sector must be established to educate and develop technical skills among large amounts of non-qualified workers."

Still, the long-term outlook for Brazil's economy is optimistic. With its relatively stable economy, emerging consumer market and huge untapped reserves of oil, gas and minerals, the real estate market should continue to expand and with it a role for international investments.

GP

Brazilians Abroad

If you live in an urban area of the Northeast United States or along the southeast coast of Florida, it may not be uncommon to hear people conversing in Portuguese. Chances are they came from Brazil either to permanently settle here or to buy vacation property. According to the 2010 census data, there are over 350,000 Brazilians living in the United States.

Large inflows of Brazilians into the U.S. are a relatively recent phenomenon. Prior to the 1980s, roughly 1,500 to 3,000 Brazilians entered the U.S. each year, mostly coming from the middle- and upper-middle-classes of Brazilian society.

When Brazil's economy deteriorated in the mid-1980s, inflation exceeded 1,000 percent and incomes fell an average 30 percent. During that time Brazilians, many of them poor, began to leave their country for better opportunities in the U.S., Japan, Europe and other South American countries. In the U.S. they were drawn to existing Brazilian and Portuguese communities in New York City, northern New Jersey, and Massachusetts.



U.S. Cities with Large Brazilian Communities

Framingham, MA
Ironbound district in Newark, NJ
Danbury, CT
Somerville, MA
Miami, FL
Marietta, GA
West Los Angeles
Chicago, IL
San Francisco suburbs

Brazilian Immigrants

The highest concentration of Brazilians in the U.S. is in Massachusetts, where they made up 6.7 percent of foreign-born residents in 2011. About half live on Cape Cod, Martha's Vineyard and Nantucket. More recent Brazilian immigrants tend to live in the western suburbs of Boston, most notably Framingham. The average age of the population is 31, a prime time for buying a first home.

Portuguese-speaking communities existed around the southeastern coast of Massachusetts for over 100 years. Immigrants from Cape Verde and the Azores came at a time when whaling and fishing were major industries of the area. The most recent wave of Brazilians has made Portuguese the second largest linguistic group in Massachusetts.

Massachusetts brokerages have responded to the demographic change by adding

Portuguese-speaking agents and actively recruiting and training Brazilian immigrants, many of whom have gone on to start their own Brazilian-focused brokerages. Small mortgage lenders and community banks have added Brazilian professionals for community outreach programs to first-time home buyers. Though Massachusetts has the largest immigrant Brazilian population, other states have notable communities. (See sidebar.)

The Luxury Market

In the last three years Brazilians have provided a much-needed boost to the economies of New York City and Miami. They are among the biggest-ticket foreign buyers of luxury real estate and high-end goods. With the boom in their economy, the strength of the Brazilian *real* and a flurry of IPOs on the Bovespa, wealthy Brazilians have had their pick of the best of Manhattan and southern Florida properties.

Miami

When Miami's luxury condominium market became oversaturated in 2008, many buyers walked away from commitments and large deposits. As a gateway to Latin America, Miami was already a favorite vacation and shopping destination for wealthy Brazilians. As prices fell, Brazilians soaked up much of the excess inventory of high-end condos. In some towers they now account for the majority of owners. In 2011, Brazilians made up 12 percent of all buyers in Miami, making them the second most active foreign group behind Venezuelans.

Agents in other parts of Florida are also making efforts to tap the tide of Brazilian wealth. For example, at the 2012 REALTORS® Conference & Expo in Orlando, agents from Sarasota met with Brazilian attendees to profile their area. Orlando agents gave special tours to fifty Brazilian attendees. The Naples area is now successfully marketing its luxury gated communities to Brazilians looking for a quieter lifestyle than they'd find in Miami.

The Big Apple

New York City has always been a favorite international destination for upper-class Brazilians. With the hot economy in Brazil and a weak one in the U.S., Brazilians are snapping up high-end properties in Midtown, the Upper East Side and Chelsea. Deals in the \$5 million to \$15 million range are not uncommon. Brazilians working in São Paulo's banking sector have a special affinity for this U.S. financial hub and enjoy spending a few months a year in a safe environment with their families.

Brazilian-born agents working in Manhattan understand their clients' love of luxury. They cater to the high-end market by providing special amenities like concierge service, Ferrari rentals, and contacts with Brazilian interior designers and advisors for legal and visa questions.

New Arrivals in Florida

With its new wealth, Brazil's upper-middle class is spreading its wings internationally. Shopping trips to Miami have become part of the middle-class traveler's lifestyle, and, at over \$5,000 per capita, Brazilians have become the highest spenders of any foreign visitors.

Vacation and second homes in Florida were a logical next step. In 2010, Brazilian buyers accounted for half the properties sold for over \$500,000 in downtown Miami. The middle class has found that condos in Miami are a bargain compared to similar properties in Brazil.

For a modest price, a family can get a safe and secure slice of the Miami lifestyle, with frequent daily flights to Brazil and easy access to Orlando attractions for the kids. "We have a way of life they enjoy, and they want to own a piece of it," says Jonathan Asbell, CIPS, of Keller Williams Realty Services in Boca Raton and NAR's President's Liaison to Brazil.

Commercial and Investment Properties

Brazilians are doing more than just buying homes for personal use. They are also investors in commercial space and residential income property, much of it at the high end. Prices for comparable properties have risen astronomically in Rio de Janeiro and São Paulo, making Miami a wiser investment. "Professional investors are seeking low prices to make profits in resale. Everyone believes in the recovery of the American real estate sector," says Heitor Kuser Jr., CEO of Redimob, a comprehensive portal focused on Brazilian listings and its real estate community, and soon to be connected to REALTOR.com® International.

Other International Destinations

While popular, the United States does not get the lion's share of Brazilian travel. Western Europe receives 52 percent of all Brazilians who travel abroad as opposed to 29 percent for the U.S. Paris in particular has rolled out the red carpet for Brazilians, who are now the second largest group of visitors to the Louvre after Americans. Buenos Aires is another favorite destination. Getting a visa for the U.S. can take 50 days, on average. But in the last year the American consulate in Brazil added personnel to speed processing to two weeks.

Courting Brazilian Buyers

Agents in U.S. areas heavy with Brazilian buyers are making significant efforts to reach out to their counterparts in Brazil, including COFECI, SECOVI, and other professionals in Brazil. Examples:

- Greater Fort Lauderdale is NAR's Ambassador Association to COFECI.
- The Miami Association of REALTORS® is NAR's Ambassador Association to SECOVI.

- The Miami Association of REALTORS® has a reciprocal agreement with the COFECI association in Balneario Camboriu.
- Agents in the luxury market make frequent trips to major Brazilian cities to make contact with financial advisors to the wealthy and organize presentations on their properties.
- Massachusetts' Cape Cod and the Islands Association of REALTORS® has recruited agents from the Brazilian community.

Jonathan Asbell has spent years creating a network of Brazilian partners and has also lived in Brazil where he taught himself Portuguese and learned about the culture. He advises agents interested in Brazil to work on developing and constantly expanding their network of Brazilian contacts:

- Connect with Brazilian agents at the REALTORS® Conference & Expo, taking place in San Francisco in November.
- Travel to Brazil. Make the effort to go there and get to know the people and culture firsthand.
- Show cultural sensitivity. Learn about social and business customs so you'll have appropriate responses in different situations.
- Try to learn some Portuguese. It's possible to do business through a translator, but "Americans who speak Portuguese are very well received."
- Keep expanding your network and always ask about what kinds of opportunities they are looking for.
- Know the current opportunities in your local market so you're ready to facilitate deals.

Working with Brazilian clients can be profitable and rewarding. It will expand your cultural horizons and you'll visit some nice places. Try it! **GP**

International Flavor at NAR Midyear Legislative Meetings

Just around the corner, this event is always rich in networking and education opportunities. Here are a few of our favorites with international flavor:

Global Programs for Associations – Association executives, staff and volunteer leaders can arrive early (May 14) to get in-depth education on developing and growing global programs in your association that will prepare REALTORS® to succeed in a global marketplace. Register today at realtor.org/midyear.

State and Local Leadership Forum on Global Business – This year's theme is "Global Business Councils 101: Learning From the Experts." Representatives from each of the four Platinum Councils will

provide insights, best practices, and step-by-step advice regarding how to start, build, and maintain a successful global program. Formal presentations will be followed by a moderated Q&A session conducted by 2013 forum chair John Mike.

Embassy Visits – Exclusively for CIPS designees, visit one of the embassies in D.C. and learn about the economy and real estate market in that country. Embassy visits are done by lottery drawing due to a limited number of spaces available.

CIPS Breakfast – Be recognized for your achievement! Veteran designees are honored and new designees are pinned at this breakfast networking event exclusively for CIPS designees.

International Networking Reception – Make new friends and visit with old ones over hors d'oeuvres and cocktails at the International Networking Reception. Purchase your ticket at realtor.org/midyear.

Midyear Legislative
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