Brazil is making HK investors dance

Undervalued properties in Sao Paolo and coastal resorts are attractive, and the exchange rate is favourable, writes **Richard Warren**

Brazil may be on the other side of the world, but that has not deterred a group of adventurous Hong Kong investors from buying property there.

Twenty-nine apartments at two developments in Sao Paulo were sold to Hong Kong buyers by British estate agent Dehouche Land last November.

The investors paid between £250,000 (HK$2.82 million) and £500,000 for apartments at two projects – Supremo and Vision – in Campo Belo near the city centre. Developer Gafisa will complete Vision's 264 apartments by next year and Supremo's 192 apartments by 2011.

Seventy per cent of these Hong Kong buyers are western expatriates, so to them Brazil may not seem like such a faraway place. The group is largely made up of young professionals, including lawyers and bankers, looking to rent out their properties to middle class Brazilians.

The buyers have bought at a time when exchange rates are favourable to Hong Kong. The Hong Kong dollar has appreciated by 25 per cent against the Brazilian real over the past six months.

Estate agents consider the Brazilian property market undervalued, particularly when compared with fellow Bric nations, Russia, India and China.

"Of all the Bric countries, Brazilian property is considerably underrated," said Henry Madden, partner at Dehouche Land. "A premium apartment in central Sao Paulo has an average price of US$2,000 per square metre, compared with US$12,000 per square metre for a central apartment in Moscow."

Overseas buyers mainly target the big cities of Rio de Janeiro and Sao Paulo and northeast coastal resort towns Salvador in Bahia province and Fortaleza further up the coast. Occasionally a buyer wants something exotic, such as a few hectares of Amazon virgin rainforest or a private island off the country's long coastline.

According to Knight Frank, the average price of Bahia's luxury resorts is US$3,500 per square metre. Developer JHSF is offering 236 square metre apartments at its mixed-use Parque Cidade Jardim scheme in Sao Paulo's Cidade Jardim district for 1.5 million Brazilian real (HK$5 million).

The Brazilian real has slumped against a basket of currencies, including the US dollar and British pound, because the country is taking a battering from the global economic storm. Even though Brazil's debt levels are relatively low compared with Britain, the United States and other countries, its property market is struggling.

In the medium to longer term, Brazil has tremendous prospects. It is big enough to absorb new housing developments

NICK BARNES
RESIDENTIAL RESEARCH PARTNER, KNIGHT FRANK

Nick Barnes, residential research partner at estate agency Knight Frank, said: "There is nowhere that has not been affected by the global contagion of the economic downturn. Even though Brazil's economy is self-sufficient, the banks are feeling the pinch, the consumers too."

With prices static in city districts and pushed down in coastal resorts, developers were offering incentives to buyers, either price cuts or giveaways, he said. Exact figures on how far prices rose or fell across Brazil were not available.

The *Global Property Guide* estimated that Brazilian property prices doubled over three years to the end of last year.

Brazilians have traditionally bought homes with cash because high interest rates, which hit 85 per cent in 1995, have deterred buyers from taking out mortgages. Also, the government historically keeps a tight rein on mortgage lending.

However, interest rates are down to about 11 per cent and mortgage lending rules have been relaxed, enabling the country's emerging middle class to buy homes without relying solely on savings.

The economic downturn has dampened middle class housing demand, but estate agents and developers are confident this will revive when the global recession ends.

Mr Barnes said a revival in demand would not lead to a debt-fuelled housing bubble if the government continued to regulate mortgages carefully. "In the medium to longer term, Brazil has tremendous prospects," he said. "Its economy has grown largely off domestic demand and they have found two of the world's biggest oil fields which will come into production over the next decade.

"Unlike much of eastern Europe, where there has been too much construction, Brazil is big enough to absorb new housing developments."

John Hitchcox, chairman of international designer-developer Yoo, believed Brazil would emerge from the global economic downturn faster than most other countries, because it was not burdened by debt. The country's middle class affluence would grow and people would want to live in higher quality housing, which remained in short supply. "There is a real emergence of sophistication in Brazil and new housing reflects this."

Yoo will build three residential developments in Sao Paulo and Rio de Janeiro.

Brazil has plenty of tropical islands for Hongkongers to escape to until the global economic crisis blows over, and they are available at relatively low prices. These include Ilha Sapoeira, a wooded 3,000 square metre island near Rio de Janeiro on sale for US$399,000 through Vladi Private Islands. It features three beaches, a bamboo bar and piped spring water.

Developer JHSF is offering 236 square metre flats at its mixed-use Parque Cidade Jardim scheme in Sao Paulo's Cidade Jardim district for HK$5.19 million.

LOCAL EXPERTISE IS VITAL FOR BUYERS

Foreigners are free to buy property anywhere in Brazil. Investment returns and costs are reasonable, but investors need expert help to buy in a land where little English or Chinese is spoken and the legal system is different.

First, the good news. According to the *Global Property Guide*, Brazilian property law is pro-landlord, yields are "good" and transaction costs "moderate". Gross yields are between 6.5 per cent and 8.5 per cent in Sao Paulo and slightly lower in Rio de Janeiro, estate agency Knight Frank reported.

In the resorts of northeast Brazil, rental guarantees of 5 per cent or more are available for a couple of years at new developments. Lettings in Brazil's holiday resorts are highly seasonal, so void periods can be lengthy, Knight Frank said.

Purchase costs, including stamp duty which varies according to the location, amount to about 7 per cent of the value of a property. When it comes to selling, the vendor pays a 5 per cent fee to the estate agent.

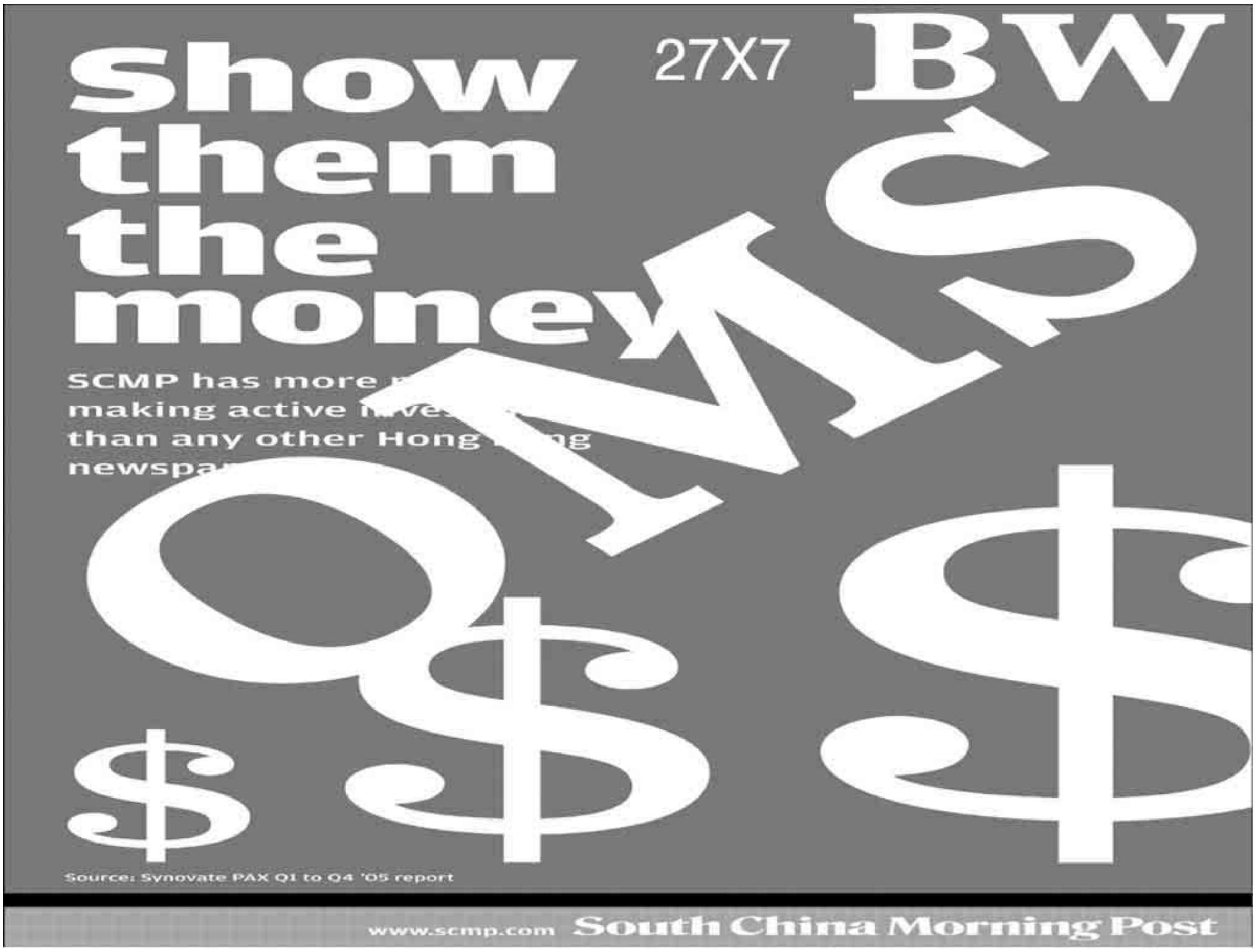
Rental income is taxed at 15 per cent and capital gains 25 per cent, typically. The government tightly controls mortgage lending to foreigners, but HSBC recently funded Hong Kong investors buying property through estate agency Dehouche Land.

There are some questions that investors need to think about before making any decisions.

"A lot of developers are new to the game, so buyers need to question the viability of the developer and the scheme," Nick Barnes, residential research partner at Knight Frank, said. "Due diligence is absolutely vital on a project."

Buyers need local expertise to help them buy and manage properties. "It's a long way away, so investors are entirely in the trust of local managers to manage the property, and there are not the links between Hong Kong and Brazil as there are between Hong Kong and Britain," Mr Barnes said.

Overseas buyers must get a tax ID form called a CPF from the Brazilian government before making an offer on a property. They can do this through their local embassy or a Brazilian lawyer.

Hiring a local lawyer is advisable, because of the complexities of Brazilian law. They can represent a buyer at the completion stage of the buying process when all the parties sign the official transfer of deeds. The buying process normally takes four to six weeks.

Buyers and their lawyers must ensure contracts are properly registered. In some cases, unscrupulous sellers have sold their home many times over, leaving unfortunate buyers in a legal tangle.