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Real estate investment in Brazil set to boom



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Due to a significant reduction in inflation and interests rates, the Brazilian economy is poised to experience a boom in foreign investment, particularly in the real estate sector. The country has a solid trade surplus and substantial foreign exchange reserves, which protect its currency from international market turbulence, according to Brazilian Minister of Finance Guido Mantega. This stability is the basis required for the long term development of the real estate sector in Brazil, and has increased its attractiveness to both local and foreign investors.

The legal climate

Over recent years, the Brazilian legal system has undergone some important changes, which favour the real estate sector. For instance, the new bankruptcy law strengthened creditors' rights with regard to mortgages, fostering real estate guaranteed credits. Several modern investment mechanisms and structures were created, such as real estate investment trusts, fiduciary property and special rules regarding space adrift. From a tax standpoint, Law no 10,931, enacted in August 2004, created a special tax regime for real estate developments in a segregated property system. Foreclosure proceedings regulation was improved. Foreign investors are beginning to view the Brazilian real estate legal environment positively in comparison to foreign competitors, where land possession rules and regulations still create a negative environment.

The real estate market, which developed first in large cities, such as São Paulo and Rio de Janeiro, has spread to virtually all areas of the country. The whole country is experiencing increased real estate activity, from simple property acquisition through the sophisticated placement of real-estate-related securities, such as Real Estate Receivables Certificates, interests in Brazilian real estate investment trusts, and shares of public companies devoted to real estate activities.

Growth of investment

The increase of interest in Brazil by foreign real estate investors began in 2005, encouraged by the amount of liquid capital in the rich countries, the saturation of the North-American market and the high interest rates in Brazil. In fact, in spite of widespread trends, Brazil still offers high interest rates, close to 15% a year, and this stimulates foreign investment, in view of the much lower rates prevailing internationally. There is also the possibility that Brazil will obtain 'Investment Grade', perhaps in 2009, the third year of President Lula's second term.

According to the information provided by Bovespa, the São Paulo Stock Exchange (www.bovespa.com.br), during 2006 alone, five large Brazilian real estate companies went public and were made IPOs. The total amount involved in those transactions was US\$848,619,883, with a range of foreign investment from 64% to 83% of the amounts involved in each transaction. In July 2005, the Brazilian Securities and Exchange Commission published Rule 437, authorizing simplified registration for international investments by foreign investors from countries where regulators have a bilateral agreement for information exchange with the Brazilian Securities and Exchange Commission.

The market continues to receive notice of some significant moves by well-known real estate market leaders. Equity International Properties Ltd, the privately held international real estate investment company of Sam Zell's Equity Group Investments, has invested approximately US\$50 million in Gafisa SA, a property company based in São Paulo. There was also news of an important investment by Canada-based Cadillac Fairview Corp Ltd into Multiplan Empreendimentos Imobiliários SA, a private company that owns and manages retail centres and shopping malls across Brazil.

New investment products

New specialist real estate funds have also been launched by ABN Amro and Brookfield Asset Management, diversifying investment of clients into emerging markets' property economies and opening up the possibility of investment in Brazil. In fact, ABN Amro Asset Management has launched a fund called "Brazil Equity" in the UK with a minimum level of investment of US\$250, making it highly accessible. Brookfield Asset Management has created a US\$700 million Brazilian property fund specifically targeting shopping centres in Brazil. Brazil is viewed as a good market for retail property investment because of its growing middle class and expanding economy.

As a result of all these developments, and with funds attracted by real estate's strong stable returns receiving record investment inflows, the market predicts that 2007 and 2008 will be very exciting years as far as Brazilian real estate assets are concerned, on target to set new records for commercial direct real estate investment.