

*Brazil a solid foundation in BRIC economies.*

The other day I had a routine question to pose to my bank so I called them up. After the obligatory number punching and various renditions of rambling music, I found myself transferred to a very pleasant gentleman who was sitting comfortably in his call centre in Mumbai (Bombay to those who haven't yet caught up on name changes).

The whole episode led me to thinking about how the countries that make up the BRIC group of four are fairing in their attractiveness for investment particular in Bricks & Mortar.

To recap BRIC means Brazil, Russia India and China, all of which over recent years have been lauded by economists globally regarding their potential for investment growth.

And so to my telephone destination. India has managed to lay strong foundations and haul itself away from Colonial ties and post strong economic performance. However Finance Minister Pranab Mukherjee commenting in his recent budget speech in July declared major challenges. "Returning the country to economic growth rates of 9% and improving livelihoods of the poor." According to The Economist, India's average economic growth rates of 9.4% up to 2007/8 were cyclical highs and they are bearish on performance expecting a slowing of growth to 5.5% in 2010.

Additionally there are major challenges - poverty, exacerbated by falling water reserves upon which 450m depend to live and develop agriculture, resulting unemployment and social divide. Hope my friend on the phone will be OK.

Cementing China and Russia much has been said about these two. Russia with its aggression around GAS supply to Europe, but its inherent problem with shady goings on and corruption. Its billionaire's have also been hard hit through the recent economic crisis.

Add to that the continued political unrest; who actually runs the country and the ongoing struggle between Ukraine and Russia and enough alarm bells must be ringing loud and clear in investor's ears.

China is a juggernaut - but who knows who in China? The western ideal of contracts being binding and followed diligently doesn't quite work in China. Business still operates on knowing the right people - there lies a challenge. Investing in China sounds attractive and as Hong Kong is part of China, property should be strongly considered, but the risks of entry need very careful consideration as transparency doesn't quite exist - well not just yet, or not without significant personal due diligence.

That leaves Brazil. Brazil is synonymous with a relaxed lifestyle, idyllic surroundings, amazing carnivals, football and meeting expectations of visitors and investors alike.

Is Brazil's real estate market and economy are on firm footings?

Here are 5 key pointers:-

1. Reformed Economy and Political Stability - Brazil does not rely solely on tourism to drive economic growth. According to “Experience International” a leading research agency, Brazil’s democratic institutions have enabled international and domestic markets to elevate their confidence in Brazil’s political system, supervised by President Lula da Silva.

The economy is the biggest in Latin America and a recent study by the World Bank shows Brazil as the 10<sup>th</sup> largest global economy. Brazilian economic policies have resulted in lower inflation and a decline in interest rates from the highs of 20% plus in the early part of 2000.

Falling interest rates, controlled inflation allied to increases in average monthly income all points to local mortgage market growth, driving up property prices nationally.

The country is also immune from any global energy crisis, as it no longer depends on any external petroleum supplies because of its large ethanol production and also as 85% of its energy needs comes from renewable sources, protecting it from oil price fluctuations and controlling inflation.

2. Strong Rental Yield and Capital Growth Potential - Worldwide property investors have an appetite for Brazilian real estate, allowing it to become the leader of the emerging markets. With major urban areas such as Brasilia, Sao Paolo and Rio already posting growth, sights are now being set on the Northeast.

Donald Trump has been buying in the Northeast, an area predicted by the Association of Real Estate and Tourism Development in Brazil to become one of the most important second home and tourist destinations in the World.

3. Exceptional Emerging Market - The attractiveness of the Brazilian real estate market has built over a short period of time. To fuel this the government have been very proactive helping with:- simplification of buying procedures, allowing 100% ownership of land and property. A property registration process that allows free and clear title, low property taxes and no restriction over the transfer of capital or profit. And if you’re thinking of investing with your mates, then buying in Brazil allows up to 10 people to be noted on the deeds!
4. Improving Mortgage Situation - growth in property value is undoubtedly hindered without availability of debt. This situation will change. As of 2006 new laws were passed to assist the development of an active mortgage market. Together with low inflation and lower interest rates and release of real bond issues, all of which will have a very positive impact on real estate values throughout Brazil.
5. Strong Tourist Growth and Infrastructure Development - Northeast of Brazil boasts the safest cities, low risk of bird flu and SARS and the only tropical area on earth unaffected by natural disasters. Over 2 million domestic tourists visit the Northeast per year and it is also very popular with North Americans and Europeans alike. A survey conducted by



## BRIC - Building on Solid Foundations?

Association of Real Estate and Tourism Development shows that more than \$20 billion will be invested in the area over the next five years to construct 5-star hotels.

So when it comes to BRICs and who is holding the foundations for future growth Brazil is emerging as a wall of strength. Maybe I should call my friend back in his Mumbai call centre to share the news and invite him to join me in riding this opportunity.

Will you?

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