

The Pathfinder Wednesday, December 02, 2009

Dear Reader,

Brazil has the strongest economy—and real estate market—that I've seen in recent years. This year, we've heard a lot of positive news from Brazil, ranging from the discovery of major new oil fields to the upgrade of the country's credit rating to investment grade in September by Moody's Investors Service. (Moody's cited Brazil's "strong economic and financial resilience" as one reason for their upgrade.)

My two-month stay in Brazil gave me a chance to validate this apparent strength. Consider these factors:

Brazil is an **economic powerhouse**. The economy is one of the few that registered a growth in the second quarter of 2009, albeit not with the explosive growth rates of recent years. But Brazil still ranks as one of the best-performing economies in Latin America.

Brazil **manufactures** a diverse range of products—cars, cement, electronics, steel, petrochemicals, and aircraft. It even has a satellite-launching center.

It's possible to live in Brazil, driving a locally made car, wearing locally made clothes and shoes, eating and drinking locally grown products. You can buy almost everything you need for day-to-day living, sourced locally. It's hard to find another country where you can do that these days.

Energy-independent since 2006, Brazil is a pioneer in the production of ethanol—used as car fuel—and deep-water oil research. Eighty percent of the nation's fuel is hydroelectric. New oil deposits were uncovered this year—up to 10 billion barrels from two fields alone. Brazil also has extensive resources of minerals, such as gold, nickel, and uranium.

Brazil has **vast tracts of agricultural land**, and it's responsible for eighty percent of the world's orange juice, and twenty-five percent of the world's exported sugar. It has the world's highest sales figures for chicken and beef, and is the world leader in soybean exports.

Brazil's *cerrados* (high plains) cover 500 million acres. The United States Department of Agriculture has estimated that 400 million acres of this, currently unfarmed, is suitable for crop production. Those 400 million acres are 25% larger than the total crop acreage of the U.S.

Brazil has **low exposure to the world's consumer credit crisis**. Bank lending policies for both home and personal loans were conservative so Brazil's home mortgage debt amounts to just 1.7% of its GDP. Compare that to the UK's 83%, and the U.S.'s 76%.

This lack of credit exposure, combined with energy self-sufficiency and strong industrial and agricultural sectors, explain why Brazil is weathering the world economic difficulties better than most. That bodes well for the economy, and therefore the property market.

Brazil's **middle-class is growing** in terms of numbers and income. More Brazilians want new homes, new cars, and a new luxury lifestyle. Brazil's local middle class fuels the property market. More than 98% of property sales in Brazil's northeast, for example, are to domestic buyers.

Developer financing, introduced as an offset to Brazil's traditionally high bank interest rates (currently at a relatively low 8.75%), makes property purchases more attractive here. Developers parcel payments over a 3-4 year construction period, and monthly payments are sometimes as low as 1% of the purchase price. Most banks tightened lending restrictions further after the economic slowdown and credit crunch, and developer financing is one reason why Brazil's property market remains buoyant.

Seeing these factors at work during my travels gave me an insight into just how strong this country's economy is. Predictions are that it will continue to grow—indeed, *The Economist* forecasts that sometime in the decade after 2014 Brazil will be the world's fifth-largest economy, overtaking France and Britain, with Sao Paulo the world's fifth-richest city by 2025.

That bodes well for the real estate market here!

Margaret Summerfield