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Investor guide: South America

By Katie Puckett | Investment/finance | 26-10-2015 | 7:00

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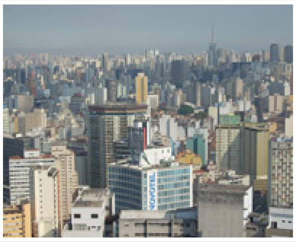

Plunging commodities prices have hit the resource-focused continent, but there is still scope for investment, writes Katie Puckett

The party may be over in the once-booming markets of South America, but for the well-advised, long-term investor, there are opportunities.

Brazil, the continent's largest market and home to more than half of its 388m population, is set for negative GDP growth in 2015. The outlook is little better for 2016, but it is the worst-performing of the BRIC markets. Across the region, plunging global commodities prices have badly hit economies that are heavily focused on resources. But currency depreciation offers the prospect of compelling deals for foreign buyers, and young, growing populations in the region still hold great potential.

Commercial hotspots

In Brazil's São Paulo – the continent's largest city – a glut of space from developments started during the boom years of 2010-12 has pushed vacancy rates to 24%. But absorption rates remain steady and demand sustainable, says André Germanos, investment director at Cushman & Wakefield. "We see the market moving forwards at a much slower pace, but still moving forwards," he says.

He expects deal levels to pick up in the coming months as stressed property owners seek liquidity. In August, Brookfield bought a portfolio of seven newly built offices from BR Properties for R$2.1bn (£383m), while Blackstone bought 10 assets from the same fund for R$1bn and is opening an office in the city.

The office market in Buenos Aires, Argentina, is showing the first signs of recovery, with vacancy rates dropping from 8.4% in Q1 to 7.5% in Q2. Steady absorption and the lack of new stock coming to market has driven rents up by 4.5%.

Brazil's fragmented retail market also offers opportunities. Only 25% of shopping centres are in the hands of the five largest companies, and more than 130 have opened in the country since early 2010, according to C&W. There are many small owners in second- or third-tier cities struggling with high vacancy rates, presenting an opportunity to pick up stressed assets. Singapore's GIC bought a 35% stake in the newly renovated Via Parque shopping centre in Rio de Janeiro for R$132.4m in June.

Residential hotspots

Chile's housing market has been unaffected by unfavourable government policies and lower commodities prices. "On the contrary, this market is surprisingly healthy," says Gustavo Valenzuela, head of transactions at C&W in Chile.

With VAT coming into force on homes from 2017 and low labour costs due to unemployment rates in the mining sector, developers are enjoying a moment of stability and growth. In June, sales in Santiago were 20% up on the previous year – the highest level since January 2009.

The recession in Brazil is bad news for developers, but good news for investors – they may be able to pick up big chunks of stock at a heavy discount. In August, two of the country's largest housebuilders, PDG Realty and Rossi Residencial, called in advisers to help restructure debts of R$5.8bn and R$2.5bn after home sales fell by 14% in the first half of the year.

Growth areas

Peru has only come onto investors' radars in the last couple of years, but is showing potential. With strong GDP growth, a young population and more liberal economic laws than the rest of the continent, investors are now starting to look seriously at the country.

There is a massive housing deficit and a current boom in shopping centre development. There is also considerable office development under way, with about 150,000 sq m of prime space due for delivery in the second half of 2015. While vacancy rates may increase, this should also act as a spur to absorption as a flight to quality takes place among firms in unsuitable premises.

Risks and challenges

Argentina's fast-approaching elections are the biggest area of uncertainty for the region. The country is less politically stable than other key markets and its institutions are less well insulated from political change. This is hindering growth in both real estate and the wider economy as decisions are put on hold.

As Brazil's new finance minister, Joaquim Levy, is pushing through unpopular austerity measures, everyone is watching to see if they will be sufficient to get the economy back on track and pave the way for sustainable growth. "There is a still a lot of adjustment to happen and investment is not for the faint of heart," says Germanos. "It is very important to be well advised."

Must-have contacts

Marcelo Fedak, formerly head of real estate for Brazilian bank BTG Pactual, now managing director of Blackstone's new São Paulo office. **@blackstone**

Francisco Rencoret, founding partner of Territoria, one of Chile's largest developers.

Gonzalo de la Serna, manager at Consultatio, a Buenos Aires-based development and investment giant.

Dani Ajbeszyc, chief finance and investor relations officer at Cyrela Commercial Properties, a major player in Brazil's office, retail, warehouse and distribution sectors.

City guide: Santiago

Chile is a stable, mature market and its capital, Santiago, is one of the region's safest ports of call for investors. Economic growth has slowed, predicted to be 2.8% in 2015, hit by a sharp decline in copper prices and a lack of business confidence in the socialist government's reforms. But market watchers say a readjustment is now nearing completion.

Why invest?

Santiago is Chile's leading market, and as the country's economy transitions from mining to sectors such as financial services, retail and logistics, it is in the vanguard. Absorption of office space remains strong. While a glut of new stock has pushed vacancy rates to an all-time high of 10.3%, up from 4.7% in Q2 2014, according to Cushman & Wakefield, the market is expected to stabilise quickly. Chile's retail market is well developed, with more shopping centres per capita than any other country in South America, the majority located in the Santiago metropolitan area.

The numbers

7m Santiago's share of Chile's 17m population.

3 Chile's place on the AT Kearney Global Retail Development Index 2015, which ranks the countries with the greatest potential. Last year it was number one.

1.7m The number of cars in Santiago, 40% of which were ordered off the roads in June when the government declared that the city's smog had reached a state of emergency.

The opportunities

Infrastructure offers interesting long-term investment prospects, with a number of mega-projects currently under way. Vespucio Oriente Express is the last section of the radial highway of Santiago, the Chacao Bridge will connect Chiloé Island with the mainland, and Chile's main port at San Antonio is to undergo a major enlargement programme from an annual capacity of 1.3m TEU (twenty-foot equivalent units) to 6m TEU a year.

Stand-out scheme

Developer Territoria is planning a 120,000 sq m mixed-use project in the heart of Santiago's midtown, with offices, shops and a hotel, due to complete in 2018.

Top tips

- Liguria is a popular and colourful spot for dinner and drinks – particularly boisterous on Thursdays
- Check out the view from the just-opened observation deck at Gran Torre Santiago, South America's tallest tower, or hit the shops at the $1bn Costanera Center, the city's largest mall
- Stroll through the shaded streets of Barrio Italia for beautiful furniture, antique bargains and a thriving pavement café culture