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## Latin Real Estate Boom

Latin America's real estate sector is booming, thanks in large part to a growing number of US retirees buying homes. Panama, Mexico and Costa Rica are leading the way, but also Argentina is seeing a boom.

### BY JOACHIM BAMRUD

Donald Trump is busy these days. Apart from running his real estate empire and planning another reality TV show, he is preparing to develop a 62-story hotel and apartment tower in Panama City, Panama.

The planned Trump Ocean Club International Hotel and Tower will feature more than 300 hotel rooms and 500 luxury apartments as well as a casino, yacht club and its own private beach.

But Trump isn't the only one developing highrise towers in Panama. "In Panama City there are new skyscrapers going up all over," says Robert Baker, president of the American Chamber of Commerce in Panama.

Panama is seeing unprecedented interest from U.S. retirees, partly as a result of positive media coverage in *Conde Nast Traveler* and magazines published by the American Association Retired Persons (AARP). And CBS filmed three *Survivor* series in Panama, more than any other country, Baker points out.

Panama is one of three real estate markets in Latin America seeing heightened interest, according to Rogerio Basso, Latin America real estate specialist at US-based consultancy Ernst & Young.

"In general, markets that provide a good combination of air lift from major destinations, proximity to key source markets and coastal locations are experiencing explosive growth," he says. "In discussions with our clients and the investment community, we are observing that there is heightened interest in Mexico, Costa Rica and Panama."

### NEW STANDARD

The Trump project, with a total cost of \$220 million, will start in the second half of the year and be ready by 2009. Construction firm Arias Serna y Saravia SA and real estate marketing company Espacios Urbanos S.A., both from neighboring Colombia, are also involved in the new project.

"With this development we will set a new standard of luxury in Panama," Trump said in late April. "The Trump Ocean Club, International Hotel & Tower, will be a magnificent and distinctive contribution to Panama City, one of Latin America's most dynamic cities."

Meanwhile, Panama City has also seen a race between two rival projects aimed at becoming the tallest building in Latin America. The 104-story residential and hotel building, Ice Tower, is slated to be completed in 2010. The building is being developed by F&F Properties LTDA., Inc, from Panama, while the design is being done by local architecture firm Pinzon, Lozano & Asociados.

Spain-based Olloqui Group is constructing a 93-floor building, Palacio de la Bahía, located on the Bay of Panama. It is expected to be finished in 2009 and is being designed by local architect Jesús Díaz & Asociados. The two projects were originally smaller, but subsequently started adding floors to obtain status at the tallest building in the region.

And Grupo Mall, another Spanish developer, is building a multitower center of apartments, hotel and commercial mall. The project, scheduled for partial completion in 2009, is designed by UK architect Chapman Taylor LLP.

And the real estate boom isn't only limited to the capital. The K Group, Trump's local partner on the new tower, is also developing Emerald Bay on Isla Contadora and

Coronado Country Club Resort, a major development consisting of 300 apartments and houses, near the main tourist areas of Panama. A new project similar to the Miami Seaquarium is going up in San Carlos and even the Wal-Mart heiress is looking for land in Panama, Baker says.

European real estate investors are also developing luxury beach front villas in the Azuero Peninsula, Isla Viveros in the Pearl Islands and Montañas de Caldera near Boquete, according to the *International Herald Tribune*.

"You have a real boom going on here," Baker says. "Land prices are going up fast and some of the big condos in the city are increasing in price by \$25,000 per month."

He expects the boom to last at least five more years, if not another decade. Apart from the existing demand, future developments will also be helped by such factors as the planned expansion of the Panama Canal, a planned refinery by U.S. oil giant Oxy and a new mega port near the Pacific entrance of the canal. Combined these will inject \$11.8 billion into the Panamanian economy, Baker says.

### **BABY BOOMERS**

But Panama isn't the only real estate market seeing a boom. All across Latin America, there is increased investment from U.S. and European buyers.

"Real estate in Latin America is attracting significant interest amongst U.S. buyers searching for second- and third-vacation homes," Basso says. "The baby-boomer generation is fueling a majority of real estate purchases in Latin America."

And the trend is expected to continue as individuals continue to retire and the U.S. real estate market is seen as less favorable, he says. The U.S. market has been appreciating significantly in recent years, leading many Americans to look for affordable alternatives. More recently, rising speculation about the bubble has had a similar effect.

"Concerns about a possible real estate bubble in the [United States] is leading investors to assess other markets where fundamentals, and the possibility of appreciation, are still present," Basso says.

The exceptions to the U.S. real estate investment boom are countries like Colombia, Ecuador and Venezuela, which are hurt by image problems relating to security or political stability or both, experts say.

### **MEXICO AND ARGENTINA**

Thanks to a pickup in economic growth and new U.S. mortgage lending, Mexico's real estate sector is growing dramatically. Total real estate activity by local and foreign investors jumped from \$1 billion in 2004 to \$3 billion last year and is expected to double to a whopping \$6 billion this year, according to Basso.

"U.S. lenders are now providing mortgage lending in Mexico," he says. "This is critical in driving real estate growth."

Such lending provides financing sources to fuel real estate purchases and comfort for U.S. buyers considering purchases in a foreign country as these individuals deal can deal with the same institutions, and similar terms, as they are used to in the mainland, Basso points out.

Meanwhile, the country's GDP has been growing at 4.2 percent and 3.0 percent the last two years after only expanding by 1.4 percent in 2003.

Also Argentina is seeing a boom. The country's economic crisis in 2001-02 led to a strong decline in real estate prices. At the same time, the euro has appreciated against the Argentina peso, leading to bargain conditions for European investors. The result: a boom in residential real estate, especially from Spanish buyers.

"Most of the investments in residential, and in some cases in commercial, real estate were by Spaniards due to strong cultural factors," says Pablo Manes, corporate business manager for U.S.-based real estate broker Colliers International in Buenos Aires. Residential real estate prices in 2003 and 2004 even passed the prices pre-crisis, he says.

There has also been an increase in commercial real estate demand, according to Manes. "With the economic improvement, inflation under control, growing reserves and the agreement with creditors, companies are coming back to the country," he says. "At the same time, companies here are growing and need more space."

With little or no recent investment in commercial real estate, prices for existing space has skyrocketed and vacancy is at an all-time low in class A space in Buenos Aires, according to Manes. "The demand for office space is very strong," he says. "When we have a new client that wants large space, we have have a limited number of places to show them."

While commercial real estate is still not at pre-crisis levels, he expects that may change soon. "If growth continues like this...we will be at the same level as before the crisis," he says.

## **OUTLOOK**

In the short- to mid-term, real estate in Latin America is anticipated to continue to experience high levels of interest from both U.S. and European buyers, Basso predicts.

"Affordable destinations, phenomenal natural beauty, ease of access, but most importantly, significantly wealth stemming from a retiring baby-boom generation should continue to provide sound demand-side fundamentals to fuel this growth," he says.

"However, it remains to be seen whether these Latin American nations will be able to properly respond with supply-side offering to continue to attract foreign buyers."