

## News release

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### **Brazil's appeal as a premier international real estate investment market set to strengthen in 2011**

Sao Paulo and New York, 2 December, 2010: Brazil's position as one of the premier global investment target markets is set to further strengthen in 2011 as foreign investors ramp up their programs aimed at the country's real estate sector, according to a recent survey of more than 60 international investors including private equity fund managers, investment bankers and real estate developers by Ernst & Young.

"Two-thirds of real estate investors with funds committed to emerging markets in Latin America have earmarked investment dollars for Brazil over the next 12 to 24 months," says Rogerio Basso, the Latin American hospitality practice leader at Ernst & Young. "That's a pretty substantial statement for a country that less than a decade ago was considered high risk due to an unstable economy, hyperinflation, mounting debt and a volatile currency," he added.

### **Hotels a top priority with upcoming mega sporting events**

Today, a strong economy buoyed by a broadly-emerging middle class and availability of credit is fuelling investment interest across the real estate spectrum from residential to commercial assets and hotels. In fact, the lodging sector is attracting keen attention, with approximately 50% of investors who are interested in Brazil indicating that hotels are a primary target for them.

"Brazil's lodging sector is benefitting from an increase in middle class disposable income, as well as expanding business travel as a result of a robust economy," says

Basso. The outlook for the hospitality sector in the mid-term is particularly promising, since Brazil is set to host two of the world's biggest sporting events over the next five years: in 2014, the FIFA World Cup will take place in South America for the first time since 1978, with matches scheduled across 12 Brazilian host cities, followed just two years later by the 2016 Olympics in Rio de Janeiro.

### **Brazil – a long term play**

The vast majority of foreign investors eyeing Brazil's hotel sector see the potential for increasing values over the next two years, which is prompting their search for hotel purchases. Yet, it is currently tough for foreign investors to find investment grade hotel assets, and 60% of those entering the market are seeking to do it through joint ventures with established local players.

Development of new lodging facilities is one area of focus for foreign investors, especially as the country prepares for the World Cup and Olympics. According to global hotel data provider STR, only 8,100 new hotel rooms were under construction as of September 2010 but most international lodging operators are aggressively trying to sign up new management deals in the run-up to 2014/2016. However, foreign investors do not appear to be looking to build, buy and own hotels with the intent of "flipping" them for higher prices around the time of the two sporting events. Almost 60% of respondents indicated they would hold assets for six years or more. "This suggests that most investors see Brazil's growth potential and large domestic market as a motivator for investment," commented Michael Fishbin, Ernst & Young's Global Hospitality Leader.

Most investors plan to build hotels within the framework of larger, mixed-use developments in order to offset the high cost of land. Foreign investors' commitment to the Brazilian lodging sector is also indicated by the fact that the relatively high cost of financing means that investors typically must pump 30% or more equity into each deal.

### **Obstacles still exist**

The survey points out that obstacles to successful foreign investment in Brazilian real estate do still exist. High taxes and restrictive labor laws can hamper overall investment returns, and although financial transparency has improved in recent years, there is still a



relative lack of information available to investors, especially related to real estate debt instruments. Despite these hurdles, the survey strongly suggests that foreign investors are viewing Brazil as a significant growth market in the mid-term and intend to commit major capital to its real estate sector over the next few years.

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