



BRAZIL BAHIA PROPERTY

WHY BRAZIL ?

LONDON OFFICE: +44 (0) 207 801 3107 ● BRAZIL HEADQUARTERS: +55 (71) 3013 1413



Introduction

Start no further than thinking about everything you ever imagined about Brazil; glorious coast line, beach lifestyle, spectacular carnivals, crystal blue seas, friendly people, and by and large you will find this to be true.

Brazil has a rapidly evolving diversified economy, already the sixth largest in the world, and predicted by Goldman Sachs to be among the largest five in the world by 2050, described as part of the BRIC block of emerging economies.

Brazil is a land of immense beauty, an agricultural superpower, replete with resources and blessed with a climate and lifestyle to rival anywhere in the world. Politically, Brazil is a stable democracy welcoming to foreign investment, with an investment grade international credit rating and a robust legal system.

To understand the logic and reasoning for investing in Brazilian real estate, it is vital to understand its climate, location, culture, demographics and favourable conditions for the foreign investor. To consider these in relation its favourable economic prospects, with historical low levels of unemployment - and the World Cup and Olympic Games to come over the next few years - it suddenly becomes apparent as to why so many people think Brazil is a country with outstanding prospects.





Stable Politics And Favourable Demographics

As a nation of 196 million people, Brazil is the world's number 5 most populous country – making it hugely appealing for inwards investment – due to the sheer size of its internal consumer market and its rapidly growing middle class.

Unlike other parts of South America, Brazil is categorised by a secure and stable political system and is a secular democracy. Similar to the Western democracies, it has a separation of executive, legislative and judicial powers, at federal, state and municipal levels.





Solid Economic Performance And Prospects

Many would be surprised to learn that Brazil is the 6th largest economy in the world. Although the Brazilian economy slowed significantly over 2011 and 2012 (annual GDP growth of 7.5% slowed to 2.7% in 2011, and came to 0.9% in 2012), the recent stimulus measures taken by the government suggest that the business cycle will start to gather forward momentum again. Furthermore, Brazil's strong domestic market is less vulnerable to external crisis, and Brazilians are benefiting from stable economic growth, relatively low inflation rates and improvements in social well-being. The financial sector has also performed impressively during the slowdown. Brazil never entered into a recession during the 2008 financial crisis and the banking system has remained sound and resilient (it was viewed as one of the strongest financial systems in the world during the financial crisis). Despite rapid credit growth, the lowering of interest rates has allowed asset quality to broadly stabilize. Foreign direct investment remains more than sufficient to cover the current account deficit, which has hovered around 2.2% of GDP.

In 2012, the Government launched a range of initiatives to reduce energy costs, restructure oil royalty payments, strengthen investment in infrastructure through foreign participation, and reform the subnational value-added tax.

In the words of Brazil's Finance Minister Guido Mantega "although 2012 was a year of global financial crisis, it did not knock on the doors of Brazilians. We had an expansion in total

wages, income and employment. It was a good year for the majority of the population, despite a GDP performance below expectations. The 2012 fourth quarter results indicate that the Brazilian economy is in a process of gradual acceleration. This acceleration will continue throughout 2013, which points to an expected growth of between 3 and 4 percent for this year".

Source: The World Bank

President Dilma Rousseff, the first ever female president in Brazil, voted into office in 2010, continues to see over the social and economic programme initiated by the previous government, led by former president Lula, furthering enhancing widespread economic reform, such as the encouragement of foreign investment (including the Logistics Investment Program, that will draw \$526bn in investments for various projects beginning 2013) and the repayment of foreign debt.

Despite a recent rise in interest rates to ease inflationary pressures, interest rates in Brazil remain at historically low levels. Brazil also a huge trade surplus, driven largely by its vast array of natural resources and exports to the rest of the world. This trade surplus and accumulation of foreign exchange reserves will only continue, as recent oil finds come on line and as Brazil's prowess as an emerging agricultural superpower increases, as well as environmentally driven exports of bio-fuels, such as ethanol. Whilst there has been a recent increase in the level of inflation, it still remains at historical low levels, something which continues to benefit the poor.

The depreciation of the Brazilian Real boosted exports in 2012, particularly those who have to compete with lower cost rivals in Argentina and China.



Global Oil Powerhouse

Brazil's state-run oil company, Petrobras, plans to invest 224 billion USD through 2014 and double production by 2020. About 95% of that will be invested in Brazil, predominantly re-invested into education. Massive offshore oil finds have been discovered near at the Santos basin, offshore of Rio de Janeiro and some forecast they could hold 100 billion barrels of oil. Brazil's oil findings in the Santos basin will turn Brazil into a global oil and gas powerhouse over the coming decades. Add this to what is already a country with strong oil reserves and many predict Brazil will become one of the world's largest oil producers.





Resource Rich Economy

Brazil is the world's second largest producer of natural resources, second only to Australia.

Brazil is one of the few countries in the world to be self-sufficient in oil, mainly due to its ever-increasing oil reserves and the fact that a large percentage of its cars run on domestically produced environmentally friendly ethanol. Around 85% of Brazil's energy needs are derived from renewable sources.

With vast reserves of minerals, including substantial iron ore deposits along with other natural resources, these currently account for a large percentage of exports. Brazil also has a third of the world's drinking water reserves, which is significant as many have predicted that water will become one of the most in demand commodities of the century.

Brazil owns 17% of the world's iron ore supply, the second most of any nation, and owns 12.3% of the world's timber supply, valued at \$17.45 trillion.

With commodity prices still high – and global demand predicted to increase exponentially – Brazil can only benefit further from these trends.

There has been enormous progress in decreasing the deforestation of the rain forest and other sensitive biomes, but the country faces important development challenges in combining the benefits of agricultural growth, environmental protection and the sustainable development.

Source: The World Bank



Agricultural Superpower

The agricultural sector is booming; around 20% of the Brazilian workforce is engaged in agriculture, and more than a quarter of the country's export earnings come from agricultural exports. Brazil is the world's leading producer of sugarcane, pineapples, cashews, coffee, sisal and oranges, and a major producer of other commodities like papayas, tobacco, beef, soybeans, corn, chicken and palm. In terms of exports, Brazil is the world's largest exporter of sugar. Brazil produces about 20% of the world's annual supply and 50% more than India. Brazil is also the world's leading exporter of chicken and coffee, and the second-largest exporter of soybeans behind the United States.

In dollar terms, sugar/sugarcane contributes more than 6% to Brazil's export totals, with soybeans contributing 5%, and poultry and coffee contributing almost 3% each.

Source commodityhq.com

With an ever-growing global population and food shortages and food security increasingly on the international agenda, Brazil is in a prime position to benefit from these trends; this will only further enhance exports and economic prosperity. All of these factors will have a spill over effect on the demand for property.





Underdeveloped Mortgage Market Rapidly Expanding

As Brazil continues to advance economically, new mortgage friendly laws and ever increasing prosperity will provide a sound foundation for further credit and mortgage expansion; this will underpin the property market for years to come and remains integral to Brazil as an investment location.

Unlike many Western economies, at present Brazil has a small but rapidly expanding mortgage market, with only a small percentage of the population having taken out a mortgage; historically most property purchases are cash transactions. The Brazilian mortgage market grew 42 percent in 2011 and 65 percent in 2010, according to Abecip. By comparison, consumer loans grew 15.3 percent in 2011 and 18.8 percent in 2010, according to data compiled by Bloomberg.

Brazilian banks are making home loans at lower margins to gain market share after the central bank embarked on the most aggressive interest rate cuts among the largest emerging markets.

With the mortgage market set to expand, domestic buying power will increase rapidly, in a country where a huge amount of locals are waking up to the potential of property ownership, leading to a structural shift from renting to property ownership.





Growth In Local Buying Power And A Rapidly Emerging Middle Class

Brazilians are rapidly becoming more affluent. Brazil's growing middle class is as diverse as Brazil itself, currently accounting for 52 percent of the total population of the country according to a new government study (November 2012). Brazil is experiencing an intensity of social integration like never seen before.

Speaking at the release of the second issue, the head of the Secretariat of Strategic Affairs, Minister Wellington Moreira Franco, said that the increased participation of the middle class in the economy is a key factor of Brazil's growth and development. "It's essential to have an environment that promotes the participation of the middle class in economic growth. For this to occur, we need productive, well-paid and low turnover jobs. We must also ensure equality in opportunities, openness to dialogue and appropriate conditions for health and safety," said the Minister.

With incomes rapidly increasing and mortgage lending on the up – this is rapidly increasing the demand for property – which in term is bringing about a boom in construction (partly due to a structural need for new housing).





World Cup Coming To Brazil In 2014!

With the football World Cup being staged in Brazil in 2014 and the Olympics being held in Rio de Janeiro in 2016, expect these events to further increase Brazil's international profile with huge knock on effects for its economy and tourism industry.

Not only will these events add to economic growth and perpetuate the Brazil success story, but will also bring about further investment in infrastructure (such as a high speed rail link between Sao Paulo and Rio de Janeiro) as well as increased inward investment into many different sectors of the economy.

The increased media attention and international profile will also help to extend the property boom, as increasing tourism brings about more overseas buyers adding to the already strong domestic demand for property, which itself will be further inflated by growing economic prosperity.





Untapped Tourist Potential

Although tourism is expanding rapidly, Brazil currently receives only around 5.7 million international tourists per year, which relative to its size, location and suitability for tourism, is relatively small, just a little over a quarter of the amount of the Caribbean islands. With the world cup and the Olympics to come, this number is expected to increase.





Security Of Investment

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Fantastic Culture And People

Brazilian people are laid back in every sense, with their love of a party and passion for life; they are genuinely some of the friendliest people on earth. Embodied by their world famous carnivals, the Brazilians joyously ooze passion for food, dance, music and football.

Eponymous to the Brazilian culture is the beach. The climate and laid back traditions bring resonance to their most sacred of passions, spending time on their glorious coastline. Not only do they like to look beautiful here, but like carnival, it is a place which welds together the many facets of their culture, notably sun, sport, beauty, drink, food, dance and football!





Favourable Tax Regime

Capital gains on property in Brazil are taxable, to both Brazilians and foreign investors alike. Often, this can be significantly reduced or nothing paid, for example if money was spent improving the property.

The flat rate is set at only 15% (for international buyers this is dependent on any double taxation treaties your country may have) and this can be avoided completely if you:

- a. Reinvest the proceeds in Brazil.
- b. Hold the property for a significant amount of time

(These apply only to Brazilian residents, although this is ambiguous, for example if an investment visa is gained).





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