

# EXPERT GUIDE

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## Current status of the real estate market in Argentina & Perspectives *By Pedro Nicholson*

The real estate market in Argentina boomed from 2004 to 2010 and then began to slowly decline up to the recession which is currently taking place in our country. This situation has been especially cynical if we bear in mind that after the big economic crisis of 2008, Latin America has been almost flooded by investors looking for quiet markets to launch their ventures. Brazil, Colombia, Mexico, Chile, Paraguay, Peru and Uruguay have throughout these years received important foreign investments thus enhancing their markets. But Argentina did not.

The reasons for this situation are diverse.

No doubt, there are many things to blame on the current Government (i.e. a great percentage of the mistakes which could have been made, were effectively made). One of the higher inflation rates on Earth, together with an open fight with the holdouts of the outstanding public external debt just worsened the scenario. This, no doubt affected the credibility and confidence in the Argentine Republic,

which has been very low in the last years. Sadly any possible foreign investment has been scared away as far as possible along with most of the potential local investment.

Unfortunately local players in the real estate market (e.g. investors, developers, constructors, etc.) did not have enough reaction (or capacity to react) to this situation. It was like an uppercut directly to the jaw.



The bright side of this story though, is that in October this year Argentina shall have general elections and the principal presidential candidates are all business oriented –

and better regarded by the local business people – and a perspective of a tighter rule of law in our economy is expected. This scenario is no doubt bringing an optimistic atmosphere in the market, because it is understood that what is effectively lacking in the Argentine market is confidence, which the current authorities cannot provide, but which shall be caused by the new ones; and that through lower-

ing the inflation to normal levels, and changing a few economic variables, the country can be back on the right track. For this reason, local developers are already positioning themselves for this new picture through acquiring pieces of land in key spots where in a new business environment they can develop their new projects.

If we take a look at the Argentine GDP from 1900 until today, we will see that every 10/15 years there have been marked ups and downs. In the upper peak or bottom of those fluctuations we will always find the real estate market. In other words, when the GDP grows, the real estate market shall “grow more”; and when the GDP decreases, the real estate market shall be negatively affected worse than the general economy. This last fact is what is currently happening with the real estate market in Argentina, but as said above, the expectation is that with a new business environment as from December this year, the Argentine GDP should bounce upwards, and together with it, the real estate market (i.e. historically, this is what happened: the real estate market is always the first to recover from a crisis).

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Argentina has an incredibly beautiful landscape with many different types of sceneries (i.e. from the countryside to the mountains, from the glaciers to the beaches) and gorgeous cities – especially its capital city, Buenos Aires, with its European architecture and layout. The good news for anyone willing to participate in the Argentine real estate market is that everything is yet to be done. And when we say “everything”, we mean everything. From road infrastructure onwards, the variety of investment needs is ample.

Going to the different subsectors of the real estate market, the status and perspectives are the following:

α) The residential market has a great margin for development since there is a high housing shortage especially in lower and middle classes. During the last 15 years, this market has almost absolutely lacked financing, which obliged purchasers to pay upfront the whole purchase price when executing the purchase deed. This, as one can imagine, could be done by a very small percentage of the population. Inflation has also left its mark here. For this reason, in a

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more friendly business environment with better and stable economic conditions, there should be great opportunities in this submarket.

β) Hotels: Argentina is one of the top tourism destinations in Latin America. This has pumped the hotel market countrywide, though in many medium and big cities in the provinces of Argentina, as well as in the city of Buenos Aires itself, there are still very good opportunities for expansion.

χ) Shopping Centres: There are cities in the Provinces with a population higher to 100,000 people which have a very decent income and have no shopping centers. There are also some big cities with just one or two shopping centers. This market has thus a big margin to grow.

δ) Offices: The office market goes basically hand in hand with the economy as a whole. In this sense, as the economy in Argentina is not exactly

flourishing at the moment, the office market is somehow stable, but not increasing. However, if as expected the economy shall bounce as from the last months this year/the first months next year, there will be many opportunities in the office market (especially in AAA offices with LEED certification, which is slowly growing in our country).

ε) Rural land: Although law 26,737 enacted on December 2011 limits the ownership of rural land by foreigners, the latter may lease rural land without limit, and of course participate in agribusiness pools who invest in our farmlands. The farm business in Argentina has been historically very promising, although in the last years it has been somehow drowned by the incredibly high taxes imposed by the authorities to this market (which is again, something expected to change this year).

As described above, the expectations in the market are high and the opportunities many. This 2015 developers and investors should be alert because timing in real estate market is typically of the essence.

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