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The 4 Best Real Estate Plays for 2010



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The 4 Best Real Estate Investments for 2010

Next year is going to be the most exciting one real estate investors have seen in a decade. I've got my eye on four spots, in particular—diverse opportunities around the globe, each of which represents an excellent value play.

1 In **Brazil**, I'll show you a way to capitalize on that nation's continuing boom, particularly along the Northeast coast. That region boasts some of the world's most glorious beaches. With big infrastructure projects on the horizon, it's an area where the already-increasing property prices are going to spike in the months to come.

2 In **Europe**, projects and banks are in deep distress. That has created pockets of opportunity where you can buy quality cash-flow property for 50 cents on the dollar.

3 In **Costa Rica's** southern zone, a new coastal highway is set to open in 2010 and an airport is on its way. With improved accessibility, property prices here will increase, just as they have elsewhere in the country when better roads have gone in.

4 And in safe, stable, cultured **Uruguay**, there is an undiscovered stretch of coast big international developers have just begun to snatch up. Rich Argentines have been coming here for generations—but keeping the secret to themselves. The best beaches and seaside towns in Uruguay are here. And now's the right time to stake a claim.

These are the four markets I'll be keeping the closest eye on in 2010. Now let me explain in more detail why...and how, you can position yourself for profits in each.

Catch the Rising Tide of Prosperity in Fortaleza, Brazil

Back in 2007, I wrote of Brazil's Northeast: "Until I discovered this region, I had become resigned to the thought that cheap and relatively accessible beachfront was a thing of the past... As far as I'm concerned, Fortaleza is the best beachfront buy on the planet right now. An opportunity like this doesn't happen often. When it does, you need to be ready to move... and to move fast."

Those who did move fast have seen the value of their investments increase by 30% to 40%, sometimes more. And the good news is: The best is yet to come. Since I made that prediction two years ago, Brazil has been chosen to host the Soccer World Cup in 2014 and the Olympic Games in 2016.

News outlets recently reported that Brazil is sitting on 12 billion barrels of oil—this in a nation that was already energy independent before this discovery. Investment rating agencies have upgraded Brazil to "investment grade." And Brazil has led Latin America's recovery, with a projected 5% growth next year. As I write, Brazil's stock market, the BOVESPA, is up 64% so far this year.

The best opportunities still remain in this nation's Northeast—in Fortaleza and along the surrounding coast. Last year, Fortaleza was Brazil's #1 domestic tourism destination. The city hosted 3 million Brazilian tourists and 250,000 foreign tourists. In fact, it has been number one for three out of the last four years. This is where Brazil's wealthy come to relax on the beach.

Brazil's Northeast coast boasts some of the world's most glorious beaches and is an area where the already-increasing property prices are going to spike in the months to come.





Right now, there's a shortage of hotel rooms and short-term rentals. Developable land is limited. And that spells opportunity for investors.

Brazil is a middle-class country today. This, combined with the momentum event of foreign investment, would be enough for Fortaleza to make my list of top investment destinations. But there are two other major driving forces at play, which make this country an even more impressive bet.

First is the **"World Cup Effect."** The big buzz in Fortaleza (and the surrounding areas) is the huge investment in tourism and infrastructure on the horizon. The government is spending 9.8 billion reais (\$5.50 billion) in Fortaleza in the lead up to the 2014 soccer World Cup. Infrastructure projects will take up 63.3% of this spend. In June this year, Fortaleza's governor released a list of projects that will be delivered for the 2014 games.

They include 850 million reais to be spent on tourism projects—gentrification of urban areas and the installation of attractions like the state aquarium. And large amounts will also go toward improved Internet access, better equipment for the police, hospital upgrades, and so on.

Transport infrastructure, with a 6 billion reais spend, is the big winner. The government is committed to projects that will encourage and facilitate the economic development of the region.

So the Fortaleza area is going to see a major upgrade in road (there will be a new ring road), rail (a metro system), bridge, port, and airport infrastructure. This will make certain areas more accessible and desirable, which will, in turn, drive up real estate prices.

The second important force at play is **"My House, My Life."** While people from southern Brazil want to visit Fortaleza on vacation, Fortaleza's new middle class want to move into new condos or houses. They will want to be near infrastructure that will bring them to work and play.

There's a government program called *Minha Casa, Minha Vida*—My House, My Life. This program has the mandate to make home ownership affordable to Brazil's lower and middle classes. The My House, My Life program has 60 billion reais (\$33.7 billion) in the kitty. The program has helped one million Brazilians become homeowners in 2009. A similar impact is expected in 2010. That's a lot of new demand.

The program operates through a system of subsidies with Caixa Economica Federal,

(Brazil's government-owned savings and mortgage bank) at the heart. Developers of qualifying projects receive a subsidy and a tax break. In return for this supply-side incentive, they agree to offer units for sale at an agreed-upon and competitive rate. The government subsidy varies according to the applicant's income. Earn up to three times the minimum wage and you can own a home worth up to 50,000 reais by making payments equal to just 10% of your income. Earn three to six times the minimum wage and you can buy a home costing up to 130,000 reais. This is the bracket where I expect to see the most activity, growth, and further upward mobility. And you can profit from that in several ways.

"Fortaleza is the best beachfront buy on the planet right now."

First, there's already a shortage of quality office space in Fortaleza. All this economic activity is going to accentuate this problem. To profit from Fortaleza's development and growth, here's what you need to do:

- Buy office space in the Aldeota area.
- Buy small units preconstruction in the boardwalk area. These will be perfect for short-term rental. There are few remaining developable sites in this area.

In addition, buy preconstruction condos targeted at the local market in areas along the planned metro line. Look, in particular, to the area around the stadium.

Grab Distressed Deals in Europe

In Europe right now you can get deals with discounts of 52% on list prices or 40% on official valuations—deals in blue-chip locations that will immediately throw off positive cash flow.

These are opportunities in locations that will be the first to recover once real pent-up demand recovers. In some cases, up to 100% financing may be available.

After years of market overshoot on the upside, today we see the opposite—overshoot

Where to Find Property Details

For more information on the properties and opportunities mentioned in this article, see: www.pathfinderinternational.net/predictions.

Cover Story

on the downside. You could profit in 2010 on distressed and bank foreclosed properties in Europe. The best deals are in projects that have gone bankrupt.

Here is why this opportunity exists: Banks lent to developers to build. Developers built in anticipation that there would be no problem selling their units. After nearly a decade of runaway demand and floods of cheap money, they took their eye off the ball. They took on more debt and risk than they should have and they overpaid for land.

Credit and financial crises combined with oversupply led to a breakdown in many markets. Sales dried up and high-quality, completed units are left sitting, waiting for a buyer. Banks need to purge their loan books. Developers want to lick their wounds and move on. Forced sell-offs are happening... demand is rock bottom. This is a formula for opportunity.

Distressed deals are available in many places in Europe, though most markets make little sense and I wouldn't recommend them. In Central and Eastern Europe, for instance, deep structural and currency issues make the deals unattractive.

I'm focused on my three golden rules:

- Buy quality (location, construction, amenities, and fit-out).
- Don't take on any construction risk; buy completed units.
- Don't take on any project risk; make sure, for instance, that the condominium is functioning. You don't want to be one of 10 owners in a 100-unit condominium.

I wouldn't consider any distressed deal that doesn't tick all three boxes. So where should you look?

The best opportunities are in the UK, Spain, and Portugal. Developers here relied heavily on debt. The discounts can be big... more than 50% in some instances. The banks who control many of the failing developments will offer mortgages of up to 100% at extreme-

Invest in the World's Best Property Finds

Ronan McMahon is the editor of *Real Estate Trend Alert*, which delivers to members the best investment opportunities in the world—before most people are even aware of them. If you want to be certain you're always ahead of the curve, see: www.internationalliving.com/reta.



In cities like Granada in Spain, projects and banks are in deep distress, which has created pockets of opportunity for the investor to buy quality cash-flow property.

ly competitive rates.

In the UK, invest in prime urban areas in cities with a diverse employment base. Look to cities like Birmingham and Manchester. You can buy for less than 50% of what your neighbors bought preconstruction several years ago. Buy into projects where there are a large number of owner occupiers. These will be more stable.

In Spain and Portugal, invest in prime resort properties in areas that haven't been overbuilt. There's a lot of junk out there, which you should avoid. However, the market has stalled for quality inventory, too. Northern Europeans will still come in their droves and need to stay somewhere. Buy where these tourists want to stay—in places that are close to golf courses, beaches, and an international airport. Places like Granada in Spain or Portugal's Algarve.

Costa Rica's Suddenly Accessible Southern Zone

Anything that improves the accessibility of a piece of property increases its value—roads, bridges, airports, etc.

In 1983, *IL* first recommended Northern

“Prices have stayed low in Costa Rica's Southern zone because it's difficult to get to. That's set to change.”

Costa Rica. Those who followed *IL*'s recommendation saw their investments increase 8-, 10- or even 12-fold. Today there is another Costa Rica play. History might just repeat itself.

Prices have stayed low in Costa Rica's Southern zone because it's difficult to get to. That's set to change. If you move fast, you have the opportunity to position yourself ahead of the path of progress.

Some of the most amazing scenery in Costa Rica is in an area that runs south of Quepos to the border with Panama. Landscapes here in Costa Rica's Southern zone are dramatic—panoramic ocean views; lush tropical rainforest; and sheer jungle-clad slopes, rising sharply away from pristine stretches of sandy beach.

There is more land preserved in national



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finally on the brink of completion. It will open up a truly undiscovered area of Costa Rica by cutting the two-hour trip from Quepos to Dominical to 25 minutes.

An international airport is planned for Palmar Norte. Due to be completed in 2013 (the government has already allocated funds) the airport is planned to open in stages; the first will allow international flights with a maximum capacity of 50 passengers. Eventually, the plan is to have a runway capable of accommodating even the world's largest passenger plane, the Airbus A-380.

An airport of this scale needs to be close to a hospital...so they built one. The modern 85,000-square-foot Hospital De Osa located in the town of Cortez opened in April 2008. The hospital features multiple treatment facilities including a state-of-the-art emergency room, a pediatrics wing, a neurology center, and an obstetrics and gynecology center.

In 2002, in Northern Costa Rica, Liberia airport started taking direct flights from the U.S....and property prices soared. The beaches in this Southern zone are even nicer...and they're about to be more accessible.

Uruguay's Secret Beach Hideaway: Rocha

Uruguay rarely makes the headlines. There are no natural disasters and the crime rate is low. It's safe, stable, and cultured. The infrastructure, from airports to roads, is first class.

The country goes quietly and successfully about its business. Last year it made headlines with GDP growth of 8.9%, compared to 1.1% in the States. Uruguay isn't burdened with debt. Montevideo's largest shopping mall plans a \$100-million expansion, adding to the 200 stores already open.

The department of Rocha in the east of

Uruguay has for years been a favorite destination for rich Argentines. East of Punta del Este, it stretches to the border with Brazil and boasts the nation's best beaches. Inland, you'll find cattle ranches and sleepy towns, most with populations of less than a 1,000 souls. The coast is where the action is. The beaches here are wide, natural, and pristine. The deep-blue water contrasts with golden sands. You won't find highrises or all-inclusive resorts.

What you will find are Uruguay's best seaside towns. La Paloma fills with tourists in high season, but it's still a small, friendly beach town. La Pedrera has an upmarket feel to it, with large weekend homes beside a sweeping curve of beach. Cabo Polonia is famous for its shifting sand dunes and bohemian residents.

There's an abundance of nature reserves and parks in Rocha, many with lagoons ideal for bird-watching enthusiasts.

Rocha's seacoast draws visitors from Uruguay, Argentina, and Brazil. And this stretch of coast has recently appeared on the radar of major international developers. They have been quietly purchasing large tracts of land. Land values have been slowly increasing. Now they are set to explode. This stretch of coast is the natural extension of Punta del Este.

One planned project I recommend is by Argentina's foremost developer, Eduardo Costantini. Estimated costs for his development run to \$350 million. This is the first upscale project in the area, and it will raise the bar for quality and luxury. Included in his project is a bridge over the lagoon at Rocha. U.S. development groups also are getting ready to launch projects in this area.

Buy accessible beachfront land along Rocha's coast, and you will do well.

parks and reserves in this region than in any other in Costa Rica. Ballena National Marine Park is a hotspot for humpback whales. Corcovado is reputedly the largest area of primary rainforest left in the Americas, home to numerous endangered plant and animal species. The beaches are mostly deserted.

In a country with an established real estate market like Costa Rica, this sounds like just the type of place that would attract a lot of fervent investors. Difficulty getting there has kept it under the radar in terms of development, and kept prices far lower than areas in Northern Costa Rica.

The Costanera Highway was unpaved between Quepos and Dominical and the airports in this area are small, local affairs. These are exactly the kind conditions I look for when scouting for a good real estate opportunity. Especially when these conditions are set to change.

Costa Rica's President Oscar Arias Sanchez recently kick-started the final stage of the Costanera highway. The work is almost complete (only one bridge still remains unfinished). And so a project that's been promised by successive governments for 30 years is



The department of Rocha in the east of Uruguay has for years been a favorite destination for rich Argentines.

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