



Spanish real estate developers build their future in Latin America

During the past five years, Spain's real estate market has undergone an unprecedented boom that, nevertheless, has begun to take a toll on companies in that sector. The anticipated slowdown of business at home has begun, and it promises to go further. That is why many business people from Spain have decided to cross the Atlantic and try to repeat on the other side of the ocean the successes and high profits they enjoyed at home.

Fadesa, Grupo San José, OHL, Grupo Mall, Lar, Sotogrande, Salvago and Anida (the real estate arm of BBVA bank) are the vanguard of this trend, Spanish companies that have laid the cornerstones for their operations in Latin America. Many other companies will arrive, as was revealed at the latest SIMA, the most important real estate conference in Spain, which took place in Madrid in May. Fully 17% of the properties marketed at SIMA were from outside Spain. Most of those were in Latin America. Spanish companies are now the second largest investors in that region.

Are we dealing with a new real estate boom? "The boom is in its early stages. It seems that the warming up process will be a gradual one, and it will depend on how long-term demand reacts to it," notes Miguel Hernández, director of the advanced program for real estate management at the Instituto de Empresa business school. In his view, "Spanish developers are investing in Latin America for three reasons: The exhaustion of the Spanish real estate market; the enormous liquidity that has been generated in recent years; and the Latin American region's economic stability and demographic potential."

[Mauro Guillén](#), director of the Joseph H. Lauder Institute of Management and International Studies at Wharton, agrees. "Before the cyclical change, real estate firms were looking for alternative markets or were diversifying themselves. Both options are viable if you choose markets that have potential. Latin America is very volatile, which can make it attractive. Prices are still low there and there is a great deal of potential. You have to look at the region as another option for diversification, without placing too much weight on it. I believe that it makes sense to invest there but it also makes sense to do so in Eastern Europe, the Middle East and, perhaps the United States once prices drop a bit there," he explains.

Esteban García -Canal, a professor in the management department of the University of Oviedo, Spain, points to its cultural proximity and the experience accumulated at home by Spanish real estate firms to explain growing interest in Latin America. "Conditions are similar to those that face Spanish companies in other business sectors when they decide how to make a profit in Latin America, using the experience and know-how they accumulated in Spain. In addition, there is the appeal of the (common) language, and the lower level of development of home-grown companies in Latin America. There are also some unique characteristics in the real estate sector. These factors include, first of all, the current real estate bubble in Spain; and second, the interest that some Spanish investors have in Latin America for a variety of reasons. These factors make it easier for their projects to succeed."

Profit margins in the Latin American region vary a great deal from country to country. However, every country offers at least double digit returns because of the

low price of land in Latin America, the steady recovery of local economies, and the lower cost of labor. Other important factors include growing demand by U.S. buyers for second homes and the strong appeal of Latin American beaches for foreign tourists.

Other factors are also driving real estate companies to the region, such as the expansion of the Panama Canal which will cost \$35 billion. This has provided a real boost for Panama and for Panama City, its capital. For example, Grupo Mall has unveiled an ambitious new project covering 400,000 square meters. Known as Punta Pacifica, it is located between the Bay of Panama, the Metropolitan Nature Park, and the Panama Canal itself. The project will offer the highest residential skyscrapers in Latin America, 250 meters high. There will also be a shopping mall, and 2,500 apartments.

Although each country has its own unique character, Hernández provides an overall prescription for foreign investors: "Latin America is the ideal market for real estate developers of first homes. Developers of second homes will focus on Mexico, Brazil and Central America where very specialized projects will be developed. Actually, most Spanish companies specialize in the residential market and they will replicate the model that has already been a success for them in Spain. Nevertheless, I believe that retail and logistics also have a great deal of potential. In contrast, the office business is very risky and it will only be developed in some very specific locations."

Brazil and Mexico take the lead

Although Spanish real estate developers are tracking unique opportunities in every corner of Latin America, Professor Jaime Sabal at Esade, recommends always paying attention to two key factors: institutional stability and business opportunities. This is a combination that both Mexico and Brazil deliver perfectly, he says. "These are stable markets in the medium term. Long term, I don't know if there will be any significant political problems there. Real estate development does not mean looking more than three or four years into the future. Within that horizon, Mexico and Brazil are appealing. They are both stable, large countries where there are an enormous number of opportunities for doing business. Their size and stability are attractive and both countries are also relatively developed. Nevertheless, as a result of these strengths there is a higher level of competition there. Actually, there are important home-grown real estate developers in both Brazil and Mexico.

In the Mexican state of Baja California, real estate developer Fadesa is managing one of the most spectacular projects in all of Latin America. This tourism complex involves constructing 6,500 houses as well as 7,000 rooms in several luxury hotels and leisure areas. There will also be four golf courses. The ambitious development, which is targeted at millionaires from the U.S. and Canada, will cost more than four billion euros. In addition, Fadesa, headed by Fernando Martín, has three other projects in Mexico. Located in the states of Nayarit, Guadalajara and Guanajuato, they will require a combined total investment of an additional 700 million euros.

For its part, Grupo Lar arrived in Mexico two years ago, where it is partnering with Acción, a local company. Lar already has 18 developments located in the states of Mexico, Guadalajara, Monterrey, Quintana Roo, Puebla and the capital of Mexico City. Several of its developments are already being marketed, and the company forecasts that it will close this year with about 1,000 homes sold and investments worth 700 million euros.

OHL is another company that has clearly staked its future in Mexico. In Mayakoba, on the so-called Riviera Maya, OHL, headed by Juan Miguel Villar Mir, a former Spanish minister, has invested \$1.4 billion in a tourism complex that comprises six luxury hotels and three golf courses. Overall, the development covers 6.5 million square meters. The first success for this ambitious project came a few months ago when it became the first Mexican location authorized to join the elite tour of the Professional Golfers' Association.

Many opportunities

Chile is another market that inspires confidence in Professor Sabal. "Although it is a smaller, it is appealing because of its stability," he says. "And in Colombia, there are a lot of opportunities over the medium term. That country has good rules of the game, although there could be political problems three, four or five years into the future. Within the horizon of real estate, there are appealing opportunities for building and selling there. Another market that should not be ignored is Costa Rica; it is a small country but it is quite stable. In contrast, I would recommend waiting before investing in Argentina where there are still lots of risks," he adds.

Such concerns have not prevented Spain's Grupo San José from announcing a privately financed urban development project in Buenos Aires that will be the largest such project in the Argentine capital in fifty years. San José, whose origins are in the Spanish region of Galicia, projects that it will build 20,000 homes on 1.12 million square meters of land near Buenos Aires. The project will cost investors \$700 million. It will comprise a shopping center, 160,000 square meters of 'green zones'; service centers, centers for healthcare and education, and 200,000 square meters of new streets.

For his part, Hernández is confident about opportunities in Argentina. According to him, the three most appealing countries in Latin America should be ranked as follows: "First, Mexico, because it brings together the two essential requirements – economic and legal stability. Brazil also meets those standards too. Then, Argentina would be on the second level. The rest of the countries would be on the third level."

According to Hernández, the great appeal of Mexico involves three basic factors: "It has a free-trade agreement [NAFTA with the U.S. and Canada]. That helps stabilize its economy a great deal. Second, its coastal areas are undoubtedly attractive for tourists. Third, it has a large population of young people and they represent a very significant potential demand if you offer them the right product."

Opportunities, risks and competition

Although Latin America undoubtedly offers opportunities in the real estate market, the region is not immune to risks. "The risks vary from country to country and are a function of macroeconomic instability and regulatory instability," notes García -Canal. "Basically, Mexico does offer the necessary legal and macroeconomic conditions as a result of its joining NAFTA. And Brazil has demonstrated that its economic policies are reasonably stable. However, the rest of the countries add the uncertainties of their exchange rates to the business risks involved in the real estate business," adds Hernández.

Another factor that could influence investment by Spanish companies in Latin America is the opportunities offered by Eastern Europe, especially by those countries that have joined the European Union or will do so in coming years. "Eastern Europe

has a disadvantage with respect to Latin America," notes Sabal. "It is smaller and there are fewer opportunities. However, Eastern Europe offers a lot more institutional and regulatory stability. You don't run any risk that they will change the rules of the game or that there will be political problems that affect your business. Among those countries that have already joined the European Union, these scenarios are virtually inconceivable. As a result, its institutional stability makes Eastern Europe especially attractive for Spanish companies."

Spanish real estate firms may face plenty of competition in Eastern Europe but they usually face less competition when they move in Latin America. Sabal says, "Actually, there aren't a lot of foreign investors who are interested in Latin America. Your competitors could wind up being Latin Americans themselves, especially Brazilian and Mexican companies that want to enter other countries in the region. However, companies from outside Latin America have little competition in this sector, so there is an opportunity in that sense."

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