



Brazil Ignores World Cup Costs to Lift Housing: Mortgages

By Gabrielle Coppola - Feb 7, 2013

The Brazilian government isn't letting an economic slowdown, the World Cup or the Olympics get in the way of its efforts to help everyone from slum dwellers to young professionals buy homes.

President [Dilma Rousseff](#) is using federal subsidies and state-bank loans to boost housing after economic expansion slowed for a second year in 2012 and mortgage growth declined. Home price gains are also decelerating after rising 58 percent since 2010.

"The market is trying to correct itself" and "the government is throwing more money at it to keep it expanding," said Adolfo Sachsida, an economist in Brasilia at the Institute for Applied Economic Research, a federal government agency that evaluates public policy. "This market employs a lot of people and they want to keep it heated so employment doesn't drop."

Rousseff is pumping more money into the housing market even as [interest rates](#) remain at the lowest in Brazil's history, and annual inflation is running above the central bank's target for 29 months. As economic growth fell to the slowest pace among major emerging-market economies last year, she nearly doubled spending on Brazil's plan to build 2 million low-income homes by 2014, a goal made more expensive as preparations for the World Cup being held that year, and the Olympics in 2016 contribute to higher construction costs.

Home Lending

The amount of home loans outstanding grew 38.2 percent in 2012, down from a pace of 44.5 percent in 2011 and 51.1 percent in 2010, which was the fastest since 1992, according to central bank data. Total credit outstanding increased by 16.2 percent last year.

The government's measures are helping to sustain prices, setting the stage for a fall once interest rates climb from record lows, according to Sachsida, who co-authored an IPEA [report](#) last August that said the government is fostering a real-estate bubble.

"When rates rise abroad, Brazil will be forced to raise rates here too. When they do that, it's going to hit a population that is already very indebted, and that's going to pop the bubble," he said.

The views expressed in the report don't reflect the opinion of the organization, according to a press official at IPEA in Brasilia, who asked not to be identified in accordance with their policy.

Bubble Risks

“The majority of analysts have concluded that there is no risk of a real estate bubble,” [Dyogo Oliveira](#), deputy executive secretary at the Finance Ministry, told reporters in Brasilia Jan. 31. “At the moment there is no need for concern.”

The Finance Ministry didn't respond to a request for further comment.

While 35 million Brazilians entered the middle class in the past decade, according to the Rio de Janeiro-based Getulio Vargas Foundation, the government estimates there is a housing deficit of 6.3 million homes.

Rousseff increased spending on her low-income housing initiative, dubbed Minha Casa, Minha Vida (My Home, My Life), by 93 percent to 11.2 billion reais (\$5.7 billion) from January through November 2012, according to the Treasury.

The government has twice lifted price caps on homes that are eligible for program subsidies since 2009, to as much as 190,000 reais in Rio de Janeiro and Sao Paulo, as soaring land prices prompted homebuilders to lobby for higher payouts to cover construction costs.

World Cup

Preparations for the World Cup and Olympics also have increased demand, the IPEA report said.

“The program of public works trying to modernize and invigorate some cities for the World Cup in 2014 and the Olympics in Rio in 2016 has been contributing to the appreciation of real estate prices.”

Rising prices are undermining the original goal of the government's program to reach Brazil's poorest, because homebuilders are focusing on building more expensive homes that are still within the subsidy scheme, according to Claudia Magalhaes Eloy, a professor of architecture and urbanism at the University of Sao Paulo.

“While those increases may be partially credited to improvements in the housing units, they seem to be mainly explained by developers' pressures to accommodate escalating costs, due in part to land speculation,” Eloy, Fernanda Costa and Rossella Rossetto wrote in a fall 2012 article for the journal Housing Finance International. “This imposes threats to the continuity of the subsidy policy and causes important impacts on the housing market, reducing affordability.”

From April 2009 to May 2012, just 40 percent of the homes contracted to be built were destined for families in the lowest income tier, according to Eloy.

Jobs Created

The government has delivered 1 million homes under the program, generating 1.4 million [jobs](#) as of December 2012, according to Caixa Economica Federal, the largest mortgage lender in Latin America and the main conduit for Brazil's federal housing subsidies.

Minha Casa, Minha Vida also is not immune to the delays that typically plague infrastructure projects in Brazil. Marcelo Montenegro, the 65 year-old founder of Fortaleza-based homebuilder Montenegro Construtora, waited five months last year for state-owned Caixa and the city to sign off on final approvals for his low-income housing development in Jurema, a suburb of Fortaleza.

During the wait, he said, he was forced to hire private security guards at a cost of 200,000 reais to protect the buildings after squatters took over a neighboring building with plans to rent or sell the apartments.

'Did Nothing'

"It was absurd, I suffered a lot," said Montenegro, who said he has since met with representatives from Caixa and the police to try and resolve bottlenecks and improve security. "The police and city did nothing to stop it,"

The Ministry of Cities, which is in charge of managing the Minha Casa, Minha Vida program, didn't respond to calls and e-mailed requests for comment.

In an effort to accelerate construction under the program, Rousseff in 2011 tapped Brazil's other federally-owned lender, Banco do Brasil SA, to begin lending in the lowest-income tier of the program.

Banco do Brasil offered financing for 114,000 new housing units in 2012, including 50,349 units for the lowest income tier, and 64,000 units for the second and third more expensive tiers. Its goal is to finance 450,000 units by the end of 2014, Gueitiro [Matsuo Genso](#), the bank's head of real estate credit, said in an interview in November.

Banco do Brasil, which entered the home loan market in 2009, increased overall mortgage lending 75 percent to 11.35 billion reais last year. Brasilia-based Caixa increased home lending 33.8 percent last year to 101 billion reais.

Falling Investment

Brazil's unemployment rate fell to a record low 4.6 percent in December as companies anticipated lower borrowing costs, tax breaks and increased public spending to fuel growth. Still, the second-largest emerging economy grew just 1 percent last year, the central bank estimates, less than the U.S., China, and Japan.

Investment in Brazil's economy dropped 3.9 percent in the first three quarters of 2012 from the year-earlier period, after a 4.7 percent increase in 2011, according to the Brazilian Institute of

Geography and Statistics.

With local industry struggling to compete globally and a more aggressive stance on rooting out corruption spurring delays in infrastructure investment, the government is leaning on home construction as a means to boost growth, according to [Jefferson Finch](#), an analyst at political risk consulting firm Eurasia Group.

Investment Driver

“They see it as an important driver for investment and growth, and it pays a political dividend,” Finch said by phone from New York. “There’s a focus on addressing the housing deficit but also the focus on home ownership in the new middle class, which is going to be a really important sector for any government in the future to have the support of.”

Brazilian home prices are likely to keep pace with inflation rather than appreciate beyond it for the next three to six months as buyers look for stronger signs of an economic recovery, according to Eduardo Schaeffer, chief executive officer of Sao Paulo-based Zap Moveis, which publishes the FipeZap home price index in partnership with the Foundation for Economic Research.

“The market is not exactly cooling off, but it’s being a little more conservative,” Schaeffer said by phone from Sao Paulo. “There’s no longer that fever to buy a home at any price and sell shortly after. It’s more in line with inflation, which is reasonable.”

Luxury Apartments

The average price per square meter in 16 Brazilian cities rose 0.9 percent in January to 6,350 reais, according to the FipeZap index.

In Sao Paulo’s Pinheiros neighborhood, homebuilder [Even Construtora e Incorporadora SA](#) will begin construction in April on a 47-unit luxury apartment building with an indoor and outdoor pool and a tennis court. The average price of the 332 square-meter units, which have four bedrooms, six bathrooms, including maid’s quarters, and a glassed in patio, is 4 million reais. About 30 percent of the units have been sold since efforts began in October, according to Izilda Albanex, a broker for Even.

Residential areas like Pinheiros, or the beachfront neighborhood of Leblon, in Rio de Janeiro, represent the extreme in home price appreciation, according to [Octavio Lazari Junior](#), president of the mortgage lenders association known as Abecip and executive director at Banco Bradesco SA.

Many Factors

The rise in property prices in Brazil since 2009 was caused by a series of factors, including the stabilization of the economy, stronger foreclosure laws so banks could gain possession of homes in default, which made them more willing to make mortgage loans, improvement in the quality of

homes being built, and investments for the World Cup and Olympics, Lazari Junior said.

The typical Brazilian homebuyer makes a down payment of about 60 percent on a new home purchase, which reduces the chance of default if the value falls, Lazari Junior said. At the same time, slow economic recoveries in the U.S. and Europe make the chance of a sharp increase in interest rates unlikely, he said.

“There is not the slightest risk of a real estate bubble in Brazil,” Lazari Junior said by phone from Sao Paulo. “What we will have going forward is real estate prices adjusted for inflation. They will not fall.”

The Brazilian government’s housing policy would be more effective if it donated some of the land it controls for low- income housing construction, rather than handing over more cash to homebuilders to keep up with price increases, according to Sachside of IPEA. The government is unlikely to relinquish that power, he said.

“Brazilians’ biggest dream is to have their own home, so of course any policies that make this easier are welcome,” he said. “This is worsening access to home ownership, because the way it’s being done is increasing home prices.”

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