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Social Housing

Investment Opportunities in Brazil

Colombia

Private Equity Investment

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MILA Conference

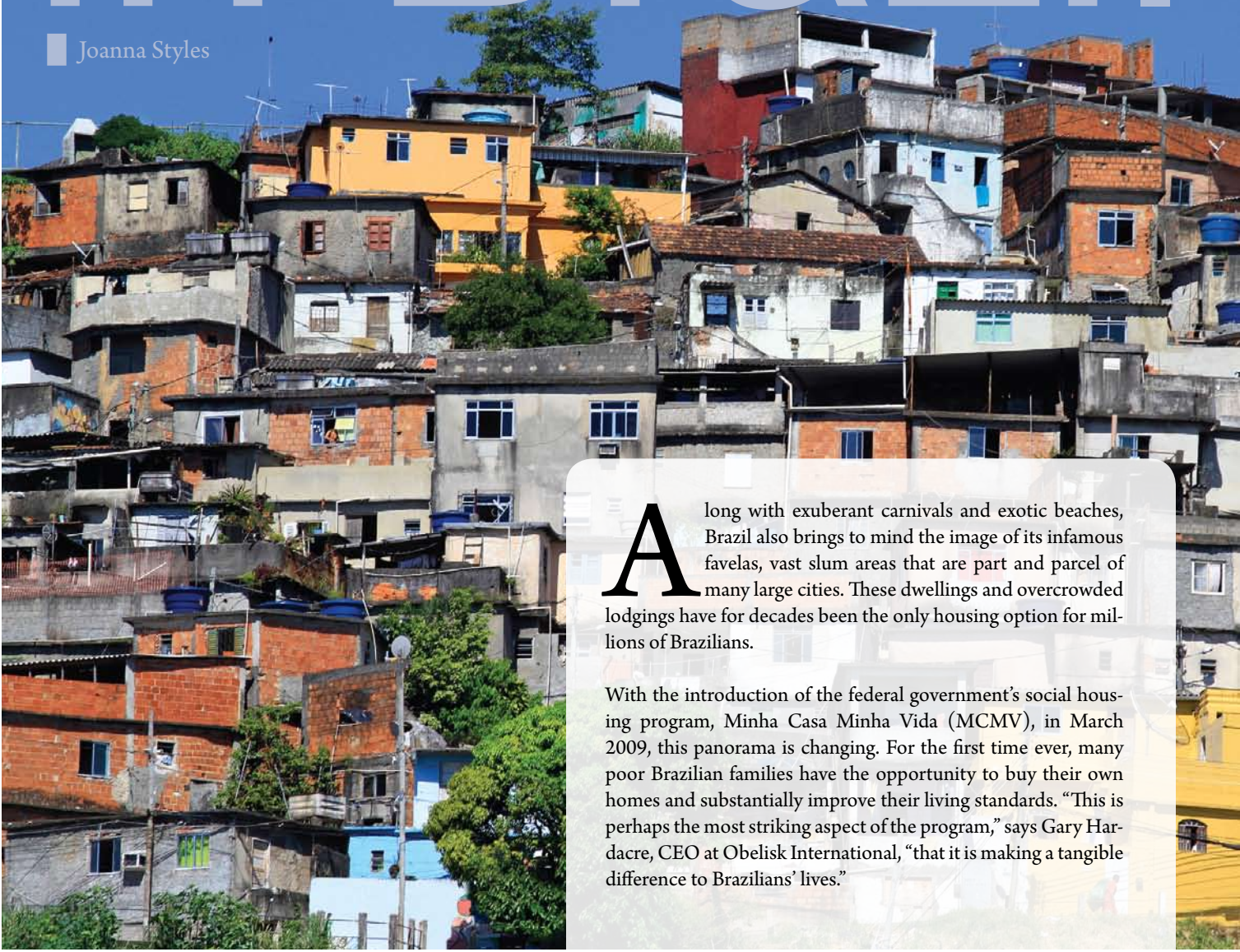
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Minha Casa Minha Vida: A Look at Social Housing Investment Opportunities in Brazil

Joanna Styles



Along with exuberant carnivals and exotic beaches, Brazil also brings to mind the image of its infamous favelas, vast slum areas that are part and parcel of many large cities. These dwellings and overcrowded lodgings have for decades been the only housing option for millions of Brazilians.

With the introduction of the federal government's social housing program, Minha Casa Minha Vida (MCMV), in March 2009, this panorama is changing. For the first time ever, many poor Brazilian families have the opportunity to buy their own homes and substantially improve their living standards. "This is perhaps the most striking aspect of the program," says Gary Hardacre, CEO at Obelisk International, "that it is making a tangible difference to Brazilians' lives."

From an alternative investment viewpoint, MCMV offers scope for considerable returns over a short timescale within the context of a government-backed and -financed program with a ready-made exit strategy. In its brief lifespan, MCMV has attracted all the big players in Brazilian development plus numerous foreign investors.

The Brazilian Solution

Brazil's real estate market is characterized by massive demand fed by small supply. Official government estimates place the housing deficit among Brazil's low-income families at around 7.2 million homes, although some experts believe the real figure is considerably higher. J.P. Morgan, in "Latin America Equity Research" (April 2011), points to "1.5 million new homes demanded every year, with almost half of this market being for lower-income housing."

To address this problem, the Brazilian government under President Lula da Silva introduced a nationwide social housing program in early 2009, christening it "Minha Casa Minha Vida" (My House, My Life). The initial stage planned the construction of 1 million homes with a budget of R\$60 billion by the end of 2010. The second stage, launched in May of this year by Lula's successor, president Dilma Rousseff, intends to build a further 2 million homes by the end of 2014 with an allocated budget of R\$100.4 billion.

The principal objective of MCMV is to ease the housing shortage by 42% and, by extension, reduce the need to live in slum areas or substandard housing. In addition, the program aims to boost civil construction and open up the historically small and underdeveloped mortgage sector in Brazil.

How It Works

MCMV specifically targets Brazilians earning between zero and three times the monthly minimum wage (R\$545) with the property allocation for this income group running to 1.6 million homes. A further 1 million social housing units will be built for families with salaries between three and six times the minimum wage; the remaining 400,000 units are destined for those earning from six to ten times minimum wage.

To qualify for the program, families must meet income and residence requirements plus prove they own no other property. Once their eligibility is confirmed, families join the municipal waiting lists. If successful in their bid for a social housing unit, qualifying families receive preferential mortgages (100% loan-to-value and 4.5% interest for the 0-to-3-times minimum wage income bracket) and tax exemptions, as well as federal government aid with mortgage payment default in case of unemployment or illness.

All finance for the program is managed by the federal bank, Caixa Economica Federal, the largest publically owned bank in Latin America and market leader in the Brazilian mortgage sector. Finance is two-fold in the form of mortgages for homeowners and funds for developers.

Progress So Far

By the end of 2010, all MCMV objectives were partly achieved, a pattern that has continued throughout 2011. In December of last year, just over 1 million units had been contracted (although not delivered) with 85% of these for families within the 0-to-6-times



Minha Casa Minha Vida

minimum wage bracket. Delivered projects – most large cities have at least two so far – attract huge media attention, with local and government officials present at completion.

Brazil's civil construction sector has received a huge boost from the program. Some 665,000 jobs have been created at national level, a major factor behind Brazil's current low levels of unemployment (6% in July). Local economies have benefitted directly and indirectly from the program – for example, the state of Rio Grande do Norte has received an injection of R\$1.4 billion since MCMV began.

Brazil's mortgage sector has experienced a similar boom as seen in statistics from the Brazilian Mortgage Association (ABECIP). The total value of home loans in 2010 reached R\$56.2 billion. In May this year, mortgage lending had already reached R\$70.9 billion, an increase of 26% on last year's total. Caixa reported a 59.1% rise in home loans in the first semester of this year when the bank approved loans for 550,000 MCMV clients, reaching a value of R\$12.6 billion.

Investment Opportunities

Real estate construction on this scale presents numerous investment opportunities. As A.T. Kearney, in "Recovering Markets, Revised Ambitions," "low-cost housing is a new frontier for developers in many emerging markets." Attractions of the Brazilian program include its vast scope (3 million units), 100% government backing and finance, and millions of Brazilian families desperate to be one of the lucky homeowners.

Despite the low-cost nature of the program, high profit margins are available in projects



in the right location and with Caixa approval. "Interest in the program has been huge," says Mr Hardacre. "All Brazilian home developers are participating plus many foreign investors through association with Brazilian partners."

Investment options vary from participation in a real estate fund (including MCMV projects) to capital investment within a specific MCMV project. Direct investment in MCMV units is not possible since non-resident foreigners are not permitted to own social housing in Brazil.

Due diligence is, as always, essential in the

choice of social housing investment. Projects should meet Caixa criteria including adequate location (proximity to schools, health centers and transport) and construction by a Caixa-approved developer. Area location is another consideration – profit margins (and therefore returns on investment) tend to be better outside the metropolitan areas of Brasilia, Rio de Janeiro and Sao Paulo where land prices are high. Under MCMV regional distribution, Brazil's Northeast has an allocation of 34%, similar to the Southeast (37%). Much cheaper land costs and comparable demand levels give northeast Brazil the edge on MCMV investment potential.

In less than three years and only half-way through its schedule, MCMV has already brought dynamic changes to Brazil, providing first homes and job opportunities, boosting construction and mortgages, and producing unprecedented expansion within the real estate sector. Unsurprisingly, this social housing model has attracted international attention from emerging markets such as China, Colombia and Uruguay, keen to learn from Brazil's success.

Author Biography

Joanna Styles writes for Obelisk International, an investment company specializing in social housing projects in Brazil. Obelisk International currently has over 3,300 social housing units under construction and management within the Minha Casa Minha Vida program in northeast Brazil.

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