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Investors see green shoots in barren Argentine real estate market

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By Sarah Marsh

BUENOS AIRES, July 22 (Reuters) - Argentina is still struggling with a dearth of hard currency and mortgages but with a change of government later this year, investors at home and abroad are positioning themselves for a real estate market revival they say is already taking root.

Real estate sales tanked in recent years due to stagflation and capital controls introduced by President Cristina Fernandez in 2011.

The presidential election in October is expected to bring in a more business-friendly government that will unravel some of Fernandez's policies. That outlook, low property prices in the wake of the crisis and a slightly more stable economy this year have already driven a timid pickup in sales, surveys suggest.

Local tycoon Eduardo Costantini says he launched a new gated community in his luxury Nordelta project north of Buenos Aires in April and within a month hiked prices for plots of land by more than 10 percent due to strong demand.

He is now speeding up development at Nordelta, a "masterplan city" of 1,650 hectares that he founded 15 years ago and where some 35,000 people already live in gated communities that are popular in Argentina due to a perceived increase in crime.

"If they continue buying, we will increase (prices) again, because this is after three years of downturn in the market," said Costantini, who develops the landscape and basic infrastructure in Nordelta and sells off plots of land to buyers to build homes or businesses.

Sector-wide, figures are encouraging, albeit not as bullish.

Property sales, which have contracted 50 percent since the controls were introduced, have inched up in recent months.

Prices per square meter for a used apartment in Buenos Aires are still down 6.5 percent in dollar terms since 2012 but they were up 4.1 percent in May over the same month last year, according to the consultancy Reporte Inmobiliario, which analyzes prices every three months.

Salary hikes in an electoral year are helping.

Costantini is on the hunt for more land to develop and says the search is getting more competitive.

He's not alone. Federico Gagliardo said his firm Vitrium Capital, which has developed real estate projects throughout Latin America, is on verge of buying its largest plot of land in its nine-year history in Argentina.

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Low land and construction prices in dollars meant it cost Vitrium just \$1,000 to \$1,100 per square meter to build homes and offices, compared to between \$1,700 and \$2,000 in neighboring Uruguay, he said.

"You can buy land in Argentina today to develop it and multiply your investment fourfold in ten years," he said.

Property prices in a middle class neighborhood in Buenos Aires are lower than in Uruguay's Montevideo and Chile's Santiago, according to a survey by Latin American property portal Properati. Developers say they can only go up.

Property prices in Argentina have varied wildly in the past few decades in tandem with the economy, offering opportunities to those who know when to get in and out at the right time.

They are up over 50 percent since the 1990s and nearly 300 percent since the 2002 economic crisis that followed a massive debt default, but in between there have been some deep slumps.

The promise of high returns has lured Wall Street's more risk-friendly investors. Bienville Capital says it bought a 13.5 percent stake in Argentine homebuilder TGLT and is pursuing other real estate opportunities in the country.

Bienville President Cullen Thompson said financing obstacles in Argentina caused a shortfall in construction over the past few years, especially of large properties such as office buildings. That is where he sees most upside.

A pickup in construction is reflected in official data. In the first five months of the year, sales of bricks, cement and paint gained 5.8, 9.4 and 12.8 percent respectively compared with the same period last year.

INFLATION IS CANCER

Argentina's real estate market is emerging from the longest crisis in its history.

Sales plunged after capital controls were introduced, making it near impossible for most Argentines to pay in U.S. dollars, the preferred currency for large transactions given distrust of the Argentine peso.

Just 2,000 property sales per month were registered in Buenos Aires, a city of about 3 million people, in 2014. That compares with 7,000 in 2010 and a historic average of 5,000, according to the Buenos Aires Notary College.

Experts say the market seems to have bottomed out and is on the up. Sales in Buenos Aires have inched higher for three months and are up 2.1 percent so far in 2015, the Notary College says.

Nordelta Commercial Director Matias Terrizzano said he expects sales this year in the "masterplan city" to equal total sales for the last three years combined.

But they are coming from a very low level and experts say a real, sustainable rebound will hinge on the next government's policies.

Lifting capital controls would require a return to orthodox economic policies to prevent capital flight, they say. A deal with creditors suing Argentina over unpaid debt is seen as key for Argentina to regain access to global credit markets.

The next president would also need to tackle inflation, which private economists estimate close to 30 percent.

"Inflation is the big cancer of the real estate sector in Argentina because it does not allow the financing of mortgages like in any other country in the world where you buy a house over 30 years," Terrizzano said.

Reporte Inmobiliario's founder, Jose Rozados, says just 4 percent of property purchases in Argentina are facilitated by a mortgage, compared with 80 percent on average elsewhere.

Major policy changes will take time to implement.

"I think there is going to be a significant pickup in activity after the second half of next year and the years after that," TGLT President Federico Weil said.

Used to the rollercoaster of Argentina's economy, some experts like Rozados are skeptical it will happen. The presidential candidate currently leading polls belongs to Fernandez's party and is not known for radical changes.

For the time being, investors must bring appetite for risk, dollars in cash and a willingness to ride out the crisis, said Vitrium's Gagliardo.

Costantini said it is almost impossible to predict where real estate prices will go in the medium term.

"If it really performs well it could go up by 50 percent in dollars in three or four years. The worst case scenario is... problematic," he said, with a shrug of the shoulders. (Additional reporting by Eliana Raszewski; Editing by Kieran Murray)

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