

Argentina making a comeback as investors cast net wider

By SCOTT L. MATHIS, CHAIRMAN,
INVESTPROPERTY GROUP

With uncertainties in U.S. real estate markets expected to continue for some time, investors looking for opportunity should take a good look at Argentina.

Even with some ongoing rough spots, the country is back from its financial crisis and is now one of the world's fastest growing economies – averaging 8% growth per year. Projections for 2008 forecast economic growth of 7.2%, down just 1.2% from last year's 8.4%.

And real estate is appreciating: according to Camara Inmobiliaria Argentina, an Argentine real estate trade group, housing prices are up 50% since 2002. And The Wall Street Journal recently stated "perhaps the most tangible sign of Argentina's economic recovery, is its booming real estate market, which has transformed Buenos Aires, the capital, into a construction site."

In addition, exchange rates are favorable – approximately three pesos per dollar. Operating and construction costs are low. The country has a well-developed infrastructure. And Argentina is seeing an unprecedented boom in tourism, with large increases in the upscale end of the market.

When you combine all of its favorable attributes, Argentina looks like a smart diversification play for U.S. investors.

Access to real estate opportunities in Argentina is still something of a challenge, but it's often worth the effort — especially for hotels and resorts.

Cities such as New York, London, and Paris are valued anywhere from 7 to 10 times higher than the most distinguished neighborhoods in Buenos Aires. Given this degree of under-valuation, economists, investment professionals and real estate analysts predict an inevitable property appreciation curve for Argentina over the next decade.

The combination of increasing property values and tourism is drawing developers as well as hoteliers – in search of appreciation as well as potentially significant income. Individual real estate entrepreneurs are also looking to benefit through the purchase of private residences, in pursuance of repositioning them into vacation and rental properties.

Argentina has positioned itself as Latin America's leading tourist destination, with over 4.5 million visitors in 2007 – and a record-breaking 2.2 million foreigners visiting Buenos Aires. According to the Argentina Tourism Office, visitors from the U.S. alone grew more than 35% between 2005 and 2007. To support further growth, the U.S. and Argentina signed a bilateral aviation agreement which doubles the number of weekly flights by the Spring of 2009. The agreement also triples the number of U.S. cities served by Argentine airlines.

A study by the Buenos Aires City Tourism Bureau found that foreign tourists prefer four- and five-star hotels, in part due to favorable exchange rates, and that 2007 occupancy rates exceeded 85%. There's a shortage of luxury hotel rooms and rates at many hotels and resorts rival those in the U.S. – adding potentially significant cash flow to a property's potential for capital appreciation.

An even greater disparity in real estate value (vs. America and Europe) can be found in more rural areas, such as Mendoza's wine country, often referred to as South America's Napa Valley.

Argentina is currently the world's 5th largest producer of wine, and its wine industry is expanding rapidly. According to The Washington Post, \$1.5 billion has been invested in Argentina's vineyards and wineries in the past decade, to strengthen and improve their production quality. Not only has this investment created international buzz, it has redefined Argentina's place among the world's leading wine producers: wine exports have risen 30% in the last 5 years, and industry professionals believe that by 2010 exports will reach \$900 million.

"Wine country" may gain a whole new meaning when Argentina takes its place among the greatest wine destinations in the world.

Industry professionals warn investors unfamiliar with Argentina's real estate practices that virtually all real estate market-values are priced in US dollars. In addition,

nearly all transactions are made in cash – there is little conventional mortgage financing in Argentina. Dealing directly with sellers may also be difficult and make due diligence complicated – so investors should look for a U.S.-based conduit to ensure prudent investing.

But even with these complications, Argentina welcomes and encourages foreign investment – a key strategic element in the government's economic recovery plan. Argentina allows foreign companies to invest without prior approval or registration requirements and to receive the same legal treatment as nationals. Argentina has also signed investment treaties with several countries, including the U.S. and UK, which protect foreign investors from double taxation.

Argentina's investment potential results from a powerful, recovering economy backed by strong trade

and investment policies. But just as attractive are Argentina's aesthetic beauties, high quality of life, cultured people, and topographical diversity.

These factors combine to present a wealth of opportunities to foreign investors looking for a bright spot in the world of real estate.



SCOTT L. MATHIS