

# 2007



## Brazil

### Tourism-Real Estate Investments in Brazil – New Findings

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### INTRODUCTION

In November 2005, Diogo Canteras, Managing Director of HVS International's Brazilian Office, was invited to proffer a lecture at the Lisbon Real Estate Exhibition - 2006 (SIL) on the perspectives of foreign investment in the Brazilian tourism-real estate market – the topic theme of a whole day in the event. Canteras' talk preceded product presentations by various Northeastern States and was important in impartially demonstrating to seminar participants the genuine potential of investing in tourism-real estate in that region.

The speech's success led to an article prepared by the HVS team (published in The Real Estate Finance Journal, vol. 21, n° 4) and in an invitation to speak at SIL 2006 so as to update the situation on the Brazilian tourism-real estate market. The lecture was then part of a series of presentations on real estate tendencies in emerging countries.

With the objective of deepening the approach to the topic, HVS elaborated what we believe to be the most complete study on tourism-real estate development in the northeastern States of Brazil. To elaborate the study, HVS conducted in-depth interviews with a cross section of developers, representatives of the public sector, members of the tourism trade and spokespersons for relevant associations. Important developing and operating tourism-real estate projects were visited and evaluated as to their competitive potential, key factors of success and product differentiating details. In addition, HVS collected secondary data on the status of a wide number of developments in various stages of developments.

The study's key conclusions are presented in this article which is divided into three parts:

- **Microeconomic Analysis:** a brief analysis of the Brazilian economy, highlighting the important relevant occurrences during 2006 and updating the economic indicators presented in the 2005 article;
- **Classification of Destinations and Projects:** the tourist destination and tourism-real estate projects were classified as to their stage of development, allowing for important conclusions on the progression of the development of tourism in the region;
- **Analysis of the Projects Development Process:** identification of the key factors of success for the development of successful tourism-real estate projects, along with recommendations for developers.

More than ever, the path for the successful development of tourism-real estate projects in Brazil has been made clear. We invite the reader to peruse the following pages to better comprehend how to take this path.

### THE BRAZILIAN ECONOMY: RECENT HISTORY AND FUTURE PERSPECTIVES

The present macroeconomic conditions in Brazil are at the best level in the last two decades and considerably more stable and sustainable than in any recent economic cycle. In comparing the present economic situation to HVS' forecast of a year ago, the Brazilian economy developed mostly according to our prognostication. The principal internal factors that contributed to the positive trend are continuing into 2007. Given the presidential reelection (and barring unforeseen events), it is expected that the country will continue to be run as it has been for the past years, when it comes to both economy and tourism development. In addition, financial analysts have recently revised upward their growth expectations for the global economy's immediate future. As a result, we feel that the Brazilian economy will remain stable with anticipated moderate growth – good news for tourism-real estate investors.

Table 1 presents revised economic data up to 2005 and forecasts for succeeding years.

**Table 1 – Economic Indicators for Brazil – Historic and Forecast**

Year	GDP <sub>1</sub>	Inflation (IPCA)	Exchange Rate (R\$/ US\$) <sub>2</sub>	Interest Rates (SELIC) <sub>3</sub>	Country Risk Brasil <sub>4</sub>	Trade Balance (R\$ million) <sub>5</sub>
2000	4,4%	6,0%	1,83	17,6%	0,0%	-0,7
2001	1,3%	7,7%	2,35	17,4%	0,0%	2,7
2002	1,9%	12,5%	2,93	19,2%	13,6%	13,1
2003	0,5%	9,3%	3,07	23,4%	8,4%	24,8
2004	4,9%	7,6%	2,93	16,4%	5,4%	33,6
2005	2,3%	5,7%	2,44	19,1%	3,9%	44,7
2006E	3,0%	3,0%	2,18	15,0%	2,4%	42,0
2007E	3,5%	4,3%	2,26	13,0%	2,2%	36,0

1 - Real GDP - % Variation in relation to previous year.

2 - Buying Rate: (R\$) / (US\$) - annual average.

3 - Annual Average

4 - Annual Average

Sources: BACEN / IPEA

The economic facts in 2006 which are most relevant for the analyses further presented in this article are the decline of the exchange rate risk perception, the improvement of Brazil's country risk rating and the capitalization of Brazilian real estate developers.



### Exchange Rate

In November 2006, the Brazilian national treasury issued, in the international market, US\$ 1.5 billion in treasury bonds indexed to the American dollar and negotiated at 1.59% over 10-year US bonds. Given a 2.19% country risk rate on the opening day of the issue, we estimate that the exchange rate risk rate associated with the Brazilian Real was about 0.6% – a value significantly below the 2% estimated a year ago. This fact indicates that investors' confidence in the Brazilian Real is rising and that the exchange rate no longer poses insecurity to foreign investors.

### Country Risk

During the course of 2006, Brazil's country risk rating calculated by two international agencies, Moody's and Standard & Poor's, was upgraded a level up, reaching a historic record. The financial market expects that the *investment grade* level will be achieved by the beginning of 2009, which should stir the interest of an as yet untapped group of foreign investors.

**Table 2 – Country Bonds' Rating – Brazilian Performance**

Bond Ranking	Moody's	S & P
Investment Grade Ratings	Aaa	AAA
	Aa	AA
	A	A
	Baa	BBB
Below Investment Grade ("Junk Bond")	Ba1	BB +
	Ba <i>Ba2 (Brazil)</i> 	BB <i>BB (Brazil)</i> 
	Ba3	BB -
	B	B
	Caa	CCC
	Ca	CC
In Default	C	D

Obs.: Cada nível abaixo de AAA ou Aaa se desdobra em sub-níveis. In the table above, only the levels' Ba (Moody's) e BB (S&P) subdivisions were shown.

Source: Moody's and Standard & Poor's

### Capitalization of Domestic Real Estate Developers

The most important fact in 2006 regarding future investments in tourism-real estate was the float of the largest Brazilian real estate developers. During the past year, these real estate developers and construction companies launched stock market floatation on the São Paulo stock exchange. As the initial offerings were well received by the public, these companies are now heavily capitalized, which will warm up the real state market in Brazil. The trend of growth in the industry should last for the next couple of years as developers search for new products and niches to invest their money and talent. One of the many types of products being contemplated by these companies is tourism-real estate projects in the Brazilian Northeast – a fact that would indicate the entrance of strong domestic competition into a market that, up to now, has been dominated by foreign groups.

However, the primary consumer for tourism-real estate products is Europe and not Brazilians nor South Americans. These Brazilian incorporators, although highly capitalized and with an established reputation in the domestic real estate market, are not familiar with the basic characteristics of the North-eastern tourism-real estate market,

specially with respect to product design, typical cash flows and distribution channels. Therefore, HVS feels that there is an ideal opportunity for the formation of partnerships between the Brazilian incorporators and foreign developers.

**CLASSIFICATION OF TOURIST DESTINATIONS AND TOURISM-REAL ESTATE PROJECTS**

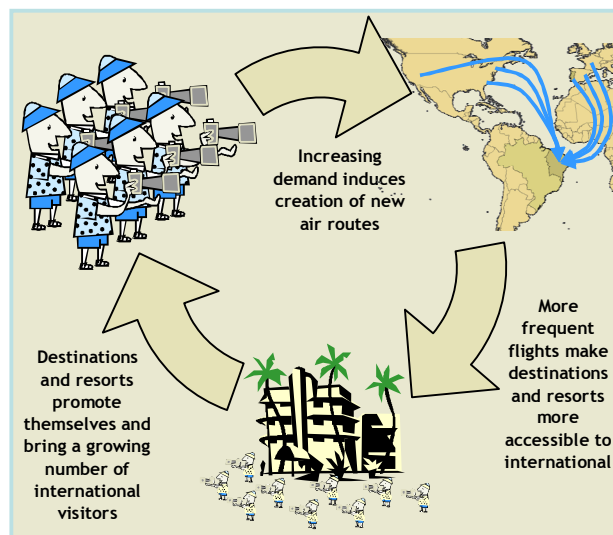
**The Internationalization of Tourism in the Brazilian Northeast**

The principal tourist demand generators for the Brazilian market are located a great distance from the Brazilian continent. Tourism in Brazil is, therefore, highly dependant on existence of the air routes – both regularly scheduled routes and charters flights – for the consolidation of tourist destinations.

The measured development of tourism in the Northeast during the past years has allowed for the gradual increase of international demand, the consolidation of international tourists presence in several North-eastern destinations and the feasibility of direct flights (thereby bypassing the traditional ports-of-entry at Rio de Janeiro and São Paulo). With cheaper and shorter flights, heavy investment in marketing, and attractive products, the Brazilian Northeast became relatively well-known among European tourists, creating international visibility and a good reputation among demand generators.

This development cycle, illustrated in the following figure, is in full swing and has been responsible for the feasibility of international tourism on a grand scale in Brazil.

**Figure 1 – Internationalization of Brazilian Tourism**



It is important to note, however, that this process has been taking place unevenly on the vast North-eastern coast. At present, although large

companies are already operating in heavily populated locations where land costs have reached international levels, there are still vast beach front areas available at inexpensive prices in other regions of the Northeastern coast where tourism is still in incipient stages. In these regions, because of occupation history (which is unlike that of the European continent), the acreage is tied up in large tracts of underutilized land, which facilitates acquisition and consolidation. In addition, usable land in these areas represents a higher percentage of the total area than normally seen in Europe, as most terrain is made up of gently sloping sandy beaches, divided by the occasional cliff, sand dune, mangrove marsh, or in rarer instances rocky outcrops.

The perception that access to Brazil has been made easy, along with the availability of low-cost, pristine land has increasingly attracted international investors - predominately Europeans. However, the lack of understanding on the process of tourism development in the Northeast has led to investment decisions in which there has been little correlation between the developers' expectations and the real destination potential.

### Stages in the Development of States, Destinations, and Projects

In order to facilitate the comprehension of the development process on course in the Brazil, HVS classified Northeastern tourism beach destination according to their individual development stage. Each stage is represented by a color. In general terms, the destinations are classified according to the criteria presented in Figure 2.

**Figure 2 – Stages of Development of Tourism Destinations**

Stage 1	Stage 2	Stage 3
		
Land Parcels Local / National Demand Precarious International Access Low Prices Attractive Environment <u>Unknown Future</u>	Residence / Small Hotels Raising International Demand International Airport Increasing Prices Reasonably Well-known <u>Uncertain Future</u>	Large Projects International Destination International Hub High Prices Strong Brand <u>Competition</u>

Source: HVS International

This table should only be used to compare Brazilian tourist destinations, which are much less mature than other international destinations such as the Caribbean, Mexico and Thailand. One should not assume that a destination classified as dark blue has reached its peak in terms of development. To illustrate more clearly, the most advanced tourist destination in Brazil, Salvador – Bahia, is at the stage of development Phuket, Thailand was ten years ago. In accordance to the criteria presented in Figure 2, HVS evaluated the Northeastern destination and plotted them, with their respective development colors, in Figure 3.

**Figure 3 – Stages of Development of Tourist Destinations in the Northeast**



Source: HVS International

When it comes to the tourism-real estate projects, HVS evaluated several (if not all) of them in order to classify them, individually, as to their stage of development. The set of development stages that follows is an update of the development stages presented in our 2005 paper. The present development stages reflect HVS' better understanding of

the business development process. However, because of the modifications introduced in 2007, the two set of classifications stages are not comparable. The following is an explanation of each development stage.

- **Preliminary Studies – Master Plan:** the developer has acquired a parcel of land (or a purchase option) and is investing to obtain preliminary location licenses. The developer has elaborated a master plan, which is reasonably compatible with basic environment and marketing requirements;
- **Advanced Studies – Licenses:** The developer has obtained the preliminary location licenses and is investing to obtain the building permits. In this stage, the engineering projects are being elaborated or finalized and funding is, at least initially, being resolved;
- **Construction:** All the necessary development licenses have been acquired and funding is, at least partially, resolved. The project is under construction, and a construction conclusion date has been established;
- **Operating:** This stage is reached when at least a part of the project has been concluded and is under operation. Partial operation could include a project anchor such as a hotel or the completion of some of the residential areas. In that the developer's funding strategy may be dependent on the completion of certain phases of his project, this situation of partial operation is quite common.

After an extensive evaluation of the tourism-real estate projects in progress, HVS limited itself to those that have concrete possibilities of concluding in the near future. To this end, the following criteria were considered: (i) regional tourism potential; (ii) development group's know-how; (iii) the project's funding strategy; and (iv) the project's political support.

The following figure illustrates the dispersion of these projects throughout the Northeast and indicates the individual stage of development:

**Figure 4 – Tourism-Real Estate Projects: Amount and Stage of Development per State**



Source: HVS International

### Main Conclusions:

An analysis of the maps and complementary information allows us to conclude that:

- The most advanced destinations in terms of development are located near airports (within a maximum of an hour's distance) and demonstrate a elevated potential for continuing growth and definitive insertion in the international market;
- State capitals in the Northeast are already attracting a considerable volume of international tourists and have secured direct air routes from the primary demand generators;
- As a result of a protracted and conscientious process of planning, Bahia has been able to geographically distribute tourism throughout the State, creating various differentiated destinations. It is the only State that offers a diversified quantity of products and destinations and a relatively well-known Brand in the international tourism market. As a result, Bahia should be classified in the third stage of development of a Brazilian comparative scale;

- To reach Bahia's stage in development, the other northeastern States must assume the development of the tourism industry as one of their primary political policies that will bridge public mandates and involve all government entities in a unified, persistent and oriented effort. They must intensify the differentiation of their products and effectively create and strengthen their individual tourism brands. It is also advisable that the Northeast region creates a unified tourism identity (separate from Brazil as a nation) and promotes it on the international scene in a coordinated and professional manner. This is a long process that must be carried out professionally and initiated as soon as possible;
- On the Northeast coast, there are many opportunities for all sorts of tourism-real estate investments. Contrary to what might be imagined, the question is not whether the destination will eventually develop but how it will develop. It is important to know if the destination's are compatible with the investor's acceptable level of risk, the intended product's market positioning, and the investment's payback period for the considered project;
- Currently, it is already possible to observe the initial stages of what can eventually become a type of "lemming effect", in which all the large tourism projects cluster in the most promising and better structured destinations. In this environment, it is vital to gain *bona fide*, long-lasting competitive advantages, whether it be a recognizably superior product, privileged access to international distribution channels (with foreign tourism operators) or some capacity to induce foreign demand;
- Although projects and destinations should develop in an integrated manner, the development of the destination must be seen as a factor for project feasibility and not the contrary.

Finally, it is important to emphasize, that in spite of the excitement around the development of tourism in the Northeast, which is illustrated by the launching of a immense number of poorly structured projects (which, mostly, do not evolve), few major "players" operate in the Brazilian market (Brazilian destinations are still predominantly visited by domestic tourists). In most of cases developers – normally unfamiliar with the tourism industry – opportunistically acquire low-cost sites and invest in preliminary studies without previous consideration of market and environmental issues. This type of behavior is basically speculative rather than entrepreneurial.

### CHARACTERIZATION AND CRITICAL ANALYSIS OF PROJECTS

The engines that drive the tourism-real estate market of the Northeast are, for the most part, large amounts of foreign capital and the comparatively low land costs. The appealing characteristics of the region<sup>1</sup> and the probability of escalating real estate values complement the perception that a vacation residence is an excellent option for capital gains or leisure activities. A closer look at the market demonstrates that, while there is an expressive volume of sophisticated hotel projects, there are also a great number of small, simple, tourism related structures.

These **small real estate projects** are, as a rule, managed by individuals, groups of small investors or alliances between small businessmen. Many are foreign and have little familiarity with or any tradition in the development real estate projects. These projects are generally opportunistic ventures, and, given the reduced size of the investment, entrepreneurs usually can consolidate the project in a short period of time and attract clients. The greater part of these small real estate projects are located in or around established tourist destinations, primarily near State capitals where the volume of tourists is substantial.

In general, most areas near the important State capitals are completely developed, normally occupied by vacation residences owned by local residents. They are medium density, residential subdivisions, characterized by disorderly occupation, incomplete public infrastructure, and precarious landscaping. These minor real estate projects have not only occupied the remaining areas around bigger cities but have also invaded established tourist destinations such as Pipa, Porto de Galinhas, and Porto Seguro. In these cases, the residential areas' planning and construction have been generally of better quality, as they have often been developed so as to attract both foreigners and Brazilians residents from the Southeastern metropolises (the wealthiest cities in the country).

In fact, these smaller developments have been acting as pioneering projects, signaling investment opportunities and opening the market to bigger, costlier and more sophisticated tourism-real estate ventures.

**Tourism-real estate projects** are usually a combination of hospitality and leisure facilities with private residential areas numbering in the hundreds or thousands of units. Given the cash flow characteristics of these projects, in which financial exposure and risks are high, it is prudent to evaluate the success of the smaller real-estate ventures before embarking on a major project.

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<sup>1</sup> Interviews with developers and real estate agents indicate that the regional characteristics, which include low costs, easy access, favorable climate, lack of natural catastrophes and above average infrastructure, contribute to the overall perception that the Northeast is a very attractive region for tourism and leisure activities.

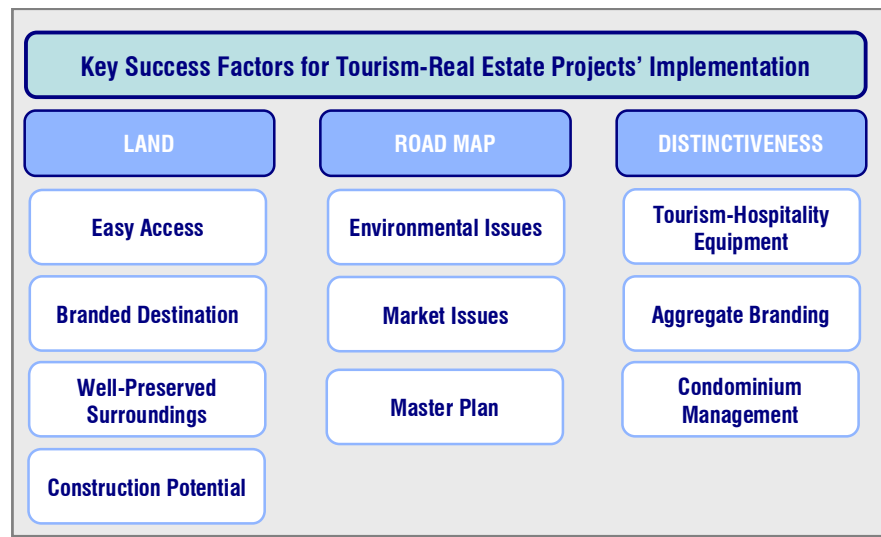
The complexity and risks associated with the development of a major tourism-real estate project are enormous, but favorable market conditions can reduce the risks inherent in these projects.

One of the foremost methods of minimizing risk continues to be the establishment of partnerships with local entrepreneurs – usually well versed in the realities of the region, they can often assist in the planning of the project. Finding the right local partner or avoiding an association with opportunists, can be an arduous and complicated task for foreign investors. Local ADIT and ADEMI<sup>2</sup> chapters – institutions which have a major interest in maintaining the reputation of tourism-real estate industry in the Northeast – can offer assistance and refer good contacts.

Moreover, the study carried out by HVS identified a series of topics which are vital for the success of tourism-real estate ventures, but which have been, for the most part, disregarded by developers. They are:

- **Selection and acquisition** of suitable sites;
- **Road Map:** more than a master plan;
- **Distinctive aspects** of the project;

**Figure 5 – Key Success Factors for Tourism-Real Estate Projects in Brazil**



Source: HVS International

The following is a discussion of these concepts in greater detail.

<sup>2</sup> ADIT is the Association for the Development of Real Estate and Tourism in the Northeast. ADEMI is the Association of Directors of Companies in the Real Estate Market.

### Selection and Acquisition of the Site

In the 2005 study, HVS presented a sequence of stages necessary for the successful development of a tourism-real estate project. In the proposed sequence, the site acquisition is the final stage within the development process, and comes after conceptualization and feasibility analysis. The site selection and purchase should take place after a profound market analysis and consideration of alternative locations.

However, it is still quite common for developers, enthusiastic with the discovery of inexpensive beachfront properties, to acquire land without the least idea of what can be developed on the site. In many cases, the developer acquires a number of small, worthless parcels of land, on which a proper tourism-real estate project is hardly economically viable.

Our studies have shown that an economically viable tract of land must have the following characteristics:

- **Easy Access:** near an international airport that has a reasonable volume of traffic and a variety of direct air routes to the main demand generating countries, especially in Europe. Trips of more than an hour from the airport to the site, by highway or air, are inconvenient. This is especially true for properties that deal with large groups. However, the more special the destination, the greater the tolerance for longer journeys;
- **Branded Destinations:** the probability that the tourist will acquire a property distant from his permanent home is strongly influenced by the strength of the destination's reputation. Most of the potential purchasers, excluding those who are extremely sensitive to pricing, opt for properties in locations that have an established reputation for tourism. The reasoning is similar to that of the vacation tourist, who will opt for a branded destination to guarantee the desired leisure experience. However, in that the vacation tourist's connection with the locale is for a limited amount of time, the perceived risk becomes less important than that of the vacation home buyer. The vacation home buyer is establishing a long term relationship with the destination and must live with his decision if he selects unwisely. The brand identification is so important to vacation home buyers that there are many cases in which the developer advertise the project in a renowned city, when in fact the site is located many kilometers from the announced destination;
- **Well-preserved surroundings:** Potential property buyers strongly value the guarantee that the areas surrounding the development will be maintained in a good state of preservation. In sophisticated developments, privacy is synonymous with exclusivity and, therefore, also of extreme importance. The developer can guarantee privacy by choosing sites where there are barriers for to disordered occupation. Consequently, the city zoning plan (in cases where the

site is in urbanized area) or the management plan (in cases where the site is located inside or by a nature reserve or preservation unit) are very useful in identifying the type of expected occupation and land use for the site surroundings. Additionally, the project may use part of its land area as a transition zone (or buffer zone) so as to provide the guests or home owners with the expected level of privacy.

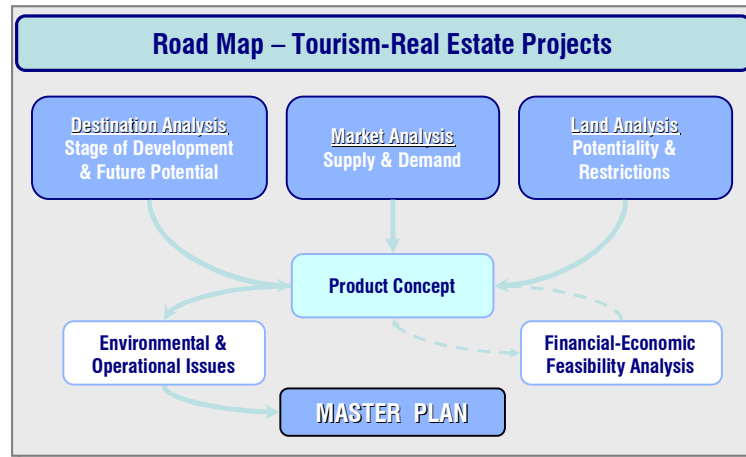
- **Construction Potential and Zoning Restrictions:** a large part of the Northeast coastal area is subjugated to a variety of environmental restrictions. These restrictions impede the construction of certain types of buildings or limit the occupation of the land. The inattention to these restrictions has, at times, been responsible for innumerable licensing and construction delays, including work embargos for projects under construction. There are two primary causes for problems related to environmental restrictions. Firstly, the rules and regulations governing installations are seldom subjective, open to discussion as to what can and cannot be built. The second reason, which sometimes is a consequence of the first, is that many projects are submitted for approval containing characteristics that are incompatible with the Brazilian environmental legislation, or with Protected Areas Management Plans. To avoid untimely project revisions and possible construction stoppages, it is necessary to clearly understand the zoning restrictions for any individual piece of land.

### ***Road Map: More than a Master Plan***

A master plan must not be only an attractive illustration of the future property, or a piece of the project's presentation. The master plan is a fundamental and indispensable working tool to the structuring of the business project, as well as the primary reference during the licensing, funding, partnership and marketing phases.

In essence, the Master Plan is an integral part of what one might call the project *Road Map*. The *Road Map* is the group of studies that provide information for the project's conceptualization and guidance for the project's implementation. The following figure illustrates the concept of the *Road Map* and its relationship to the Master Plan.

**Figure 6 – Road Map for Tourism-Real Estate Projects**



Source: HVS International

In short, in addition to proposing a functional and pleasant leisure development, the master plan must be supported by two elementary factors:

- Environmental Issues:** To determine the legal allowable type of use as well as occupation pattern and density of a site, site occupation analysis should be conducted by specialists in environment planning and licensing, possessing both a known reputation and documented track record. It is also important to anticipate the need for infrastructure, such as site access, traffic loads, sanitation systems, water and electricity consumption, etc. All these issues must be taken into account so the venture's impact is compatible with legislation and users' needs;
- Marketing Issues:** Along with the environmental analysis, marketing studies should be conducted to evaluate the destination as a tourist generator and ascertain the economic feasibility of the tourism-real estate product. These studies (integral parts of the *Road Map*) must define the general product's concept; calculate the size and quantity, size and position of hotels and individual residences; describe the main characteristics of tourism equipment; determine the interaction between the hotels and the condominiums; evaluate the implementation and operational costs; forecast revenue generation and cash flows; and finally, demonstrate the economic feasibility of the project. These preliminary studies are indispensable to the elaboration of the master plan, as the market will define the type of product that should be developed in a specific area. Without these studies, the master plan lacks conditions to guide developers, partners and financiers.

We emphasize the fact that adequate environmental and marketing studies are an excellent investment, as they minimize the risk inherent to tourism-real estate projects and help avoid delays in the development process that can result in the postponement of forecast revenues and reduce investment return.

### Project Distinctive Aspects

In times of abundant available capital on the international market and a strong demand for vacation homes, any well-planned project with a reasonable level of quality installations can guarantee adequate sales velocities and return margins. Moreover, a developer who has acquired a good site and elaborated an adequate master plan can further reduce the inherent risks associated with the tourism-real estate venture.

Possessing a good site and creating a detailed master plan are only basic steps of the development process. The increased competition from new international developers means a successful venture should pursue to go beyond. It is necessary to have a differentiated product. For an sea-front real estate project in the Brazilian northeast to be differentiated and competitive, it is important to pay special attention to the following:

- **Tourism-hospitality equipment:** The various tourism-hospitality elements – hotels, golf courses, spas, convention centers, water parks, shopping centers, etc. – tend to be low profitability items when evaluated individually. However, they often are the “soul” of the tourism-real estate project. They allow the complex to have its own active and independent social dynamic, thereby increasing the attraction of the locale and helping to create a positive image for the destination. In this sense, HVS recommends that the integration between the tourism and real estate elements be carefully planned in order to truly generate a social dynamic in the development and, thereby, add value to the condominium;
- **Aggregate Branding:** An important factor to the success of the project is that all partners involved in all phases of the development of the venture have strong and recognized brand names. Each individual brand name aggregates value to the venture, distinguishes the tourism-real estate project and reduces the perception of risk in the eyes of the purchaser. Everyone involved in the process could represent a recognized brand including developers, architects, real estate agents, condominium administrators, hotel operators, as well as, operators of other complementary tourism products. Brand value is even more important when it is taken into account that most of the buyers in the market are foreigners and that the product is a long-term, durable good, which renders the buying market exceptionally sensitive to the security that a valued brand can bring to the tourism-real estate project.

- **Condominium Management:** An important project feature to the buyer of the tourism property is the administration of the condominium after the completion of construction. Long after its inauguration, the condominium must continue to be dynamic and well cared for, at reasonable costs. An able condominium administrator serves not only to enhance the reputation of the developer but also to ensure property's escalating value in future phases of the real estate project. The hotel operator also plays a central role both as a provider of differentiating services and as a sales channel for room-nights of unoccupied properties. The hotel operator can, thus, guarantee the highest level of hospitality services at reasonable costs, as well as administrate possible conflicts between hotel room supply and unoccupied private residences.
- **Surrounding Areas:** It always is necessary avoid predatory competition that will locate themselves in the development's surrounding areas. These projects will use the image and/or branding of nearby, well-known tourism-real estate condominiums, usually of a higher quality and sophistication, to promote their individual real estate projects.

Finally there are other product variations which can add differentiation to the project and that have shown successful in existing markets: (i) turn-key projects in which residences are delivered to the buyer completely furnished, a convenience valued by foreigners; (ii) mechanisms in which the owner can exchange the use of his residence for the temporary use of others in other parts of the world or for reduced management/maintenance taxes; (iii) fractioning residence ownership among a small groups of proprietors, providing professional property management, an option that is growing in acceptability within the affluent international vacation home market.

## CONCLUSION

During the past years, Brazil has strengthened its economy and gradually conquered international investor's confidence. The growth of the tourism industry in the Brazilian Northeast fueled by foreign demand and capital, has made the region very attractive for tourism-real estate investments. This, along with the capitalization of Brazilian real estate developers and likely approximation of domestic and foreign developers should result in the increased development of larger tourism complexes.

In spite of the favorable conditions, the development of tourism-real estate projects in the Northeast is a complex, dynamic and diversified process. There are a series of usually out-of-sight peculiarities that are vital to the success of the tourism-real estate ventures. Therefore, caution and planning are indispensable to succeed in such market.

In the 2005 article, HVS emphasized the necessity to carefully observe market issues such as the potential of tourism destinations, the profile

of existing demand and the product configuration and conceptualization. The reader was also alerted as to the inherent risks of acquiring a parcel of land before conducting preliminary market studies and the importance of properly structuring the funding of the venture.

It is now known that the topics mentioned in the first article are merely basic steps in the development process and that there are other technical aspects which deserve further attention from developers. The inattention towards environmental issues, the lack of product differentiation and poorly elaborated master plans, have all resulted in loss of profitability. In addition, the all-important site selection process has still not been taking into account the destination stage of development, the expected demand profile or the level of inherent risk as equated to the developer's investment return requirements.

All these questions are of extreme importance when striving to minimize risks and maximize returns and should be carefully considered before the final decision of whether to invest. HVS hopes that this article has clarified the importance of such issues and provided relevant and useful information for tourism-real estate investors who are aiming towards successful ventures.

### ABOUT HVS INTERNATIONAL

*HVS International has been performing feasibility, valuation and conceptualization studies for hotels in Brazil since 1998 and assisting the implementation of tourism-real estate projects in Northeastern destinations since 2002. It has also been responsible for the elaboration of tourism development strategic plans for the States of Bahia and Maranhão and for the Itacaré-BA region.*

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*Engineer, with an undergraduate degree from the Escola Politécnica da Universidade de São Paulo and with graduate degree in Business Administration from Fundação Getúlio Vargas, Diogo Canteras is the managing partner of HVS International in Brazil and a professor in the Development of Tourism-Hospitality Projects at the Fundação Getúlio Vargas. Having focused the greater part of his 20 year, professional career to the development of tourism-hospitality ventures, he is one of the most highly respected specialists in the structuring of business opportunities in Brazil. At the end of the 1980s, he resided in Portugal, where he developed the Quinta da Penha Longa, in Cascais.*

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#### *Gustavo Moura*

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# Brazil

## Tourism-Real Estate Investments mob



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