



THE EFFECTS OF FINANCIAL EXPANSION ON HOUSING PRICES IN BRAZIL: IS THERE A NEW BUBBLE INSIGHT?

EDUARDO ROTTMANN, M.Sc.
IBAPE/SP, FRICS

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BACKGROUND

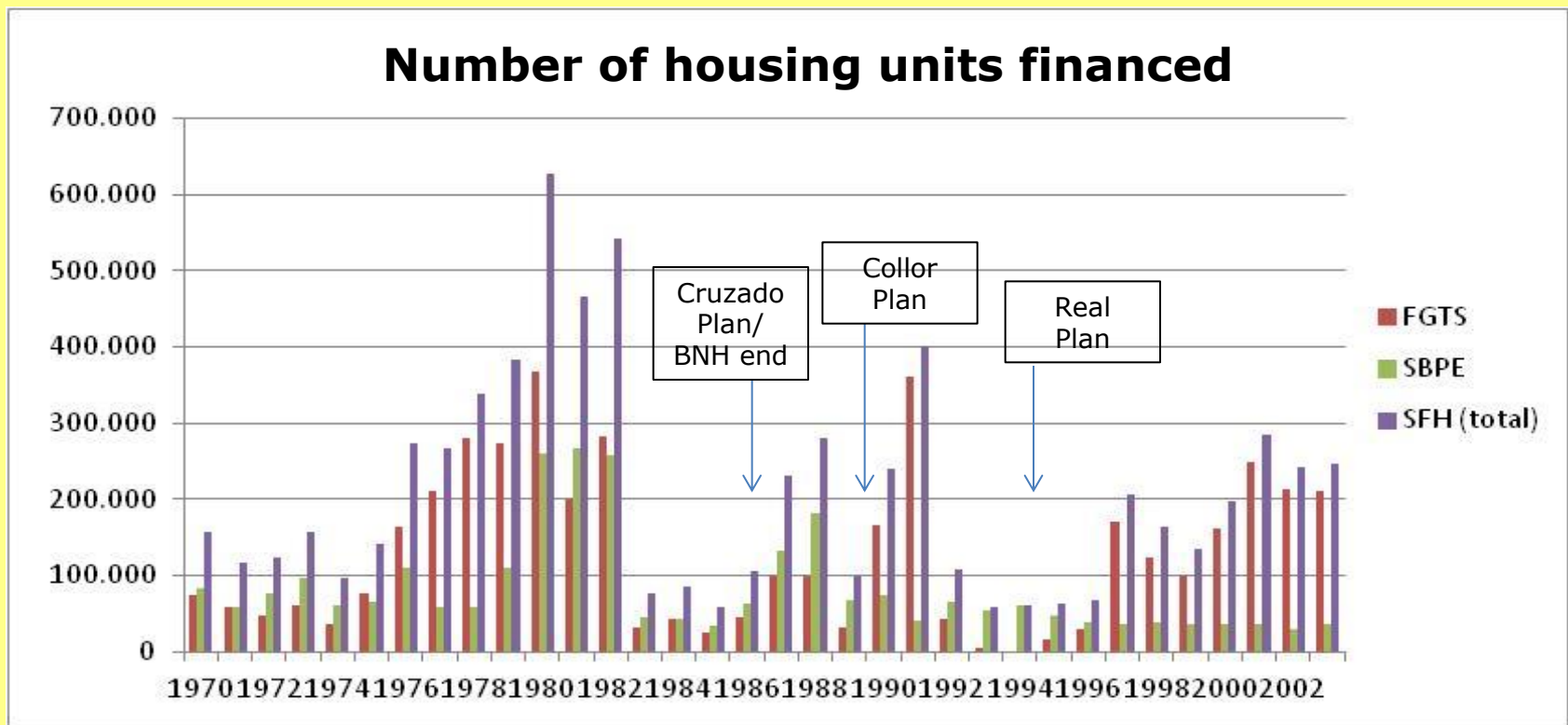
- SFH (*Sistema Financeiro da Habitação*) – Federal law 4380/1964
 - SBPE (Savings & Loans);
 - FGTS (Severance fund).
- BNH (*Banco Nacional da Habitação*)



SITUATION 1980'S & 1990 's

- Brazilian external debt default;
- High inflation rates (03/1986 – 283.65 % p.y.);
- Assets x liabilities indexes mismatch:
 - Treasury notes x wages → FCVS
- Decrease of housing finance;
- BNH bankruptcy (1986);
- Macroeconomic plans;
- Mortgage foreclosure law (8009/1990);
- Encol bankruptcy (1999).

RESULTS



Source: CBIC/Caixa/Abecip



LEGAL FRAMEWORK CHANGES

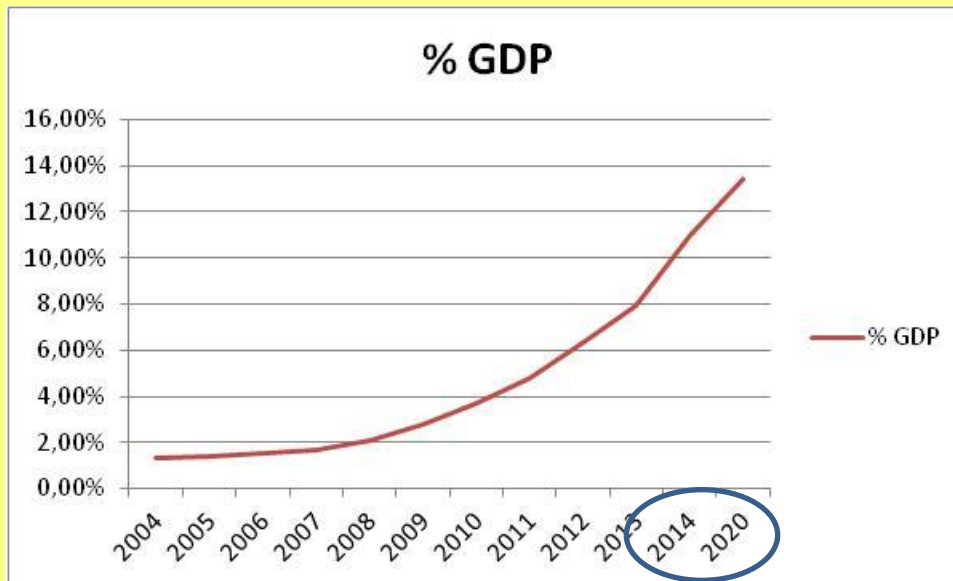
- Federal law 10.931/2004:
 - Trust deed as collateral;
 - Asset segregation.
- Compensation of FCVS balances in banks' balance sheets.



SFH MAIN CHARACTERISTICS

- Valuations based on solid technical standards;
- Serious credit rating;
- Conservative LTV's;
- Below market interest rates;
- Rapid foreclosure process;
- Low rate of NPL's.

HF PARTICIPATION IN GDP



Source: Central Bank

forecast

Other countries:

Mexico	(2011)	9,1%
Chile	(2010)	11,5%
Argentina	(2009)	1,6%
EEUU	(2011)	76,1%
UK	(2011)	83,7%

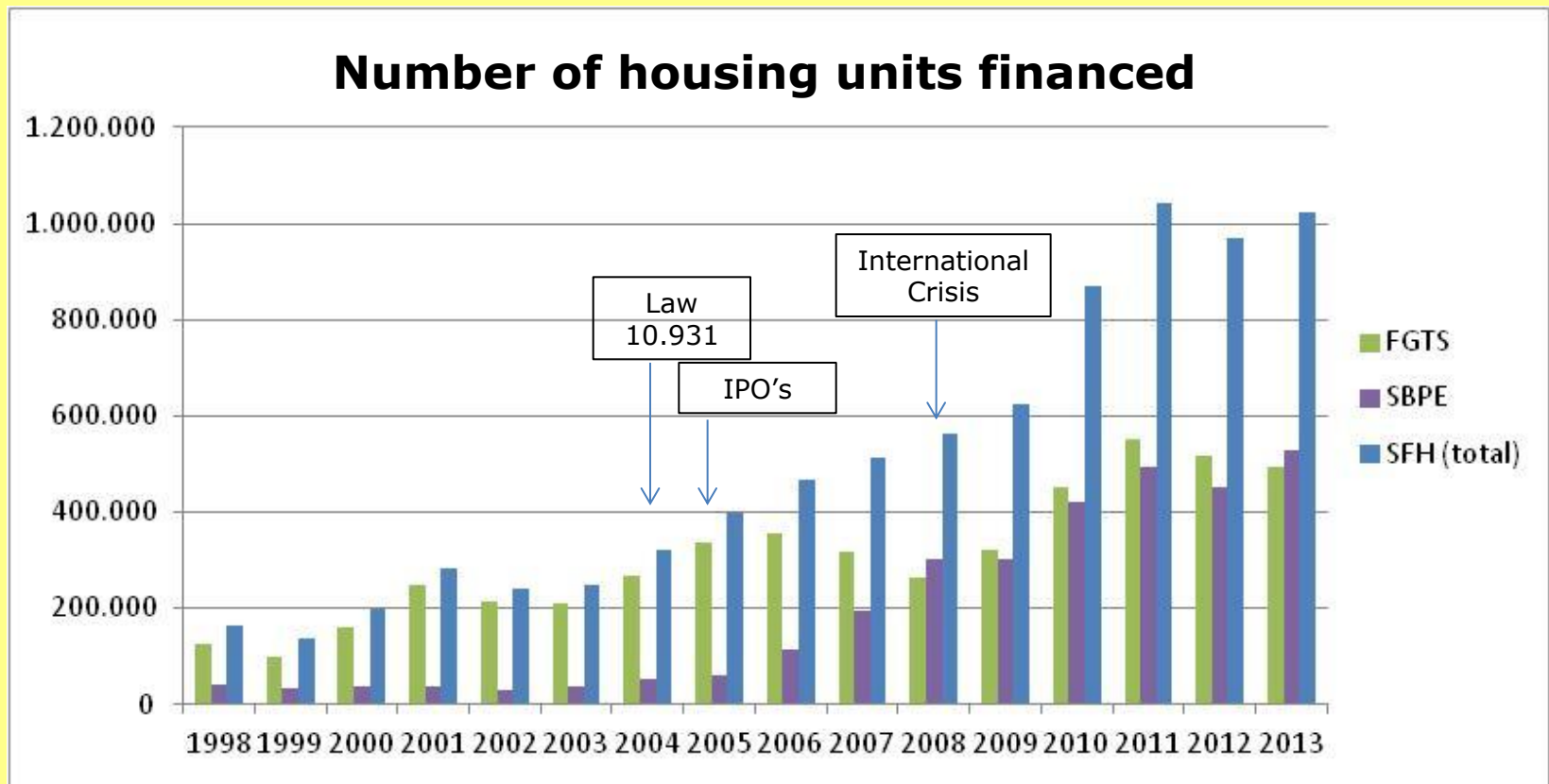


DEVELOPERS' CAPITALIZATION

- IPO's since 2005;
- 2005 – 2007:
 - 21 companies went public;
 - Capital influx of ca. USD 6 billion.
- National expansion;
- Reflux due to losses in some new markets.

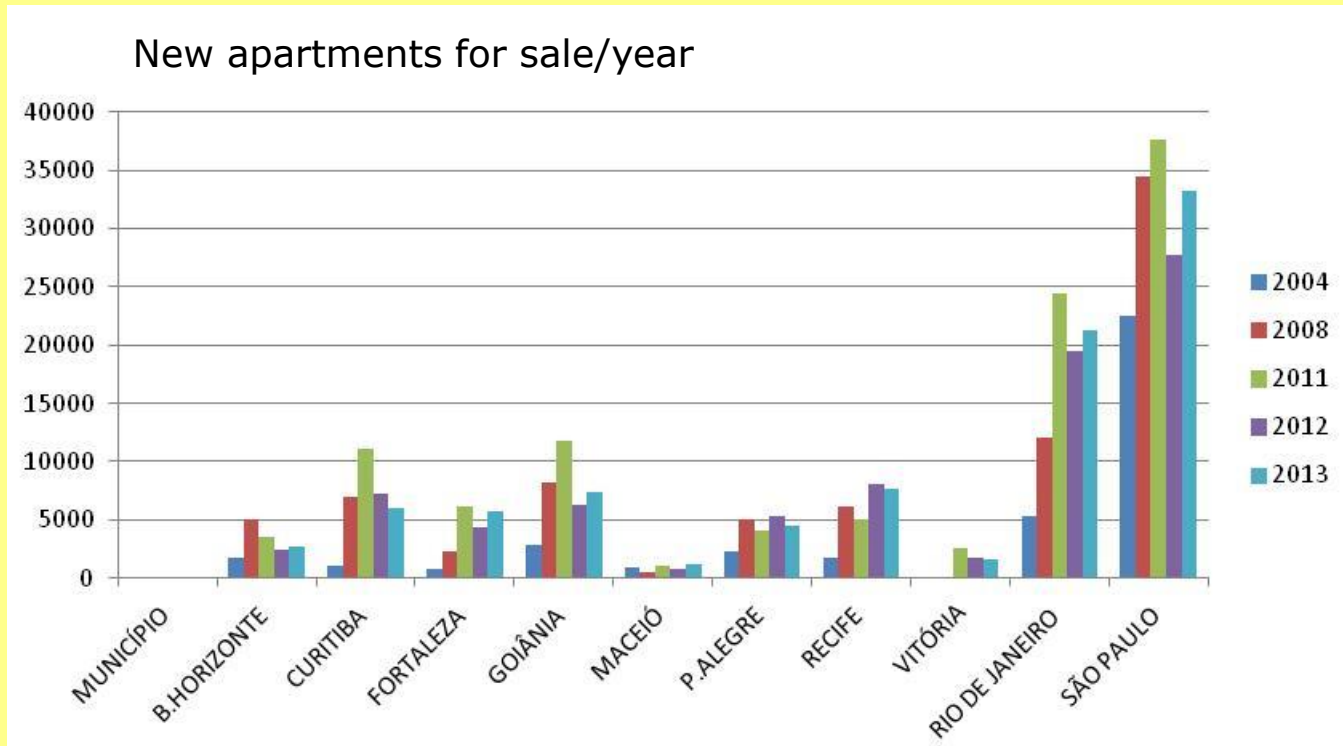


RESULTS



Source: CBIC

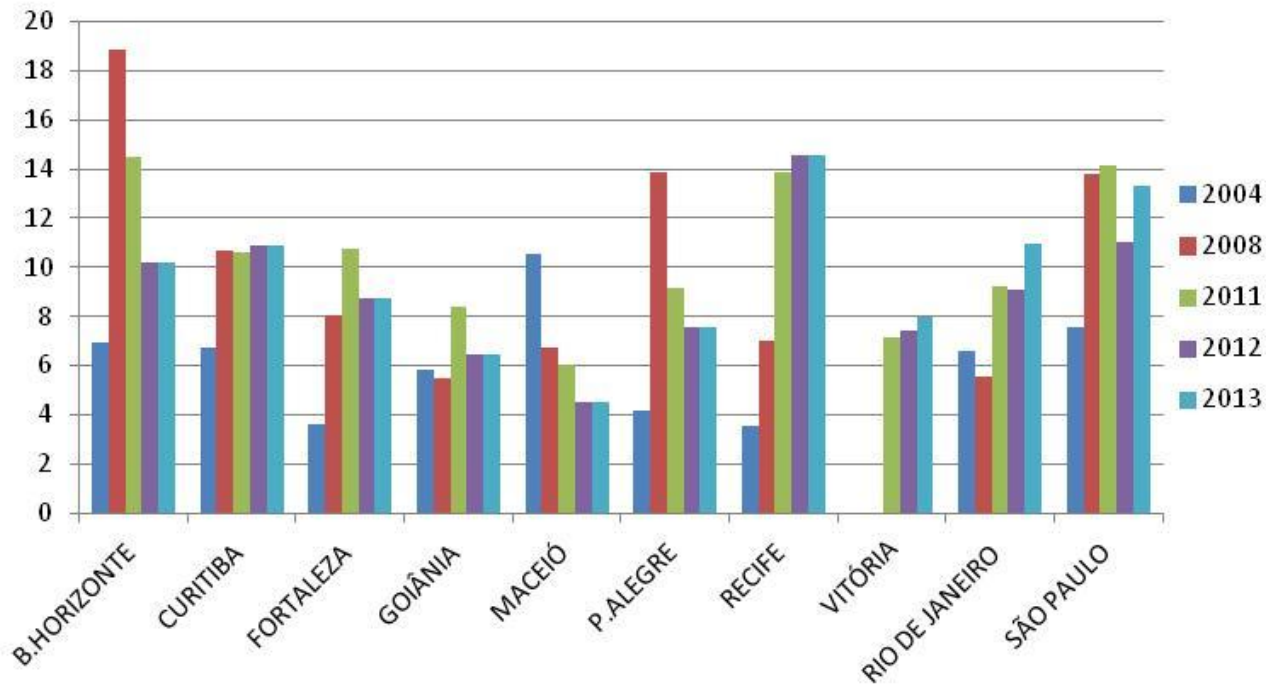
NEW HOUSING MARKET ACTIVITY



Source: CBIC

NEW HOUSING MARKET ACTIVITY

Sales absorption rate (%)/year





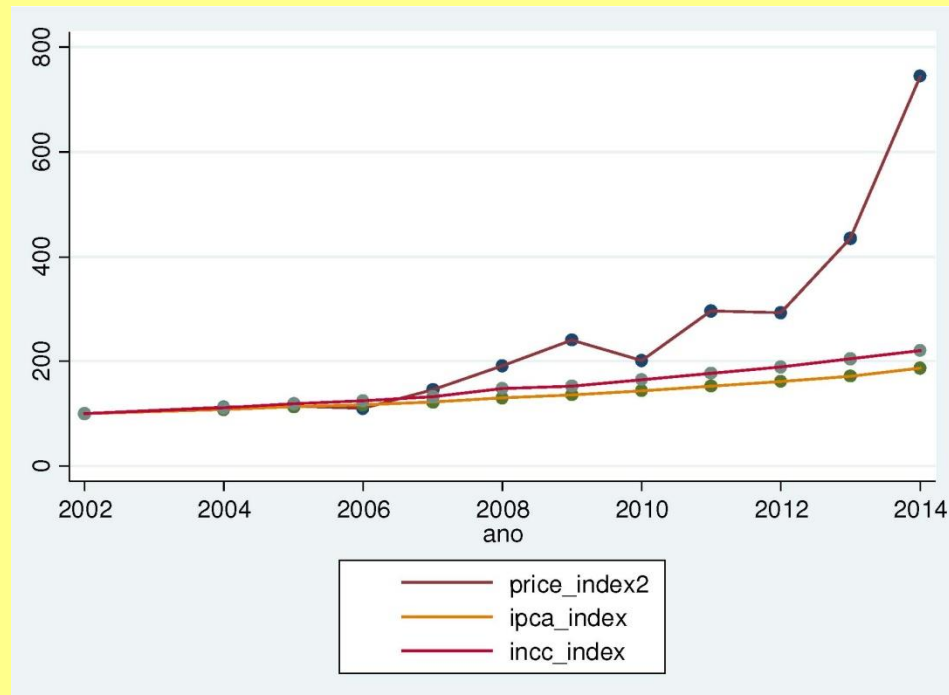
PRICE BEHAVIOR IN SÃO PAULO METRO



Source: EMBRAESP

LAND VALUES

- Few studies published;
- Example: Água Branca district, São Paulo city, hedonic model.



Source: Banco do Brasil/FIPE (in progress)



HOUSING PRICE INDEXES

- Relatively new issue (c. 2010);
- Four indexes:
 - Established:
 - FIPE/ZAP (São Paulo University);
 - IVG-R (Central Bank);
 - Under development:
 - IGMI-R (FGV/ABECIP);
 - IEPMI-H (CEF).

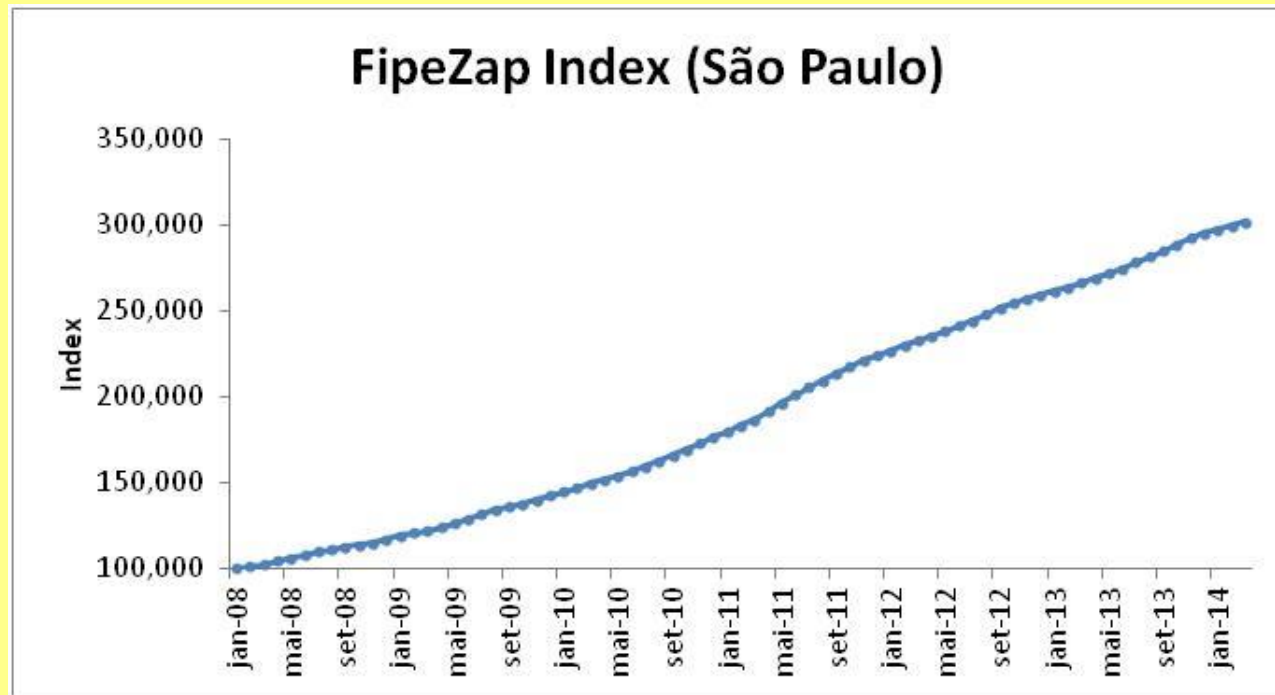


FIPE-ZAP

- Based on asked median prices in enumeration areas;
- Both sales and rentals;
- Web survey (www.zap.com.br) on 16 cities (after June 2012);
- São Paulo – since December 2007.



FIPE-ZAP



Source: FIPE



IVG-R

- Based on valuations for housing loans informed to Central Bank;
- 11 Brazilian metro areas;
- Back to March 2001;
- Median values in geographical statistical bases used for IPCA.



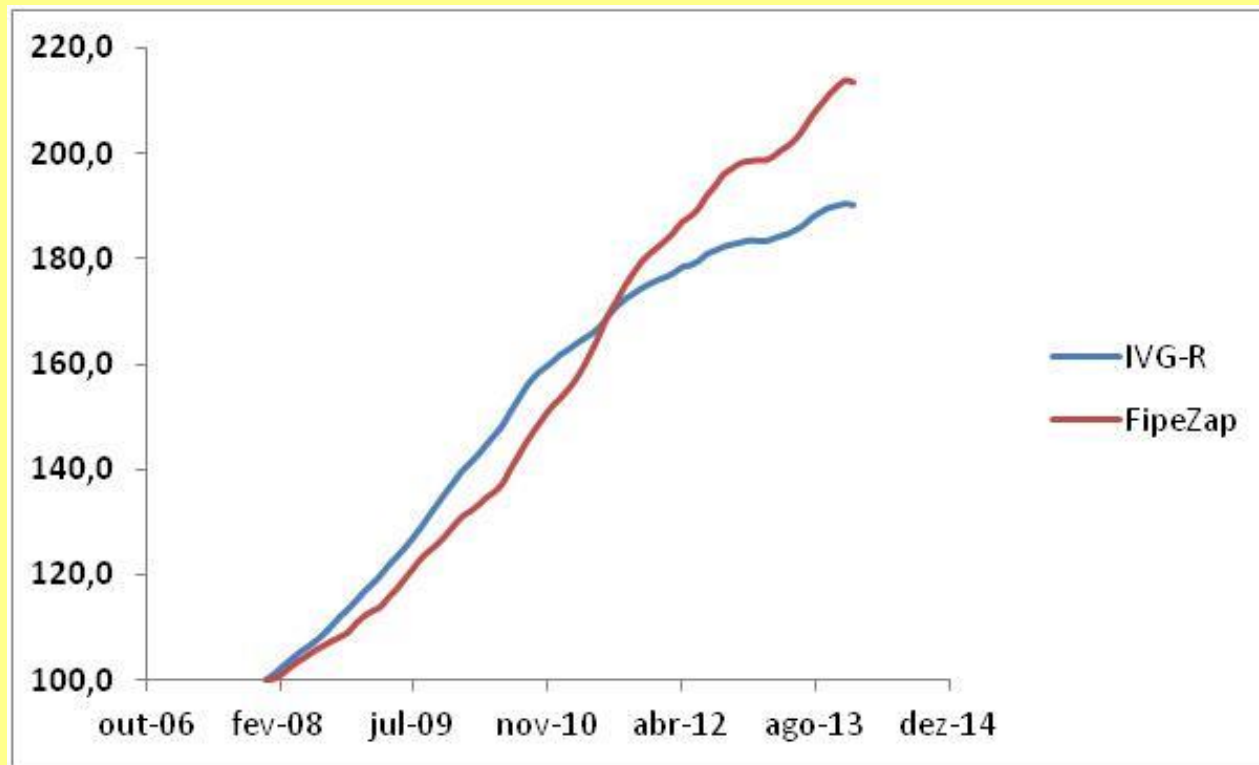
IVG-R



Source: Central Bank of Brazil

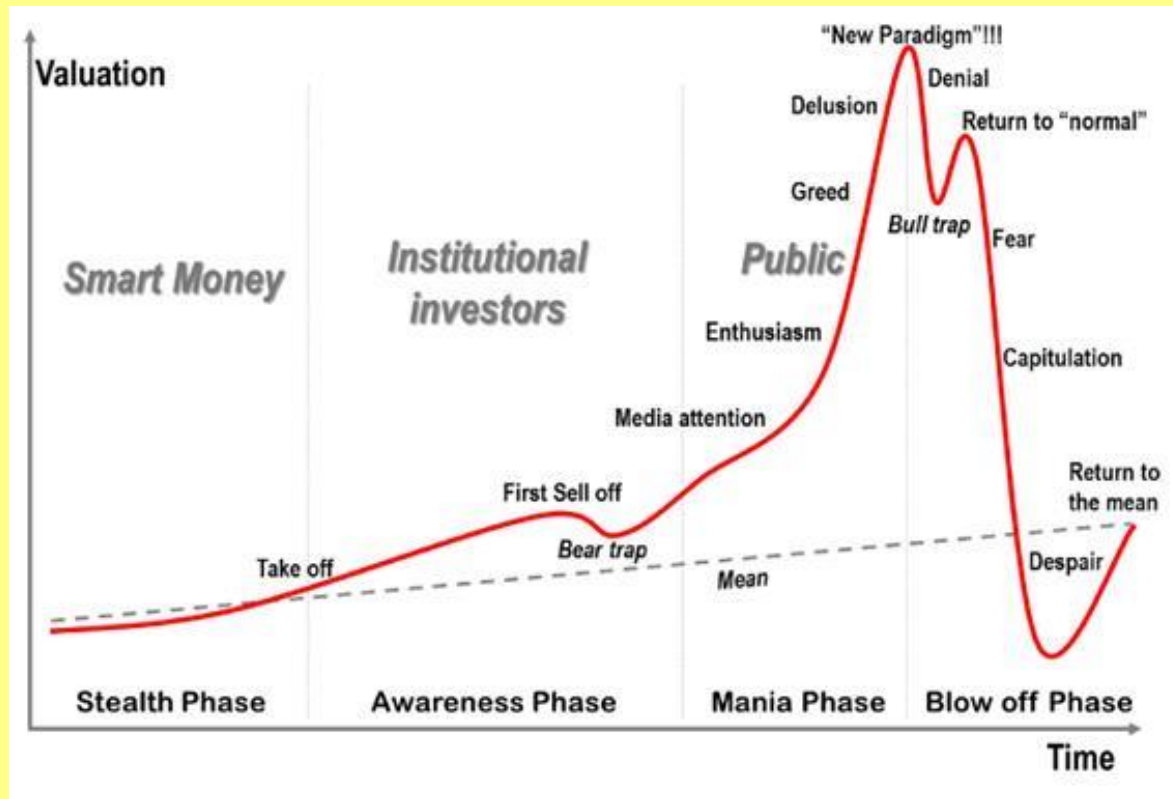


IVG-R/FIPE-ZAP (Deflated by IPCA)



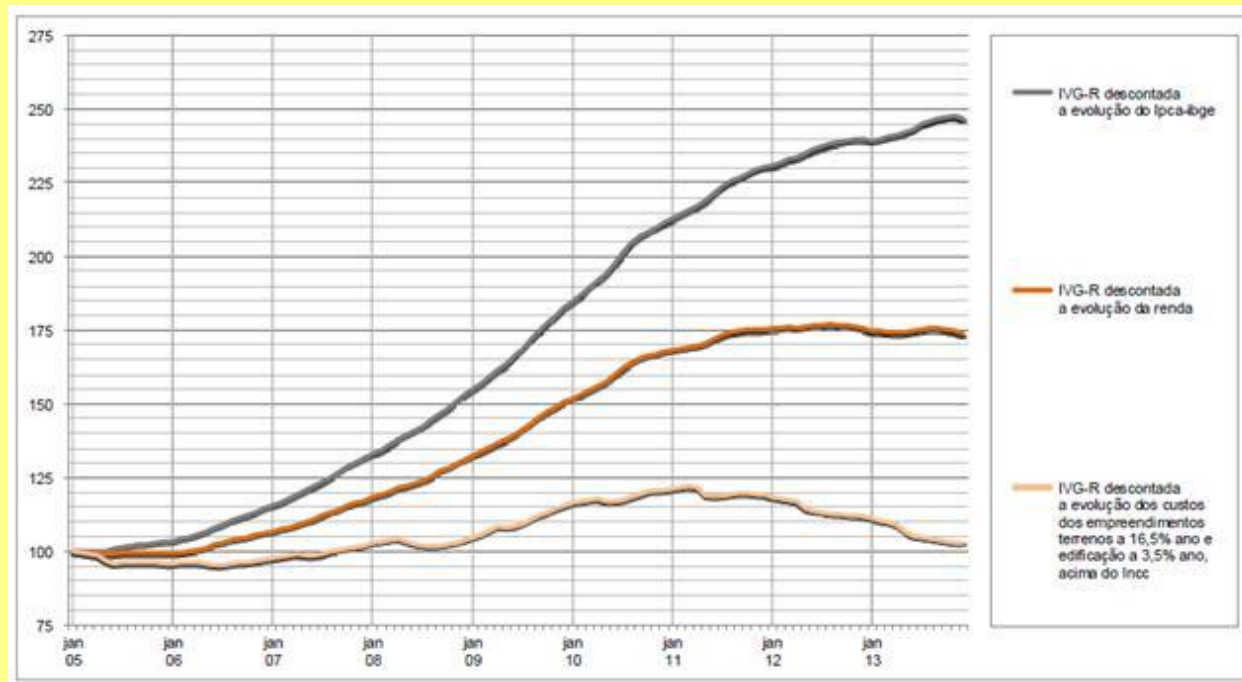
Source: Ourives, 2014

Bubble stages





IVG-R (Deflated by different indexes)



← IPCA

← Income

← Construction costs (3.5% p.y. above incc) and land (16.5% p.y. above incc) price evolution

Source: Rocha Lima, 2014



FINAL COMMENTS

- Housing price increase in recent years;
- Sound conditions for expansion of housing finance in Brazil x small economic growth;
- Spike of land prices;
- Price reductions in some market segments;
- “Soft landing” of housing prices;
- Uncertainties – major elections in 2014.