

# Venezuela Real Estate Report Q2 2011

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## Abstracts

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We have revised our real GDP growth forecasts for Venezuela, now projecting 1.9% in 2011 and 2.3% in 2012 (from 3.2% and 2.8% respectively), up from an estimated contraction of 2.0% in 2010. While we are still forecasting steady real GDP growth in the medium term, we caution that structural imbalances in the economy are only likely to deepen as there is little to suggest that President Hugo Chávez's distortive policy mix will let up any time soon.

In spite of this positive news, monetisation of government spending continues to fuel inflation and inflation expectations. This continues to influence protagonists' behaviour in Venezuela's real estate markets. Rents and nominal capital values have typically risen by 20-30% annually but are set to remain approximately stable over the coming year. Leases often run for no more than one year and tenants often attempt to benefit from the stability in capital values by buying the properties that they are renting. It is hard to envisage that there will be substantial capital growth given an overall poor business environment. Short-term problems such as the lack of hydro-electric power are also having an adverse impact on demand for commercial property, although there are signs that the power shortage could be abating.

We are expecting rents to remain roughly stable in all monitored cities into 2011. However, in Venezuela's inflationary economic environment, we could see some changes tracking the rate of inflation. Our latest figures indicate that on the whole, yields made slight to moderate gains in 2010 relative to 2009. In most countries, this would clearly be consistent with higher rents and/or lower capital values. In an economy that is as distorted by structural inflation as is Venezuela's, the reported changes are consistent with our view that yields have been fairly stable. For the city for which we have the firmest data, Caracas, we are forecasting yields to remain stable at 6-8% for

2011.

Our sources in Venezuela have confirmed that the few new commercial real estate projects under way in Caracas and elsewhere have been put on hold.

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