

Brazil, Bananas, and Assumptions

By Thomas Govier, SIOR, RICS



I asked my wife to help me remember my deadline for this article; she asked what I was writing an article about, to which I responded, "anything." "Write about bananas" she said. "I can write about bananas if I can somehow connect them to real estate, but I have not yet had to deal with a banana farm," I explained.

It turns out, of course, that bad communication is the cause of most conflicts, and I hadn't provided sufficient information. Sure, an assumption could have been made by my wife that the topic was real estate but, as I tell my team back in the office, don't make assumptions about what others know or think. There was no way my wife could have assumed I was writing for SIOR, and maybe she was just being careful not to assume it was about real estate.

I have witnessed all types of assumptions throughout my career. "Surely my client already knows this," is the classic one. We all do this, assume someone knows something. Yet communication is a two-way road made up of an assumpor and an assumptee, and both have to provide information to each other, because their roles will be inversed many times within a single communication thread. Contributory negligence will often lie within both sides.

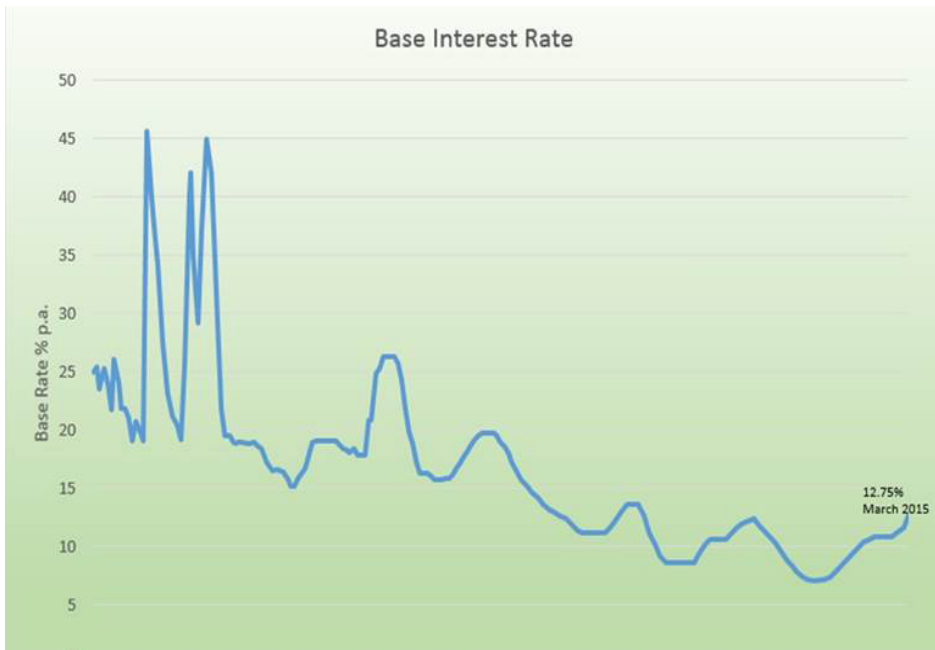
I live, work, and was born in São Paulo, Brazil, where there are 20 million inhabitants in the greater metropolitan area. Sometimes I assume that people know that we have big cities, sometimes I assume they think we live in a jungle, and

sometimes people surprise me with how much they *do* know. I have no expertise in banana farms or, for that matter, farms in general; not to say I haven't dealt with farms, I have (I have even been on a job 1800 miles north of here in the middle of the Amazon, roughly where the equator cuts through, but that's another story).

People make weird assumptions, sometimes posed as a question, to sound less like an assumption and more like, well, a question: "so you speak Spanish then?" Well, yes, I do, a little, but our native tongue is Portuguese, Brasilia is our capital city, Rio is indeed beautiful, and there are loads of other beautiful places that are a must-see.

Straight answers to weird questions include: "No, leases cannot be in English; how about in the U.S., can they be in Portuguese?" Or, when a Russian broker asked me what land was worth in Brazil, I answered, "Can you answer that question about your own country?" (He must have assumed Brazil was the size of the Vatican). I hear that it's okay to be blunt again once you reach the age of 50.

Speaking of beautiful, São Paulo city is not. It's lively, big, and busy, more people live in apartments than houses. Lots of sushi places (more than steak) and the best pizzas, no argument there. The state of São Paulo accounts for approximately one third of Brazil's GDP, and is therefore bigger than Chile.



São Paulo city has traffic, an inadequate metro system, and an economy larger than Chile's at 12 percent of Brazil's total. The measured office stock in the city is around 12 million square meters (130 million square feet).

The fact that we have big cities does not mean one can assume they have well developed real estate markets. São Paulo does, Rio is second; most others, including 25 more state capitals are what one could describe as provincial. Big investors/developers focus on big cities, where the clients are. There are few places in the world like the U.S., the U.K., France, or Germany, with a strong geographical spread of industrial and office markets. A low percentage of buildings are under single ownership, most are condominiumized, as are office buildings, and even some industrial parks. Selling equity "off the plan" by splitting developments into small affordable suites is the way to get by the high interest rates that makes debt finance prohibitive. Not many office buildings have floor plates over 1000 m² (10,764 square foot). This scenario is now changing rapidly in São Paulo and Rio due to the importance of these markets.

Despite being the seventh largest global economy, Brazil is suffering from depression economically, politically and, yeah well, psychologically. In 2014

Brazil's economy will only see a tiny growth of 0.19 percent, with a 2015 forecast of only 0.8 percent. This coupled with overdevelopment, caused real estate markets to turn sharply in 2013, now with high vacancies in both office and industrial. One office submarket ended 2014 with over 30 percent vacancy, and an industrial submarket with 25 percent. Good news for tenants that Brazil's leasing statute allows for a market review after the third anniversary of the

lease and, subject to some procedures, to renew standard five year leases at market rate and even to break early. The time is now to make moves and savings.

Just because we are a developing country doesn't mean our cost of living is low; it is high, as is the cost of running a business. Some costs might seem low right now because the Brazilian Real has just weakened. Strict and outdated labor laws and high taxes are especially hard on small and mid-sized businesses. A World Bank/PWC report ranked a hypothetical 60-person business in Brazil as requiring 2600 hours of work just to deal with payment of taxes, way ahead of second place, Bolivia, with 1026 hours. In the U.S. it takes 175 hours. Go figure. According to the CIA World Factbook Brazil's taxes have reached 39 percent of GDP, compared to only 22 percent for the U.S., and a world average of 30 percent.

As for Bananas, our main topic, there are over 1000 varieties, including hybrids of all sizes and tastes. They are full of goodness in them and if the skin is not bright yellow and has black spots don't assume they are not good to eat. ■

