

Industrial real estate in Brazil: an overview

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The relative economic stability experienced in Brazil during the past few years has spurred a revival in the search for industrial facilities that answer the needs of new and established enterprises.

Today's Brazilian industrial real estate market consists of two distinct types of facilities on offer: a large number of older premises of low quality and without up-to-date technological specifications and, on the other hand, an increasing number of new state-of-the-art industrial premises, modern logistical facilities and business parks.

This duality stems from two important political and economic developments in recent years and which profoundly affected the real estate market. Throughout the 80's, known as 'the lost decade', Brazilian industry virtually stagnated as a result of closed-market policies and consequent low levels of investment. The result is reflected in the real estate market of today, with still many existing substandard buildings that do not fit modern requirements

and which leave no space for flexibility of use.

However, since the introduction of the economic stabilization plan and a new currency (the real) in 1994, the local market for industrial space started to expand. Hyperinflation was brought down to single digits and government policies favoring foreign investment, privatization and free trade were implemented. The country began to enjoy a relatively steady economic growth. Within this favorable climate, national and multinational companies also began to demand new, high-quality industrial installations.

Since the start of the new century Brazil has stayed on this course of relative stability.

Despite a radical electoral political change in 2002, the new government left economic policies virtually unchanged, resulting in increasing growth in demand for more industrial space, particularly in the telecommunications and high technology sectors, stimulating the real estate market with a growing number of new developments.

São Paulo continues as undisputed hub

Despite the fact that Brazil has experienced solid industrial expansion throughout its territory, the state of São Paulo remains no doubt the number-one industrial powerhouse of the country. The sprawling metropolitan region of São Paulo city plus its growing neighbors Campinas and São José dos Campos is home for over 10% of Brazil's total population and generates almost a quarter of the country's GDP. With its population of 40.5 million, the whole state has attracted almost half of all direct foreign investments in Brazil, while its constantly modernized infrastructure guarantees rapid access to South America's richest consumer markets.

Overcrowding caused several companies to look for new space in smaller cities outside the capital's metropolitan area during the seventies and eighties. The result of this trend was the emergence of several mid-sized towns such as Jundiaí, Itú, Indaiatuba, Paulínia, Itatiba, Ribeirão Preto and Rio Claro. New regional growth points such as

Americana and Sorocaba became modern textile centers while Campinas and São José dos Campos, boasting top universities and excellent infrastructure, have turned into high technology hubs.

Also in this **southeastern region** of Brazil is the vibrant industrial growth area of the Vale do Paraíba along the Presidente Dutra Highway in neighboring Rio de Janeiro state. With a population of just over 15 million, the state is the second largest economy in Brazil, mainly based on oil, telecommunications and automobile manufacturing. Growing industrial hubs outside the metropolitan region of the city of Rio itself are Rezende, Campos, Macaé, Piraí and the area around the new port of Sepetiba. To the north, landlocked Minas Gerais state has also attracted large top manufacturers thanks to its efficient industrial parks, qualified labor force and investments in high technology, steel and auto assembly. Main centers are the capital Belo Horizonte as well the cities of Contagem and Betim.

Rest of Brazil

The most industrialized section of Brazil outside São Paulo and Rio de Janeiro is the **southern region**. Formerly an economy mainly based on textiles and tobacco, it has now emerged as the geographical heart of the Mercosur free trade area that includes Brazil, Argentina, Uruguay and Paraguay. Consequently it has attracted various multinationals, such as automakers Volkswagen and Renault joining General Motors, New Holland and AGCO.

The **central region** of Brazil is the agricultural heartland of the country, primarily focused on cattle ranching and large-scale agribusiness. The few industries that have settled in the region are all connected to this prime activity and are restricted to refrigeration, food processing plants and agro-chemical companies. Exceptions are Mitsubishi Motors in Catalão and the pharmaceutical hub around Anápolis, both in Goiás state. There is also a growing concentration of high-tech and ICT facilities around the federal capital Brasília.

The economy of the equatorial **northern region** of Brazil is based mainly on some agriculture and on large-scale mineral extraction, especially in the Carajás region of Pará state. The Tax Free Zone of Manaus, in the state of Amazonas, is one of the few exceptions. Manufacturers there enjoy a series of tax breaks and exemptions on import

duties, which attracted several multinational electronics companies such as Philco, Panasonic, Nokia and Philips. Some natural gas finds have also been made in the far western part of the Amazon Forest.

The drought-ridden **northeastern region** of Brazil is the least developed after the Amazon region. Plagued by constant semi-desert-like conditions in its interior, coupled to wide-spread poverty and a serious lack of social development during the past two centuries, it has long lagged behind the rest of the country. But with its beautiful beaches and lush coastal areas this historic region is starting to tap its large tourism potential - a sector in which massive investments have been made in recent years, especially in world-class resorts along the coasts of Ceará and Bahia states. However, industry is now also beginning to look favorably upon the region as a result of the construction of the deep-sea ports of Suape, near the city of Recife in the State of Pernambuco, and Pecém, near Fortaleza, capital of Ceará state. With plenty of land, an underused infrastructure and lavish tax-breaks, Bahia state especially has also come to the forefront of industrial growth, mainly centered on the petrochemical and automobile segments, including a very large Ford plant.

Key areas in and around São Paulo

In Greater São Paulo the most important regions for industrial real estate are defined by their location in relation to the major highways which provide access to or circle the central city core, resulting in eight distinct areas. The planned São Paulo Beltway, which will eventually circle the whole metropolitan region, has opened up massive new real estate perspectives in several areas.

The map below shows the principal industrial regions, highlighted in gray. The implementation of the beltway can also be seen.

The main industrial regions are:

- Marginal Tietê (East / West freeway in the city of São Paulo);
- Castello Branco Highway (leads to the West of the state of São Paulo);

- Raposo Tavares Highway (leads to the West and South West of the state of São Paulo);
- Anhangüera Highway (leads to the North West of the state of São Paulo);
- Presidente Dutra Highway (leads to Rio de Janeiro and the North East of Brazil);
- The ABCD region (comprising the cities of Santo André, São Bernardo do Campo, São Caetano do Sul and Diadema);
- Avenida Nações Unidas (North / South freeway in the city of São Paulo);
- Régis Bittencourt Highway (leads to the South of Brazil).

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