



Chile Real Estate: Stable in the Long Term

By Yemisrach Kifle



It takes only one look at a map to be intrigued by Chile. It is the longest and probably one of the skinniest countries in the world. To say Chile is geographically diverse is an understatement. Tourists can enjoy a multitude of activities ranging from climbing active volcanoes and hiking in the world's driest desert to rowing through icy fjords in the vicinity of Antarctica. Opportunities to bike, surf, ski, hike, and swim abound. From Santiago to Easter Island, Chile's geographical, historical and cultural landscape fascinates visitors of all stripes.

The country's real estate market has shown stable growth over the last ten years but Chile isn't for property flippers. A rate of 8 to 10 percent annual growth means only those who are in it for the long haul are interested and that is just fine by locals.

Chile has well established private property laws. "Legal institutions in Chile are strong and the laws are very clear," said Victor Fuenzalida Dublé, Director of Fuenzalida Propiedades, a real estate company in Santiago. Chile is also one of Latin America's most developed countries, boasting a good quality of life for its well educated population.

About Chile

Chile is one of the most stable and economically advanced countries in South America. Prior to 1990, the country was ruled by General Augusto Pinochet. The General came to power by overthrowing Salvador Allende's democratically elected, socialist government in 1973. Chile has recovered well from its recent history of living under a dictatorship. It currently nurtures a thriving democracy and a successful free-market economic model.

The country shares borders with Peru, Bolivia and Argentina. The Pacific Ocean marks its western border bestowing it with a 4000 mile long coastline. Beyond continental South America, Chile encompasses the Juan Fernández Islands, the Salas y Gómez islands, the Desventuradas Islands and Easter Island. It also claims 480,000 square miles of land in Antarctica.

Chile's long North-South shape has translated into climatic conditions that range from a dry and desolate to alpine and snowy. The country measures 2,880 miles north to south and 265 miles east to west, at the widest part of the country. Traveling down Chile's length means going from some of the hottest temperatures to the coldest in the world.

The imposing Andes runs along the eastern edge of the country. Most of its mineral deposits, including copper, are found in the North. A majority of Chileans live in the central parts where the rich agricultural resources are located. The South is littered with volcanoes, lakes, and virgin forests. The coast at the lowest tip of the country is very close to Antarctica and is dotted with magnificently pristine fjords, canals, islands, and peninsulas.

Santiago, the capital, is located near the center of the country and is home to a little over a third of Chile's 15.1 million citizens.

Santiago has enjoyed consistent economic growth for the last couple of decades. This has turned it into one of the most modern South American cities. Rumor has it that visitors to Santiago can treat themselves to skiing and surfing on the same day. The city is close enough to both the Pacific Ocean and the Andes to apparently make such antics possible.

Chile is the world's number one producer of copper. The country also exports timber, a variety of fruits, seafood, and wine. Since the 1990's, Chile's GDP has averaged 8 percent growth per year, according to the 2009 Index of Economic Freedom published by the Heritage Foundation and the Wall Street Journal.

The Index also ranks Chile as the 11th freest economy in the world. Some of the many investment positive aspects of the country include: a fairly transparent financial system and strong private property protection. Chile's economy has been growing at a stable rate and is expected to continue on the same trajectory in the long term. In addition to a free trade agreement with the U.S., Chile is part of the Asia-Pacific Economic Cooperation forum. It is also negotiating agreements with other potential trade partners.

Chile has a good business climate under which foreign and domestic investments are treated the same. It doesn't have too many controls on capital transfer and transactions. The country also boasts a well run financial and regulatory systems. Banks are reliable and citizens and non-citizens alike can open foreign exchange accounts. Contracts are well respected and the judicial system is largely fair. Unlike many countries in the region, and indeed in the world, Chile doesn't suffer from corruption much. In fact, out of 179 countries, the country ranked 23rd in the 2008 Transparency International Corruption Perceptions Index, coming in just four places after the U.S. "Chile is a country of very low corruption," said Dublé.

The Chilean real estate market

Chile was hit particularly hard by the global economic crisis that resulted in falling commodity prices. In January and February, the country registered a \$2.6 billion year-over-year trade surplus decline, according to Latin American Quarterly, a report prepared by the research department of Prudential Real Estate Investors. While the country's economy may not contract in 2009, growth is likely to be on the low side.

The property market in Chile has grown consistently over the last decade, according to alchile.net, a website run by Spencer Global International Consulting. However, these are turbulent times for property markets around the world. Just as most everywhere else, the market in Chile reflects current global economic realities.



Office vacancy rates, while still low in Santiago, are creeping up, according to Latin American Quarterly. The retail sector is soft, with sales down by 3 percent when compared to the same time, a year ago. As for the residential sector, buyers are weary of taking out mortgages during a time of economic uncertainty. Investors are cautious and are choosing to hold on to their cash. As a result, transaction activity is down. "Our sales have been down by a third since October 2008," said Dublé.

Most investors acquire property in the capital, according to Dublé. "A large number of investors buy in Santiago because the city has shown to have the biggest returns in relation to initial investments," he said. Vacation spots such as Viña del Mar are popular but "don't have the best returns."

As far as property types, small, 1 or 2 bedroom apartments bring the highest returns, according to Fuenzalida Propiedades. The value of these properties grow at an approximate annual rate of 8 percent while the value of larger places grows by a slightly lower rate of around 5 percent.

Buying real estate in Chile

Foreigners have the same rights as Chileans when it comes to real estate transactions, according to alchile.net. International buyers can purchase property anywhere in the country outside of areas considered important for national security. There are no residency or citizenship requirements. For its part, owning property in Chile will do nothing to guarantee residency status. Foreigners are

required to obtain for an RUT or a Chilean tax id number before legally acquiring property. Property agents charge 1.5 to 3 percent of the sale price which is generally shared between the buyer and the seller.

Just as anywhere else, it is important for buyers to conduct thorough research of the desired property. A title search is need to determine if it has issues regarding building permits, taxes, inheritance claims, and others problems that can stand in the way of a proper and legal transaction. Purchasing through a reputable real estate agency should save buyers from getting in trouble, according to Fuenzalida Propiedades.

Looking ahead

In March, Moody's Investors Service raised Chile's foreign debt rating citing strong fiscal savings that will see the country though the global recession, according to Bloomberg. Mauro Leos, an analyst at Moody's, confirmed that the country has "solid institutional and policy frameworks" in place. This sends a positive message to investors about Chile. The country is expected to weather the global economic slowdown better than its peers.

Real estate agents in the country also feel optimistic about the future. "Once the international economic crisis passes, the real estate market will return to growing at a pace of 6 to 10 percent a year," said Dublé.

