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Strong housing market in Chile

Property prices are rising quite strongly in Santiago, Chile's capital. The average "real" price of a new house in Greater Santiago rose by around 9% y-o-y to January 2013, according to the [Chilean Chamber of Construction](#) (CChC).

New apartment prices in Central Santiago enjoyed 10.8% growth during the year to January 2013, also in real terms. Western and Eastern Santiago both had lower price growth of around 7.9% and 10.7%, respectively. Southern Santiago had the highest price increase of 11.7%.

Chile's real estate market saw real house prices increasing by 30% from 2004 to 2012, and even during the global financial crisis of 2009, there was only a small average price decline of 0.9% from May to August.

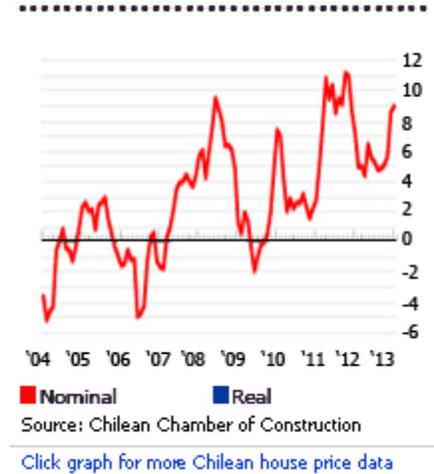
The 2010 Chile earthquake of February 27, 2010 also limited annual house price growth that year. But home sales rose strongly in 2011, with a rise of 25.3% to 58,716 residential units, according to the CChC. In 2012, residential units sold reached 69,191 units, up by 17.8% from the previous year. In 2011 and 2012, house prices saw y-o-y increases of 8.7% and 5.7%, respectively, due to Chile's relatively strong economic growth.

Chile wasn't able to escape the global financial crisis' spillover effects entirely, as its economy contracted by 0.4% in 2009. However the economy bounced back strongly, with 6.1% growth in 2010, despite the shock of the earthquake. GDP growth remained strong in 2011 at 5.9%, and 5% in 2012. Chile's economy is expected to remain robust with around 4.5% growth in 2013.

Housing reconstruction almost complete

Chile was struck by an 8.8 magnitude earthquake on February 27 2010, and a tsunami. The earthquake, reportedly the sixth largest ever recorded, affected six regions of central and southern Chile inhabited by around 12 million people or around 75% of Chile's population.

House Price Change, Annual (%)



To address the damage the government implemented a national reconstruction plan, aiming for full recovery by March 2014, which will require around US\$2.5 billion worth of subsidies and commits to rebuilding 220,000 homes.

As of February 2013, around 65% of total reconstruction projects had been completed while 28% were still under construction. The remaining 7% will begin before June 2013.

In 2010, construction starts were sharply down, due to the changes in construction rules after the earthquake. Activity recovered in 2011 with 151,071 housing starts. In 2012, housing starts in Chile declined by 25.6% to 112,402 units from the previous year and by 31% from 2006's peak of 163,000 units. The decline was largely attributable to tighter bank loan conditions.

Chile's unique diversity

Chile is a country like no other in Latin America. It stretches for more than 4,000 kilometers, making it the longest country in the world. The Pacific Ocean lies on one side and the Andes Mountain Range borders the other.

Because of its expanse land, Chile has a very diverse terrain and ecosystem. The Atacama Desert is the driest in the whole world, and is situated in the northern region of the country. On the other hand, the South is filled with thick forests and a succession of volcanoes and lakes.

The population is greatly concentrated in the centre region, also known as the Central Valley, where the capital Santiago is also located. Santiago is home to about 30% of Chileans and is densely populated. It is also visited by the most number of both local and foreign tourists.

Successful housing program

Chile may seem to have enough land to house its 17 million people, but most arable land is concentrated in the Central Valley.

A housing shortage still exists in Chile, but has been reduced significantly through a very successful housing policy. The Ministry of Housing and Planning (*Ministerio de Vivienda y Urbanismo* or MINVU) was created in the 1970s, and it has dominated the housing sector since. It is the country's largest real estate firm, and its second largest mortgage bank.

The special law *Decreto con Fuerza de Ley 2* (DFL-2) encouraged affordable housing of less than 140 square metres (sq. m). DFL-2 properties are exempt from income tax, and enjoy 50% off the Real Estate Tax for corresponding periods, according to land area.

Growing mortgage market

Chile's mortgage market is one of the most developed in Latin America. It has grown steadily from 11.1% of GDP in 2001 to 18.3% of GDP in 2011. Most mortgages are fixed rate with maximum LTV ratios of around 75% to 80%, which helps contain the banking system's credit risk.

Chile's banks do not usually lend to foreigners, even to those with a resident's permit. Banks employ strict lending criteria which are almost impossible for foreigners to satisfy. Tight controls on mortgage lending may have reduced the country's exposure to the global financial crisis.

The average rate on housing loans rate was relatively stable from 2006 to 2008 at around 5% and then floated at around 4% from 2009 onwards. As of January 2013 the average lending rate was 4.43%.

The Central Bank of Chile lowered its benchmark interest rate in response to Chile's economic recession to 0.5% from July 2009 to May 2010. The central bank then made twelve consecutive rate hikes to 5.25% in June 2011. Due to slower economic growth and the euro zone crisis, the benchmark rate was reduced to 5% in January 2012, and it is expected the key rate will perhaps remain at that for the rest of the year, according to Michael Henderson of Capital Economics.

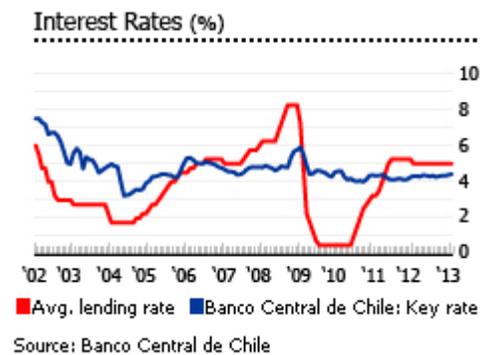
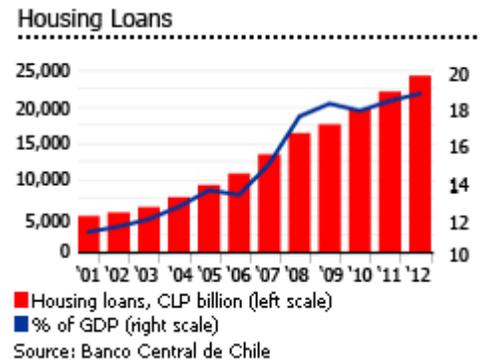
Lower yields

Chile has a small but competitive rental market. In November 2011, apartment rental yields in Santiago city was around 7.6%, based on [Global Property Guide](#) research. These yields were slightly lower than the average of 8.1% in 2010.

Rental yields in other areas are lower in 2011 with an average yield of 4.5% in both Valparaiso and Viña del Mar. The lower yields may be due to the stronger demand for ownership in coastal cities compared to the capital.

Robust economy continues to grow

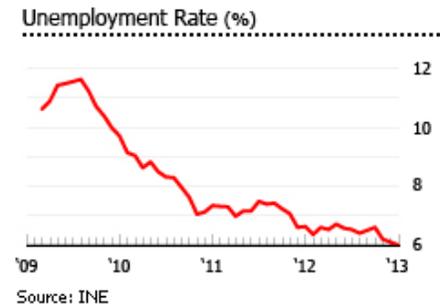
Chile ranks as an upper-middle income economy according to the World Bank. It has a track record of sustained growth, having grown by at an annual average of 5.5% from 1990 to 2007. Although the period included a contraction of 0.4% in 1999, it was still was among the highest growth rates in the world.



From 2008 to 2012, Chile's economy posted strong growth and only had an economic contraction of 0.9% in 2009 as a spillover effect of the global financial crisis. Chile then managed to pull a huge rebound of 6.1% economic growth in 2010, despite the earthquake. Economic expansion continued in 2011 (5.9%) and in 2012 (5%). GDP is expected to expand by around 4.5% in 2013.

In May 2010, Chile became OECD's first Southern American member. Chile's accession to the OECD highlighted the reduction of poverty from 45% in the late 1980s to around 14% in 2009. There were other advances, such as strengthening of state institutions and fighting corruption.

Fiscal discipline is one of the pillars of Chile's solid international image. Since 2000, the government has run a sustained budget surplus. From 2000 to 2012, Chile recorded an average budget surplus of 1.7%, reaching a record high of 8.8% of GDP in 2007. The budget surplus not only transformed Chile from a debtor to a creditor country, but also placed the country in solid position to weather global economic volatility.



During the 2009 recession, the Chilean government increased spending by 16%, availing of funds specially set aside from sales of copper profits. A fiscal stimulus program worth around 2.4% of GDP was implemented, which led to a fiscal deficit of around 4.5% of GDP by the end of 2009. The deficit narrowed to 0.4% of GDP in 2010 as the economy recovered. Chile posted a fiscal surplus of 1.4% of GDP in 2011 due to rising copper prices and higher tax revenues, and a surplus of 0.6% of GDP is expected for 2012.

One of Chile's perennial problems is high unemployment, mainly due to restrictive and complicated labor laws, and relatively generous social benefits. Unemployment rose to around 8% to 10% during 1999, but fell back to around 7% in 2006. The recent economic recession triggered another increase in unemployment to around 10% in 2009. However unemployment is currently subdued at 6% as of January 2013.