

Real Estate Watch

Argentina

Economic Research Department
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Contents

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I. Executive Summary	2
II. End of the Recent Expansion Cycle	3
III. Housing Supply	3
IV. Housing Demand	3
V. Medium – Term Potential	4
VI. Financing	4
VII. Conclusions	5

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EXECUTIVE SUMMARY

Real estate activity went through a strong expansive cycle of recovery between 2002 and 2006, driven by the channelling of savings out of the financial system, the presence of real negative interest rates during this period, and the relative delay in construction costs, mainly the non-tradable ones.

Last year, the sector's growth rate slowed down and demand indicators, such as planning permits and execution of title deeds, have shown that the expansive period would be reaching its end in 2008.

In the light of social and demographic factors, the sector has potential for the medium-term since there is a still unmet demand for housing in comparison with developed countries. The population growth rate together with the payroll increase in real terms as well as the incorporation of women to the labour market would boost housing demand.

However, a factor that poses a severe constraint to credit granting is related to the mismatch between the funding terms of banking institutions and those for mortgage credit granting. While funding is generally obtained with short and medium-term deposits (tendency that worsens in times of political and economic uncertainty), credits are executed with a long-term maturity.

1- END OF THE RECENT EXPANSION CYCLE

After the recession period and the devaluation of the peso in January 2002, the construction activity showed a period of strong expansion (see ISAC [Indicador Sintético de la Actividad de la Construcción] Construction Indicator graph).

Some of the causes that gave rise to this dynamism are the following: Aversion to the financial sector -as a savings gathering channel- generated by the so-called "corralito-corralón" (the mandatory restrictions to cash withdrawals from banks); the real negative interest rates; and the relative delay in the construction costs in relation to the market value of properties.

Demand for housing was motivated by the initially low prices in US Dollars of real estate property and the abundant liquidity that existed outside the financial sector (known as "savings in dollars kept under the mattress"). Subsequently, economic recovery increased the income of part of the population who chose to invest in properties.

The expansive period would end in the short term, although ISAC continues with the dynamism recorded from mid 2007, planning permits and the number of executed title deeds show stagnation and even contraction. In fact, the dynamism shown in the ISAC could be explained by the higher accumulation of inputs due to inflation acceleration.

2- HOUSING SUPPLY

As mentioned before, housing supply was influenced by the low construction costs and the real negative interest rates in the last period.

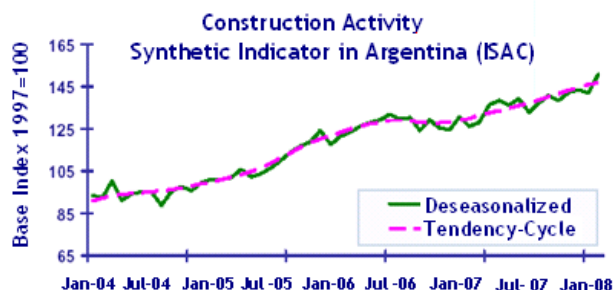
The main type of construction was private housing representing, as in the 1990s, 60% of the sector's activity. The level of geographical distribution does not show significant differences in relation to previous periods either, since around 30% of planning permits are located in the Capital City of Buenos Aires.

Under the circumstances, a strong dynamism was observed in planning permits, which grew sharply between 2003 and 2006 and then stood at around 800 thousand monthly m2 since the beginning of 2006.

3- HOUSING DEMAND

Demand for residential investments grew at higher rates than those of the economic activity, broadening the share of the construction investment in the GDP by 2 percentage points in relation to the Convertibility period.

As regards prices, both new and second hand apartments showed an upward trend from the 2002 floor. Some partial assessments indicate that increases continue in 2008.



Source: Economic Research Department of the BBVA Banco Francés with data from the Argentine National Institute on Statistics and Census (INDEC)

Annualized % variations

Period	ISAC		Permissions		Title Deeds	
	Average	Peak	Average	Peak	Average	Peak
2006/2002	22 %	24 %	33 %	65 %	7 %	50 %
2007/2006	6 %	10 %	1 %	18 %	3 %	9 %
2008/2007*	14 %	23 %	-3 %	-19 %	-5 %	-25 %

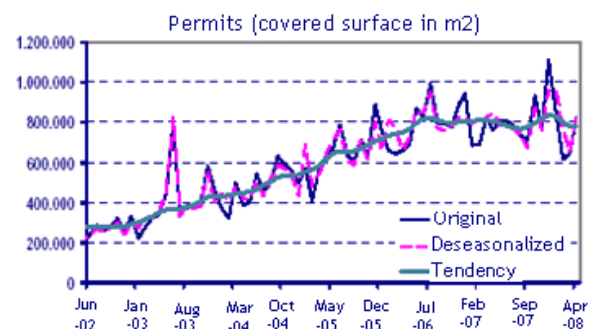
*Hasta último dato conocido de 2008: *Up to last known data from 2008
Source: INDEC and Association of Notaries Public of Buenos Aires (CABA)

Rise in Costs since the end of Convertibility

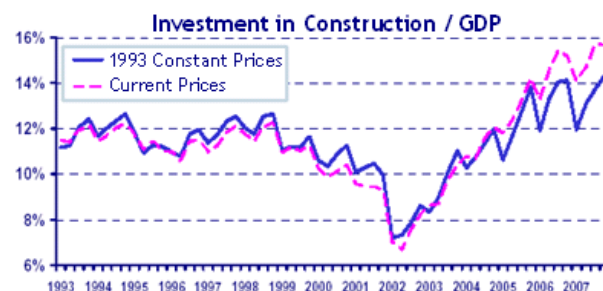
	Variation as of March 2008
Materials	226 %
General Level	207 %
Workforce	196 %
Overheads	156 %
Apartment Price*	355 %

*Year 2007 vs. 2001

Source: BBVA Banco Francés



Source: Economic Research Department of the BBVA Banco Francés with data from the INDEC



Source: Economic Research Department: BBVA Banco Francés

However, in the last period and particularly since the end of 2007, some stagnation in the number of title deeds executed in the City of Buenos Aires has been observed, although this situation may be partly due to more tax pressure on the purchase and sale of property.

4- MEDIUM-TERM POTENTIAL

The housing market has room to grow since the housing stock in Argentina is still low in comparison with developed countries. The natural population growth of around 1% annually and the fact that 15-16% of the population belongs to the cohorts with the highest creation of new households allows for the assumption of moderate growth prospects in the medium-term, with a lower dynamism than in other Latin American markets. Besides, growing women participation in employment (women labour supply grew 12 pp since the eighties) could provide an additional boost to the real estate market by improving the income ratio per household and facilitating access to credit.

On the other hand, the deterioration of income distribution and the increase in poverty and extreme poverty ratios have limited access to housing to an important sector of the population. Additionally, the level of informality of the economy represents a significant setback for making the population use banking services and therefore, for accessing real estate loans.

5- FINANCING

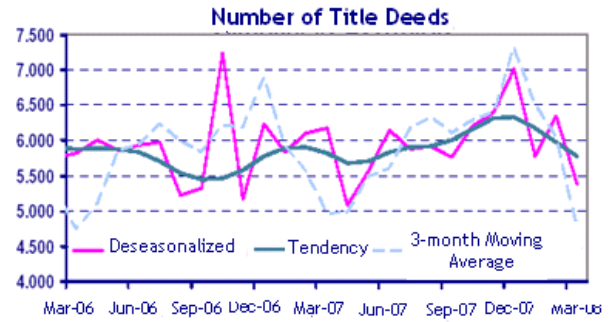
Despite the last 2-year expansion, the mortgage borrowing level of families is low: Mortgage credits are currently around 3% of disposable income.

Among the causes we can mention the high informality – around 42%-, which hinders banking transactions, and even within formal members, access to housing has become more difficult after 2002 because the fast revaluation of property prices in dollars after devaluation was not accompanied by a similar rise in salaries/wages in dollars.

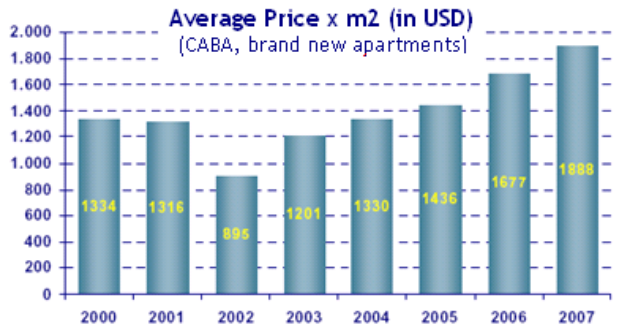
In contrast to the low levels of mortgage credits, consumption credits are near the highest recorded during the Convertibility period.

In this context, mortgage financing has a low participation in the total volume of operations. Currently, from the total amount executed as title deeds in the Capital City of Buenos Aires, only 15% has mortgage financing.

The main sources of finance are banks since non-banking financial entities, such as housing loan and savings associations, have a small share in the market. The market is practically 50% divided between private and state-owned banks, the former have a slightly higher market share of 53%.

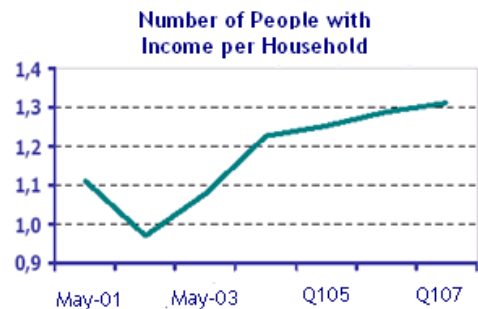


Source: ERD BBVA Banco Francés with data from CABA

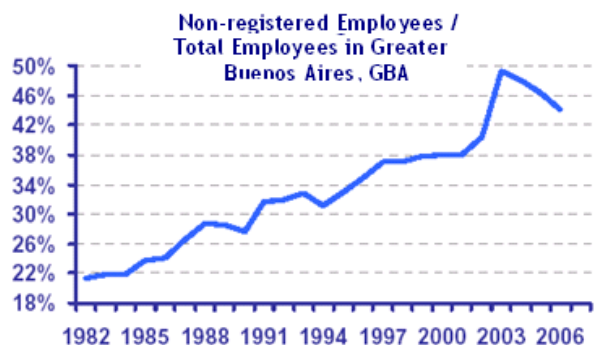


Source: Research Department of the BBVA Banco Francés with data from *Reporte Inmobiliario*

	Housing units every 1000 inhabitants
Argentina	270.4
Argentina, excluding poor housing	261.1
Germany	472.5
The Netherlands	415.9
Portugal	489.0
Spain	509.8



Source: ERD based on INDEC data



In the banking market, financing terms offered are from 5 to 20 years, although the most usual term is 10 years. In recent years of mortgage credit market recovery (2006-2007), banks' offer has included fixed rate (13-25% annually) as well as variable rate transactions (Argentine Republic Central Bank, BCRA benchmark rate [tasa encuesta] plus a spread of 300-450bp) or a combination of both.

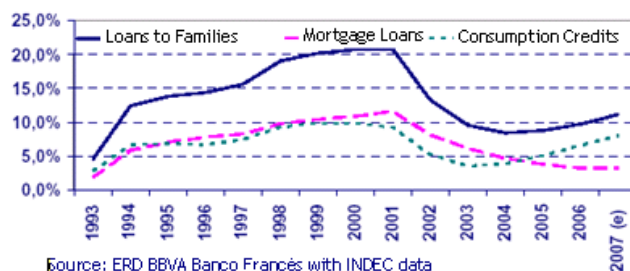
6- CONCLUSIONS

The mortgage market development is limited by the following factors:

Mismatch in the mortgage funding. While the average term of placements in the financial system is 30-45 days, mortgage credits are long-term credits by nature. Moreover, Argentina's high risk makes it even more difficult for banks to raise funds from overseas lines that could have longer terms. Besides, there is no mortgage securitization market developed.

Role of the government. Regulatory uncertainty and scant infrastructure development from the public sector (drinking water, electrical wiring, access roads) make new urban developments more difficult. In addition, the government has a limited role in housing financing and neither does it have joint schemes with banks, as it can be seen in other countries.

Borrowing over Disposable Income by Type of Credit



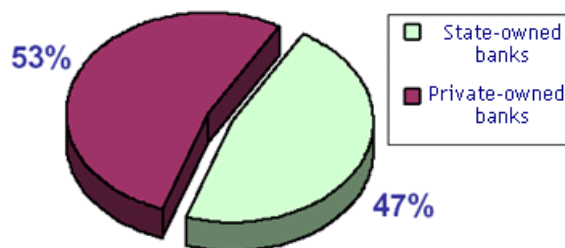
Source: ERD BBVA Banco Francés with INDEC data

Mortgage Credits

YEAR	Amount of Title Deeds in Buenos Aires Capital City	Mortgage Credits in Buenos Aires Capital City	Amount/ Mortgage Credit Ratio
2004	6,716,735,201	178,221,763	2.7 %
2005	9,659,032,490	682,864,664	7.1 %
2006	12,214,143,443	909,804,691	7.4 %
2007	15,241,140,479	2,107,927,240	13.8 %
2008	3,432,060,508	520,011,686	15.2 %

Source: BBVA based on data from the BCRA and the Association of Notaries Public.

Banking Mortgage Financing (% share - January 2008)



Mortgage Credit Comparative Chart

	Private-owned banks	
	Minimum	Maximum
Finance Limit*	70%	80%
Fixed Interest Rates**	16%	25%
Variable Interest Rates (spread)	BCRA Benchmark Rate + 390 bp	BCRA Benchmark Rate + 450 bp
Instalment-Income Ratio****	25%	50%
Maximum Amounts	120,000	Without limit
Maximum Terms	60 months	300 months

*Some banks grant 100% of the loans at a variable interest rate.

**Few entities have fixed rates.

****This ratio depends on the nominal income amount.



Source: Economic Research Department BBVA Banco Francés

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