

2016 Year in Review



2016 was a year many Panamanians would rather put behind them. As the new year begins, the country is still reeling from the reputational damage of the “Panama Papers”, despite the understanding globally by industry insiders that the role played by Panamanian banking institutions was miniscule. Wounded pride aside, real estate markets in Panama were lackluster at best.

How did markets perform in Panama City?

The Panama City market, particularly the downtown core from San Francisco to Balboa Avenue, saw sharp declines in residential leasing rates, as businesses slowed overseas hiring and cheap hotels started to compete with apartments typically leased out by corporations.

A strong dollar made buyers from countries like Canada, Brazil, and Colombia think twice about purchasing, keeping several large groups of buyers out of the market. And volatility in Europe ended up being a double edged sword, with Brexit slowing down Euro-based property buyers, while growing insecurity and crime actually drove a small-scale exodus of families and capital out of the EU, some of it making its way to Panama.

Prices for existing, city-center condos saw little change in 2016. Prices for new construction, particularly 1-2 bedroom units under 90m² saw single digit appreciation in the form of updated price lists from developers attempting to pass on increased construction costs. Those gains, however, may not stick in 2017, as sales generally slowed in the second half of the year, affecting absorption rates particularly in condos priced above \$250,000.

Of all the in-construction condo projects Panama Equity is tracking, nearly 90% of the developments saw slower sales figures in the second part of 2016, with one major exception: Luxor Tower 400, due for delivery in 2021, which saw robust sales throughout the year.



Moving West: Gorgona to Buenaventura

Moving west, the market for beach properties from Gorgona to Buenaventura saw fewer new-project starts than any other time in the last 10 years. This may be attributed to negative local buyers who chose to forego purchasing a second beach-front home this year. Prices in the Coronado and Vista Mar communities are down by nearly 10% compared to this time last year, with average days on market tracking at nearly 300.

Pedasi and Playa Venao

Pedasi and Playa Venao are experiencing the same slow market as the rest of the country, but good news also abound. In 2016 a new 18-room state-of-the-art hospital opened in Pedasi, while the town plaza, church and many homes and businesses also got a face-lift thanks to both public and private initiatives and volunteer efforts to repaint the façade of dozens of buildings in the area.

In Pedasi, increased government spending will extend to fixing the pothole-filled national highway (already in the budget) and other investments in basic infrastructure should help the area continue its slow but steady expansion.

Playa Venao's growth has been much faster, with beach and hilltop projects continuing to be built around the bay. All of these are low-rise (4-story maximum) and the area will welcome over 50 new residences in 2017. Most of these are small homes and condominiums and represent a mix of full-time and part-time owners.

Looking ahead: trends to watch in 2017

As the great Peter Drucker said, “Trying to predict the future is like trying to drive down a country road at night with no lights while looking out the back window.” Hoping our success rate in 2017 will be slightly better than Drucker’s driver’s, here are some predictions for the year ahead.

- Infrastructure boost: President Varela has reached the mid-way point of his 5 year term, so the pressure is on to execute. He has 3 major infrastructure projects on the table, some further along than others: Metro Line 3 (which includes a bridge over the Panama Canal), the construction of a cruise ship terminal on the Amador Causeway, and road works that total nearly \$1B, including the expansion of the highway from La Chorrera to San Carlos, should all be construction ready. No major infrastructure projects started in 2016, meaning no new demand for rental apartments from engineers and incoming contractors and managers. As bids get awarded, we expect to see an uptick in rental rates on apartments ranging from \$1,200 – \$2,000/month in rent.
- Mining: The mining sector – 2 copper and 1 gold mine in particular – will be either ramping up or coming into production. First Quantum’s copper mines have allocated an additional \$2B in capital improvements for 2017 and the Pershimco mines in Azuero will also be expanding capacity and investing in infrastructure. There are some minor implications for the Panama City real estate sector in the form of job creation and rental absorption, but the major implications are the impact a doubling of mineral exports will mean for government income (taxes) and trade.
- Tourism should finally get the kick it’s been missing for the last 4 years in the form of a \$20 million/year government sponsored contract, which will bring first-time visitors down to Panama starting January 1 — and some of whom may end up investing over subsequent visits.
- Revival and price effects in Panama City:
 - The wildcard for the real estate market is Mayor Jose Blandon. So far, he’s been on an absolute tear with far reaching improvements in the downtown area. Downtown residents are already reaping the benefits of his new-urbanist focus of to bring residential developments closer to business and make the city even more pedestrian friendly. More green spaces and leisure facilities could lower crime, better sidewalks and trash collection could boost tourism, and neighborhood improvements will have an impact on land for development and community building in the downtown core.

- We expect further major overhauls to the downtown core sponsored by the Mayor's office. More than \$200 million has been set aside, with works to revitalize the El Cangrejo and Marbella neighborhoods commencing in March with new sidewalks, burying cables, and landscaping. As Mayor Blandon's last full year in office draws to a close, expect big changes to parks, parking, and pedestrian life in 2017 (though barring any scandals smart money says he'll be reelected).
- Public transportation should also improve, based on a near doubling of Metro Line 1's wagon capacity and further integration with the bus system's nearly 500 new buses due for delivery mid-year.
- We don't expect the dip in residential rental rates to correct fully next year, nor can we predict appreciation more than a modest 4-5% across the board. Look for continued softness in areas like Costa del Este, which experienced nearly 40% growth over a 3 year period, much of which was speculation by investors and developers enjoying mild success while passing on increased costs to end-buyers.
- As discussed in our [2017 luxury market report](#), we believe that the Costa del Este and Santa Maria top-end of the real estate market will continue to see price declines, as more sellers compete for a scarcity of luxury-oriented buyers and fewer c-level executives with budgets above \$5,000/month enter the market.



Is there a silver lining?

As the economy picks up steam again on the back of government contracting activity, increased immigration, and the broad benefits reaped from Panama's expanded Canal, we believe many business owners will be forced to accept lower prices on properties up for sale, in order to free up capital for expansion (or to simply maintain) their businesses. That will create pockets of opportunity for buyers waiting on the sidelines and may or may not affect the overall market. Santa Maria, Costa del Este, and to some extent Punta Pacifica and Punta Paitilla neighborhoods are all areas one should be prepared to pounce on for the right deal.

"If you build it they will come" will be a tested mantra this year in Playa Venao, and all signs point to a better year for the in-development beach community. Expect to see a proliferation of small businesses including basics like gas stations, banks, car rentals and shops to meet the demands of vacationers and locals popping up as apartments get delivered and residents move in. By all accounts the "vibe" in Playa Venao is getting better now, and this international, eclectic beach will eventually have something for just about everybody- including much needed high-speed Internet!

We believe areas such as Curundu, Calidonia, and Perejil will see a spike in new developments geared to middle-income buyers and land prices based on high density zoning parcels, which, combined with the Mayor's initiatives, will increase values.

Barring any major scandals, natural disasters, or a Trump impeachment, Panama should continue to hum right along with 5%+ GDP growth, a strong bill of fiscal health. Compared to the year Panama just weathered, in 2017, no news will be good news!