PANAMERICAN
REAL ESTATE CAPITAL & SERVICES

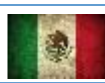
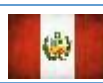
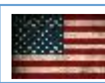
Quarterly Newsletter

The Marketplace for Investors, Lenders and Developers of the Americas.

4th Quarter, 2015

Picture: Mitikah's render, Mexico's biggest mall

Macroeconomic Figures

COUNTRY							
POPULATION	201	117	18	48	31	316	35
UNEMPLOYMENT	7.50%	3.96%	6.30%	8.20%	5.80%	5.00%	7.10%
BENCHMARK INT. RATE	14.15%	3.25%	3.50%	5.79%	3.75%	0.50%	0.50%
FDI – 2014 (*USD Billion*)	57.3	33.7	23.2	15.8	7.4	86	53
GDP - 2015E nominal (USD Billion)	1,800	1,161	240	274	180	17,968	1,573
GDP – 2014 (*Growth*)	0.10%	2.10%	1.90%	4.60%	2.40%	2.40%	2.80%
GDP – 2015 (Est. *Growth*)	-1.30%	2.30%	2.10%	3.20%	2.40%	2.60%	1.50%
INFLATION 2014	6.40%	4.00%	4.60%	3.70%	3.20%	0.80%	1.50%

Brazil: Iron House joint venture will bring first Four Seasons to Brazil

Scheduled to open in São Paulo in 2017, the Hotel will offer 254 luxury guest rooms and 84 residential units

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The Minister of Production, Piero Ghezzi, said that the ordinance marks "a milestone" in the industrial development

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Sovereign wealth funds in real estate

Column by Gonzalo Castro – Founding Partner at *Panamerican Real Estate Capital & Services*

Continuing with the column of our last issue, where we analyzed the pension fund industry exposure to real estate assets, we will now examine the sovereign wealth funds industry and how they invest in this asset class. Although the first sovereign wealth funds (SWF) were born during the 20th century, most of them are from the past decade as a consequence of the commodities high prices. Governments decided to save huge surpluses in specially created structures, with corporate governance beyond the political coalition in place. The main goal was to provide a long term savings fund to be used to fund fiscal deficits in periods of low commodity prices. The largest funds are from oil & gas producing countries, which are challenged by today's falling oil prices. We expect a reduction in funding if not a withdrawal. According to the sovereign wealth fund institute (SWFI), there are 79 sovereign funds with US$7,200 trillion in assets under management (AUM).

We do not have an estimation of the allocation of SWF to real estate, but in general, these funds tend to invest in low-cap rate and low-risk income-producing assets. Their ticket sizes are high and they do not have problems to form joint ventures with other institutional investors as well. Similarly to pension funds, they are increasingly professionalizing their investment management, some of them recruiting seasoned real estate executives with global view.

With US$800 billion in AUM, Norway's fund is often cited as the model SWF. Born out of the North Sea oil extraction, it was established in the 1990's to preserve the wealth for future generations. It belongs to the "Norwegian people" and is managed by Norges Bank (Central Bank). All is invested abroad, allocating 60% in equities, 35% in fixed income and 5% in real estate. That means the fund may invest up to US$43 billion in real estate assets. The fund's objective is to achieve a long term real return in excess of the growth of the global economy. They recently created a separated entity named Norges Bank Real Estate Management, expected to invest some US$5.7 billion per year

Another good example of a SWF is the Abu-Dhabi Investment Authority (ADIA) that manages US$770 billion and allocates 5-10% in real estate. They are very strict to advertise their acquisitions, but are known to own some trophy assets. The China Investment Corporation (CIC) was created in 2007, with an initial contribution of US$200 billion and today their AUM reaches US$750 billion. They invest directly in real estate, domestically and abroad. In Southeast Asia, Singapore stands out with two big global funds: the Government of Singapore Investment Corporation (GIC) and Temasek Holdings. GIC does not disclose the size of its assets under management (AUM), but they do disclose its diversification. They have 43% invested in the Americas, with Latin America representing just a 3.0%. Regarding asset classes, they have 7.0% allocated to real estate. Temasek manages US$266 billion and has 15% invested in consumer products and real estate. Temasek is a large shareholder in real estate firms mainly invested in Asia, but also in the US and the UK.

So far, the largest SWF's have invested mainly in trophy real estate assets in developed markets. Some known examples are the HSBC's London headquarters acquired by Qatar Investment Authority in 2014 for US$1.7 billion (U.K.'s largest-ever real estate deal), the US$800 million paid by ADIA in 2008 for the 75% of NYC's Chrysler building, the 45% stake in New York's Times Square Tower acquired by Norway's fund or the US$1.8 billion paid in 2015 by CIC for an Australian office portfolio.

We estimate they will start investing more aggressively in Latin American real estate. Brazil is the first logic destination for SWF's given the size of its economy and some selective assets. GIC opened its first office in Sao Paulo in 2014. Temasek has offices in Sao Paulo and Mexico City as well, and is an active investor in those countries too.

ADIA will invest some US$100 million for a 50% stake in the development of the first Four Seasons hotel & residences in Sao Paulo, Brazil. They have also signed a JV where they will have an 80% stake in a US$240 million mixed-use development in Santiago, Chile. So we will get used to deal with this new kind of big foreign investors in our region, but let's talk about the few Latin America sovereign wealth funds.

Mexico launched its first SWF in January, 2015. The FMX will receive the royalties from the concessions of the recently liberalized oil sector, and already totals US$23 billion. We expect this will become the largest SWF in the region. During the copper price boom in the 2000's, the Chilean government created both the Fondo de Estabilización Económica y Social (FEES) and the Fondo de Reserva de Pensiones (FRP), with a current combined value of US$22 billion. Peru created its wealth fund in 1999 to invest fiscal surpluses and part of the privatization proceeds. Today it has US$9 million in AUM. Brazil's sovereign fund was established in 2008 and after a very bad administration it has only US$5.3 billion in AUM. Venezuela is another example of poor management. The Fondo de Estabilización Macroeconómica (FEM) reached a peak of $7 billion in 2001 and today it has about $800 million, given it has been used mainly to fund chronical fiscal shortfalls.

Adding all of the above, Latin American SWF's don't reach US$60 billion in combined AUM. That would be the position #25 in the SWF ranking, clearly not a relevant global player. Additionally, none of the Latin American SWF's has investments in real estate assets. Actually, we expect that foreign SWF's will invest first in the asset class in this part of the world, as ADIA is doing in Brazil and Chile. But it is interesting to monitor the growth of these funds that eventually will make them a new kind of investor in the asset class but, like the pension funds, a change in regulation must occur first.

Iron House joint venture will bring first Four Seasons to Brazil

Source: Four Seasons

Scheduled to open in São Paulo in 2017, the Hotel will offer 254 luxury guest rooms and 84 residential units.

Iron House Real Estate, a real estate developer, has entered into a partnership with Tamweelview European Holdings, a wholly owned subsidiary of Abu Dhabi Investment Authority (ADIA), to bring the first Four Seasons hotel and private residences to Brazil, in the city of São Paulo. Four Seasons Hotel São Paulo at Nações Unidas is expected to open in 2017, with Private Residences to follow.

The luxury Hotel and Private Residences will be located at a large-scale, 880,000 sf mixed-used development in a southern part of São Paulo known as Parque da Cidade, one of the fastest developing areas in the city. The focal part of the project will be a modern and elegant 29 story tower with 16 floors for the Hotel and 13 floors for the residential units.

Iron House plans to be active in the São Paulo real estate market at the upscale residential level as well as at the luxury hotel services. Construction on the Four Seasons project began last December and is expected to be completed in 2017, the year in which the Group will celebrate its hundredth anniversary.

The 254-room Hotel and 84 Private Residences will be the first foray into Brazil for Four Seasons. “Having a presence in Brazil is essential as we explore growth opportunities across Latin America,” said J. Allen Smith, President and CEO, Four Seasons Hotels and Resorts. “Brazil is not only a popular destination for luxury travelers, but Brazilian outbound travelers represent a significant number of Four Seasons guests around the world. Soon our Brazilian guests familiar with Four Seasons properties internationally will have an opportunity to experience Four Seasons at home”.

“We have been seeking the right opportunity to bring Four Seasons to Brazil and now we have a winning combination in São Paulo - a prime location and strong partners who believe in the standards of quality and culture of Four Seasons and share our vision for success”, continued Smith.

Brazil expects to receive US$ 430 millions by selling properties in 2016

Source: Reuters

The Brazilian government plans to obtain more than R$ 1,700 millions (US$ 430 millions) in 2016 through the sale of properties owned by the state, said the Planning Minister Nelson Barbosa.

The sales are part of the attempt of President Dilma Rousseff to find new revenue sources to shore up the federal budget and avoid a downgrade of sovereign debt.

"We are facing a fiscal review that includes an improvement in the administration of our assets", said Barbosa.

The government plans to auction 119 properties in 2016 to raise about US$ 430 millions. The plan began with the auction of 20 properties in 2015 that left US$ 25 millions in the state coffers, indicated Barbosa.

Part of that money will go to the construction of new government buildings to save on rent payments, the official added.

Barbosa said that the government is evaluating some public programs and announced cuts in the 2016 budget.

The government will maintain its primary surplus target of 0.7% of GDP in 2016, Barbosa said but several economists doubt that it can reach that goal amid falling tax revenues.

Esplanada dos Ministérios in Brasília, where the new buildings will be built

Fibra Uno will resume the Mítikah Tower in 2016

Source: El Financiero

The investment trust will resume the construction of the Mítikah Tower, the tallest building in Mexico City, starting with the residential tower and followed by the mall.

The Mítikah Tower, now owned by Fibra Uno, will begin its construction in 2016 with the residential project, which will be followed by the mall.

Gonzalo Robina, deputy general manager of Fibra Uno, revealed that the first thing they will begin building is the residential tower, which will have departments on sale. The tower will become the tallest in Mexico City, with a height of 870 ft in 60 residential levels. This was the only part that was preserved from the original project acquired to Prudential because it already had some excavations and the underground parking.

The construction of the shopping center designed by Sordo Madaleno will begin shortly after the start of the residential tower, although Robina said that they are still fine-tuning some details and are negotiating to integrate Centro Coyoacán in the project. The construction of the shopping center will be done in different phases and will depend on the final version of the plan.

Fibra Uno has two alternatives for the project, depending on the commercial and office GLA. One includes a commercial area of up to 1.6 million sf and 2.1 million sf of offices, with an investment of US$ 760 million.

The other alternative has less commercial GLA - of 1.3 million sf - and offices - with 1.2 million sf - and an investment of US$ 455 million.

Both include a residential area of 0.9 million sf, with 490 apartments, and a hotel with 0.35 million sf. The Bancomer Center will also be included in the project, but it continues generating income because the bank requested an indefinite extension on its lease.

Cadillac Fairview acquires 25% interest in Mexican joint venture

Source: Cadillac Fairview

The Cadillac Fairview Corporation Limited (CF) is pleased to announce that a CF affiliate has acquired a 25% interest in a development joint venture in Mexico. The venture holds interests in six premium quality retail/office mixed-use projects that—when completed—are expected to comprise approximately 7.0 million sf of space. The projects are located in Veracruz, Queretaro, Mexico City and Leon.

The investment is being made in joint venture with a consortium of Mexican investors, led by Grupo Sordo Madaleno (GSM), an internationally recognized architecture and real estate development firm. Founded in 1937, GSM owns and operates a portfolio of more than 6 million square feet of best-in-class shopping centres and office buildings throughout Mexico. GSM will be the architect and development manager of the projects.

"We are thrilled to be working alongside GSM in this venture. GSM's focus on the highest quality commercial real estate in major urban markets in Mexico and is a mirror image of our own strategy in Canada." said John Sullivan, President and CEO of Cadillac Fairview. "This announcement aligns with our mission to invest in high-quality retail, office and mixed-use properties alongside strong partners. The retail and office markets in Mexico display similar characteristics to those in other growth markets in which we are currently invested, so this is a logical next step in the execution of our investment strategy."

Hyatt invests US$ 220 million in Federal District hotel

Source: El Financiero

Hyatt will invest US$ 220 millions in the acquisition and remodeling of its hotel in the Federal District, the Hyatt Regency, which was previously a Nikko hotel.

Once refurbished, the hotel will have an occupancy of between 75% and 78%, estimated Thierry Guillot, general manager of the hotel.

Developer puts on sale 11,500 apartments in 26 buildings for rent business

Source: El Mercurio

In the local market it is relatively common for investment funds or individuals to partner with real estate developers and build residential projects, buying a part or the whole property, either to rent or sell them.

But from now on that format could take a major leap in terms of trading volume because the real estate developer Su Ksa, which in August bought the so-called "Esquina de los Circos" in Alameda with General Velásquez in Santiago, began an unprecedented process of selling apartments for rent.

Su Ksa is selling 11,500 departments distributed in 26 buildings in Santiago, which are now in various stages of development: three operating, four under construction and 19 with allocated land ready to be built. The objective of the firm is to partner with an investor with up to 50%, imitating a model that is common in the United States.

Saieh's developer branch will build a commercial megaproject for US$ 400 million

Source: Diario Financiero

A five-storey shopping mall, two buildings that rise from the fifth floor to house facilities linked to the health sector and offices, and a third for residential and hotel use, with up to 30 floors, could rise in the current land of the Copesa Group - a media company linked to Alvaro Saieh - adjacent to Metro Ñuble in the Municipality of Providencia, Santiago.

As can be seen in the project shown to the authorities, the building will have an area of 2.4 million sf, where about 1.1 million sf would be on the ground and 1.3 million sf beneath the surface. Industry sources say that this would require an investment of around US$ 400 million. The development is been driven by the group through its branch Vivo, which has several shopping centers. The project is in an early stage.

Parque Arauco, Grupo Patio and Pasmar bid for Walmart's Espacio Urbano

Source: El Mercurio

In early December, the US chain, which operates brands such as Lider, received proposals for its ten shopping centers.

It is the most important retail-linked sale in the country and that was well understood by the local mall operators. Parque Arauco, Grupo Patio and Pasmar handed their bid for the assets of Walmart's Espacio Urbano.

The sale process conducted by the supermarket chain attracted one of the three largest operators of commercial facilities: Parque Arauco. The firm, linked to the Said family, handed over his proposal to acquire these ten properties. Sources within the company indicated that this bet aims to buy the malls and increase its market share in Chile; an attractive opportunity considering the maturity of the domestic market and the urban and municipal requirements that have hampered the possibilities to raise commercial buildings.

Grupo Patio, whose business is related to the rent of both office and commercial assets and is linked to the Jalaff family also sent its offer. The possibility to grow inorganically in this area is something that this company values. For Pasmar—owned by Jack Mosa—this is a very attractive opportunity because his businesses are concentrated in the south of Chile, in cities like Puerto Montt, Puerto Varas and Castro. In addition, his entrance in Santiago, where half of the Espacio Urbano assets are located, hasn't been easy.

Walmart's decision drivers for the bidder are more than just the financial offer for the assets, which are between US$ 400 and US$ 600 million. The company wants to get a good price and attractive lease terms for the supermarkets that the chain has within these facilities.

Trump Hotel would arrive to Bogota

Source: Portfolio

It will be a skyscraper with hotel, offices and five star residences. They're looking for investors.

Se usará como referente el Time Warner Center en Nueva York

A building under the eaves of the Trump Hotel Collection will arrive in Colombia. In charge of the project is the Colombian luxury construction company Fortun, which will receive financial support from Yun Capital, partner investors of the Trump organization.

The budget for the project is US$ 350 million, of which 80% will be provided by Yun Capital. For the project, Fortun is looking for local investors, whose share would not exceed 20% of the total.

The skyscraper will be similar to the Time Warner Center towers in New York. It will be built in Bogotá, where it already has a lot located for its development.

Fontanar, the new big player of the Colombian retail

Source: Portfolio

In the shopping mall were invested US$ 200 million. Clio Guerra, its manager, emphasizes the integration of entertainment, shopping and banking in its 1.5 million sf.

Aiming to provide an entertainment and gastronomic offer, among many other services on the outskirts of Bogotá, in October opened its doors to the public the Fontanar mall. "We saw that Chia, although it is a city that is becoming one of the poles of the capital, had a commercial gap that we wanted to fill", said Clio Guerra, the mall manager.

The project, which arrives to the area with an investment of US$ 200 million and was developed by the Colombian company Cimento for two years, will bring 193 commercial spaces, with brands that haven't arrived to the country yet, like Cinépolis, one of the most important cinema chains in Latin America, that comes with 11 rooms, including four VIP and 4DX.

Developer Actual enters in the industrial park business with an investment of US$ 162 million

Source: El Mercurio

Actual, Chilean real estate developer that two years ago expanded into Colombia to develop departments and offices after the acquisition of the 50% of a local company, continues to grow. Now it decided to enter the category of industrial parks with two projects related with the development of warehouse renting, totaling 2.3+ million sf with an investment of US$ 162 million.

In the largest project, Actual allied with the fund Terranum, linked to Grupo Santo Domingo, one of the major conglomerates and fortunes of Colombia. With an investment of US$ 112 million, the developer will build in the town of Sopo - 25 miles north of Bogota—the National Distribution Center of Falabella Colombia, which will have an area of 1.6 million sf, of which 1 million sf will be long-term leased by the Chilean retailer, which will consolidate its warehouse operations in this site. The remaining 0.6 million sf will be used by suppliers of Falabella. The works will begin in September 2016.

Meanwhile, in Tocancipá -about 12 miles north of Bogota- the Chilean company and its Colombian partner will have the 25% of a project that will be done with the fund Building Block Partners (BBP) to develop 0.7 million sf of warehouses with an investment of US$ 50 million. The works will begin in March.

Rodrigo Lyon, CEO and partner of Actual, said that the entry into this new business—industrial parks—is done in a context of "good atmosphere in the economy of Colombia", a country where they have already invested US$ 100 million since 2013 in homes and offices in six projects, three completed and three in progress.

Government enacts ordinance that propels the creation of industrial parks

Source: Gestión

The Minister of Production, Piero Ghezzi, said that the ordinance marks "a milestone" in the industrial development. The Production Ministry is developing initiatives such as the Ancon in Lima Industrial Park and the Industrial Park of La Libertad, in coordination with the regional government.

The Government enacted the ordinance that creates the National System of Industrial Parks and derogates the previous law. The new system seeks to promote industrial development by creating the aforementioned parks. The implementation of the industrial parks will consider, among other conditions, the need for a specific study of potential demand, a business plan to ensure the economic viability of the project and its sustainability.

It should be noted that the new system has two components: the techno-ecological-industrial parks (under Law No. 30,078) and the industrial parks of national importance with a focus on clusters and / or value chain, either of public or private initiative.

The new system offers important benefits. For example, companies that are installed in parks will have priority for the competitive funds created by law, such as the innovation funds from the Ministry of Production. They will be able to access the citizen service module that will guide them through deals with the state and the current regulations and technical assistance related to the development and implementation of modern industrial parks.

There will also be benefits from institutions such as the National Quality Institute (INACAL), which will promote the implementation of laboratories in industrial parks; the National Superintendency of State Assets, which provides preferential treatment for the transfer of land for the development of industrial parks of national importance and eventually there will be a promotion at national and international level of the industrial parks in the country.

Hospitality sector expects investments of US$ 1,500 million over five years

Source: El Comercio

A trend will become stronger among hotel investments to be developed in Peru over the next five years: local builders and operators making alliances with international hotel chains.

This is the forecast of Arturo Garcia, president of the South American Hotel & Tourism Investment Conference Summit, which gathered in Lima the most important people in the hospitality sector in the world with the intention of promoting new projects in Peru. Garcia adds that known hotel chains speed up the return of the investment that builders make thanks to loyalty programs with over 40 million members and powerful online booking systems, for example.

By following this trend, Peru expects the construction of about 30 hotels of global brands by 2020, like Accor, Hilton, Wyndham and GHL. The most significant growth will be that of the French Accor. 20 of the 30 hotels that will be build belong to this firm, said the CEO of the group, Patrick Mendes. "To the three [hotels] that we already have in Peru, we will add 10 more between 2016 and 2017. Half will be in Lima, and the rest in Arequipa, Piura and Trujillo", he said.

Mendes expects to reach agreement with local partners to build the remaining seven early in 2016.

Another chain that will bet aggressively is Hilton. Juan Corvinos, director of development for Latin America, reports that they will have three hotels in Cusco at the end of 2015 and Tarapoto and Trujillo in 2017, while they are also studying another 11 options.

Meanwhile, GHL expects to add two assets, besides Arequipa, which is about to open, according to Juan Rodriguez, commercial director. Meanwhile, Wyndham is studying up to four options in Lima and a beach that is in Piura via its local partner Costa del Sol.

The partnership model between chains, such as Costa del Sol and Wyndham, or the Peruvian Libertador and Starwood will also facilitate the growth of investments, concludes Garcia, SAHIC.

In that vein, GHL can become a success story because that is a model with which it has expanded across the region, in partnership with companies such as Sheraton and Accor. The truth is that the focus on international brands will become stronger.

United States

Blackstone to buy apartments from Greystar in US$ 2 billion deal

Source: Bloomberg

Blackstone Group LP agreed to buy 32 multifamily properties for about US$ 2 billion from Greystar Real Estate Partners LLC as the private equity giant expands its push into the U.S. apartment market.

The buildings, with a total of 10,399 units, are spread throughout the country in states such as California, Florida, Washington and New York, Greystar said in a statement Tuesday. The Charleston, South Carolina-based company, the largest U.S. apartment manager, will continue to oversee the properties.

Blackstone's multifamily holdings are ballooning as values surge amid a shift away from homeownership and escalating rents. The Greystar purchase would give the world's largest private equity firm control of 57,000 units, including the acquisition of more than 11,000 apartments at Manhattan's Stuyvesant Town-Peter Cooper Village.

Multifamily buildings have led the five-year recovery in commercial real estate, with values exceeding the 2007 peak by about 34%, according to Moody's Investors Service and Real Capital Analytics Inc. In big cities, prices are as much as 57% higher than prior records.

Blackstone and Ivanhoe Cambridge acquire departments for US$ 5.3 billion

Source: Blackstone

Blackstone announced the purchase of Stuyvesant Town-Peter Cooper Village in New York, the largest complex of departments for rent in the United States, covering 11,241 units in 56 buildings on 800 acres in the East Village of Manhattan at US$ 5.3 billion. This deal puts the largest complex of departments in Manhattan in the hands of the world's largest private equity.

Canada

RioCan to buy out 22 properties from Kimco for US$ 533 Million

Source: Bloomberg

RioCan Real Estate Investment Trust will pay C$715 million (US$533 million) to buy stakes in 22 properties from Kimco Realty Corp. as it unwinds its Canadian joint venture with the U.S. retail REIT.

"This acquisition improves RioCan's Canadian portfolio by increasing the concentration of the trust's portfolio located in Canada's six largest markets, most notably in the greater Toronto area" Edward Sonshine, chief executive officer of Toronto-based RioCan, said in a statement Thursday.

The purchase of the mostly retail real estate will be completed in two phases, the companies said. The first stage, with 19 properties, is expected to close in the end of 2015. The sale of the other three will be completed in the first quarter of 2016.

The companies had 35 properties in their joint venture. Of the real estate not included in the transaction, 10 institutional-quality retail assets will be sold, while three other transitional properties that were previously occupied by Target Corp. will be "dealt with at a future date," according to the statement.

RioCan is selling 49 American shopping malls to Blackstone Group

Source: Business Financial Post

RioCan announced that it is selling its U.S. portfolio of 49 retail properties located in the northeastern U.S. and Texas for US$1.9 billion, a move chief executive Ed Sonshine said was at least partially driven by the dollar.

With this deal, RioCan earned US$ 715 million in profit with about half it coming from the sinking Canadian dollar.

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CONTACT US

Gonzalo Castro – *Founding Partner*
Email: gcastro@panamre.com

Manuel José Ossa – *Financial Analyst*
Email: mjossa@panamre.com

Visit our website: www.panamre.com

Call us: +56 2 2446 8431

Visit our office: Av. Apoquindo 3600, 5th floor, Las Condes - Santiago, Chile