PANAMERICAN
REAL ESTATE CAPITAL & SERVICES

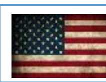
Quarterly Newsletter

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

3rd Quarter, 2014

Photo: Hudson Yards, Nueva York render

Macroeconomic Figures

COUNTRY							
POPULATION *(MM)*	201	117	18	48	31	316	35
UNEMPLOYMENT	7.1%	4.9%	6.5%	9.3%	5.9%	6.2%	7.0%
BENCHMARK INT. RATE	11.0%	3.0%	3.25%	4.2%	3.5%	0.25%	1.0%
FDI – 2013 (*USD Billion*)	64.0	38.3	20.3	16.7	10.2	187.5	62.3
GDP - 2013 (USD Billion)	2,457	1,275	286	388	221	16,800	1,825
GDP – 2013 (*Growth*)	3.0%	3.4%	4.9%	4.0%	6.3%	1.9%	2.0%
GDP – 2014 (Est. *Growth*)	0.3%	2.5%	2.0%	5.0%	4.4%	2.0%	2.3%
INFLATION 2013	5.5%	3.6%	3.0%	2.4%	2.2%	1.2%	1.0%

IN THIS ISSUE

Taxes affecting the Real Estate Industry in the Americas (Part 2)

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

Continuing the topic reviewed in our last issue, where we extensively covered the taxes affecting property owning, now we will continue with the rest of the tax groups: property transfer, operations, general income and capital gains.

Property transfer taxes

The taxable event in this case is the transfer of the property title. In Brazil this is a municipal tax known for its acronym ITBI (Imposto Sobre a Transmissao de Bems Imoveis) and the rate is a 2% of the "valor venal" (assessed value) and paid by the buyer.

In Peru, the Alcabala tax is 3% of the sales price, also paid by the buyer. In Colombia, this is a department (province) tax known as Impuesto de Registro with a 1% rate on the sales price and paid 50/50 by both buyer and seller.

In the US this is a primarily a state tax, ranging from 0% in some states like Texas or Oregon, up to 1.4% in the state of New York, for property transfers above U$$1 million. The majority is in the range of 0.1% to 0.5%. Cities and counties may impose a transfer tax too, that some states allow to be used as credit for the state transfer tax.

In Canada, most of the provinces impose transfer taxes, some of them applying a progressive rate in the 0.5% - 2% range upon the value of the property.

Operation taxes

In Brazil, there is a municipal tax known as ISS (tax on services), that is 5% of the service rendered. Additionally, the federal government charges the PIS/COFINS tax directly to the revenue. So every time a tenant is invoiced, there is a taxable event. It is interesting the way Brazilians shopping centers organize themselves to avoid double taxation to recover CAM expenses: they form a Condominium Association that is tax exempt to bill the tenants.

There is a similar tax known as ICA (Impuesto de Industria y Comercio) in Colombia, where municipalities typically charge 1% of the revenue.

In general, the Pacific countries (Mexico, Colombia, Chile and Peru) charge VAT (value added tax) to the rental revenues generated by commercial real estate assets, collected by the national government. VAT rates vary from 16% to 19%.

Income Taxes

Brazil has a corporate tax rate of 34%, where 25% comes from IRPJ (imposto de renda pessoa jurídica) and 9% from CSLL (contribuicao social sobre o lucro líquido). Even though the rate is high, the good news is that the presumed profit regime states the deemed profit as 32% of revenue for real estate business. So the income tax rate is 10.88% of the revenues and paid quarterly. Only the federal government collects income taxes in Brazil.

In Colombia the corporate tax rate is 33%, where 25% comes from the "Impuesto sobre la Renta" and 8% from the "Impuesto a la Equidad" (CREE).

Mexico and Peru have a 30% corporate tax rate, collected by the national government.

Chile approved a new tax bill in September that will increase the corporate tax rate from 20% to 25% or 27% in four years, depending on the tax regime chosen by companies.

The federal corporate tax rates in the US are progressive, varying form 15% to 35%, with the most significant bracket taxed at 34%. States also charge income taxes, most of them charge a fixed rate (like the 8.84% in California or the 7.1% in New York), some of them charge a progressive rate and some of them are income tax exempt (like Texas, Washington or Nevada).

In Canada, the federal income tax rate is 15% and the provinces also charge their own income tax with rates varying from 10% to 16%.

Capital Gain Taxes

This tax is triggered when selling a property and is very important for the effective internal rate of return (IRR) of a real estate investment during the holding period.

In Brazil, capital gains on the sale of residential property are taxed at 15% by the federal government. But the seller is exempted if using all the proceeds to buy a new home.

In Mexico, capital gains are treated as general income. The last tax reform set a US$270,000 amount exempted. If capital gains exceed that value, individuals would be taxed at the corresponding income tax rate.

In Chile, capital gains are treated as general income. Gains on the sale of property assets have always been tax exempt for individuals. With the approved new tax bill, there would be a US$320,000 cap on the exemption. If capital gains exceed that value, individuals would be taxed at the corresponding income tax rate.

In Colombia, capital gains are taxed with the 10% rate of the "Impuesto a la Ganancia Ocasional", which is the lowest in the region.

In the US, there is a long term 15% federal tax on capital gains plus the state regular income tax. But there are some deductions for residential properties: US$250,000 if the owner lived in the sold home 2 out of 5 years and US$500,000 if married.

In Canada there is a 15% federal withholding tax when selling a property applied on the net gain on the sale.

Mall industry sells a quarter-billion dollars in assets this year

Source: Valor Econômico

With the sale of Top Center Shopping in Sao Paulo by General Shopping to Israeli firm Gazit-Globe, for $60 million, deal-making involving shopping malls in Brazil has reached nearly $205 million this year. Since the first IPOs of companies in the industry in 2007, asset sales hadn't reached such level in the January-August period.

Publicly traded companies say they have been shedding assets as part of the strategy of "reorganizing the portfolio." BRMalls and General Shopping had move in this direction. Aliansce also said it's analyzing selling assets in the short term. "It's not easy to sell malls, the supply increased and the market mood worsened. Everyone is trying to raise more cash," says an industry executive.

Despite the statement that these are sales to "oxygenate the portfolio," there are cases in which the sale happens to reduce debts (part of which in dollars) or shed "non-strategic" assets which in practice didn't reach performance goals.

A financial chief says that for the same project that was evaluated for sale with internal rate of return of 23% (real and deleveraged) in the end of 2011, now negotiations involve a rate of return of 17% to 19%."There are investors leaving [the country] and the more the economy slows down, the better for us, because opportunities emerge with better prices than two or three years ago," said Chaim Katzman, CEO of Gazit-Globe.

The current scenario of the shopping-mall industry is a result of the loss of momentum in the economy and of the increase in indebtedness of some companies in recent years, after the industry's strong growth. In spite of that, the market still sees the sector as resilient and without great vulnerabilities, because of the sound fundamentals of most publicly traded companies in the industry.

This year, BRMalls announced the sale of four malls for nearly $85 million, with CEO Carlos Medeiros saying in May that "the goal is to continue selling [malls]." He told analysts: "This is our interest, but for a price that makes sense, considering what we paid and the asset potential". As justification, the company said it was getting out of malls in which it couldn't increase its minority stake.

The management of Aliansce also stressed that it was studying the sale of some businesses to build up its cash position. Aliansce announced a deal to reduce its stake in Santana Parque Shopping, in Sao Paulo, to 33% from 50%. The other 50% belonged to General Shopping, which sold its entire stake. The buyers were the Canada Pension Plan Investment Board (an Aliansce shareholder) and the Singapore sovereign wealth fund, in a $60 million deal.

Klein paid $ 170 million for assets of BR Properties

Source: Yahoo Finanças

The businessman Michael Klein, son of the founder of Casas Bahia, is establishing itself as one of the largest property managers in the country. Klein confirmed the purchase of a fund that manages 36 properties in 11 states for $170.9 million, reaching $1.9 billion in assets, surpassing the $1.8 billion of Sao Carlos, one of the largest companies in the industry.

These properties were acquired from the leader in real estate development in the country, BR Properties, controlled by BTG Pactual. Of the 36 buildings of the fund, 26 are stores of the fashion chain C&A, in addition to the building that houses its headquarters in Barueri, Sao Paulo. With the acquisition, Klein's company adds 1.27 million sf of floor area, reaching a total of 21.5 million sf, and had revenues of $98 million last year. "The acquisition of this Fund is part of our strategy to be present in the five regions of the country with well-located properties which, leased to companies consolidated in the market, will bring us good results," said the businessman.

The company has warehouses and offices among its assets, but its main focus is on retail, where the business started two years ago. Of the 420 properties managed by CB Group, which concentrates the family business, over 300 premises that are leased to Casas Bahia and Ponto Frio - brands of Via Varejo, company of which Klein is a partner. In December, it sold part of its shares in the company, raising nearly $613 million - which left him with the required capital to boost the real estate business. The goal is to reach a portfolio of $2 billion in December, with the completion of two or three acquisitions that are in process.

Fibras threefold department stores GLA

Source: El Financiero

The six non-hotel Fibras, Mexican Real State Investment Trusts, have a combined portfolio of 168 million sf of offices, shopping centers and industrial parks, three times the department stores GLA.

With only three years of operations, the six non-hotel Fibras have managed to buy 168 million square feet of offices, shopping centers and industrial parks, and already own more space than the sales floor of department stores in Mexico, which totals 56 million square feet, and supermarket chains in the country, which recorded an area of 150 million square feet.

"Most of the growth of the real estate owned by Fibras is a result of the integration of existing assets, not direct investment in developing new ones. This takeover activity has been the most recurrent way that the Fibras have grown", said Augusto Arellano, senior managing director of Evercore Partners, the structuring firm of Fibra Uno, Fibra Hotel and Fibra Danhos. However, this strategy will tend to decrease because good portfolios are becoming scarce, he said.

Another reason that favors the growth of Fibras in Mexico are the prices of real estate and their associated services, as they are low compared to other countries, said Lizette Chang, Director of Investor Relations of Fibra Inn. Additionally, although Mexico's economic growth has not been very vigorous, structural reforms have generated high expectations for real estate and, therefore, for the Fibras, the executive said.

Armando Rodriguez, Signum Research analyst, predicted that the Fibras will continue to grow because of the dynamics of the real estate sector, which is highly demanded in segments such as offices, industrial and commercial.

Of the total properties owned by the six Fibras - excluding the two hotel investment trusts, whose measure unit is rooms and not square feet- Fibra Uno accounts for 37% of the portfolio, with over 62.4 million square feet. In the second place is Fibra Macquarie, which has 20% of the total.

Fibra Inn acquires 6 hotels for US$ 33 million

Source: Hotel News Resource

Fibra Inn, a Mexican real estate investment trust specializing in the hotel industry serving the business traveler, announced a binding agreement of $33 million for the acquisition of 6 hotels, representing a total of 667 rooms under two brands: Casa Grande, a domestically-recognized brand, and Microtel Inn & Suites by Wyndham, a globally-recognized brand.

With this new acquisition, Fibra Inn's portfolio will total 29 hotels under operation and 3 hotels under development, with a total of 5,311 rooms, of which 799 are under development. Fibra Inn's portfolio of properties and rooms has increased by 286% and 193%, respectively, compared with the figures presented in its Initial Public Offering in March 2013.

Grupo Hotelero Santa Fe will double in Mexico after its IPO

Source: El Financiero

After its debut in the Mexican Stock Exchange (BMV) in September, the Santa Fe Hotel Group plans to double its presence in the country over the next two years, allocating close to $150 million to achieve the goal.

"We currently have 1,735 own rooms, but with the resources that we got in the BMV we are going to duplicate that number in the next 18 to 24 months. 80% of the investment will be for our brand Krystal", said Francisco Zinser, CEO of the company.

Meanwhile, Arturo J. Saval, Nexxus Capital-shareholder of the company- co-president, said that "hopefully in 12 to 24 months we will be able to show the performance of the company to perform a similar or larger offer than the initial ."

Warehousing market doubles since 2008

Source: El Mercurio

This year, 5.4 million square feet would be added and in the future they would be located further away from the capital

Strong demand from retail companies and the outsourcing of logistics by companies have driven the strong expansion in recent years of the warehousing market in Santiago and its surroundings. According to the real estate consulting GPS Global Property Solutions, Class I warehouse inventory totaled 31.9 million square feet the first half of this year , almost doubling the 2008 stock.

The Industrial Division manager of GPS, Alejandro Reitze, commented that "the market has been dynamic since 2008 because of the professionalization of the industry, where big players capitalized their positions, and coupled with a change in the way companies managed their facilities, moving from an owning-the-facilities focus to a rent-the-facilities focus because of the benefits in operational efficiency and in economic terms".

The Development Manager of Bodegas San Francisco (BSF), Alberto Fluxá, indicated that over 50% of demand for warehousing is linked to retail, a sector whose growth in recent years has resulted in the rise of this type of facility. Fluxá added that BSF - which leads the market with 38% share according to GPS- monthly builds 108 thousand square feet of warehouses. Bodenor Flexcenter is the second largest operator.

The vacancy in June reached 4.30% in Class I, up from 1.26% by the end of 2013. One reason for this increase is the weak economic scenario of the country, indicates the report of GPS. The supply of new players also impacts. Despite this, the average rental price in the sixth month of the year was $0.48 per square feet in the traditional warehouse segment. This represented a slight improvement on the $0.46 per square feet during the second half of 2013.

Hyatt opens first Place hotel brand in Chile

Source: Diario Financiero

Hyatt Hotels and HPV announced the opening of Hyatt Place Santiago/Vitacura. With this hotel, the international holding introduces the Hyatt Place brand to Chile and becomes the first in South America and the third in Latin America.

The site has 160 spacious rooms, including 20 suites, overlooking the mountain or the city of Santiago. "This hotel is a great contribution to this destination that enjoys increasingly greater recognition both nationally and internationally," said Andreas Nauheimer, director of HPV.

Rents in malls rise to $228 per square feet yearly

Source: El Mercurio

Shopping centers have been positioned as one of the main venues for the Chilean retail location. Today, in fact, these complexes represent 25% of the annual industry sales. According to a report by Colliers International, the monthly rent has a fixed component which, depending on location, can range from $12 to $24 per sf/year for department stores; of $36 to $108 per sf/year for common retailers and from $204 to $228 per sf/year for small islands in corridors. Associated with this, there is a variable component that moves around 3% of sales. Base or percentage paid depending on what is higher. Not only the size of the store makes a difference, but also the type of shopping center and its location. In Colliers said that "the most expensive rents tend to be those located in environments with predominance of higher socioeconomic groups or those in areas of high flow".

The mall rents have steadily risen. According to the consulting company, a natural growth that has to do with income occurs. To the above is added an increase in rent because of redefined or extended deadlines or tenants replacement. Currently, shopping centers manage about 27 million square feet in Chile and occupation reaches 95%.

$300 million for Bogota Premium Outlets

Source: Portafolio

This shopping and entertainment center will have 1.3 million square feet built

Meridian Properties and Inversiones Siberia will build a shopping center that will be part of Parque Industrial Interpark, in the west of Colombia's capital. We are talking about Bogota Premium Outlets, whose opening is scheduled for November 2017. "Currently, the project is in the design and marketing stage", said Abdon Espinosa Fenwarth, president of Meridian Properties S.A.

The complex—in which will be invested over $300 million - will be an outlet. The executive added that the new shopping and fun proposal will have over 185 national and international stores, entertainment, themed restaurants, food courts and cinemas.

In addition, Bogota Premium Outlets will have 1.3 million square feet built, more than 645 thousand square feet of commercial and entertainment space and 2,700 parking lots.

Another novelty is that the stores will be leased using a centralized administration. The mall will be part of a complex that will include a 200-room hotel and office space that will be built simultaneously.

Mall Plaza invests $250 million in expansion plan in Colombia

Source: Peru Retail

Mall Plaza, Chilean group in the retail sector, continues its expansion plans in Colombia. The company plans to complete three shopping centers with a total investment of $250 million. Among them will be their mall in Manizales, a city that will have its first Falabella store.

The data was revealed by Felipe Cobo, president of Mall Plaza Colombia, who also said that his company's investments in Colombia are designed for a 30-year term, which will continue to expand. "The truth is that we closed an extremely positive 2013, with an occupancy rate in our first shopping center in Cartagena of about 90% and the most interesting part is that we connected very well with consumers, creating a relationship of great value with growth rates of 25% in the last quarter of the last year, which leaves us satisfied", said Cobo.

Meliá Hotels International announces the Meliá Cartagena de Indias

Source: Meliá Hotels International

Meliá Hotels International continues its international expansion in Colombia, one of the most dynamic markets in Latin America, and does so with the announcement of the opening of the new Meliá Cartagena, scheduled for the first quarter of 2017 in Cartagena de Indias, a strategic location in the Caribbean and one of the prime destinations for a holiday break or a business meeting.

Meliá Cartagena offer 154 rooms, a destination-restaurant and a buffet restaurant, bar, spa, beach club and lounge & events, one of the fastest growing segments in the region.

The Hotel is located in an idyllic setting, on the beach and close to the Karibana golf course with 18 holes.

Declared a UNESCO World Cultural Heritage Site in 1984, Cartagena de Indias is an emerging destination in the Colombian Caribbean with lush landscapes, gorgeous beaches, an intense and exciting nightlife, cultural festivals of international renown and great dining. As Gabriel Escarrer, Vice Chairman and CEO of Meliá, explains "with Meliá Cartagena, our company is committed to a new holiday destination for international tourist landmark, while reinforcing with its first hotel Meliá, its portfolio of brands in Colombia, an emerging market that is a priority for us".

Marriott will have 10 hotels in Peru by 2020

Source: El Comercio

The CEO for Latin America at the Marriott hotel chain, Craig Smith, reported that eight new hotels will open in Peru until 2020, which will be added to the two they already have in Lima and Cusco. "We will have up to 10 hotels in Peru by 2020", said Smith. "In addition to the JW Marriott and Courtyard brands, already announced, we are evaluating other alternatives to position ourselves nationally. A Fairfield Inn for example, which focuses on young guests, is among our alternatives," he said.

Real Plaza in Salaverry, the $120 million mall

Source: El Comercio

In its first three months, it has become the chain's best-selling mall

After three months of operation, Real Plaza presented his first fashion mall located in the Salaverry Avenue in Lima. This project has a leasable area of 775 thousand square feet and required a $120 million investment .

Rafael Dasso, general manager of the shopping mall chain, said that Real Plaza Salaverry houses more than 200 shops on five segmented floors. Among its tenants are Zara, Banana Republic and Tommy Hilfiger, among others, and 15 international brands that are entering the country for the first time, like Forever21.

Dasso said that the first months of Real Plaza Salaverry have been very promising not only in number of visitors –they receive 1.3 million people per month- but also in sales. In this short time, the mall has the largest turnover in the whole chain, replacing Real Plaza Primavera.

Mall Plaza picks up in Peru and surpasses Parque Arauco in leasable area

Source: Diario Financiero

However the operator owned by the Said group shows more dynamism, with five openings planned for this year in Peru

Mall Plaza takes the lead in the Peruvian market again - measured in gross leasable area (GLA)- beating Parque Arauco, which last year snatched this position. Mall Plaza, the shopping center operator controlled by the Falabella group ended the first half of this year with 2.8 million square feet of GLA in Peru, which has four shopping centers, against 2.7 million square feet, divided into ten malls of different sizes, reported by the firm linked to the Said family.

Mall Plaza reported an increase in GLA thanks to the expansion of their malls in Trujillo, Arequipa, Bellavista and Santa Anita, where they added medical and office towers. Meanwhile, the other company reported the expansion of its outlet in Lima, which also changed its name.

The companies came from a 2013 where Parque Arauco had surpassed Mall Plaza in terms of GLA, with 2.67 million square feet of GLA, against 2.57 million square feet of Plaza. The first plans to add 420 thousand square feet of shopping centers in Peruvian soil while Plaza reported no additional projects in that country.

The commitment to this market would not be on a whim. According to the Association of Shopping and Entertainment of Peru (Accep), the mall penetration reached 2.9% per million inhabitants, compared with 4.1% in Chile and 3.4% of the regional average. Because of that, this year is scheduled the opening of fifteen shopping centers, seven of which are from Chilean capital: one of Mall Plaza, another Open Plaza (Rentas Falabella) and the others of Parque Arauco.

The Ebitda margin in Peru is higher than Santiago's with 80.5% versus 76.6%, although the occupation is less in Lima, with 94.8%, versus 95.2% of Santiago.

Parque Arauco's presentation provides more details regarding the new developments in the company, and recognizes that they have 2.8 million square feet of land for future projects in Peru and 1.7 million in Colombia.

United States

NYC’s Hudson Yards project will be an entire city

Source: Hudson Yards New York

The last place on earth you'd expect the largest private real estate project in the world to be happening is on the tiny and already over-developed island of New York City.

Yet the Hudson Yards, A 28-acre site on the West Side of New York City, the last major undeveloped part of Manhattan, has become just that. While it is still years away from completion, the amount of work that has been done on the Hudson Yards over the past two years is nothing short of amazing. What makes this project so huge is that it is not just a new skyscraper, or even a few new skyscrapers, but an entire new neighborhood that is under construction.

Hudson Yards is the largest private real estate development in the history of the United States. It is anticipated that more than 24 million people will visit Hudson Yards every year. The site will ultimately include, in 10 more years and after a $20 billion investment, more than 17 million square feet of commercial and residential space, 5 state-of-the-art office towers, more than 100 shops, a collection of restaurants, approximately 5,000 residences, a unique cultural space, 14 acres of public open space, a public school and a 175-room luxury hotel.

Columbia Property Trust buys office building in San Francisco for $309 million

Source: Funds Society

Columbia Property Trust acquired the property at 650 California Street San Francisco, a 33-story Class A office building and 478,000 square feet, for $ 309 million. Currently 88% of the building is rented and in the first year is expected a net operating income of $11 million.

Canada

Canada gets outlet centers to call its own

Source: ICSC

Canada’s retail scene is evolving fast, with the entrance of new international retailers such as Chico's and Target and the mushrooming of the factory outlet mall concept. Some half dozen factory outlet centers are in the works there from coast to coast. About a year ago a joint venture of Ontario-based Calloway REIT and Simon opened Canada’s first true — that is, nonhybrid — outlet mall: Toronto Premium Outlets, in Halton Hills, Ontario. “It opened and I don’t think they’ve had a quiet day since; the line of cars backs onto the highway,” said Ross Moore, director of Canada research at CBRE. “Just looking at this most recent outlet center that has opened here in Toronto, outlet centers will absolutely be a success”.

Though Canada still has fewer than a dozen outlet centers so far, Moore and others caution that demand will support only a handful more. “There is probably only room for another three new outlet projects, maybe five,” Moore said. On the other hand, the appeal of outlet center projects from a developer’s perspective is obvious, says John Giddings, vice president of retail at Toronto-based Oxford Properties. Canada is undersupplied with malls and major shopping centers in general right now. And an outlet center is typically less expensive to build than an enclosed mall. “If you’re a developer and want to be in retail, this is a cheaper way to build,” Giddings said.

Terranova closes record $342 million in Lincoln Road, Miami sale

Source: Funds Society

In one of the largest deals in South Florida history, Miami Beach based Terranova Corporation announced the sale of its 6 building portfolio of Lincoln Road area assets, in Miami, for $342 million. The properties were assembled over the past three and a half years at a cost of $191 million. The buyer is Morgan Stanley Real Estate Investing, along with affiliates of Terranova.

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of the Americas.

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