PANAMERICAN
REAL ESTATE CAPITAL & SERVICES

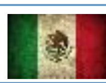
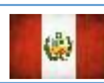
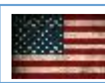
Quarterly Newsletter

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

4th Quarter, 2014

Photo: Blackstone sells at record Price tower in New York

Macroeconomic Figures

COUNTRY							
POPULATION *(MM)*	201	117	18	48	31	316	35
UNEMPLOYMENT	6.80%	4.78%	6.40%	7.90%	6.00%	5.80%	6.60%
BENCHMARK INT. RATE	11.75%	3.00%	3.00%	4.51%	3.50%	0.25%	1.00%
FDI – 2013 (*USD Billion*)	64	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*)	3.00%	3.40%	4.90%	4.00%	6.30%	1.90%	2.00%
GDP – 2014 (Est. *Growth*)	0.20%	2.10%	1.70%	4.80%	2.80%	2.60%	2.30%
INFLATION 2013	5.50%	3.60%	3.00%	2.40%	2.20%	1.20%	1.00%

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Big contrasts during 2014 with interesting opportunities for investors in 2015

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

We are closing 2014, with a clear contrast between North America and South America. If in the last 5 years, South American economy behaved better than North America, in 2014 the situation clearly reversed.

The US continued a sound recovery, with surprising GDP growth, job creation and consumer spending. In the real estate markets, both occupancy levels and leasing spreads increased. With plenty of financing, transaction activity exploded and cap rates compressed in every real estate asset class.

In multi-family, cap rates fell to 4.4% in the first half of the year, which is driving investors back to secondary markets in order to achieve higher returns. In retail, where CMBS financing is back, cap rates hit 6% for enclosed malls and 7.5% for open-air centers. Redevelopment is the name of the game for some players and we are even seeing some new development. Office sales volume in central business districts (CBD) was US$20.1 billion between January and September, a 39% increase year over year. It is worth to mention two transactions in the fourth quarter that added to US$3 billion: the US$2.25 billion sale of *1095 Avenue of the Americas* in New York City and the US$715 million sale of *353 North Clark Street* in Chicago. The industrial sector saw the appetite of foreign institutional investors, when the sovereign wealth fund of Singapur (GIC) announced the US$8.1 billion acquisition of IndCor Properties 117 million-sf portfolio.

Leveraging on the US recovery and the local energy reform, Mexico continued its FIBRA-led investing activity across all asset classes, sending home former foreign investors like Kimco Realty or GE Capital. The FIBRA's (Mexican version of the US REIT's) are finalizing 2014 with a GLA in excess of 170 million SF. At the moment most of the FIBRA investment has been in acquiring existing income-producing assets, but they are moving slowly into development.

The outlook for 2015 in both Canada and Mexico real estate markets looks well given the strength of the US recovery.

South America was a different story in 2014: the end of the so called commodities boom era due the slower growth pace of China, has resulted in stagnation, inflation and currency depreciation in most of the countries. In Chile, you need to add a strong tax reform as one of the main causes of the local deceleration. Many countries get used to the boom years and implemented generous fiscal programs to make the emerging middle class happier. These groups have expressed their discontent publicly, especially in Brazil and Chile.

Real estate markets could not escape to this bad landscape and had one of its worst years. As opposed to North America, in most of the markets and asset classes both occupancy levels and rents levels decreased during the year. The most damaged class has been office where the supply/demand dynamic is not favorable. While Sao Paulo and Rio de Janeiro continued the rent corrections started in 2013, Santiago and Lima saw their first rent corrections in 2014. Transaction activity in every asset class has been disappointing. Many investors are asking for discounts, given the higher perceived risk, but are not finding sellers. Over-leverage is generally not a problem in South America, so we are not seeing what happened after the US subprime crisis, where many cash-rich investors found distressed assets at very convenient prices. Existing assets either have no debt and/or low LTV ratios and/or the term of the debt is long. We don't see bullet loans down here and when there is leverage, it is amortizing debt, so it is rare to find assets underperforming at the level that their NOI is unable to meet the debt service.

Some notable transactions, all in Brazil, were the US$1.3 billion acquisition of BR

Properties industrial portfolio by Singapore-based Global Logistic Properties (GLP), the sale of DDR's 50% stake at Sonae Sierra shopping centers (US$343 million) and the sale of a 50% interest of luxury mall JK Iguatemi in Sao Paulo (US$266 million).

Colombia has been a notable exception, with the general economy and real estate markets outperforming the rest of the countries.

We see the first half of 2015 as the last period of rent corrections in South America real estate markets. There is a big opportunity for the return of foreign institutional investors that may take advantage of the low local investment activity and weak local currencies. The transaction rationale is to acquire non-stabilized assets with good financing terms, do the lease-up and property management, hold the asset 5 years and exit with a higher NOI, a lower or similar cap rate and a better exchange rate. At Panamerican, we are underwriting 20% IRR deals without considering the gain on currency.

Hyatt Announces Plans for Two New Hotels in Brazil

Source: Hyatt

Hyatt Place Sorocaba and Place Macaé are expected to debut in 2017

Hyatt Hotels Corporation and FSA Group S.A. announced that joint venture entities formed by Hyatt affiliates and FSA Group have entered into agreements to purchase two sites in Brazil to develop Hyatt Place Sorocaba and Hyatt Place Macaé. Upon the closing of the site acquisitions, the joint venture entities will enter into agreements with FSA Group to manage the design, planning and construction of the hotels and with Hyatt affiliates to provide management services in connection with the operation of the hotels upon opening, which is expected in the first quarter of 2017.

These two hotels are part of a larger master development agreement between Hyatt affiliates and FSA Group to develop a total of nine Hyatt Place hotels across Brazil. The first hotel as part of this agreement, Hyatt Place São José do Rio Preto, was announced in April 2014 and is expected to open in mid-2016.

Located approximately 60 miles from the city of Sao Paulo, Sorocaba is one of the region's most important industrial cities, serving as headquarters for numerous multinational companies across diverse industry sectors. Hyatt Place Sorocaba will be a component of a mixed-use project known as Iguatemi Esplanada owned by Iguatemi Empresa de Shopping Centers S.A. (Iguatemi), one of Brazil's largest retail developers. The Iguatemi Esplanada completed a large expansion of its retail component in November 2013, and plans to add two office towers and a luxury residential component in phases over the next several years. The 176-room Hyatt Place hotel will feature a lobby lounge and restaurant, a fitness center, and approximately 2,200 sf of flexible meeting space.

Macaé, located approximately 110 miles northeast from the city of Rio de Janeiro, has a large multinational presence and is an economic center for tourism, fishing and most notably, petroleum as it is the main center for offshore oil exploration in Brazil. Hyatt Place Macaé will be located on a beachfront site in the neighborhood of Cavaleiros. The area boasts a large selection of seafront restaurants and nightlife entertainment. The 142-room hotel will feature a roof-top pool, a lobby lounge and restaurant, a fitness center, and approximately 1,700 sf of flexible meeting space. The seller of the site is Praia Campista Macaé Empreendimentos Imobiliários Ltda, an affiliate of Primus Realty.

São Carlos sells two office buildings for US$ 40 million

Source: Valor Econômico

In a year with few transactions of office assets and with a bear market, São Carlos Empreendimentos e Participações sold in late October two A-class buildings located in São Paulo at US$ 40 million. The properties were acquired by a real estate investment company, whose name was not released.

GIC buys HSI's Eco Sapucai office building

Source: GIC

Singapur Sovereign Fund GIC, has signed an agreement to acquire Eco Sapucai, an office building in Downtown Rio de Janeiro. The 930,000 sf AAA office project is currently under development by Hemisfério Sul Investimentos (HSI) and construction is expected to be completed in the first quarter of 2015. This is GIC's first wholly owned investment in Latin America. At delivery, it will be one of the highest quality buildings in the Rio de Janeiro market with floor plates of up to 54,000 sf and one of the city´s best parking ratios. Additionally, the building is expected to be one the few in the city with LEED Gold.

Tia Miyamoto, Regional Head, Americas, GIC Real Estate said: "Eco Sapucai is a welcome addition to our global portfolio of best-in-class assets. It is a quality asset in a prime location. We believe strong demand for this first-rate office property will translate into a stable income stream which suits GIC as a long-term investor."

Fibras revolutionize the real estate market in Mexico and go for more in 2015

Source: Reuters

Fibras (Real Estate Investment Trusts in English) will keep revolutionizing the Mexican real estate market in 2015 with millionaire acquisitions.

The Fibras have been the most successful in raising funds from the market in the past two years. Four of the eight public offerings in Mexico this year were of Fibras, raising US$ 3,800 million.

Experts see them as the key to the real estate market for large local institutional investors, and also for foreign players eager for good returns in a global context of low rates. Data of the Mexican Central Bank show that 56.2% of holders of Fibras are foreigners, compared to 15.4% in the case of retirement funds. This factor has given an unprecedented solvency to a market that previously attracted only private investors with fewer resources, which has pushed the price of properties.

"It's not that it has boosted the market, it has totally changed it" said Hector Klerian, director in Mexico of the firm specializing in real estate JLL, about its impact. JLL estimates suggest that the price per square foot of top-class offices in the City of Mexico, which accounts for 85% of the domestic market, rose between 25 and 30% in the last five years. To Klerian, 80% of the increase responds to the voracious appetite of the Fibras.

Behind this boom is the bet to a business spring in Mexico caused by the reforms in the energy and telecommunication sectors approved by the Government, who expects to attract huge investments.

"We still have a significant potential to continue growing through acquisitions" said Marco Medina, analyst of the Ve Por Más bank. The pioneer Fibra Uno has US$ 1,750 million for more purchases after acquiring, between January and September, 43 new properties, equivalent to 7 million sf. Meanwhile, Terrafina and Macquarie, focused on industrial properties, total about US$ 776 million to spend in the next 12 months. In shopping centers, it is estimated that 60% of the largest malls in Mexico are private, in a latent opportunity for the Fibras to either purchase or partner.

The eight Fibras in operation have 163.6 million sf and 12,476 hotel rooms, according to Signum Research, and want to go for more.

Fibra Danhos opens mixed project with US$ 600 million investment

Source: Reuters

The Mexican Fibra Danhos announced the opening of a mixed project in the Mexico State, near the capital, with more than US$ 600 million investment.

Toreo Parque Central, which began operations in November, consists of a shopping center with 0.86 million sf of GLA (gross leasable area), three office towers with a GLA of 1.3 million sf and a five star hotel with 245 rooms, which will be operated by the local Grupo Posadas.

Danhos expects 15 million visitors to the commercial space in the first year of operation.

Mexico City is the most dynamic real estate in Latam

Source: El Financiero

According to the Latin America Regional Prime Office Report, Mexico City is one of the most dynamic cities for real estate in Latin America, and in the coming years is expected to add 4.5 million sf of new offices.

Parking, big business for airports

Source: El Financiero

For the airport operators OMA, GAP and ASUR, the operation of the parking has become a business that 'flies'. In the past two years, revenues from parking lots of the three groups grew double digits.

Besides being one of the largest providers of non-aeronautical revenues for airports, parking is the most profitable segment, with margins of 70 and 80%.

Cencosud announced that the offices at Costanera Center are now available for rent

Source: El Mercurio

Cencosud, owner of the real estate project Costanera Center, announced that the process of marketing their two office towers has officially begun. As reported, the main building has a leasable area of about 840,000 sf Class A+ on 62 floors, 3,200 feet high and free plants from 11,000-18,000 m2. The project "has the highest safety standards and is in the process of LEED Gold certification", the company said. Meanwhile, the second tower—over 1,000 feet high with 28 floors– will have offices and a hotel. In this first stage the first 160,000 sf will be offered.

Cencosud and Marriot agree to operate hotel in Costanera Center

Source: La Tercera

The holding Cencosud and Marriott International reached an agreement that sealed the entry of the US firm to Costanera Center. The new hotel, which will be operational during the second half of 2016, will have 253 rooms in 156,000 sf. The hotel chain will operate a hotel of category 4 Stars Superior, which operate under the AC by Marriott brand in 10 floors.

Boom in parking lot projects in Santiago

Source: Diario Financiero

Average rates in the eastern sectors reach US$ 1.08 per half hour and occupation rates of 95%.

In Santiago, the expansion of the city limits, the concentration of business activities in certain sectors of the city and the growth of the vehicle fleet - which already exceeds 4 millions- has influenced the growing need for underground and surface parking.

68% of the offer concentrates in Santiago Centro, Providencia and Las Condes, where average rent rates are also the most expensive of the city, according to a report by Colliers International.

In the city center, Las Condes and Nunoa rates average US$ 1.08 per half hour, while the occupancy rate of the first two is at 89% and 82% in Nunoa. In Providencia the price drops to US$ 1.03 but the average occupancy rate increases to 95%.

Isaac Hites buys shopping mall Espacio M and Nueva Estación Puerto at US$ 46 million

Source: Pulso

Through a private bidding, Nialem, a branch of the businessman Isaac Hites, was awarded the mall Estación Nuevo Puerto of Valparaíso. This project was in stand-by and ended up being developed by the Boetsch company, who made an investment of US$ 50 million. Nialem participated in the auction and took the building after offering US$ 21 million.

To this investment, two other malls that Isaac Hites has acquired in recent times add up. The company signed a promise to purchase the iconic mall Espacio M. This agreement for the shopping center located in the municipality of Santiago, involved an investment of approximately US$ 25 million.

Besides mall Espacio M and Nueva Estación Puerto of Valparaiso, the company acquired Punta del Sol Mall of Rancagua, a mall that several years after being abandoned was purchased and is being remodeled by the company.

Sura Real Estate Investment Fund acquired more than 50% of Palladio Building

Source: El Mercurio

The purchase of the property involved the disbursement of US$ 45 million.

Investment fund SURA Real Estate acquired over 50% of the Palladio building at US$ 45 million, according to the firm. The new acquisition, located few steps from the Pedro de Valdivia Metro station, has approximately 145,000 sf, including parking lots and depots. According to the company, the characteristics of the property allows it to be rated Class-A as an office building and has less than 5% vacancy.

Grupo Argos and Conconcreto sealed real estate partnership

Source: Dinero

With 50% each, Grupo Argos and Conconcreto provided income generating assets to create one of the largest real estate portfolios in Colombia.

The companies announced that they reached an agreement to jointly develop their strategy of property income by providing assets that allow the creation of a portfolio focused on development and operation, with the adequate diversification of use and geographies. The equity of each company in the portfolio is 50%.

The combination of the assets will create a portfolio that, in its initial stage, will operate over 4.6 million sf equivalent to US$ 541 millions. Over the next four years the new partners will develop 3.2 million sf of leasable area, which will double the value of assets under management, reaching US$ 1,080 millions and making it one of the largest real estate portfolios in the country.

Grupo Argos will provide 345,000 sf of real estate assets in operation, projects under construction for US$ 51 millions, land for development worth US$ 47 millions and US$ 152 millions in cash. These will be disbursed over the next four years according to the investment needs of the portfolio.

Meanwhile, Conconcreto will provide 4.4 million sf of real estate assets in operation and a portfolio of projects worth US$ 400 millions to develop over the next four years. They will also transfer the experience in the operation and maintenance of real estate assets to optimize costs over a larger volume of square foot.

José Alberto Vélez, President of Grupo Argos, said that "combining the experience of Conconcreto with the track record and financial strength of Grupo Argos allows us to consolidate a new real estate portfolio as an important player in the region, where we see growth potential."

For his part, Juan Luis Aristizabal, president of Conconcreto, believes that "merging the financial soundness of Grupo Argos and its multilatin presence with Conconcreto's experience in developing real estate assets by itself, which requires a large investment capacity, is the ideal partnership to foster portfolio growth in the coming years".

Marriott will have 10 hotels in the next four years in Colombia

Source: Portafolio

Craig S. Smith, president of Marriott International for the Caribbean and Latin America, highlighted the growth in Colombia and indicated that the average occupancy is 80%

Craig S. Smith, president of Marriott International in the Caribbean and Latin America and responsible for the financial and operational management of the region, highlighted the good growth of the area and the expansion of the chain in Colombia.

How are Marriott's projects performing in Colombia?

Very successful and well known in the market. This year we opened a hotel in Cali and we've just opened an Autograph Hotel in Bogota. We also built another Marriott in Medellin and we will announce five more hotels. From two hotels in 2013, we will have 10 in three or four years.

Why is this market attractive for the brand?

Colombia is growing well, with an economy open to the world. Each time there's more security, more business; they're not only are American travelers, there are lot of Latin-Americans too. Besides, the middle class is growing and traveling within their own country. Most of our hotels will be business hotels but we will also have for tourists, as in Cartagena and Santa Marta.

How do you deal with competition in your target hotel segment, especially in Bogota?

It's not a problem. We had a good year. We made more than 80% occupancy, they work great. I have many employees in my office who can't find a vacancy at Marriott when traveling to Colombia.

Chilean Parque Arauco bought Ekimed for US$ 100 million

Source: Diario Financiero

The malls El Quinde of Cajamarca and Ica were acquired by Parque Arauco to Ekimed at US$ 100 million.

With this purchase Parque Arauco regains its leadership among Chilean operators of shopping centers in Peru. The two shopping centers Parque Arauco acquired will add 721,000 sf, which will join the 2.66 million sf they already own there, totaling a leasable area of 3.4 million sf.

The purchase also considers land in other cities of Peru, which account for a combined area of 1.5 million sf. Parque Arauco already has other 2.8 million sf in land in the country and other 420,000 sf in projects that are being developed.

SCP built in Peru the largest mall in its portfolio: US$ 100 million

Source: America Retail

Big zone with short supply. La Molina, despite being one of the largest districts of Lima, today it only has one shopping center, the Molina Plaza which has aroused the interest of new operators. This is the case of Peru Strip Centers (SCP), an alliance between Parque Arauco and Raffo group, which will develop in there the new lifestyle mall of Lima, much like Larcomar, reveals Eduardo Herrera, country manager of Parque Arauco in Peru.

Herrera said that this will be the single most important asset in SCP portfolio, which has a committed investment of US$ 100 millions in several retail formats. "The permitting process has already begun and we are finishing the commercial preplacement" said the executive.

V&V Grupo Inmobiliario is setting up projects for US$ 152 million

Source: El Comercio

The real estate group is setting up six office and residential projects which will be finished by mid-2016

The company V&V Grupo Inmobiliario is currently implementing a portfolio of six office and residential projects in what is called the Modern Lima, which includes the districts of Miraflores, San Isidro, Pueblo Libre, Magdalena and La Victoria.

César Paniagua, New Business Manager of the company, noted that all these projects total US$ 150 million in investment. "Some of these buildings have just begun the construction phase and others are on the verge. I believe that the projects will be ready between late 2015 and mid-2016" he said.

Paniagua details that three of them are office buildings with 18 to 22 floors in the districts of San Isidro, Miraflores and Magdalena, while the housing projects border the 17 floors and are located in central squares such as Miraflores, La Victoria and Pueblo Libre.

Office building render in Magdalena del Mar

Although the company has not reached provinces yet, it is conducting a market research to assess where it could anchor their first housing project in the interior. "Chiclayo would be interesting, we are conducting detailed studies because banks now have been tougher" he explained. Meanwhile, Arequipa and Huancayo are also on the radar for the future. "If we go to provinces, they would be residential buildings" he said. Because of the characteristics they have been observing, the best fit would be buildings with 300 departments of around 750 sf each.

United States

Blackstone in US$2.25 billion deal to sell tower to Ivanhoe

Source: Bloomberg

An Ivanhoe Cambridge Inc. venture agreed to buy a Manhattan office tower from Blackstone for about US$2.25 billion, extending a surge of demand for prime U.S. properties.

The Ivanhoe group signed a contract to purchase 1095 Avenue of the Americas, a 42-story building on Bryant Park. The sale would be the largest of a whole U.S. office property since a group led by Boston Properties Inc. bought the General Motors Building in New York for a record US$2.8 billion in 2008. Stable, well-leased U.S. real estate has attracted investors from around the globe seeking higher yields than bonds and a way to benefit from the recovery in the U.S. economy.

The Bryant Park tower is located between Times Square and Fifth Ave. The building is almost fully occupied and it is home to Verizon Communications Inc.'s headquarters and offices for MetLife Inc. Whole Foods Market Inc. has leased retail space.

The sale to the Ivanhoe venture is being done at a capitalization rate of about 4.5 percent.

Google buys buildings in Silicon Valley for US$ 585 million

Source: Pulso

Google Inc. purchased 0.93 million sf in six office buildings northwest of its headquarters in Silicon Valley to Starwood Capital Group LLC and Blackstone Group LP in a US$ 585 million operation.

Canada

Crestpoint doubles real estate portfolio under management with US$ 634 million deal

Fuente: Real Estate News Exchange

The Canadian Crestpoint Real Estate Investments Ltd.'s June acquisition of a 50% stake in, the also Canadian, H&R REIT's Telus Building in Vancouver has led to a much bigger deal: a US$ 634-million agreement to a 50% interest in 101 industrial properties held by H&R.

Crestpoint announced a joint venture it created with the Canadian Public Sector Pension Investment Board, the intention of which is to acquire a 50% interest in a portfolio of Canadian industrial properties and a 49.5% interest in a portfolio of U.S. industrial properties from H&R. The deal doubles the value of Crestpoint's real estate portfolio under management to approximately US$ 1.3 billion.

The agreement with H&R gives Crestpoint an ownership stake in a large portfolio of hard to acquire assets, said Crestpoint president Kevin Leon. "Prior to the deal, Crestpoint's industrial portfolio was valued at about US$ 130 million".

The portfolio to be acquired by the Crestpoint joint venture consists of 101 properties (85 in Canada and 16 in the U.S.), comprising approximately 19.5 million sf of industrial space and 1,465 acres of land. The U.S. properties are generally bigger, with the 16 properties comprising 6.4 million sf compared to 13.1 million sf for the 85 Canadian properties. In both the U.S. and Canada, occupancy is either at or close to 100%.

GIC to buy Blackstone's IndCor Properties for US$ 8.1 billion

Source: Bloomberg News

GIC, Singapore's sovereign-wealth fund, agreed to buy IndCor Properties Inc. from Blackstone Group for $8.1 billion. GIC is gaining warehouses across the U.S. as demand for industrial space climbs from Web retailers and other customers. IndCor owns about 117 million square feet of buildings in 29 markets. For Blackstone, the deal allows it to exit a major investment at a profit as it invests a new series of property funds.

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