PANAMERICAN

REAL ESTATE CAPITAL & SERVICES

Quarterly Newsletter

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

2nd Quarter, 2013

Photo: New Patio Malzoni – Office Building, Sao Paulo, Brazil

Macroeconomic Figures

COUNTRY							
POPULATION *(MM)*	197	115	17	47	30	316	35
UNEMPLOYMENT	4,6%	4,9%	6,2%	10,2%	5,6%	7,7%	7,2%
BENCHMARK INT. RATE	7,5%	4,0%	5,0%	3,25%	4,25%	0,25%	1,0%
FDI – 2012 (*USD Billion*)	65.3	12.7	29.3	16.9	11.0	174.7	45.3
GDP - 2012 (USD Billion)	2.477	1.153	268	366	200	15.685	1.736
GDP – 2012 (*Growth*)	1,0%	4,0%	5,2%	4,0%	6,3%	2,2%	1,8%
GDP – 2013 (Est. *Growth*)	3,1%	3,5%	5,0%	4,8%	6,2%	2,0%	1,6%
INFLATION 2012	5,4%	3,57%	1,5%	2,44%	2,65%	2,1%	0,8%

IN THIS ISSUE

Big Boost for investors in Brazil

Brazil exempted foreign investors from paying a financial transaction tax on purchases of real estate investment trusts traded on the country's stock exchange. Since early last year the government of President Dilma Rousseff has aimed to develop funding alternatives for local builders, many of which are overly dependent on loans from state development bank BNDES, the main source of long-term corporate financing in Brazil.

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Celfin Capital acquires logistics and storage center in Santiago, Chile

Celfin Capital finalized the investment phase of its second US$ 150 million income producing real estate fund, by acquiring the logistics and storage center Cargopark.

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New grocer starts operations in Colombia

JERÓNIMO MARTINS

The Group's operations in Colombia started in March, in the cities of Pereira and Armenia, with the opening of the 5 Ara stores and the first Distribution Centre.

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KIMCO Realty sells part of its Mexican portfolio

KIMCO executed a purchase and sales agreement for the sale of a nine-property Mexican shopping center portfolio for a gross sales price of approximately US$271 million.

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Centenario acquires 5 shopping centers in Peru: *Minka, Plaza del Sol* and *Plaza de la Luna*

The US$ 139 million acquisition added 1.184.030 sq. ft. to the investing group that assumed US$35 million debt. During 2012 the recently incorporated area generated sales for US$ 306 million.

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FINANCING NEW SHOPPING CENTERS IN THE REGION

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

During the last years we have seen many comparative metrics of modern retail penetration in the Americas, most of them placing Chile in third place well below the US and Canada, but taking the lead among Latin American countries, especially regarding the retail area per capita.

This has to do, no questions asked, to the higher purchase power in Chile and also with the existence of solid local retailers (Cencosud, Falabella, Sodimac, Ripley) that stood firm against the entrance of mayor players (Home Depot, JC Penney, Sears) and trespassed successfully Chilean borders becoming main actors in the region.

These big retailers dabbled into the Real Estate business more than two decades ago becoming the main owners/developers of regional shopping centers in the Chilean market (Mall Plaza, Cencosud), except for Parque Arauco,being the only big operator to devote its business to shopping centers and not retail. This Chilean model that flowed so naturally is not the common trend in the region where most shopping center developers/operators have no ownership association with the retailers being Soriana in Mexico and Interbank in Peru the exceptions, as they anchor their shopping centers with their self-operated retail stores.

On the contrary, the large Brazilian shopping center developers / operators (BR Malls, Multiplan, Iguatemi, Alliansce, Ancar, Sonae Sierra, and Brookfield) aren't linked to retailers and typically control between 50-60% of the GLA they manage, something that seems unconceivable in Chile.

Similarly, in Mexico the main shopping center developers/operators (Frisa, Planigrupo, Acosta Verde, GICSA, MRP) aren't related to retailers but partnered with US institutional real estate funds such as Kimco Realty.

Nevertheless, such a capital intensive industry wouldn't have had the level of development it has had in Chile, without a solid access to debt or equity in a safe capital market environment. The large Chilean retailers and developers are public companies in the Chilean and/or the US Stock markets. Moreover, they have the capability of issuing bonds in almost every market they operate, key factor regarding the financing of their expansions.

I now would like to address a commonly unnoticed aspect to the large companies that is very relevant to smaller scale developers: the availability of long-term debt financing for new shopping centers.

Generally, in almost all of the Americas, the financial system provides good mid-term debt financing to those Real Estate companies that develop projects that are meant for sale, being them for residential, office and even retail use as it has been the case in Colombia.

The great difference lies in the financing of new development for rent. In this case, the debt repayment does not begin when the Project is finished and the units are sold. The payment actually starts when the project is finished and operating incomes gradually come in. Here is where the big asymmetries within countries in the region coexist.

Whereas in Chile it is common for a midsize developer to get 20-25 year financing, other countries face a different reality. In Brazil and Peru it is very difficult to obtain financing for a period longer than 10 years, reason why the projects are commonly equity-intensive. In Colombia the shopping center development for rental purposes is a new, non-conventional way of doing business. For this reason this type of financing has not been developed yet and investors are asked to provide too many guarantees.

In Brazil, the most common way of financing a shopping center for rental purposes is granted by cash flows securitization through the issue of the *so-called* CRI'S (certificados de recebiveis imobiliarios). But the CRI'S are usually for a 10-year period, which is the typical rental term for anchors. Furthermore, CRI'S are substantially expensive, given that on top of the real interest rate of about 8%, there are other one-time-only expenses such as structuring commissions charged by the securitizing company and legal expenses. Moreover, there are other recurrent expenses such as the rating agency and the fiduciary agent.

The critical lack of low-cost debt financing in Brazil, forced many shopping centers into equity financing, thus having many investors in one shopping center, in which typically the land owner contributed the site in exchange for equity in the project. There also exists a more political way of financing. So are the *subsidized-rate* credits (around 5%) granted by federal banks such as BNDES or state banks like Banco do Nordeste that, to many people's surprise, finances shopping malls.

In Peru the most common way of financing retail developments is through a sale-&-leaseback structure, with a maximum term of 10 years. A large portion of the EBITDA goes to serve the debt, making it not very attractive for yield oriented institutional investors. But, why not finance a longer term to at least pair up the debt term with the anchor's lease term? The official answer is that under Peru's civil code the lease contracts have maximum terms of 10 years.

Retail developers and anchors have sorted out this barrier using alternative contracts in order to reach longer term of 20 to 30 years. Even so, the financial system is not willing to endorse such terms. In my opinion, it is only a matter of time and competition among financial entities for this to start happening.

In short, when capital markets deepen in development and there exists long-term debt financing for independent developers, many more shopping centers for rent will be built, thus shortening the gap with Chile in terms of modern retail penetration.

BIG BOOST FOR FOREIGNERS WHO INVEST IN BRAZILIAN REAL ESTATE

Source: http://en.mercopress.com/

Brazil exempted foreign investors from paying financial transaction tax on purchases of real estate investment trusts traded on the country's stock exchange.

The tax exemption will likely increase US dollar inflows and thus help keep the local currency strong. However, a senior government official said the measure was designed mainly to boost investments in the country's buoyant real estate market.

"The objective here is to stimulate long-term investment in the real estate sector," Diogo de Oliveira, a senior finance ministry official, told reporters in Brasilia. "This measure should not have a relevant impact on the currency."

The move, which zeroes a 6% financial transaction tax known as the IOF, was announced in the government's official gazette. The IOF tax can be lowered or increased at any time depending on market conditions, government officials said.

Gazit-Globe announces the acquisition of Prado Shopping Center in Campinas, Brazil

Gazit-Globe, one of the largest owners and operators of supermarket-anchored shopping centers in the world, announces that its private subsidiary, Gazit Brazil, has completed the acquisition of Prado Shopping Center located in the city of Campinas, in the state of Sao Paulo, Brazil, for approximately US$ 20 million.

Prado Shopping Center comprises of 9.500 square meters of GLA and is anchored by Pao de Açucar, the leading supermarket chain in Brazil.

Source: gazit-globe.com

Patio Malzoni: Biggest Office Complex in Brazil

Here is a likely contender for the official symbol of Brazil's decade long investment boom: the completed Malzoni office building, an impressive staple-shaped structure towering lately over São Paulo's Faria Lima Avenue, this tropical nation's palm-lined answer to Manhattan's Fifth Avenue.

Built on Faria Lima's last tower-approved lot, the 786.000 sq.ft. Building is the physical manifestation of a decade when the local stock index quintupled and São Paulo got a place among the globe's top financial centers. Some of its floor sizes are bigger than almost any other building's in Latin America. The lot was among São Paulo's most expensive ever when it was sold in 2008.

Furthermore, the building has been fully leased at generous rents equal to as much as $122 a square foot a year. That puts the building on par with prices for top space in Midtown Manhattan.

Source: The Wall Street Journal

Mexican Peso becomes the *"spoiled child"* of Investors

Source: Diario El Mercurio

The appreciation of the currency was boosted in March after endorsement of a set of changes regarding the dominant telecommunications groups division, if necessary.

The Mexican peso has benefited from the growing hunger of risk investments. Even before the decision of Japan's Central Bank to acquire a large amount of foreign bonds in order to defeat deflation, fund managers were betting on Mexican Peso comeback.

Investors forecast that the wave of reforms initiated by Enrique Nieto's Government will boost growth. Mexico's economy has expanded at an annual rate of 3.9%, meanwhile the growth of other emerging markets such as Brazil and South Africa have weakened.

In March, the endorsement of a set of reforms regarding the division of the dominant telecommunication groups, accounted for a *big chunk* of the peso appreciation.

The risk rating agency, Standard & Poor's Rating Services announced, past March, the assessment of a better classification for Mexico's Debt (currently BBB) in the upcoming 18 months, if the country goes on with a sequence of reforms.

KIMCO Realty sells 9 shopping centers in Mexico

Source: kimcorealty.com

Kimco announced it has closed on the sale of a portfolio of nine Mexican shopping centers to a local real estate operator for a gross sales price of $3,35 billion Mexican pesos (US$274 million), including mortgage debt of 573 million Mexican pesos (US$47 million). Kimco held a 47.6% interest in this portfolio, which totals 2,6 million square feet and was 91% occupied.

Mexican Real Estate reform strikes main Developers

Source: Diario Financiero

Past February Mexican government announced a reform in the RE sector, eliminating peripheral housing development subsidies and reallocating them into more capital intensive urban areas, as rising fuel prices dispel Mexicans from the suburban areas.

GEO, Urbi and Homex face a complex scenario of renegotiations and Debt maturity. Their stocks have collapsed, losing up to 80% of their market capitalization in a few months.

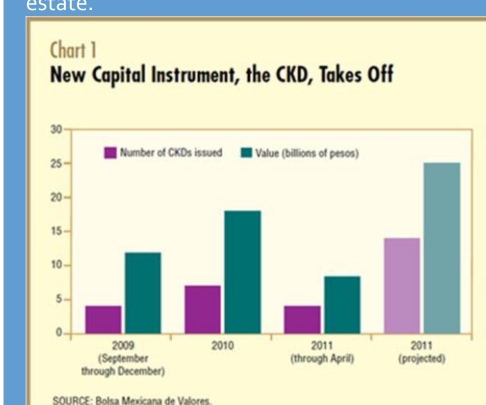
HOT COMMERCIAL REAL ESTATE MARKET: FIBRAS AND CKD'S BOOM

Mexico's financial markets have surged since 2010, recovering from the global financial crisis and benefiting from new capital instruments and rules. Among the most prominent instruments are Certificados de Capital de Desarrollo (CKDs), or trust securities, and the country's first real estate investment trust.

Mexico's stock and securities market, introduced CKDs in August 2009. These securities fund the development of specific existing or future projects, often some type of construction, approved by the issuing trust's technical committee. In the first 20 months after approval of the instrument, there were 15 offerings, raising $3.2 billion, or 38.4 billion pesos.

Real Estate Investment Trusts Arrive

Mexico's first real estate investment trust (or Fibra, the Spanish acronym for Fideicomisio de Infraestructura y Bienes Raíces) came to market in March 2011. The initial listing, Fibra Uno, raised $302 million. Fibra Uno consists of 16 properties, including malls, offices and industrial sites. There were 883 subscribers; with Mexican citizens buying 77 percent of the offering.Authorities began making the necessary legal and fiscal changes to permit the formation of Fibras in 2004. To qualify as a Fibra, at least 95 percent of the returns must be distributed to investors, and a minimum of 70 percent of holdings must be in real estate.



SOURCE: Bolsa Mexicana de Valores.

CHILE

The public Chilean developers reported key information required for the first time by the SVS (***Insurance and Securities Commission***). The firms estimate a potential stock of 13 thousand new homes for 2013

7 Firms reported estimated potential stock to the SVS.

Building Permits grew 29% within a year.

69.191 New Homes were sold in Chile in 2012.

INDUSTRY FIGURES

SOURCE: DIARIO LA TERCERA

ESTIMATED STOCK (IN SALES)

61% (532.997) Apartments

39% (342.827) Houses

Amount (in millions of pesos) of Houses & Apartments in the Industry

ESTIMATED STOCK (UNIT SALES)

53% (7.053) Apartments

47% (6.270) Houses

Total number of Houses and Apartments in the Industry.

Celfin Real Estate fund closes the acquisition of Logistics & Storage Complex

Source: El Diario Financiero

The private transaction did not reveal the deal value due to a non-disclosure agreement

Celfin Capital finalized the investment phase of its second US$ 150 income producing real estate fund, by acquiring the logistics and storage center *Cargopark* from SAAM and other investors.

Market sources estimate the transaction value to be around US$60 million.

Furthermore, a few weeks ago, Celfin agreed to purchase an office building in Ciudad Empresarial (*corporate city)* in Santiago, for which it paid a sum close to US$20 million.

OTHER CLOSED DEALS

- Andres Bello University (part of the Laureate International Universities group) signed a long-term lease contract with the Life Insurance Company *Security* for the opening of a new campus in Providencia, Santiago. Panamerican Real Estate Capital & Services advised the landlord in this transaction.

- Aurus closed the purchase of 5 office building assets that the German group Union Investment put up for sale. The biggest Real Estate deal of the year (2012) for which the firm will pay a sum close to US$215 million.

  The acquisition was partially financed by Corpbanca, whilethe remaining part was financed with equity.

PLAZA GROUP NEGOTIATES THE PURCHASE OF SHOPPING MALL IN IQUIQUE

- Holding, controlled by Falabella, suscribed a preliminary agreement to buy 37% of the Mall Las Americas, subject to reach a 51%.

After almost 5 months of negotiations, the Plaza S.A. holding, reached a preliminary agreement with the main shareholders of the *Las Americas* shopping mall in Iquique, in order to add it up to their retail centers' commercial network.

The acquisition price was not revealed, but it is expected that the buyer will assume a US$19,3 million debt with the BCI bank.

US investors to build 1.000 Apartments in Bogotá

Source: Portafolio.co

Paladin Realty Partners –created to invest American pension funds in Latin America – signed a joint venture with Real Estate Group Valor S.A. to build residential units in Colombia.

The project known as "Palval Homebuilding Platform" implies a US$20 million investment to build 1.000 residential units with a sales value of US$100 million.

The firm compares the real estate market trends in Colombia with those in the States, where the large residential units take precedence in high-density urban areas and where, more often than not, demand exceeds supply.

Unicentro builds a new shopping mall in Yopal, the oil-exploiting capital

The project will demand a total investment close to 5.4 million. It comprises 129 stores within 495.140 square feet of constructed area. The construction is expected to be finished in the course of the second half of this year.

The center will be anchored by a 59.202 sq. ft Carrefour supermarket. In addition to that, Cinemark (Movie Theater firm) also joins in with 4 HD screens; another 8.611 sq. ft. go to a game room and different international / domestic brands.

RIPLEY TO OPEN 20 STORES IN COLOMBIA IN 10 YEARS

Ripley (Chilean Retailer) inaugurated its first anchor store in *El Cacique* (Shopping Mall) in Bucaramanga. Later on this month, it will open another two in Bogotá. And with a fourth opening in Neiva, it will reach the initial expansion goal of 4 new stores in Colombia.

The company forecasts sales for US$1.000 over the next 10 years.

For the next four year the retailer has programmed investments for 272 million. The decade-long goal for Ripley in Colombia is to surpass 20 stores in the country, as Collarte forecasts. In between Chile and Peru, Ripley has 60 stores in their portfolio, with annual sales around 2.700 million

Through Ara proximity food stores, Portugal-based Jeronimo Martins Group plans an aggressive landing on Colombian soil

Source: jeronimomartins.pt

The Ara stores are proximity food stores, with a strong presence in residential neighborhoods.

A total of five stores and a distribution center were opened in the cities of Pereira and Armenia, Colombia. The company plans to have 40 stores by the end of 2013, comprising investments worth €100 million.

Bodegas San Francisco opens Storage Center in Colombia

The joint-venture formed by Conconcreto and Bodegas San Francisco opened its first Storage Center located in Madrid, Cundinamarca, less than 25 miles (about 1 hour and 20 minutes) away from the capital Bogota.

Metropolitan Lima area with a 30 thousand parking spots deficit

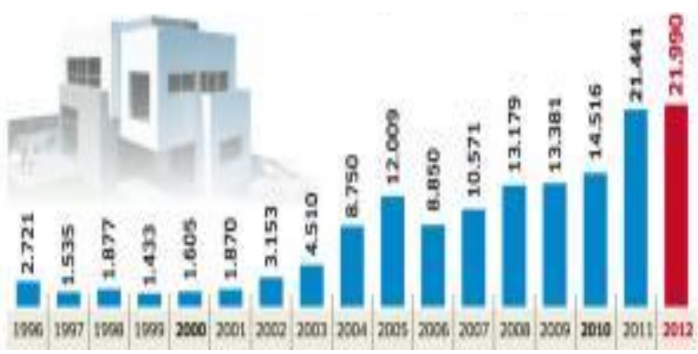
Paulo Torres Ángeles, Parking Solutions' C.E.O., explained that the Real Estate boom has triggered a reallocation for those lands assigned to Parking Lots, which are now being constructed or sold for the same purpose. This **has originated a current deficit of 30 thousand parking spots in Metropolitan Lima area.** A daily parking ticket costs on average US$ 19,40 , being it the second most expensive in the Latin America behind Rio de Janeiro (US$ 20,19).

San Isidro and Miraflores are the districts with the **highest deficit** of parking spaces. The deficit there, reaches the 20 thousand spots.

Moreover, Torres Ángeles said that investing in Parking Lot Project is not alluring; giving that **it takes 30 years to get the investment back**, if the purchase of the land is taken into account.

Source: Peru21.pe

Residential units sold (1996 – 2012)



2012 accounted for the highest amount of residential units sold in the past 17 years

The president of the Institute of Development and Construction *Capeco*, Humberto Martínez, indicated that the residential units sold in 2012 added up to **21,990,** whereas back in 2010 and 2011 this figure reached 14,516 and 21,441, respectively.

Martinez mentioned that the production of the building industry initiated in 2012 was 52.598.666 sq. ft., accounting for **a 6.7% increase compared to the same figure related to 2011.** On the other hand, **the total market value for residencies offered and sold came up to $6.143,8 million.**

Thus, 2012´s number met **48.394** residencies under construction that break down into **22.225** units for supply, **21.990** sold units, and **4.179** unmarketable units.

Centenario acquires shopping centers and expands its real estate portfolio

Centenario's investing board agreed to purchase Multimercados Zonales S.A. (MZ) and its subsidiaries for which it paid US$ 139,2 million.

MZ owns five shopping centers that comprise 1.184.030 sq. ft. Minka commercial city, Plaza del Sol and Plaza de la Luna in Piura, Plaza del Sol in Ica and Huacho stand out among the recent acquisition.

The deal expands the group's real estate asset portfolio through development and operation of shopping centers. Until now, Centenario Investments was a land, residential and office developer.

PLAZA DEL SOL

Anchors signed in new shopping center in Chiclayo

Colibri Plaza signed long-term leases with two anchors: Mayorsa Supermarket and UVK Movie Theaters. The 84.000 sq. ft. shopping center will be the first in west Chiclayo. **Panamerican** Real Estate Capital & Services advised the landlord in these transactions

UNITED STATES

Paladin Realty's Latin America team switches over to Jamestown Investments

Source: Commercial Property Executive

Jamestown, the real estate investment and management firm that has raised more than $5 billion in equity for its U.S. funds, is knocking on Latin America's doors, where it has created a new division headed by a senior executive with emerging markets experience.

Philip Fitzgerald, who has more than 20 years of institutional real estate investment and management experience, has been named CEO of Jamestown Latin America. Fitzgerald recently served as managing director of emerging markets for Paladin Realty Partners, where his team managed investments in more than $4 billion worth of real estate assets.

"Latin America presents an incredible opportunity for real estate investment. Over the past two decades, the countries on which we are focusing have implemented crucial economic and political reforms, leading to a growing middle class that has unmet demands for every type of real estate product," Fitzgerald said in a news release. "There is another 20 years of opportunity ahead of us, based on Latin America's youthful demographic and growing prosperity."

The firm will open two local offices — in Rio de Janeiro, Brazil, and Bogota, Colombia.

CANADA

Toronto to pass New York in commercial property boom

Source: Bloomberg News

Toronto has more high rises under construction than any other metropolis in the world.

Toronto will add more prime office space in 2014 than almost any other city in the Americas as developers take advantage of low borrowing costs to meet demand.

More than 1.59 million square feet of triple-A space will be added in Toronto next year, according to data from Cushman & Wakefield Inc. That's more than in New York and trails only Mexico City, Cushman said. Investments from pension funds and real estate investment trusts, as well as borrowing costs in some cases more than 2 percentage points lower than in 2007 have helped fund development as well as acquisitions.

Rising demand led to a record high price for an office building in Canada when a group of pension funds paid $749 a square foot for the Brookfield Place-TD Canada Trust Tower on Bay Street in December, according to RealNet Canada Inc.

Shopping Centers' vacancies show a slight drop

Source: Bloomberg.com

U.S. shopping-center occupancies topped a three-year high in the first quarter, enabling landlords to raise rents as less space was added to the market, according to Reis Inc.

Vacancies at neighborhood and community shopping centers fell to 10.6 percent from 10.9 percent, and effective rents, or what's paid after any landlord discounts, rose to $16,63 a square foot from $16,51 a year earlier, the property-research firm said in a report today. Rents and occupancies were last higher in 2009, according to New York-based Reis.

"It's a slow but consistent recovery," Ryan Severino, a Reis senior economist, said in a telephone interview. "There's nothing being built, so as long as there's any semblance of demand, it's pushing vacancies down slightly and rents up slightly."

In the first quarter, 873.000 square feet (81.000 square meters) of new shopping centers became available, down 57 percent from a year earlier, according to Reis.

Occupied shopping-center space rose by a net 2,73 million square feet in the third quarter, compared with 2,68 million square feet in the previous three months and 3,51 million square feet a year earlier, Reis said.

Real Estate prices continue to recover

Economic expansion and job growth will drive recovery as interest rates rise

Despite challenges - including gradually rising interest rates and government spending cuts - the outlook for commercial real estate is positive. The U.S. economy is expected to grow by 1.9% in 2013 and accelerate to 2.8% in 2014. This growth will spur the creation of 4.8 million jobs over the next two years. As job growth accelerates, so too will demand for commercial real estate, leading to continued improvement in vacancy rates.

It is most likely that as interest rates rise, the spread between commercial real estate yields and government Treasuries will narrow. Prospects for price growth will then depend on improving economic market conditions.

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