# PANAMERICAN
REAL ESTATE CAPITAL & SERVICES

# Quarterly Newsletter

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

3rd Quarter, 2013

*Photo: Render of the San Martin Mixed-use project in Lima, Peru*

## Macroeconomic Figures

| COUNTRY |  |  |  |  |  |  |  |
|---|---|---|---|---|---|---|---|
| POPULATION *(MM)* | 197 | 115 | 17 | 47 | 30 | 316 | 35 |
| UNEMPLOYMENT | 6,0% | 5,0% | 5,7% | 9,9% | 5,8% | 7,4% | 7,2% |
| BENCHMARK INT. RATE | 9,0% | 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*) | 2,5% | 2,9% | 4,6% | 4,5% | 6,1% | 1,7% | 1,7% |
| INFLATION 2012 | 5,4% | 3,57% | 1,5% | 2,44% | 2,65% | 2,1% | 0,8% |

### Peruvian Graña y Montero lists ADS on the NYSE

*Graña y Montero S.A., the largest engineering and Construction Company in Peru, listed its American Depositary Shares ("ADSs") on the New York Stock Exchange (NYSE), after a successful initial public offering amounting to approx. US$413 million in gross proceeds.*

Page 7

### Mexico to subsidize new homes near schools and offices

*The government in Mexico is to provide billions of pesos in extra housing subsidies in an effort to boost the country's real estate market.*

Page 4

IN THIS ISSUE

CPP INVESTMENT BOARD

### CPPIB continues investing in Brazil

*The Canada Pension Plan Investment Board is departing from strategy by making an investment in a publicly traded real estate company, rather than the underlying asset.*

Page 3

### German fund acquires office building in Santiago for US$90 million

*GLL Partners paid US$5,000/m2 for Territoria El Bosque, one of the highest prices in the market.*

Page 5

### Canadian Fund invests USD $150 million in Colombian Terranum Corporativo

*Cadillac Fairview, one of North America's largest developers, investors, owners and managers of commercial real estate will invest USD $150 million in the Colombian company.*

Page 6

# CAP RATES IN LATIN AMERICA: PART 1

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

In the last five years, either developing, buying, selling, or raising capital for real estate projects in Latin America, I have been engaged in several negotiations and also have read the scarce existing research on real estate asset pricing.

The term *cap rate* is a relatively new one for income-producing real estate assets in Latin America, yet very unknown and mistaken in some countries. Depending on whom you talk to, and his/her economic interest, the *cap rate* meaning may range from "the rent divided by the sales price" to "the Net Operating Income (NOI) divided by the sales price". Regarding occupancy, depending if you are the buyer or the seller, the NOI can be computed with full occupancy, 95% occupancy or current occupancy. Regarding the time period, the NOI can be the last year actual figure, the so-called "going-in NOI" or the forecasted NOI for next year, even 2 years from now. Finally, regarding the capital structure, the *cap rate* can be leveraged or unleveraged.

For the purpose of this column I will refer to the cap rate as the effective operating cash flow the real estate asset is generating divided by the transaction price at the time of closing, sometimes referred as the "going-in yield". And, unless specifically stated, it will be unleveraged.

Generally, retail cap rates rank second only to hotel cap rates in the real estate risk-return spectrum, being residential the sector with the lowest cap rates.

In Latin America, the business of developing or acquiring whole apartment buildings by a single investor does not exist yet, though it will change soon. Most transactions are comprised of retail, office or industrial assets. In this column, I will refer to retail real estate transactions. In the next issue of this newsletter I will address the other sectors.

The cap rate level is related to the general interest rate (which we can benchmark with the Central bank intervention rate), the general state of the economy, the easiness to move capital in/out from the country, the more or less tenant-friendly the local leasing legislation is, the market saturation, the negotiation power of major tenants, the availability of debt financing, the existence of liquid secondary markets, etc.

No surprise that developed markets have lower cap rates. Countries like Switzerland have cap rates ranging from 2.5 to 5.5%, the UK 5% to 8%, the US 6 to 8%, which seem low in absolute terms, but not that low if compared to Central Bank rate or government securities returns. With a market volume of US$52 billion and US$25 billion in retail real estate transactions, the US and Europe offer plenty of information.

Latin American real estate assets are traded at higher cap rates in absolute terms, but as local interest rates are higher too, the spreads tend to be lower than in developed markets. The lack of publicly available data in the region and the low transaction volume, makes it hard to estimate cap rate, so we have used our market knowledge and conversations with local players. As it does not make sense to talk about a regional average, let's visit some countries.

Brazil, the largest economy, has been always a high interest rate country. Though historically at one digit, the SELIC rate has been increased three times this year (to avoid inflation escaping the target) reaching the 9% level in august. It is not a surprise that Brazil has the highest cap rates in the list, currently two-digit. We are seeing stabilized assets being traded at 10 – 12% up some 200 bps from 2012 in line with the hike in the interest rates. Brazil saw many new local REIT's called FII (Fundos de Investimento Imobiliario) and they are promising returns of 10-11% to their investors, so the underlying asset should be in the 12-13% level. At this level, they are finding hard to find stabilized assets.

In Mexico, there has been plenty of transaction this year with cash-rich FIBRA's (the Mexican version of the US REIT's) being the main buyers and established developers or international investors being the main sellers.

The cap rates we are seeing in retail are in the 8% level, going downwards as the country re-gains momentum lost during the 2008-2009 financial crisis and enjoys the so-called MeMo (Mexican Moment).

Chile, the small country with the highest retail penetration and most developed financial markets in the region, has seen cap rates consistently go down, to the 7 – 8% range. Main buyers are family offices, private and public investment funds (since 2012 no longer exempt from corporate income tax as its US, Mexico or Brazilian counterparts). As in Chile there is plenty of long-term financing, investors can improve their returns and reach leveraged cap rates of 9 - 10%.

Colombia has not a developed a market yet, mainly because shopping centers where historically built to sell under the old condo model. The few local investment funds tend to invest in bank branches sale & lease-back transactions ore stand-alone retailers. Retail cap rates are in the 8 – 9 % range.

Peru has also little transaction activity and retail cap rates should be in the 9 - 10% range.

Finally it is worth to mention that triple net assets, very common in the US, are very scarce in Latin America. These assets offer very low risk to investors when leased to credit retailer, but their pricing does not reflect this yet.

.

# PORTO MARAVILHA TO CHANGE RIO DE JANEIRO'S REAL ESTATE MARKET

*Area redevelopment plan, one of the biggest in the world, starts to get its first real estate projects*

The regeneration project that promises to change the current real estate market in Rio de Janeiro – that could practically double the high standard corporate real estate buildings in the next five years – has already been endorsed.

The new stage comprised US$780 million, out of a total investment of US$3.5 Billion that were budgeted to be spent within a 15 year time-frame, includes important changes in the region's transportation system.

The main alteration, already under construction, is the demolition of the "Elevado da Perimetral". This to be part of the whole new region transit, with Rodrigues Alves Avenue turning into an express route and the birth of Binário do Porto Avenue, road that will connect Praça Mauá and Francisco Bicalho in the future.

With three lanes on each direction, Binário do Porto Avenue will split space with an elevated trailway, transportation system that will have Bus, Subway, train, ship and airport (Santos Dumont) connection, totaling a US$440 million investment. Almost half that value will be provided by the Growth Acceleration Program (PAC).

The set of improvements, combined with a strategic location – The port is located right by the city centre, 1.2 miles away from Santos Dumont Airport and 7 miles from "do Galeão International Airport – will, in the near future, turn into the new business district.

# CPPIB continues investing in Brazil with stake in public real estate company

Source: Financial Post

*The Canada Pension Plan Investment Board is departing from strategy by making an investment in a publicly traded real estate company, rather than the underlying asset.*

CPPIB, which invests funds for the Canada Pension Plan, signed an agreement to buy a 27.6% stake in Brazil's Aliansce Shopping Centers S.A. from General Growth Properties Inc. for US$480-million. The transaction is expected to close this fall.

Based in Rio de Janeiro, Aliansce is one of Brazil's top publicly traded real estate operating companies, according to a statement from the Canadian pension. It owns, manages and develops enclosed shopping centres, and has a portfolio of 17 shopping centres and two development projects in various regions of Brazil including São Paulo, Rio, Salvador, Belem and Belo Horizonte.

Aliansce was formed in 2004, and owns or manages a retail portfolio totalling more than 8.6 million square feet.

"Acquiring an interest in Aliansce allows us to gain scale in a key target segment with a diversified portfolio of high-quality, modern shopping centres located throughout Brazil including the economically dominant Southeast and fast-growing Northeast regions," said Peter Ballon, vice-president and head of real estate Investments for the Americas at CPPIB.

"We look forward to working with Aliansce's experienced management team, whom we know well, as we look to expand our retail platform in Brazil."

CPPIB already had a real estate portfolio in Brazil, alongside partners, with a value $900-million. The portfolio includes interests in retail, office and logistics properties totaling more than 35 million square feet, including development assets.

# MEXICO TO SUBSIDISE NEW HOMES NEAR SCHOOLS AND OFFICES

*Source: www.propertywire.com*

*The government in Mexico is to provide billions of pesos in extra housing subsidies in a bid to boost real estate market.*

The government said it would offer 1.5 billion pesos (US$115 million) in additional housing subsidies, a 25.9% increase on what has already been allocated this year to help the property sector which has been suffering from slowing sales and liquidity problems.

The subsidies will be available immediately, along with new financing options for builders that develop projects in line with the government's new priorities.

Land development minister Jorge Carlos Ramirez, told a press conference that the government wants home builders to focus on infill developments in urban areas. This is a change of tack after its previous housing plan that prioritized cheap suburban homes in the last decade has not worked, leaving thousands of empty homes.

Ramirez said that 68% of the land recently compiled in a registry will qualify for subsidies and development that could qualify includes those close to places of employment and schools. Developments will be assessed on a points system, with greater subsidies being available to homes in well laced developments, he explained.

Some 5.8 billion pesos in subsidies have already been offered this year and the new allocation will bring the total close to last year's rate of subsidies of 7.5 billion pesos.

Mexicans are increasingly choosing to look for homes closer to offices and schools, which has caused sales of cheap suburban homes built by the country's largest home builders to plummet in the last year.

Mexico's three largest homebuilders, Geo, Homex and Urbi, are facing a liquidity crunch and seeking to restructure debt.

Home builders that develop homes that meet the new government requirements in terms of being nearer to workplaces and schools will also qualify for new financing programs.

Mexico, which is Latin America's second largest economy, has a housing deficit of about nine million homes, according to recent government estimates.

## REAL ESTATE FUNDS ACQUIRE FOUR SEASONS HOTEL IN MEXICO

The 240-room Four Seasons Mexico City has been purchased by real estate funds Vertex Real Estate Fund I and RLD. The acquisition was supported by senior debt financing from MetLife.

The Hotel is located at the "Paseo de la Reforma", Mexico City's financial district, and it is the only one that has been granted the Five Diamond Award given by the AAA.

*Photo: Four Seasons Mexico City Hotel*

## Kimco Realty Announces Agreement to Sell Mexican Shopping Center Portfolio for US$92 million

Source: Company Release

Kimco Realty Corp. (NYSE: KIM), North America's largest owner and operator of neighborhood and community shopping centers, today announced that it has executed a purchase and sale agreement for the disposition of a four-property shopping center portfolio in Mexico to its local operating partner, Planigrupo, for a gross sales price of US$92 million. These wholly-owned properties, which comprise a total of 1.1 million square feet, include: Plaza Universidad in Pachuca, La Nogalera in Saltillo, Gran Plaza in Cancun and Plaza Bella Huinala in Monterrey. This high-quality portfolio contains several major anchor tenants including Home Depot, HEB and Cinépolis, as well as Wal-Mart-affiliated Bodega Aurrera and Suburbia.

The closing of this sale is subject to customary conditions, including Mexican regulatory approval, and is expected to be completed during the fourth quarter of 2013. This transaction represents the second sale with Planigrupo during 2013; in May, Kimco sold a nine-property Mexican shopping center portfolio, comprising 2.6 million square feet, to Planigrupo for US$274 million.

## CHILE'S MORTGAGE INTERMEDIATION COST IS THE LOWEST IN LATIN AMERICA

According to the Banks and Financial Institutions Association (ABIF), if the mortgage interest rate and the average time deposit interest rate are used as references, Chile has the region's lowest spread (with 0.59 percentage points) and takes third within the OCDE economies, being surpassed only by France and Finland.


If the Benchmark rate is considered, Chile keeps its leadership in the Latin America.

The president of the trade, Ricardo Matte, explains "in regular times, a low spread is a good sign of good quality of the banks' loan portfolio as it also represents a solid and efficient operating financial system.

Experts attribute the low figure to the market's competiveness. This because it is a product that has a highly disputed supply and also given to the latest reforms that have been undertaken in the field, lowering costs as more competition is slipped into the market.



# German Fund acquires Territoria El Bosque Building for US$90 million

*Source: El Diario Financiero*

*GLL Real Estate Partners paid US$5,000/m2, one of the highest prices in the market.*

The German group acquired the new building, developed by Territoria together with Viviendas 2000 and IM Trust.

The acquisition is the second transaction of the fund in Chile, after acquiring the second tower of Titanium Park last year, for which the fund paid US$75 million.

Territoria El Bosque is a 21-story class A+ building, soon to get the LEED Gold certification. Seventy percent of the building is already leased to tenants like JP Morgan, H&M and the South African Embassy, among others.

The project al has also retail space at the ground level, where a Starbucks Coffee will soon be opened.

The transaction was structured by IM Trust.

## Kimco Realty sells Shopping Center Portfolio in Chile

Kimco sold its 50% ownership interest in a nine-property shopping center portfolio located in Chile to its local joint venture operating partner Patio. The portfolio was valued at US$50.2 million, including long term debt of US$33.1 million. This portfolio was 97 percent occupied and comprised 269,000 square feet.

## Cadillac Fairview invests US$150 million in Terranum Corporativo

**The Cadillac Fairview Corporation Limited, one of North America's largest developers, investors, owners and managers of commercial real estate will invest USD $150 million in the Colombian company.**

"Cadillac Fairview recognizes the macroeconomic growth and stability of Colombia, as well as Terranum Corporate Properties' leadership in property development," said John Sullivan, President and CEO of Cadillac Fairview. "In addition to our capital investment, we are pleased to share our international expertise and experience in property development and management with Terranum, through this partnership."

This investment will help fund multiple projects in Colombia, including Connecta, one of Bogotá's largest commercial mixed-use developments, ZOL Funza, one of the country's largest investment centres in logistics infrastructure, and a tailor-made industrial park located in the free zone of Gachancipá, for Portuguese company Prebuild. Capital will also be injected into new business opportunities being considered by Terranum Corporate Properties in Barranquilla, Medellín and Cali.

"This partnership complements Terranum Group's strengths, knowledge and experience in the industry, and allows us to remain at the forefront when it comes to our value offerings to customers", said José Ignacio Robledo, President of the Terranum group. "We are very proud to have a company of Cadillac Fairview's stature on board to help accelerate our growth in the region."

Cadillac Fairview joins Terranum Corporate Properties' current partner, Equity International, a Chicago-based company dedicated to institutional investment management in emerging markets.

"Cadillac Fairview is distinguished for its active global investment approach, and we are delighted to partner with them to augment Terranum Corporate Properties' leadership in corporate real estate across Colombia and the Andean region," said Tom Heneghan, chief executive officer of Equity International.

## Real Estate Sector not coming to a halt, despite thriving prices

During the first quarter of 2013, the new home price index (IPVN) increased by 11.8% compared to the same figure in 2012, when it recorded a rise of 9.5 percent.

The figures were released by Dane in his compendium of sectorial statistics, which also identifies labor as the greatest impact when building, ranging from 0.15 percent in May, in its cost analysis.

"The sector is shielded from the crisis of the late nineties. Today, a project only initiates after reaching breakeven and, among other variables, the mortgage portfolio is healthy, "said Alberto Rodriguez, CEO of real estate firm Century 21, in Colombia.

In May more than 12,508 residential units were sold in Colombia, the highest figure registered since January 2008. For instance 2,943 units ranging from US$ 44,000 – 77,000 units from US$ 77,000 – 110,000 were sold.

# North Lima will have its first luxury shopping circuit in November

Mega Plaza, Peru’s most visited in mall, is investing US$ 20 million in the construction of Plaza Conquistadores. The initial expansion will add 45 luxury stores to the mall.

The project, which is being developed by the Argentine architect firm BMA, seeks to bring not only brands that are not in the northern cone, but some that are not in the country. There is a potential target of 100 000 people in the area capable of acquiring luxury, which are characterized by specific brand buyers.
Plaza Conquistadores, currently being built between the anchors Tottus and Saga Falabella, has 45 stores in 2 floors in its first phase. The investment is US$ 20 million, not including the future convention center and the opening of the Paris department store.

After the expansion, the leasable area of Mega Plaza will grow in 18.000 square meters and the number of visitors is expected to grow by 250 000, reaching 3,500,000.

# US$500 Million mixed-use project will be developed in Lima’s upscale district of Miraflores

In 2010, developers “Graña y Montero Vivienda” (GMV) and Urbi Properties purchased the San Martin military barracks, located in Miraflores, after bidding US$38 million for the 17-acre site. According to parameters established by *Pro Inversion*, the developers will have to develop a five-star hotel, a convention center, a cultural space and a business area. It is for the companies to determine whether they will or

The modification of the former military site has the target of connecting to the airport through a brand new beach trail of Costa Verde.

“This is the opportunity to go for a big leap”, said architect Carlos Ramírez, VP Urban planning for the Miraflores district.

# Graña y Montero lists ADS on the New York Stock Exchange


Graña y Montero S.A.A., the largest engineering and Construction Company in Peru, listed its American Depositary Shares ("ADSs") on the New York Stock Exchange (NYSE), after a successful initial public offering amounting to approximately US$413 million in gross proceeds.

The offering consisted of 19,534,884 ADSs, each ADS representing five common shares. The offering price was US$21.13 per ADS. Graña y Montero began trading on the NYSE under 'GRAM'.

José Graña Miró Quesada, President of Graña y Montero, said that the Company plans to use the net proceeds of the offering to fund capital expenditures, including potential investments and acquisitions, as well as other general corporate purposes. 'We estimate that approximately 60% of the net proceeds will be invested in infrastructure projects, 10% in the acquisition of land for our real estate segment, 20% on potential acquisitions, and the remainder will be used for other general corporate purposes' he said.

UNITED STATES

## Fairness Act in Congress

*Source: IHS Global Insight*

County and city sales tax receipts, normally collected at the point of purchase, provide funding for local services and are often designated for local improvement projects. The growth of E-commerce and remote sales has allowed for a lack of compliance with both state and local tax policy and further erodes the ability for local jurisdictions to collect on the primary drivers of sales tax revenue: population, income, and discretionary spending. As such, our analysis focuses on the monetary significance of local tax revenues lost to E-commerce and internet sales in the largest metropolitan areas across the United States.

Over $225 Billion in E-commerce transactions were recorded by Census in the United States in 2011. The results of our analysis show that, collectively, state and local governments in the United States experienced a direct loss of revenues due to uncollected taxes on E-commerce of nearly $12 Billion in 2011, rising to almost $14 Billion by 2013. The counties and cities tabulated here suffered a loss of nearly $1.3 Billion in 2011, $1.5 Billion in 2012, and a projected $1.7 Billion in 2013. The three year total of losses for these counties and cities is estimated at $4.5 Billion.

Each county and city included in the analysis levies a tax rate between 0.1% and approximately 6% on top of state taxes. Due to the difficulty in collecting from out of state retailers, taxes on these remote sales are rarely collected even when directly addressed by the local tax code. Lost revenues are calculated by determining the share of E-commerce originating from a given county or city and applying the appropriate local tax rate.

## Swire Expands Brickell City Center with Massive Land Purchase

*Source: www.worldpropertychannel.com*

Swire Properties won the heated bidding for the 700 Brickell site in Miami for $65 million, according to sources who asked not to be named.

The property was sent to auction by its owners. After three calls for final offers, Swire won the contract by besting the bids of Related Group and Fortune International, according to a source.

Swire now has the property under contract, with the deal set to close in the coming days. It was a foregone conclusion that Swire, which is building Brickell CityCentre adjacent to the site, would end up with the property because it didn't have direct access to Brickell Avenue, the gateway to one of Miami's hottest neighborhoods.

Brickell CityCentre is a multi-block project that includes hotel suites, residences, offices, and retail, with Bal Harbour Shops as a partner on the latter.

CANADA

## Brookfield Canada Office Properties acquires Bay Adelaide Centre East Tower in Toronto

***Source: www.brookfieldcanadareit.com/***

Brookfield Canada Office Properties (BOX) acquired the Bay Adelaide Centre East development in downtown Toronto. BOX purchased the property -- a 44-storey, 980,000-sq.ft. premier office tower currently under construction -- from parent company Brookfield Office Properties Inc. (BPO) based on a value of US$610 million at stabilization BPO is selling the asset to BOX on an "as-if-completed-and-stabilized basis" and will retain development obligations including construction, lease-up and financing.

At closing, through available liquidity, BOX will pay to BPO US$162 million representing the amount invested and value created to date in the project. BOX will commit to fund an additional US$25 million of up-front equity and an additional US$336 million that will be funded from a first mortgage construction loan. Additionally, BOX will make a final payment to BPO of US$56 million on stabilization for an aggregate total investment of US$579 million.

"This acquisition is strategic for BOX as Brookfield's vehicle for the ownership of its premier Canadian office assets," said Jan Sucharda, president and chief executive officer.

The East tower is 60% pre-leased to anchor tenants Deloitte and Borden Ladner Gervais and is on target to be completed in late 2015. BOX will earn net operating income of US$31 million from substantial completion of the project.

Bay Adelaide Centre is the newest, best-in-class office precinct in Toronto's financial core. The East tower is being developed to the highest level of efficiency and sustainability and will achieve LEED Platinum certification upon completion.

The West tower opened in 2009 and is 95% occupied.

## Texas Office Portfolio Sold for $1.1 Billion

Cousins Properties Incorporated has purchased an office portfolio in Texas for approximately $1.1 billion from Crescent Real Estate Holdings.

The portfolio includes two office projects -- Greenway Plaza in Houston, a 10-building, 4.4 million-square-foot office portfolio and 777 Main Street in Fort Worth, a 40-story, 980,000-square-foot office tower.

With the purchase, Atlanta-based Cousins expanded its overall portfolio by more than 50 percent, becoming the largest publicly traded office REIT in Atlanta and Texas, according to the company.

Cousins expects to fund the purchase with a common stock issuance, sale of non-core assets and mortgage financing. The deal is set to close in September 2013.

Photo: Render of the Brickell CityCentre

PANAMERICAN
REAL ESTATE CAPITAL & SERVICES

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

## CONTACT US


- Gonzalo Castro – *Founding Partner*
- Email: gcastro@panamre.com
- Telephone: + 56 9 9540 2666

- Andreas Stange – *Financial Analyst & Newsletter Editor*
- Email: astange@panamre.com
- Telephone: + 56 9 7659 7816

- Address: Av. Apoquindo 3600, 9th Floor, Las Condes - Santiago, Chile.