PANAMERICAN

REAL ESTATE CAPITAL & SERVICES

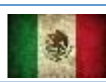
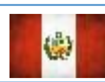
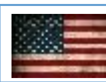
Quarterly Newsletter

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

2nd Quarter, 2014

Photo: Cosmopolitan Las Vegas, United States of America

Macroeconomic Figures

COUNTRY							
POPULATION *(MM)*	200	116	17	47	31	316	35
UNEMPLOYMENT	7.1%	4.9%	6.3%	8.8%	5.8%	6.1%	7.0%
BENCHMARK INT. RATE	11.0%	3.0%	3.75%	4.0%	3.75%	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*)	1.5%	2.3%	3.3%	4.6%	4.0%	2.1%	2.2%
INFLATION 2013	5.5%	3.6%	3.0%	2.4%	2.2%	1.2%	1.0%

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Taxes affecting the Real Estate Industry in the Americas (Part 1)

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

The real estate industry is affected by a specific set of taxes in addition to the general income taxes.

In this column we will review how the taxes mentioned above affect the real estate business in different countries of the Americas.

For convenience, taxes have been divided in five groups: property owning, property transfer, property operation, general income and capital gains. Given the extension of the topic, in this issue of the newsletter we will cover only property taxes and the rest will be covered in our next issue.

Property taxes

This is the most important specific tax affecting the industry. The taxable event is simply the ownership or the fee title of the property. In the Americas, annual rates typically vary from 0.2% to 3.3% on the market or assessed value, depending on the country, the state and the asset class. Residential gets always a better treatment than commercial property, so it is very important how properties are assessed for fiscal purposes and this varies from country to country.

In Brazil, the IPTU or "Imposto Predial e Territorial Urbano" is a municipal tax and the most important source of local funds. We saw an interesting political battle in the city of Sao Paulo where its mayor, Fernando Haddad, failed to impose a big increase (up to 35%) in commercial property appraisals to finance his social program. The annual base rate in Sao Paulo is 1.0% for residential property and 1.5% for commercial property. In both cases, the base rate is adjusted progressively upon the assessed value or "valor venal". The city of Rio de Janeiro charges 1.2% for residential. The Federal District of Brasilia charges 0.3% for residential and 1.0% for commercial. It is noteworthy that Brazil is the only country where the property taxes are paid by tenants, whereas in other countries it is a landlord expense.

In Mexico, the "Impuesto Predial" is also a municipal tax with state regulations. Effective rates are very low compared to the OECD or Latin American countries ranging from 0.1% rate in the state of Aguas Calientes to a 1.38% rate in the state of Quintana Roo, applied over the assessed value or "valor catastral". In a national average, the "valor catastral" represents approx. 60% of the market value, with 7 states between 90% and 100% and 11 states below 30%. There is a constant debate in Mexico of how to get the assessed values closer to market values. The combination of low valuations and low rates, make Mexico's real estate taxes one of the lowest of the Americas.

In Chile, the most centralized tax system in the continent, the national government re-appraises properties every 5 years and the annual tax rate varies from 1% to 1.2% for residential and a flat 1.225% rate for commercial. It is one of the few countries where the real estate tax could be used as a credit for the income tax, but this will change with the new tax bill being discussed in Congress.

In Colombia, the "Impuesto Predial Unificado" is also a municipal tax, with progressive rates depending on the socioeconomic segment locally known as "estratos", ranging from 0.3% to 1.3% of the assessed value. The "avaluo catastral" is updated every 5 years.

In Peru, the "Impuesto Predial" is a municipal tax with a progressive rate ranging from 0.2% to 1% on the assessed value. The property owner fills a form stating the areas and condition of the property and using the official unit values set yearly by the Housing Ministry comes up with the assessed value or "autoavaluo predial".

In the US this is a local tax, but regulated at the state level. The national average rate is approx. 1.5% of the property value, varying widely between states. Texas leads the ranking with combined tax rates in the 2.5% - 3% range depending on the city, school district and county. The main reason is that there are no state corporate or personal income taxes in Texas, so government services are financed with sales and property taxes. On the other hand, California has one of the lowest property tax rates since 1978, when voters approved a 1% rate on the assessed value together with a 2% cap on yearly assessed value increases, except when there is a change of ownership or new construction. So you guess that with the pass of time, the assessed value falls increasingly behind the market value, except for the subprime crisis. Local real estate taxes are federal income tax – deductible, no matter if it is an owner occupied property or a rental property.

Very similar to the US, Canada sets the property tax rates at the municipal level, but the process is regulated by the province. In the city of Toronto, tax rates vary from 0.72% for residential to 2.9% for commercial and there is a 5% cap on annual increases for the assessed value, considerably higher than the 2% of California. In the city of Vancouver, tax rates vary from 0.37% for residential to 1.6% for commercial. In the city of Montreal, tax rates vary from 0.73% for residential to 3.3% for non-residential.

Hyatt Place debuts in Brazil with the Hyatt Place Sao Jose do Rio Preto

Source: Hyatt

Hyatt Hotels Corporation and FSA Group SA, announced that a joint venture between an affiliate of Hyatt and FSA Group completed the acquisition of land in Sao Jose do Rio Preto, Brazil, and entered into agreements with the FSA Group to develop a Hyatt Place and Hyatt to provide management services related to the operation of the hotel. This is the first hotel to be announced under the agreement between an affiliate of Hyatt and FSA Group to develop nine Hyatt Place hotels throughout Brazil. Once completed in mid-2016, Hyatt Place Sao Jose do Rio Preto will be the first hotel under the brand Hyatt Place opening in Brazil.

The Hyatt Place Sao Jose do Rio Preto will be located in the state of Sao Paulo, approximately 270 miles northwest of the city of Sao Paulo. The hotel will have 150 rooms and will feature an outdoor pool, a lobby lounge and restaurant, a fitness center and approximately 4,300 sf of flexible meeting space. The hotel is conveniently located next to the Iguatemi Mall, with easy access to hospitals and hospitals in the area.

Hyatt Place Sao Jose do Rio Preto integrates a mixed-use project known as Shopping Iguatemi, which is currently under development by Iguatemi Empresa de Shopping Centers SA, one of the largest developers of retail in Brazil and owner of many high quality malls. It is expected that the Iguatemi Mall project contains a retail component with about 470,000 sf of gross leasable area, three residential luxury towers, two office towers of approximately 110,000 sf each, and the Hyatt Place.

"We are very pleased to work with FSA Group in the first Hyatt Place hotel in Brazil. Hyatt Place Sao Jose do Rio Preto is an important step in our growth strategy in Brazil and Latin America," said Pat McCudden, senior vice president in real estate and development for Latin America and the Caribbean of Hyatt Hotels & Resorts. "Hyatt Place Hotels was recently opened in Mexico, Costa Rica and Puerto Rico and are having strong acceptance by the loyal Hyatt guests, as well as newcomers to our brand. We believe the Hyatt Place brand will have a very strong appeal for business and leisure travelers in Brazil with their high quality accommodation and contemporary and entertaining style".

"This first Hyatt Place hotel is the result of our joint venture with Hyatt and we could not be more satisfied than inaugurating it in Iguatemi," said Alejandro Reyser, chief executive of FSA Group. "The modern and luxurious rooms at the Hyatt Place offer a unique concept in the market and we are convinced that this will be a very successful hotel.

Hyatt is currently represented in Brazil by the Grand Hyatt Sao Paulo, a luxury hotel with 466 rooms and full service. The Grand Hyatt Rio de Janeiro is currently under construction and its doors will open at the end of 2015 in Barra da Tijuca in the city of Rio de Janeiro. The Hyatt Place Sao Jose do Rio Preto is the third hotel from the Hyatt brand in the country.

World's leading logistics center supplier will expand investments in Rio

Source: Rio Negócios

GLP Irajá, Rio de Janeiro

GLP, a leading global logistics center supplier wants to expand its investments in Rio. "Rio de Janeiro is one of the most important logistics markets in Brazil. It's a strategic market for GLP, we have in our business plan to implement a new logistics center in the region", said Mauro Dias, President of GLP for Brazil.

GLP has three logistics centers in the city: GLP Campo Grande with 1.5 million sf built, GLP Pavuna with 820,000 sf and 100% occupancy and GLP Irajá with 1.5 million sf and 100% occupancy. It also has four logistics centers in approval process.

"We are looking at investment opportunities in Rio because it is a region of strong growth, and in Brazil, which is one of the best markets in the world for the logistics segment. Demand for modern logistics facilities is increasing, driven by a young and growing consumer market and a continuous search for more efficient supply chains" said the executive.

In the Brazilian market GLP manages a portfolio of more than 23 million sf in 22 cities.

Fibra Uno seeks to enter industry's top ten

Source: El Universal

With the new placement conducted by the Real Estate Investment Trust Fibra Uno, of US$ 2.5 billion, its market cap reached around US$ 9 billion. Now it is ranked 14th in the Reits worldwide; however the Trust seeks to reach the top 10.

The Fibra Uno's Associate Director, Gonzalo Robina, said at a press conference that the placement made this week was successful and with high domestic and foreign demand, which repositioned them as one of the world's leading Reits.

"In a universe of over 100 trusts in the United States, Asia and Europe, Fibra Uno ranks 14th in terms of market value, with the difference that the Mexican Fibra only has three years on the market. The good performance of the indicators, the vision of the opportunities and the value acquisitions have allowed us to position ourselves as one of the leading players worldwide", Robina stated. He said that even though the first half of the year the economy's performance was not as expected, Fibra Uno had a period of great growth.

"We are less than US$ 2 billion in market value to be in the top 10 trusts. Despite the weak economy in the first half of the year we had a very dynamic half because we believe in the opportunities of the country, we seek and execute them, perform acquisitions of value, maintain good levels of income and we have a positive outlook with the reforms, but our plans are not based on current expectations, but in the daily work and in providing our investors better opportunities", he said.

For Robina, the decrease of the reference rate by the Bank of Mexico has benefited the Fibras as investment vehicle. "The placement we made allowed us to obtain new portfolios of office, retail and industrial. The commitment is to execute these resources in 15 months but perhaps in less time, which favors our growth strategy. The land trusts sector is an attractive investment instrument and with the low rates, appetite for Fibras is increasing. "

Hyatt restarts expansion plans in Mexico

Source: El Financiero

Hyatt Ziva Los Cabos

After nearly five years of conservative growth in Mexico, the Hyatt hotel chain returns to the country, attracted by the economic boost and an improvement in the security.

The U.S. company has launched an expansion plan that will involve an investment of around US$ 800 million to open seven hotels in the next three years.

It started with the purchase and remodeling of the Nikko Hotel in Mexico City, then with the introduction of Hyatt Zilara and Hyatt Ziva, and recently announced its alliance with Grupo Presidente for a long stay hotel: Hyatt House.

Now it is about to open Hyatt Place in La Paz, Baja California Sur, one in Ciudad del Carmen, Campeche, and an Andance in Mayakoba, Quintana Roo, which will be ready in an average of 10 to 18 months.

Kurt Straub, general manager of Hyatt for Mexico, said that in addition to these projects, one more will be added: a Park Hyatt in Quintana Roo and another of the same brand in Los Cabos in the Cabo del Sol development

Straub explained that in most of the Hyatt Place hotels brand, the corporation owns a 50% and the other 50% is contributed by a local partner. In the case of the Hyatt Regency in Guadalajara, the corporation also has a 50% investment, while the Hyatt Zilara and Ziva are a franchise agreement that the chain signed with Playa Hotels and Resorts.

Chile adds leasable area equivalent to more than three Costanera Center malls

Source: Sofofa

The Chilean mall industry doesn't stop. According to the latest Shopping Center study conducted by the consultant Cushman & Wakefields, the sector will add 6.5 million sf rentable (GLA) of mall by 2016, increasing the current 32 million sf.

This means adding more than five Kennedy's Parque Arauco or more than three Costanera Center in two years. Moreover, this year alone, the industry plans the third largest opening in Latin America with Mall Plaza Los Dominicos which, according to the consultant, will have 1 million sf rentable. Iguatemi Sao Jose do Rio Preto in Brazil and Parques Toreo in Mexico will lead, each with 1.1 million sf rentable.

This is just a sample of the dynamism that the industry has been having in Latin America in recent years. According to the report, between 2012 and 2013 Brazil, Mexico, Colombia, Argentina, Peru and Chile totaled 168 new malls or 57 million sf rentable. Thus, there are now 370 million sf of leasable area of shopping centers in the region. Brazil and Mexico hold 69% of the total, ranking first and second in amount of square feet, respectively.

"Colombia has slightly overtaken Chile in the third place in total GLA and the difference is expected to increase in 2014 due to the 2.6 million sf that are expected to be completed this year" says Cushman & Wakefield. By 2016, however, both nations will add 6.5 million sf each, thus maintaining the gap. In the latter indicator, Peru will add 11.8 million sf rentable, remaining slightly below Chile with 38 million sf rentable.

Between 2014 and 2016 the region will add a total of 69 million sf rentable of shopping centers. Much of that amount - 26 million sf– will be added this year. Brazil by itself will bring a 10.8 million sf this year, while Mexico will add 3.8 million sf. Colombia, Chile and Argentina will provide 14 centers totaling 4.5 million sf in 2014.

While the numbers are encouraging, Cushman & Wakefield estimates that the activity should slow down. "Latin American countries have added a significant amount of rentable area in the last two years, surpassing previous highs. However, the planned or under construction project portfolio is expected to fall, especially if economic growth slows and investment stagnates".

CChC says that housing sales in Greater Santiago grew 6.6% year-over-year

Source: El Mercurio

The research manager of the association said that "the sale of these units in the period reached more than US$ 1 billion, representing an increase of 8.2% in twelve months."

Home sales in Greater Santiago recorded a year-over-year rise of 6.6% in the first quarter of 2014 compared to the same period in 2013, as announced by the Chilean Chamber of Construction (CChC) in its quarterly Real Estate Sales report.

CChC's research manager, Javier Hurtado said that "the sale of these units in the period reached more than US$ 1 billion, representing an increase of 8.2% in twelve months", yet "home sales fell below its long-term trend level in the first quarter of the year."

The company said that during the first quarter of 2014 sales of departments until US$ 65,000 increased their annual participation in 19%, while the segment between US$ 65,000 and US$ 175,000 reduced their presence in 21%. Regarding houses, units until US$ 90,000 progressively lose share over the past year. In relation to the surface, the company noted an increase in the sale of departments smaller than 550 sf. During the first quarter of 2013 this segment accounted for 45% of the total sales and in the first quarter of this year accounted for 62% of the total. In homes, units of less than 1,000 sf are concentrating nearly half of demand, the company reported.

Grupo Terranum and Equity International buy Decameron hotel chain

Source: Gestión

The acquisition includes 27 hotels in 7 countries in Central and South America.

Grupo Terranum, an integrated platform of investment, development and corporate real estate services in Colombia and Equity International, a private investor, formalized the purchase of the Decameron Hotels & Resorts.

This transaction makes Terranum Hotels one of the largest hotel platforms in Latin America by complementing its existing portfolio of city hotels with the all-inclusive offer from Decameron Hotels & Resorts.

The acquisition includes 27 owned hotels, leased and managed in 7 countries in Central and South America, including 13 in Colombia, 3 in Mexico, 2 in Jamaica, 3 in Peru, 1 in El Salvador, 2 in Ecuador and 3 in Panama. In addition, the Decameron chain has its own tour operator and holiday club. Because of a confidentiality agreement, the amount of the transaction was not disclosed.

"This transaction allows us to merge into a single company the track record of Decameron's all-inclusive business model with the strength of Terranum Hotels. With this announcement two companies with a unique and specialized experience in the sector team up" said José Ignacio Robledo, president of Grupo Terranum.

Decameron Hotels & Resorts Punta Sal, Tumbes

Colombia will add 20 new malls in 14 cities between April and December 2014

Source: La República

For the next three years there are 50 shopping center projects opening in Colombia, of which 20 will be opened between April and December 2014. Cundinamarca (including Bogotá), the Valle del Cauca and the Atlantic Coast, are the places where more buildings of this kind are being developed.

"We are going through a truly historical moment, in which the development of shopping centers in our country is in full expansion. Last year we opened 20 shopping malls of over 54,000 sf of gross leasable area. For this to continue we need that at a Government level exist stable economic policies that maintain investor's confidence and that, at a district-level government, Zoning Plans are defined", said Carlos Hernan Betancourt, president of the Association of Commercial Centers of Colombia (Acecolombia).

This organization's figures show that there are projects in cities that a couple years ago would have been unthinkable. Examples that will become a reality this year are Peñalisa Mall, of Global Builders and Unicentro Girardot, of Pedro Gomez, that will open in Cundimarca. There's also the shopping center of Nuestro Urabá which will open in Apartado, Antioquia; The De la Cuesta, which will stand in Piedecuesta, Santander, and will be built by Marval, and the Gran Plaza in Ipiales, Nariño, made by Conconcreto.

Chilean Grupo Altas Cumbres launches mixed use project of US$ 400 million in Lima

Source: Peru-retail

The project includes a mixed use development with shopping centers , offices and a hotel.

Project’s render

The Chilean Grupo Altas Cumbres in partnership with Grupo Interbank and Cosapi, a leading local construction company, announced a mixed use megaproject involving an investment of around US$ 400 million. The project is located in an area of 540 thousand sf near the Jockey Plaza, in Lima.

The future development considers a total area of 2.2 million sf of offices in 12 towers and 320 thousand sf of commercial space. It is estimated that the first phase of the project will be implemented by 2015. The property located at the intersection of Avenida Javier Prado, one of the main thoroughfares of the city, and the Panamerican Highway will host a "state-of-the-art project, with green buildings and special concern for the life quality of the executives" said the CEO of Jockey Plaza Shopping Center, Juan José Street. Regarding the expansion of the commercial business of Grupo Altas Cumbres, the executive explained that the 320 million sf of retail considers - in addition to the current commercial area of 1.6 million sf that Jockey Plaza already has- consolidates its position among competing developers in Lima. The outlook for this real estate project will be enhanced by the articulation of an area with hotels and restaurants services specially designed for this area of the city.

Parque Arauco and Centenario will develop retail megaproject

Source: El Comercio

They will invest US$ 300 million to remodel Camino Real mall and raise office towers.

Parque Arauco and Centenario Shopping Centers announced a partnership to develop a retail megaproject in the district of San Isidro, Lima. Development involves the iconic Camino Real shopping center, with more than 30 years of existence, to be remodeled and will debut its new face in the first half of 2016.

In addition, the adjoining land to the mall in which Parque Arauco planned to develop the Parque El Golf project, consisting of two office towers and a five star hotel, plus a 32,000 sf land in Choquehuanca street, will be added and will allow to execute a comprehensive project.

The project, in addition to offices and hotel, will include six movie theaters, 14 to 16 restaurants, 4,000 parking lots and 300 smaller stores. "Because of the price of the sf in this area of San Isidro (US$ 560 per sf), it makes little sense to have large anchors as home improvement stores or hypermarkets. Instead, we'll bet for a suitable mix of smaller stores" said Pedro Sevilla, CEO of Centenario Shopping Centers.

The total investment of the project involves resources of US$ 300 million and it is the "most important retail project in the last 10 years” said the CEO of Parque Arauco, Eduardo Herrera. The capital will be contributed equally by the partners, commented from Parque Arauco.

According to the Peruvian media, the 30-year history of Camino Real was becoming obvious and the mall looked "shabby". The idea of the alliance is to position it as a unique place that has the best brands, both local and international. Sevilla added that "we believe that the timing is perfect, considering that the market is more mature and there are many brands interested in arriving to the country and join our project". Anyway, we have not discarded a department store, "it is likely that we offer a small department store, of about 5,000 m2, which could be located adjacent to Camino Real. In Peru we have very large and massive malls, the outlets, the lifestyle and the strip center, but there is not such an exclusive format like this" said Herrera.

It is expected to have between 1.2 to 1.5 million visitors per month, with an average ticket of US$ 50.

United States

DDR and Blackstone in US$ 2 billion center acquisition

Source: ICSC

Private equity fund Blackstone Real Estate Partners has teamed up with DDR Corp. again, this time bringing the Beachwood, Ohio–based REIT into its previously announced deal to acquire a portfolio of 76 power centers from American Realty Capital Properties. This third joint venture of the two companies will buy the portfolio for nearly US$ 2 billion, including US$ 461 million in assumed debt and approximately US$ 800 million in new financings.

Blackstone owns 95% of the venture's common equity, and an affiliate of DDR owns the rest. DDR will also invest up to US$ 300 million in preferred equity in this venture, with a fixed dividend rate of 8.5%, and has agreed to provide leasing and management services for the acquisition. The partners say they will sell 29 of the properties after the deal closes, in the third quarter.

The portfolio consists primarily of prime power centers in Atlanta, Chicago, Denver, Houston, Los Angeles, Phoenix and the District of Columbia. Trade-area demographics across the portfolio include household incomes of about US$ 75,000 yearly and populations of about 400,000 people. The portfolio is about 95% leased, with the average base rent per square feet at 6% below DDR's current prime portfolio — representing a unique opportunity to drive future growth, according to CEO Daniel B. Hurwitz. These growth opportunities include eight vacant junior anchor boxes, about 100 available small shops, about 20 outparcel-expansion opportunities and roughly 30 potential candidates for recapture of below-market spaces, the firm says. "We expect to generate outsized asset-level growth by leveraging our operating platform," Hurwitz said in a press release. In January Blackstone teamed up with DDR to buy 46 U.S. shopping centers for US$ 1.4 billion from a unit of Israel-based Elbit Imaging.

American Realty Capital says it plans to use the proceeds to pay for 500 freestanding Red Lobster restaurants it is acquiring in a US$ 1.5 billion sale-leaseback deal with private equity firm Golden Gate Capital.

Canada

Real estate investment hits record but now it's office buildings and malls

Source: Business Financial Posts

It's not just the residential real estate market that continues to sizzle, the commercial property market continued its red hot pace in the last quarter. "Those expecting the Canadian commercial real estate investment market to come off the boil will continue to wait," says a new report from CBRE. Investors bought US$ 6.8 billion of Canadian commercial real estate in the first quarter, up 12.2% from the same period a year earlier. Pension funds are expected to become increasingly aggressive as they allocate even more money for real estate driven by access to cheap capital.

"When you can buy commercial real estate for almost the same price as building it new, there is some hesitation and more financial scrutiny; however, pension funds and other investors are in need of income producing investments and by most metrics, commercial real estate has a very strong track record over the past decade," said Ross Moore, director of research, in the release.

Office buildings have been the main driver of deals, accounting for just over US$2 billion of activity in the first quarter. Retail investment was about US$ 1.9 billion for the quarter followed by land purchases at US$ 1.27 billion.

Blackstone to Buy Cosmopolitan Resort for US$ 1.73 Billion

Source: Bloomberg

Deutsche Bank AG agreed to sell the Cosmopolitan of Las Vegas hotel and casino to Blackstone Group LP for US$ 1.73 billion in cash, ending a six-year money-losing venture into casino development.

Cosmopolitan Las Vegas

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