PUENTE PACIFICO

LATIN AMERICA REAL ESTATE REVIEW

November 2011

The Latin America Real Estate Review (the "Review") is a report, published monthly, on Latin America real estate markets. The goal of the Review is to provide accurate, timely and concise information regarding real estate developments in the region.

ARGENTINA

Overview

While the Argentine economy continues to rapidly grow, due to weakening external demand, domestic inflation rates and concerns about President Kirchner's economic policies, capital flight from Argentina has reached a 10 year high. Capital outflows in the first 9 months of the year reportedly amounted to US $18 billion, double the amount for the same period in 2010. Following Argentina's implementation of currency controls, the perception of Argentina's sovereign risk jumped and currency reserves dropped sharply. While it appears that capital outflows may have stabilized and Argentina has stated that new controls are not planned, significant concerns remain about the strength of Argentina's financial system. Predictably, controls have rechanneled demand to unofficial currency markets and it was reported that over the month the US Dollar hit a new record high in the parallel "blue" market. The Badlar rose to 22.9% on November 17 before falling to 18.9% on November 30.

Real Estate Update

Real estate sales in Buenos Aires increased 8% in September YOY, the fifth straight monthly increase. Values continue to be the highest in the neighborhoods of Recoleta, Palermo, Nuñez and Belgrano. It was reported that new property prices increased 4.3% between July and October in key neighborhoods and used apartment prices have also increased sharply.

It was announced that land prices in Parque Patricios and Pompeya have quadrupled since the installation of the Technological District. Housing prices in Mar del Plata are already near US $4,000 per square meter.

The degree to which currency controls have impacted November real estate sales is not yet clear, but it has been reported that the measures have slowed transactions down and caused new provisions to be inserted into contracts seeking to reduce currency conversion risk. In another measure that will likely further erode foreign investor confidence, it was announced that the Government of Buenos Aires has approved a 46% increase in the Urban Real Estate Tax (*Impuesto Inmobiliario Urbano*).

Regarding new projects, it was reported that Alto Palermo has commenced work on a new mall between Palermo Hollywood and Palermo Soho and that Howard Johnsons plans to build a hotel in the Banco Nación Club. Each project will reportedly require a US $50 million investment. Argentine investors are also planning to develop a Hilton hotel in Punta del Este.

BRAZIL

Overview

Brazil's economic growth for 2011 is projected at 3.4%. Inflation increased 6.97% for the 12 months ending in October, above the upper target threshold of 6.5%. Despite inflation, the Central Bank of Brazil cut the Selic rate to 11.0% in response to the global economic environment, effectively calculating that the international slowdown will offset domestic inflationary pressures. Unemployment was 5.8% in October, less than the September 6.0% rate. The IBOVESPA rose at the end of the month due to elimination of a tax on foreigner stock purchases.

PUENTE PACIFICO

Real Estate Update

While full year figures significantly trail 2010 numbers, new residential real estate sales in São Paulo increased 44.9% in September compared with August and increased 16.2% YOY. Two bedroom apartments comprised 52% of September sales. Quality office space supply remains severely limited and office prices increased 23% between July and September YOY despite a fall in office vacancy rates. Q3 property sales in Brazil reportedly reached US $3.5 billion.

In addition to facing rapidly increasing construction and labor costs, construction companies are struggling to deliver projects on time and there are reports of construction companies delivering properties that are not fully completed. Construction material sales during the period from January to October increased 2.4% compared with the same period in 2010.

The high cost of credit and consumer defaults are also a concern, particularly for the retail sector. Some personal credit rates are now reported at 68%, more than six times the Selic rate. Consumer defaults increased 23% in the first 10 months of year compared with first 10 months of 2010. It was reported that rent non-payment actions increased 17% in São Paulo in October compared with 2010.

In new transactions, General Shopping launched a new shopping mall in Barueri and Multiplan announced that it opened the Park Shopping São Caetano in São Caetano, São Paulo. It was also reported that Related Group, a US luxury residence construction company, plans to enter the Brazil market in 2012 and could invest up to US $1 billion in coming years.

CHILE

Overview

The Chilean economy grew 5.7% in September, faster than expected, and it is projected that yearly growth will reach 6.4%. It was reported that economic growth between January and September was 7.1%, the best result for the period since 1996. Q3 YOY export growth of 8.7% represents a significant drop from the Q2 29.1% YOY increase. Due to the difficult international environment, the Central Bank voted to keep the reference interest rate at 5.25%. Unemployment in Chile from August to October was 7.2%.

Real Estate Update

A very limited amount of new Class A commercial space has come on line, and during Q3 Class A office vacancies dropped to near historically low levels. In the residential sector, low mortgage rates continue to drive purchases. Due to land shortages, land prices in key Santiago neighborhoods have increased an average of 50% over the last 3 years. The outlook for land availability is uncertain due to the lack for the approval for the Santiago PRMS 100 regulatory plan.

Cencosud purchased Prezunic in Brazil for approximately US $390 million, its seventh key Brazil acquisition. Falabella has announced plans to double its size by 2015 with an investment of US $3.5 billion. The real estate division of Falabella is reportedly currently developing 16 malls, four of which are already under construction. When current developments are completed the company will have 42 malls. Besalco reportedly has a construction backlog of nearly US $1 billion, including 10 real estate projects, 4 of which are in Peru. It was also reported that Cencosud plans to create a single credit card for customers for its operations in Chile, Argentina, Brazil, Colombia and Peru.

COLOMBIA

Overview

Colombia's economy could grow as much as 6% in 2011, its fastest expansion since 2007. September exports increased 43.2% YOY, and it was reported that exports in 2011 could reach a record US $50 billion. FDI on the year up to November increased 54.2% YOY. Inflation and rapid lending rate increases, however, are becoming a significant concern. After inflation increased above the upper target range of 4% in October, the Central Bank increased the overnight interest rate 25 basis points to 4.75%.

Real Estate Update

Driven by strong economic growth, residential prices have posted 30% increases and reached "historical highs." Over the last 12 months, the area approved for general construction and hotel construction increased 55.2% and 118.7%, respectively. Approvals in September jumped 9.6% YOY. The Index of Housing Construction Cost increased 6.50% over the year, a 4.75% jump compared with 2010. Apart from a 7.69% increase in the cost of materials over the year, cement transportation costs due to the poor condition of Colombia's roads are contributing to project expenditure increases.

Constructora Colpatria is building a new industrial corridor in northern Bogotá; the first stage will involve construction of a 173,000 square meter space. In the hotel sector, a new Hotel Hilton in Bogotá opened and it was announced that a Cabo Tortuga tourism complex is planned for Santa Marta. Cadena Cosmo plans to have 630 hotel rooms in its portfolio by 2012 and Movich Hotels & Resorts plans to open two new hotels in Bogotá in 2012. Given current vacancy rates and global economic conditions, we are concerned that there will be insufficient demand to take up space projected to come on line.

PERU

Overview

The Peruvian economy is expected to post GDP growth of between 6.5% and 7% this year. Mirroring an earlier move by S&P, Fitch raised Peru's foreign debt rating to BBB. The rating upgrade provided further impulse to the Nuevo Sol, which rose to a three year high of 2.6674 against the US Dollar despite Central Reserve Bank intervention. Peruvian exports increased 14.5% in September YOY. Private investment increased 8.5% in Q3, a significant slowdown from the Q2 figure of 16%. While the Central Reserve Bank voted during the month to hold the reference interest rate at 4.25%, it stated that it will change policy if international financial risks continue to intensify. The Consumer Price Index increased 0.43% in November compared with October.

Real Estate Update

Real estate markets continued to show strong growth and it was reported that there has been a 41.8% increase in real estate sales between January and September and that apartment prices have posted a 12 month increase of 6.9%. It is expected that Lima and Callao will post record real estate sales of over 20,000 units this year. Despite earlier slowdowns due to initial concerns about the Humala Administration, construction investment increased 17.2% in 2011 to US $3.4 billion.

Upward pressure on prices is expected to continue. Due to Peru's continuing economic growth, the percentage of people who can afford housing is rapidly increasing and a 500,000 home deficit reportedly exists.

PERU

The Humala Administration has stated that low income housing is a strong priority and the government is developing a leasing program which targets allowing persons to rent to own with no downpayment and mortgages of up to 40 years. The Peruvian government also plans to provide 8,000 family grants under the Techo Proprio program to those affected by the 2007 earthquake in the south of the country; this is expected to have a significant impact on the real estate markets in Ica and Cañete. There was a 19.8% increase in mortgage loans between 2010 and 2011 and the upgrade of Peru's foreign debt should allow banks to hold down credit costs and sustain mortgage placement levels. The price of construction materials is also expected to increase over the coming months. Supply remains constrained and there reportedly have been delays in Lima in the issuance of urbanization permits.

It was reported that Aventura Plaza will build a mall in Santa Anita in Lima that will require a US $67 million dollar investment. Given retail sales growth, it is believed that there is significant potential for retail investment in the interior of Peru and this sector should continue to attract high levels of investment. We also expect to see increased hotel sector investment.

PUENTE PACIFICO

URUGUAY

Overview

Based on an increase in the Ceres Leader Index, which forecasts economic cycle changes, it is expected that the Uruguay economy will continue to grow through the end of the year. Exports increased 23% in November YOY and jumped 20.5% in the period between January to November. Inflation reached 8.4% for the 12 month period ending in November, significantly above the upper limit of the 4-6% target range. Unemployment for September was 6.0%, slightly higher than the August rate of 5.9%.

Real Estate Update

In recently reported data, there was a slight 0.55% increase in Q2 2011 real estate sales. As at June, rents over the year increased 19%, with the highest rents reported in the areas of Punta Carretas, Pocitos and Malvín. In developments that should provide an additional impulse to the real estate sector, it was reported that approximately 60% of families in Montevideo now qualify for both the Rent Guaranty Fund (*Fondo de Garantia de Alquiler*), which provides tax exemptions on rents to those who rent to fund beneficiaries, and the Mortgage Guaranty Fund (*Fondo de Garantia de Creditos Hipotecarios*), which permits buyers to obtain loans up to 90% of certain home values.

A key issue for the Uruguay real estate market continues to remain the state of the neighboring Argentine economy, as Argentines make a large percentage of Uruguay real estate investments. While it is too early to assess the full impact of the Argentine currency control measures put into effect at the end of October, one report has stated that the controls have effectively wiped out 5% to 10% increases that had been observed in rents. We also expect that the slowdown in real estate purchases in Argentina reported due to the controls at a minimum be mirrored, and most likely be amplified, in Q4 Uruguay real estate sales figures. This slowdown will likely be further magnified by Uruguay's agreement to provide information on Argentine citizen investment activities in Uruguay to Argentina.

CONTACT

Any comments regarding the Review should be sent to Darin Bifani at dbifani@puentepacifico.com

Website: www.puentepacifico.com

Twitter: @PuentePacifico

DISCLAIMER