Latin American Real Estate Markets in Perspective

June 2010

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Introduction

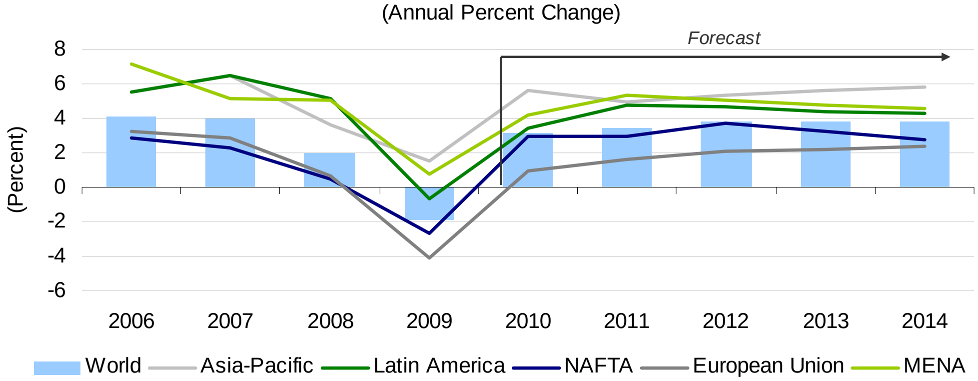
In the wake of the world financial crisis that severely rattled markets across the globe, Latin America has emerged as a relatively steady and promising region for real estate investments. With prudent economic management and improved fundamentals, Latin America has become one of the fastest growing regions in the world. While real estate markets across North America and Europe suffered through tottering economies and dislocated credit markets, many real estate markets across Latin America continued to grow with new deliveries coming on to the market. Key trends such as a growing middle class, expanding population and pent-up consumer demand have created a great deal of favorable investment opportunities in the region which has attracted a growing number of foreign investors.

In this research report, we will provide an overview of the commercial real estate markets across Latin America. While opportunities exist across the region, discussion will focus on direct real estate investment trends in Brazil and Mexico, which together comprise roughly 70% of regional GDP. We begin by looking at the key macroeconomic and real estate drivers within the region. This is followed by country-level real estate overviews. Finally, we provide a sector level overview and detailed discussion of a few key markets. Concluding remarks close the report. We hope the report will provide a greater understanding of the Latin American real estate market and offer compelling arguments for real estate investment in the region.

Macroeconomic Trends

The Latin America region has emerged from the global financial crisis relatively unscathed. The regional economies were in a much better position to face waves of external crises this time around as they enjoyed relative economic stability in the form of lower inflation, more stable exchange rates and better fiscal balances. The region as a whole posted current-account surpluses in the balance of payments for the past four years and grew 5.0% on average annually from 2006 to 2008. Fiscal accounts in many countries were also in surplus. Most of the economies in Latin America emerged from recession at the end of the third quarter of 2009. The near term outlook for the region is favorable as it is expected to grow 3.4% in 2010 after dropping 2.2% in 2009. The key drivers of the recovery in the near-term can be attributed to robust domestic demand, specifically private consumption and investment. Still, the region as a whole is not projected to return to pre-crisis levels before 2011.

Exhibit 1
Real GDP Growth by Region
(Annual Percent Change)



Source: Global Insight, May 2010

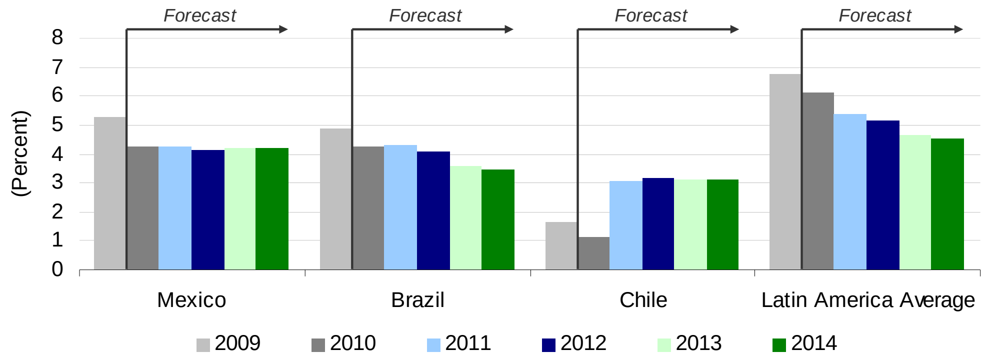
The road to recovery, however, will not be uniform across the region. In general, prospects for South America are better than for Mexico and Central American nations. Most South American economies experienced only a mild downturn and the labor markets did not suffer significantly. Brazil, Peru and Chile are expected to return to healthy growth in 2010 as strong macroeconomic fundamentals shield them from falling into deep recession. In most cases, investment projects that were postponed or halted in 2009 will resume in 2010. In Central America, Mexico is expected to show moderate growth as it was severely impacted by the US recession.

China has played a key role in mitigating the effects of the global recession on Latin American economies. According to Moody's, Brazilian trade with the U.S. plunged 43% from 2008 to 2009, while Brazil's trade with China grew 23% over the same period. Similar patterns can be seen across the region, especially in mineral rich countries such as Chile, whose trade with China also expanded 23% in the first 11 months of 2009. In fact, exports to China from Argentina and Brazil grew 92% from 2000 to 2009. Growing trade between China and Latin America is driven by China's demand for commodities such as steel, copper, soy and grains. Not only has China's economy grown at a blistering pace, but it has also been building its own strategic commodity reserves.[1] Additionally, China's infrastructure spending spree, which requires massive purchases of commodities, will also bolster Latin American growth rates. Commodities account for a large proportion of Latin American exports; moreover, the taxes they generate constitute a large portion of government revenues. Looking ahead, the Latin America region will likely increase its export of commodities and manufactured goods to China.

While the 2009 recession restrained inflation in Latin America, concerns regarding inflation are now returning as a large majority of economies in the region are on the recovery path and some experiencing above-trend growth. All eyes are on the central banks to determine when monetary stimulus will be withdrawn and how much interest rates will increase. The Central Bank of Brazil was among the first countries in the world to start tightening monetary policy after the global economic downturn. As shown in Exhibit 2, the pace of inflation in Latin America is expected to moderate over the next few years. Despite expansion across most countries in Latin America, there is still room for increase in demand with no inflationary pressures.

[1] LatAm Weekly, Dismal Scientist LATAM, Moody's, April 2010

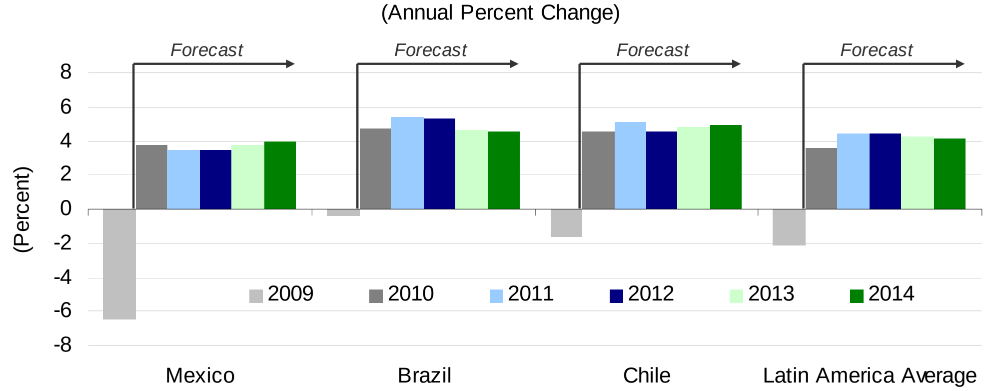
Exhibit 2
Inflation by Country
(Annual Percent Change)



Source: Global Insight, May 2010

Optimism in Brazil and prudence on Mexico's outlook set the tone for the two largest economies in the region. Brazil experienced a short and mild recession and is among the countries in Latin American forecasted to post the fastest growth rates. This victory can be attributed to strong fundamentals and effective government stimulus measures. As of the end of last year, the government announced a new stimulus package worth $4.5 billion which extends the repeal of the industrial tax on capital goods and technological products through mid 2010. It also eliminated the import tax for oil refining and petrochemical products. Additionally, Brazil's national development bank (BNDES) will provide approximately $45 billion of credit to non-financial companies in an effort to boost Brazil's industrial sector. Between 2006 and 2008, Brazil grew 4.9% on average. As shown in Exhibit 3, the country is set to grow 4.7% in 2010 as foreign and domestic investments lead the economy on the recovery path. A trade surplus is anticipated for 2010, while imports are expected to grow in double-digit terms as the domestic economy accelerates. Export revenues from key commodities such as soybeans, sugar, coffee, iron and steel are expected to grow 9.3% in 2010. The current account balance narrowed in 2009 and while it will increase again in 2010, it will be mostly financed through foreign direct investment (FDI), which does not increase external debt. To address operational risk, such as poor and insufficient transport structures, the government has prioritized investment in infrastructure throughout the country.

Exhibit 3
Real GDP Growth by Country
(Annual Percent Change)



Source: Global Insight, May 2010

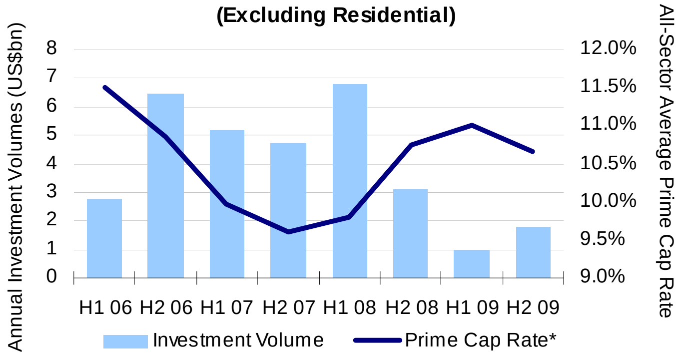
In contrast to Brazil, Mexico was the hardest-hit economy in the region in 2009. A US recession, drop in oil prices, violence along the border and an outbreak of the H1N1 flu heavily impacted the Mexican economy. The US is the destination of 80% of Mexican exports and the slowdown in the US economy severely impacted FDI in Mexico. FDI decreased to an estimated $11.0 billion in 2009 from $23.0 billion in 2008 and is expected to return to Mexico in 2010. After falling almost 6.5% in 2009, Mexico's GDP is forecasted to expand 3.8% in 2010, driven by a recovering US economy and better oil prices. 2010 is also the bicentennial of Mexico's independence and spending on celebrations held throughout the year is expected to boost the economy. Despite the rebound, the Mexican economy is still well below pre-crisis levels and will likely not return to pre-crisis levels before mid 2011. Economic recovery will not likely translate into excess demand that would fuel inflation, given that there is still sufficient slack to respond to higher demand with higher output, rather than higher prices.

Chile emerged from the recession in third quarter of 2009 after a yearlong downturn. The country is set for recovery based on strong macroeconomic fundamentals, such as price and exchange-rate stability. Chile grew 4.2% on average from 2006 to 2008 and is expected to grow 4.5% in 2010 and 5.1% in 2011. Growth for this year, however, might under-perform if reconstruction and recovery plans relating to the earthquake are not quickly put in place. The earthquake may extend the lax monetary policy stance for a few more months. By 2011, most of industrial production and export capabilities in Chile will be restored and gross fixed investments will continue to provide an extra thrust.

Real Estate Overview

An improving track record and impressive economic growth outlook have led corporate and investor demand in the region. Commercial real estate investment activity in Latin America continues to grow as both local and foreign investors actively seek opportunities in the region. Foreign real estate investors have mostly focused on Brazil and Mexico – the two largest economies in the region. Argentina, Ecuador, Venezuela, and Bolivia are generally perceived as unpredictable and less liquid by investors who often want more transparency before investing directly in a market.

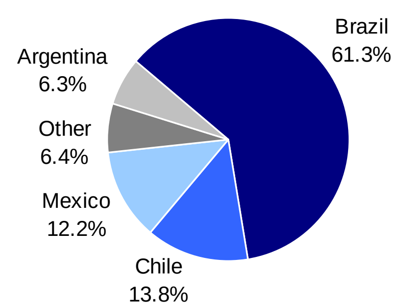
Exhibit 4
Latin America Commercial Property Investment Volumes (Excluding Residential)



*Note: Going in cap rate

Source: Cushman & Wakefield, RCA and Property Data, March 2010

Exhibit 5
Latin America 2009 Investment Activity



Source: CBRE and Real Capital Analytics, April 2010

As shown in Exhibit 4, the growth in investor appetite for the region decreased beginning late 2008 as a result of the world financial crisis. According to CBRE, overall investment activity from 2008 to 2009 declined roughly 70-75% and prices dropped 15-20%. Investor interest remained low through most of 2009 as many waited for clear evidence of market recovery and better availability of credit. Premium properties across the region, however, remained relatively stable due to continued strong demand. Total commercial property sales in fourth quarter of 2009 increased by 32% compared to fourth quarter of 2008. All-sector average cap rate of prime properties rose beginning 2008 and declined throughout 2009. Exhibit 5 shows that Brazil accounted for more than half of the region's annual transaction activity in 2009, followed by Chile and Mexico.

Brazil

With a population of 199 million, Brazil is the world's fifth most populous country and has grown to become a top destination for foreign real investment as a result of key real estate value drivers - growing markets, an emerging middle class[2], expanding population and favorable demographics. The government's solid macroeconomic policies and commitment to structural reform have led to improved investor sentiment. Over recent years, the widespread emergence of the Brazilian middle class has been a huge success story, reflecting the changes in the labor market. The rise of the middle class has led to increasing demand for residential, office, retail and manufacturing space. From a demographics perspective, Brazil also has a relatively young population: almost 62% of the population is under 29 years old. Effects of these demographic trends include the likely availability of an abundant labor force, which will result in high productivity and growth in spending power.

Investors are further drawn to Brazil for the diversified export-based economy that is not fully dependent on US markets. The US only accounts for 14% of Brazil's total exports by value. Argentina, China and Netherlands rank second, third and fourth, respectively. Furthermore, corruption has become less of a concern than in any of the other emerging BRIC nations. Brazil is now considered a "semi transparent" real estate market, according to Jones Lang LaSalle's Real Estate Transparency Index. In fact, Brazil has overtaken Mexico as the most transparent real estate market in Latin America. Furthermore, a number of real estate companies including General Shopping Brazil, Multiplan, Iguatemi and Cyrela have floated shares in the public capital market, thereby increasing the amount of available financial information.[3]

Consistent with trends seen in the rest of the world, Brazilian transaction volumes declined in 2008, but the rate of decline was not nearly as pronounced as in the US. While reduced liquidity slowed transaction volumes in 2009, there have nonetheless been a number of significant real estate transactions.[4] Debt is generally more expensive than equity in Brazil due to extremely limited sources of lending and short amortization schedules. While, the Brazilian Development Bank (BNDES) provides most of the local debt for commercial real estate developments, it only finances new construction or renovation and does not provide acquisition financing for existing assets. Most investments to date have been financed by a large amount of equity and foreign investors usually source debt internationally.

Looking ahead, major infrastructure investments that are expected to take place over the next few years in preparation of the FIFA World Soccer Cup in 2014 and the Olympic game in 2016 will provide support to investments in the Brazilian real estate market. Last year, the Brazilian government increased the Program to Accelerate Growth from $236 billion to $303 to counter recession. A further $235 billion is scheduled for investment after 2010. With recovery underway, foreign investors are now returning to Brazil en masse. Significant amount of new supply is expected to enter the market in the short term, which may increase vacancy rates. Compared to the office sector, the industrial real estate markets are relatively untapped and the demand for space is expected to grow over the next few years as multinationals continue to expand into the region. The retail market, specifically shopping malls, has received considerable attention from new investors in recent years given the growing spending power of the middle class.

[2] Emerging Trends in Real Estate 2010, ULI and PriceWaterhouseCoopers, October 2009

[3] The Investment Case for Brazil, Jones Lang LaSalle, 2009

[4] Investment Case for Mexico, Jones Lang LaSalle, 2006

Mexico

With a population of 110 million, Mexico is the world's 11th most populous country. The EIU give Mexico a high score on a business environment ranking based on a number of measures, including macroeconomic stability, political and institutional environment, market opportunities, private enterprise and foreign investment policies, the foreign trade and exchange regime, tax system, financing, labor market, and infrastructure.[5] The Jones Lang LaSalle transparency index indicates that Mexico's real estate markets are "semi transparent" which is considerably better than the ranking received by countries with similar levels of economic development. Similar to Brazil, Mexico also has a relatively young demographic profile which will be another key driver of growth.

Geographic location has allowed Mexico to become closely integrated with the production and distribution system of various US industries. Mexico has continuously received FDI inflows into the manufacturing sector since signing the NAFTA agreement in 1994. Nearly sixty-five percent of FDI comes from the US. Much of the industrial real estate stock is concentrated in the northern border states of Mexico where the markets experienced rapid export-led growth. The industrial sector should particularly benefit from the recently declining peso as this is expected to attract manufacturing and transshipment from Asia to the US in 2010. Mexican office stocks are mostly concentrated in Mexico City and Monterrey. The office market in Mexico City is relatively mature and has earned its place among the most advanced real estate markets in the world. As Mexico continues to shift from an industrial to a service-based economy, we expect the office market to provide even more high-quality products. The retail sector, which is varied and spread out, was heavily affected last year and is expected to improve this year with higher consumer spending.

Despite the recent economic setback which caused real estate markets in Mexico to drop, long term investor interest in the Mexican property sector remains strong. Economic recovery and decline in the value of peso should boost Mexican real estate market in 2010. While real estate in Mexico has historically been owned by local occupiers and investors, foreign investors have been playing a bigger role in the local markets. In the long run, the industry is expected to largely benefit from growth of consumer credit and favorable demographics.

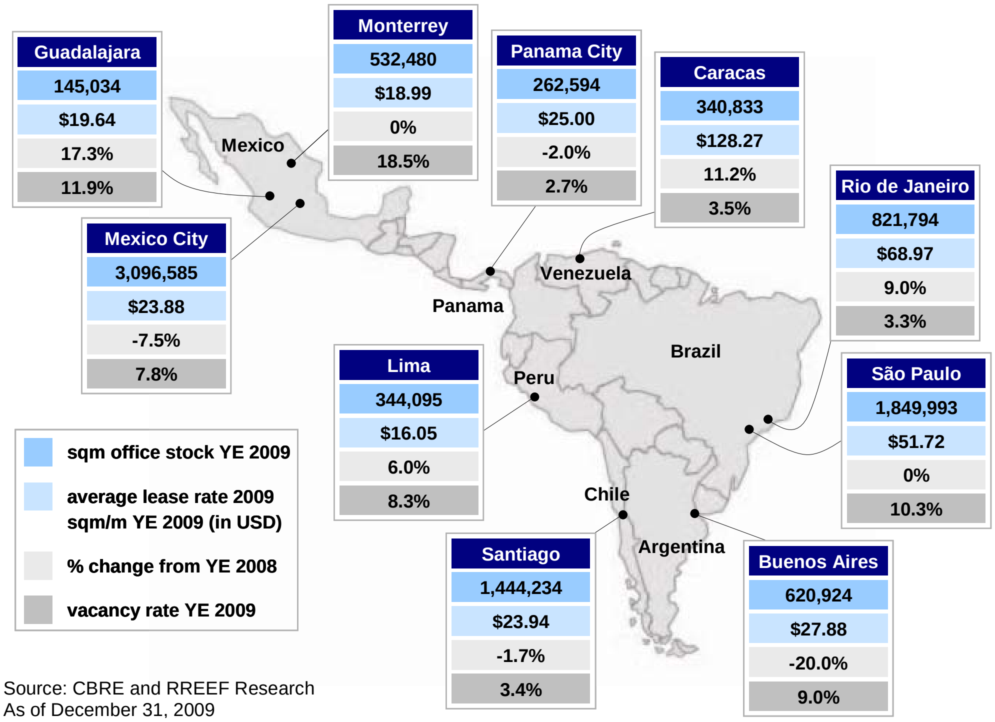
Office Markets

The office markets across Latin America have been generally characterized by lack of availability and lack of high-quality products. These trends, however, are changing. According to CBRE, major supply in key office markets across the region came to market as demand fell last year. Additionally, a big portion of the influx of new supply was of high quality, Class A products. Despite the influx of supply that pulled average rental rates higher, overall rates fell last year. Looking ahead, a large amount of supply that is currently under construction is expected to push vacancy rates higher as those projects come to market.[6] Exhibit 6 provides office stock figures, average lease rates and vacancy rates for Class A Office markets across Latin America.

[5] Investment Case for Mexico, Jones Lang LaSalle, 2006

[6] CBRE Latin America Year-end 2009

Exhibit 6
Latin America Class A Office Markets



Source: CBRE and RREEF Research
As of December 31, 2009

Brazil

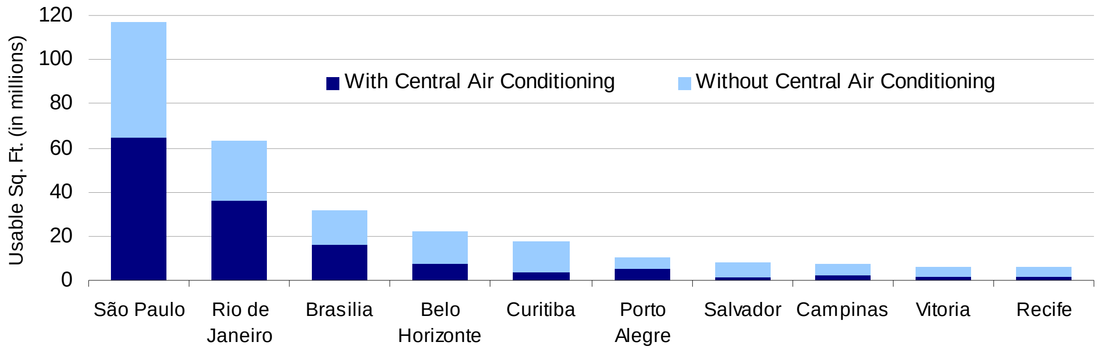
The Brazilian office market is still relatively small in relation to the size of the country and the economy. Solid economic growth has led to increasing demand for high-end office space in Brazil. Currently, there is no official countrywide classification system for office buildings. Based on the CBRE classification, however, a great portion of the Class A office stock in Brazil is located in São Paulo and Rio de Janeiro. Combined, São Paulo and Rio de Janeiro have approximately 2.7 million square meters (sqm) of Class A office space as of year-end 2009. The other main office real estate markets are in Belo Horizonte, Curitiba and Brasília. According to Jones Lang LaSalle, high-end office space accounts for approximately 27% of the total office space in São Paulo. In Rio de Janeiro, high-end space represents about 20% of total office space. Foreign investors typically invest in Class A office space because Class B and C properties are used by smaller tenants, with space being sold rather than leased. Consequently, ownership for Class B and C building is more fragmented, significantly complicating building management.[7]

São Paulo Office Market: The metropolitan region of São Paulo has just under 20 million inhabitants and approximately 11 million of them live in the city of São Paulo. São Paulo office market, the largest and most dynamic office market in Brazil, has gained significant interest from foreign investors in recent years. The Class A office spaces are primarily located in the following sub-markets: Berrini, Marginal, Faria Lima, Paulista, Verbo Divino, Vila Olímpia, Itaim, Barra Funda, Alphaville, Jardins, Centro and Moema.[8] The highest rents are charged in Class A+ buildings located at Faria Lima and along Marginal Pinheiros avenues. The economic crisis hit the São Paulo office market hard, creating negative net absorption during the first half of 2009. The market, however, rebounded strongly during the second half of 2009 due to improving fundamentals as a result of government actions. The investment markets became optimistic with the emergence of positive news, and nine real estate companies started new public offerings to improve their financing to invest in new projects, helping the stock exchange

[7] The Investment Case for Brazil, Jones Lang LaSalle, 2009
[8] The Investment Case for Brazil, Jones Lang LaSalle, 2009

rise to new records in 2009.[9] Several stalled projects were restarted, bringing the total new supply in 2009 to 227,000 sqm, according to CBRE. Overall, São Paulo weathered the economic storm much better than expected. Net absorption continued to improve in the first quarter of 2010, driving the average vacancy rate down back to historical lows at 5.9%. Specifically, Class A/A+ vacancy rate has dropped to 8.2% at the end of the first quarter, which is above the CBRE average vacancy recorded over the last 3 years. Accordingly to latest reports, rents have increased further in 2010 due to low availabilities and high demand. Future deliveries in the high-end Jardins submarket will likely put upward pressure in average rents for the upcoming quarters.[10] While rents in São Paulo vary by sub-market, they are largely determined by building specifications. As shown in Exhibit 7, only about half of the office buildings in São Paulo have central air conditioning. Building quality is a key evaluating factor for all markets in Brazil.

Exhibit 7
Quality of Office Market in Brazil



Source: CBRE, October 2009

Rio de Janeiro Office Market: The population of the metropolitan region of Rio de Janeiro is almost 12 million and approximately 6.2 million people reside in the city of Rio de Janeiro. Rio de Janeiro is Brazil's second largest office market. The high-end office space is concentrated in Centro, Orla and Barra submarkets, with Orla having the highest rents. The Rio de Janeiro office market was relatively unscathed during the economic slowdown. According to CBRE, the market posted negative absorption in the fourth quarter of 2009, but quickly recovered in the first quarter of 2010. Despite the improvement, first quarter 2010 net absorption is still 35% below the quarterly average absorption recorded since 2007. Class A+ buildings in the city recorded 48% below the quarterly average for the last three years.[11] Supply continues to remain restrained by legal restrictions and the lack of available land. Diminishing office availabilities has driven the average asking lease rates to consecutive increases in recent years. Despite the land constraint, the downtown submarket attracted the highest number of new deliveries, having recorded some 47% of first quarter's new supply. CBRE data shows that Class A buildings accounted for 47% of all spaces that came online in the first quarter of this year. Vacancy rates reached near record lows in the first quarter at 3.7%. Class A vacancy also recorded only a minimal rise of 3.6% from previous 3.3% in the fourth quarter of 2009.[12]

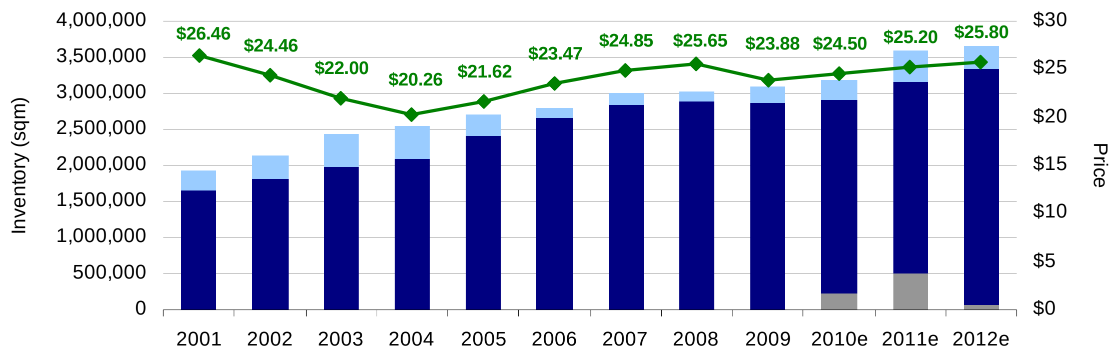
Mexico

The Class A office market in Mexico emerged shortly after the country signed the NAFTA agreement. Exhibit 8 shows the evolution of the stock of Class A and A+ office space in Mexico City. As time progressed, more suburban and back office buildings were added to the Class A stock. As of year-end 2009, 82% of all Class A office space in Mexico was located in

[9] MarketView, CB Richard Ellis 2009
[10] MarketView, CB Richard Ellis 2010
[11] MarketView, CB Richard Ellis 2010
[12] MarketView, CB Richard Ellis 2010

Mexico City. The decline in asking price in 2004 was caused by an over supply when too many new developers entered the market. As the recovery continues, we expect to see a flight to quality in the supply of properties coming to the market. Almost all of these properties were speculative buildings, according to CBRE. In term of capital structure, it is typically 100% equity and very few developers have debt in the buildings.

Exhibit 8
Mexico City* Office Market Projections: Class A and A+ (2001 - 2012)

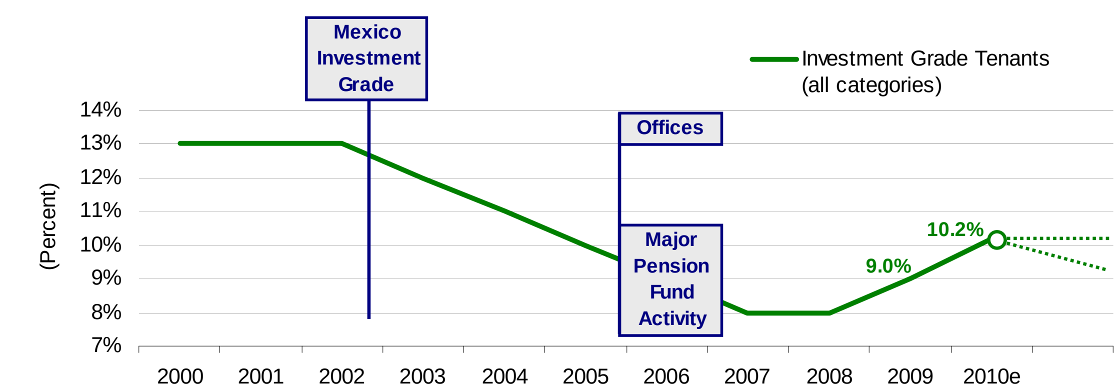


Vacancy Rate	13.87%	13.87%	19.09%	20.46%	10.72%	6.30%	4.47%	4.65%	7.78%	8.59%	12.68%	8.27%

Source: CBRE, April 2010 *Note: 82% of Class A office properties across Mexico are in Mexico City.

Exhibit 9 shows the going-in cap rate trend for the Class A and A+ office market in Mexico as measured by CBRE. The 2009 cap rate is an estimate because only a few transactions took place. Only few distressed buildings came to market last year and there is little or no urgency expected on the part of the sellers in the near term. Looking ahead, cap rates are expected to either trend lower or stabilize. More global funds are expected to enter the market to use Mexico as a geographic diversifier for their portfolio.

Exhibit 9
Class A Mexico Office Investment Market: Cap Rate Trend
Office Building Initial Yields (Total Net Income Yr1 / Total Acquisition Cost)



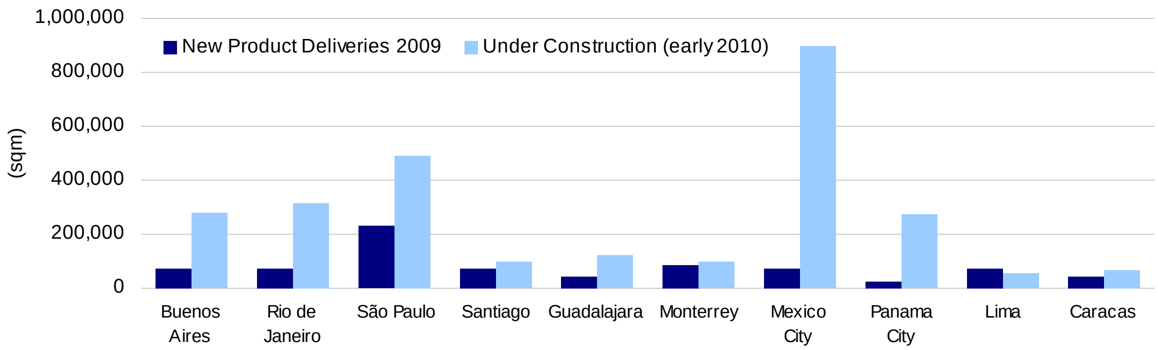
Country Risk	392	308	323	199	166	126	98	149	227	261	172

Source: CBRE and Real Capital Market Analytics, April 2010

Mexico City Office Market: With a population of over 21 million, Mexico City is the largest metropolitan area in the Americas and the world's 3rd largest urban agglomeration. The city is home to over 5,000 foreign companies and there is about 6 million sqm of total office stock in Mexico City. Class A office stock has risen strongly in recent years and now accounts for 3.1 million sqm or 50% of the total stock, representing Latin America's largest market of Class A office space. Mexico City has reached the status as one of the most advanced real estate markets in the world. Many lease contracts in the city are US dollar denominated, and US dollar finance is available.[13] These attractive investment market conditions have led to significant cross-border interest in the Mexico City office market.

Overall, Mexico City fared well during the downturn. According to Cushman & Wakefield, property prices were not significantly reduced, and the majority of the developers performed relatively well with their loans, with some few exceptions. The office market in Mexico City demonstrated a recovery during the first quarter of 2010. Stalled construction projects were reactivated this year as developers and investors arranged new lines of credit. As shown in the Exhibit below, there were approximately 900,000 sqm of Class A office space under construction in Mexico City at the close of fourth quarter 2009, representing nearly 30% of the entire stock of Class A/A+ office space. CBRE has indicated that many of these buildings will be LEED-certified buildings.

Exhibit 10
Latin America Class A Office Product Development



Source: CBRE, December 2009

Since second quarter of 2009, Class A vacancy rate has steadily increased due to an influx of new supply, ending on 9.0% as of first quarter of 2010. For the same time period, Class A+ vacancy rates have been steadily decreasing, reaching 4.7%. Sublease space competition and new supply has pushed Class A prices continually lower since first quarter of 2009, but asking rents for premium product are now beginning to rise.[14]

Monterrey Office Market: Monterrey is the capital city of the northeastern Mexican state of Nuevo León. It has the third largest metropolitan area in Mexico. Mexico's 2010 Urban Competitiveness Report listed Monterrey as the best place in the country to do business based on physical infrastructure, public administration, tax policy, labor force quality, and real estate availability. Monterrey developers added 83,000 sqm of office space to the market in 2009, the largest new supply influx in 7 years. This pushed vacancy rates up to 18.5% at the end of 2009. As of year-end 2009, there were 9 office buildings under construction totaling 91,000 sqm, according to CBRE. Despite high vacancy rates, new construction has continued and absorption was not enough to offset the deliveries. As a result, Monterrey's Class A/A+ market has not showed signs of recovery seen in other markets across Mexico during first quarter of 2010. As new supply continues to enter the market this year, vacancy rate is expected to continue to increase.[15]

[13] Investment Case for Mexico, Jones Lang LaSalle, 2006
[14] MarketView, CB Richard Ellis 2009
[15] MarketView, CB Richard Ellis 2010

Chile

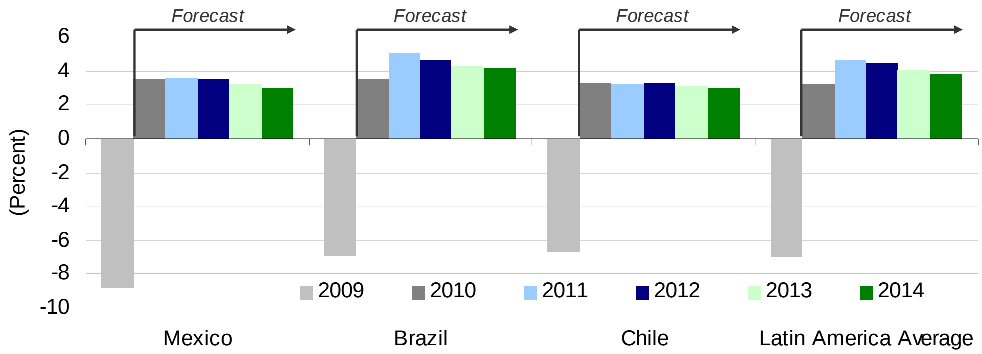
Santiago Office Market: Santiago is the capital and largest city in Chile. In February, the country was struck by an earthquake that measured 8.8 on the Richter scale. The damage from the earthquake was widespread and catastrophic. Coastal Chile has a history of deadly earthquakes, with 13 quakes of magnitude 7.0 or higher since 1973, according to the US Geological Survey. As such, many of the buildings had superior construction and safety features. Consequently, only a small fraction of commercial office buildings suffered severe damage. Despite the negative impact, the Santiago office market performed well in the first quarter of 2010. The year began with the entry of the Titanium building, one of the most notable buildings built to date in Chile at 70,000 sqm. Las Condes remains the major Class A submarket in Santiago. According to CBRE, 90,000 sqm of new supply entered the market in the first quarter, essentially doubling the entire sum of new supply in 2008 and 2009. In spite of the huge amount of space that came to market, there was only a moderate increase in Class A vacancy, which went from 3.4% to 5.9% in the first quarter. As expected, there was also an increase in the average rent. This follows a year of relatively weak construction activity as a result of the global economic downturn. Last year, vacancy rates trended upwards as a result of a large increase of weak absorption and new supply entering the market. According to CBRE, roughly 100,000 sqm of office buildings is expected to enter the market in 2010, although mostly concentrated in lower valued submarkets. Price and vacancy levels are expected to remain stable as the new supply meets pent-up demand in Santiago. CBRE data shows that the supply of offices for sale has been trending lower as most of the new buildings are offered only for rental. The Class B market has benefited from the supply deficit in Class A offices for sale, and the upward trend of prices in Class B continues.[16] One of the effects of the earthquake will be increased interest in high-quality buildings with superior safety features.

Industrial Markets

Macroeconomic growth, coupled with a rising middle class and favorable demographics are leading industrial companies to expand into Latin America. In the face of recovery, many multinational companies are now resuming their expansion plans into the region. According to Prudential, two-thirds of industrial companies surveyed expect the business climate in Brazil to improve over the next six months, while only 1.6% expects it to worsen.[17] Among the real estate property sectors in Latin America, the industrial sector was the first to bear the recession and it is the first to show signs of recovery. Many speculative schemes in Brazil were postponed or cancelled last year, although the best located stock remained relatively stable over the year. Growing consumer confidence in the region is now driving demand, causing key companies, such as Whirlpool, to resume expansion plans. Sanyo, Luvata and Pyrotek all started their operations in Monterrey late last year. In the first quarter of 2010, Philips announced that it will invest $116 million to produce televisions in Brazil. Coca-Cola recently announced it plans to invest nearly $6 billion in Brazil over the next five years. Peugeot Citroen ($708 million) and Ford ($347 million) will expand auto production facilities and Fiat will hire 1,000 new workers before the end of May.[18] Continuing modernization of distribution channels and new inward expansion is another driving factor for the industrial sector within the region. Industrial markets across Latin America are benefiting strongly in the recovery, with demand up due to increased manufacturing. Industrial production is expected to grow 3.4% on average in Mexico, Brazil and Chile (see Exhibit 11).

[16] MarketView, CB Richard Ellis 2009
[17] Latin American Quarterly – Market Perspective, Prudential 2010
[18] Latin American Quarterly – Market Perspective, Prudential 2010

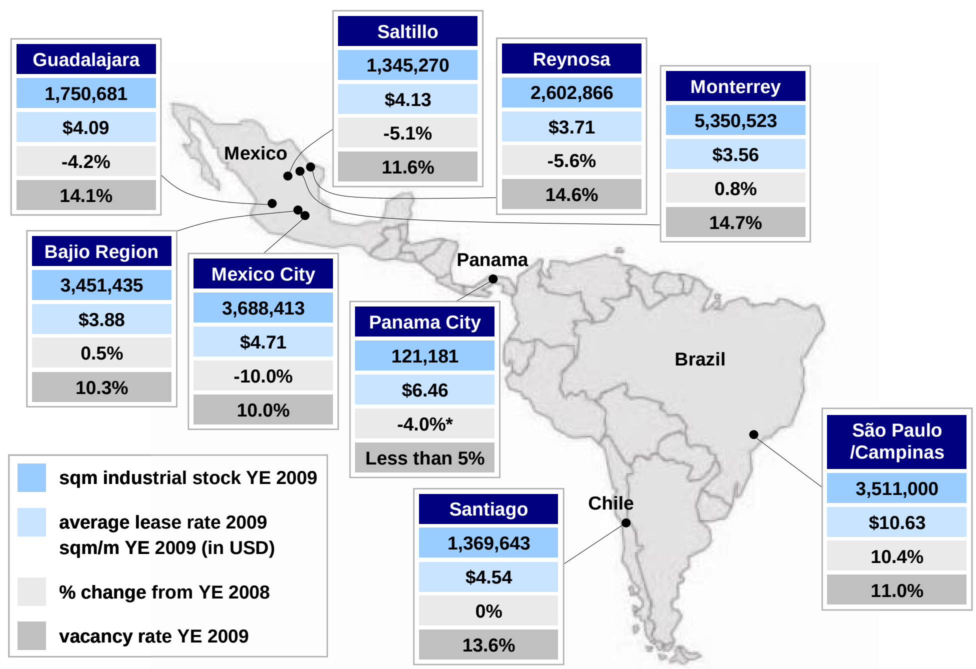
Exhibit 11
Latin America Industrial Production Growth
(Annual Percent Change)



Source: Global Insight, May 2010

Industrial availability rate has declined moderately with improving fundamentals and prospects. Leasing activity for industrial properties is on the uptick in Mexico as industrial companies search for space. Industrial rental rates have also increased slightly due to short supply in a few markets. Demand for space is strong for newer, Class A industrial buildings that have better locations and increased efficiencies.[19] Vacancy rates are expected to continue to decline in 2010 as companies continue to expand. Exhibit 12 shows a map of Class A industrial markets across Latin America. Monterrey and Mexico City lead the pack, followed by the São Paulo/Campinas market in Brazil.

Exhibit 12
Latin America Class A Industrial Markets



Source: CBRE and RREEF Research
As of December 31, 2009

*Change from June 2009, when CBRE began tracking Class A industrial product in Panama City

[19] MarketView, CB Richard Ellis 2009

Brazil

Industrial production levels in Brazil are increasing, led by the automotive, food and drink sectors. Multinational companies are expanding into the country, in part due to Brazil's hosting of both the FIFA World Cup in 2014 and the Summer Olympic Games in 2016. From a mid to long term perspective, pent-up consumer demand will create a need for growth in the retail sector, which will in turn lead to a need for more warehouse and distribution center development. The highest concentration of industrial centers are in the South and Southeast regions, in particular São Paulo, Rio de Janeiro and Curitiba where vast populations are centered. Other significant industrial centers are in the Northeast, particularly the area surrounding the Suape port near Recife (Pernambuco State) and the corridor between Salvador and Camaçari (both in Bahia State), and also in Amazon city of Manaus, which enjoys tax-free and duty-free manufacturing privileges.[20]

According to Jones Lang LaSalle, an estimated 65% of industrial warehouses in Brazil are built-to-suit, owner-occupied space. The remaining 35% of industrial warehouses are developed for leasing and consist primarily of distribution and logistics centers, which represent the main investment target for foreign investors due to very limited supply and strong demand. Demand for new distribution and logistics warehouses has remained stronger than in the office sector. As most of the projects are built-to-suit in Brazil, a significant need for speculative buildings may arise in the future as multinational companies continue to expand into the country, requiring immediate high-quality spaces. Additionally, a gap may arise from the demand of high quality industrial properties and the supply of high-quality stock available. Industrial warehouses constructed before the 1990s are typically of poor quality and the most prevalent. The ones built in the late 1990s are of better quality. Investors with experience developing and maintaining high quality industrial properties may be well positioned to fulfill the gap in this sector.[21]

Industrial rents have been trending upwards over the past decade and jumped significantly from 2005 to 2008. The highest industrial leases are in São Paulo, followed by Rio de Janeiro. Jones Lang LaSalle data shows that the current stock of the industrial warehouse market of São Paulo is estimated at around 25 million sqm. Sale prices for warehouses range from $430 to $975 per sqm in the metropolitan region of São Paulo.[22] The yield range for industrial properties varies greatly depending on property type. Exhibit 13 shows CBRE's estimated yield range for various Class A industrial property types. Industrial parks are a relatively new concept in Brazil and the yield tend to be low for existing fully leased parks. As expected the yield for development projects are more attractive, however, there are additional risks of obtaining site approval.

Exhibit 13
Brazil Class A Industrial Property: Estimated Cap Rate Ranges

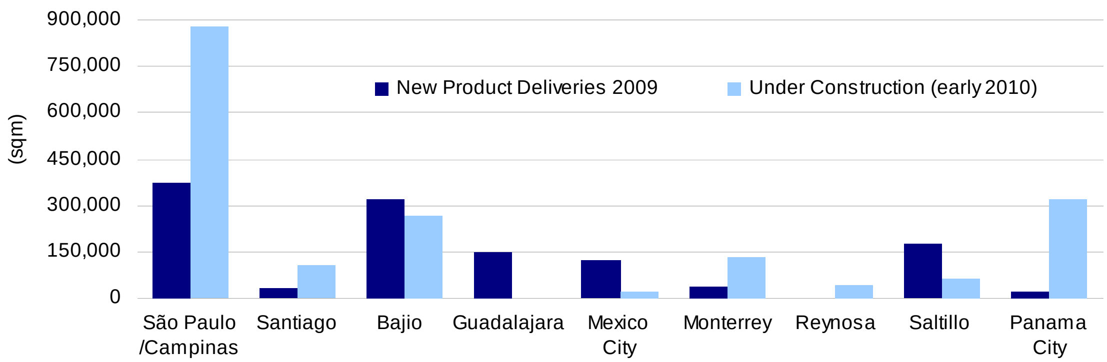
	Estimated Cap Rate Ranges Summary		
Class "A" Property Types / Location	**Existing Fully Lease**	**Projects**	**Development ("yield on cost")**
Industrial Parks	8% - 10%	10% - 12%	12% - 20%
Large Distribution Center (single occupier / S&LB)	11% - 12%	11% - 12%	12% - 20%
Industrial Plants (S&LB)	12% - 13%	-	-

Source: CBRE, October 2009

[20] The Investment Case for Brazil, Jones Lang LaSalle, 2009
[21] The Investment Case for Brazil, Jones Lang LaSalle, 2009
[22] The Investment Case for Brazil, Jones Lang LaSalle, 2009

São Paulo/Campinas Industrial Market: São Paulo is the world's 7th largest metropolitan area and the largest city in Brazil. As the richest city in Brazil, it exerts a strong regional influence in commerce and finance. Accordingly, it is currently the most expensive industrial location in Brazil. Economic recovery led to a resurgence of construction activity in the second half of the year with a record amount of space delivered. CBRE data shows that there was a 28% growth in new industrial park's supply compared to 2008 levels.[23] Despite the 315,300 sqm of deliveries that came through the second half of last year, vacancy rate dropped to 9.0% in the fourth quarter. Overall, the recent addition of superior quality industrial space, coupled with continued low supply, suggest that prices will increase in the short and medium term. Exhibit 14 shows that approximately 900,000 sqm of Class A industrial product is under construction as of early 2010. In recent years, the scarcity of land in São Paulo has driven construction to nearby regions such as Greater Campinas and "others" areas. According to CBRE, approximately, 83% of first quarter 2010 deliveries were located in the Greater Campinas and "others" areas.

Exhibit 14
Latin America Class A Industrial Product Development



Source: CBRE, December 2009

Mexico

Mexico, home to some of the most developed industrial markets in the region, has been most affected by the global recession due to its close trading ties with the US. The northern states of Baja California, Sonora, Chihuahua, Nuevo Leon and Tamaulipas are manufacturing strongholds and their economies are heavily oriented towards the US markets. Major manufacturers have entered and expanded their presence in northern Mexico over the past few years. According to Jones Lang LaSalle these manufacturers include: Whirlpool in Saltillo, Electrolux and Siemens in Juarez, Hitachi in Tijuana, and Daltile, Rubbermaid, Carrier and Toto in Monterrey. Automakers that have expanded include: Ford, GM, Chrysler, Toyota and Nissan. These large investments will also attract associated suppliers to the region.[24] Major manufacturers typically occupy Class A buildings. According to CBRE, there are six Class A industrial markets in Mexico, totaling approximately 18.2 million sqm of Class A industrial stock as of year-end 2009.

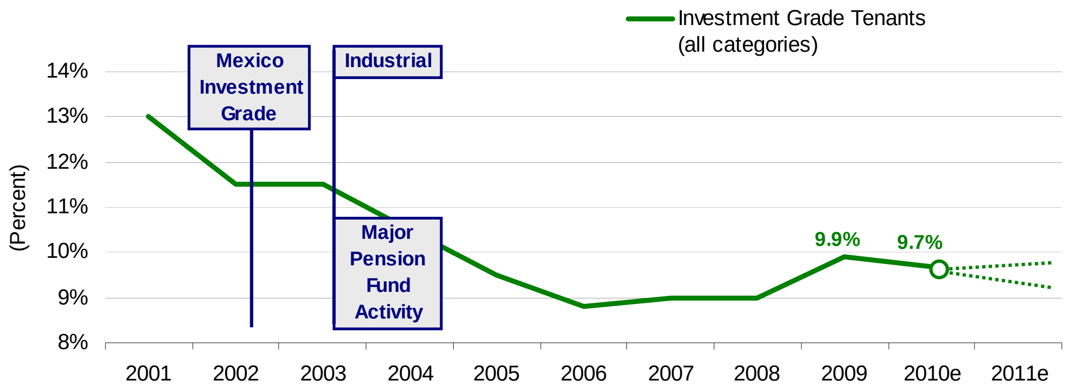
Overall industrial vacancy in Mexico rapidly increased in the first half of 2009, as many tenants reduced the space they occupied. Vacancy rates peaked in most markets in third quarter of 2009 and began to decline slightly by year's end, according to CBRE. Prices fell in major cities, however in Monterrey and the Bajio region, developers were able to maintain their rental rates. In many markets, developers halted supply and focused on built-to-suit projects. Developers typically looked to obtain a pre-let agreement before proceeding with any new project. Despite slowing supply, rents declined by 13% across the country. A gradual improvement in the

[23] MarketView, CB Richard Ellis 2009
[24] Investment Case for Mexico, Jones Lang LaSalle, 2006

Mexican industrial market is anticipated in 2010 as a manufacturing index, developed by Mexico's Institute of Finance Executives, rose in fourth quarter of 2009 to its highest level since April 2008.

Exhibit 15 shows the cap rate trend for Class A industrial space in Mexico as measured by CBRE. Similar to office, the 2009 cap rate is an estimate because of the few transactions that occurred. Bargain hunters did not find many distressed companies in Mexico last year as few companies suffered severe balance sheet issues. There were a few companies that had excess industrial properties to dispose. Currently, cap rates appear to be at a leveling out stage.

Exhibit 15
Class A Mexico Industrial and Logistics: Cap Rate Trend
Industrial Building Initial Yields (Total Net Income Yr1 / Total Acquisition Cost)



Country Risk	308	323	199	166	126	98	149	227	261	172

Source: CBRE and Real Capital Market Analytics, April 2009

Mexico City Industrial Market: The need for more modern and efficient distribution facilities in the capital city is undeniable. Most of the buildings have been constructed by local developers in joint venture with foreign institutional funds. CBRE data shows that the city was the worst affected by the recession, with rents falling by 20% last year as a result of a reduction in occupier demand and tenant consolidation. As of the end of 2009, the Mexico City industrial market consisted of 3.6 million sqm of space. Approximately 300,000 sqm was added in 2009. At the end of last year, the vacancy rate stood at 10%. Prices steadily decreased throughout the year in response to the economic environment and the arrival of new inventory. The average asking price at the end of last year was 10% below those of year-end 2008. On the whole, developers shied away from speculative projects and focused instead on built-to-suits. As developers became more flexible with terms, absorption increased and it rose significantly in the final quarter. According to CBRE, asking price in the first quarter of 2010 increased over the previous quarter for the first time in 12 months, showing signs of a recovery.

Monterrey Industrial Market: Monterrey is an important industrial center in Mexico, serving as operation host for an array of Mexican and international companies such as Carrier, Daewoo, General Electric and LG, among others. Sanyo, Luvata and Pyrotek also started their operations in Monterrey at the end of last year. Ciénega de Flores is the highest-priced submarket in Monterrey due to optimal location and infrastructure, making it ideal for industrial development. The huge Apodaca corridor is a preferred site for new construction and it commands the second highest price and second lowest vacancy rate in the market. Overall prices in Monterrey declined nearly 7% in early 2009 as vacancy rate rose to 13.9%. According to CBRE, nearly 333,293 sqm were added to the industrial inventory last year and currently 124,000 sqm are under construction, primarily in the Apodaca and Guadalupe submarkets. Construction activity of industrial properties in 2009 was approximately half of that registered in 2008 and nearly 75% were Built-to-Suit projects. In the first quarter of 2010, more than 68,000 sqm of Class A industrial building were delivered, of which 49,000 sqm were built-to-suit projects. The decline of the peso has been good news for companies exporting goods in the region.

Chile

Santiago Industrial Market: Industrial vacancy rates in the capital city rose sharply at the beginning of last year. Growth in vacancy rates, however, slowed dramatically over the rest of the year, indicating that the worst of the impact may be over. According to CBRE, average lease value has not varied, in spite of the vacancy increases observed because of the market's stability and the overall optimism. Furthermore, new projects incorporated last year adopted the prices that existed prior to the crisis, which had remained constant for four years. The Santiago industrial market also shows a positive absorption in late 2009, which is a clear indication of recovery. More than 100,000 sqm are expected to enter the market during the first half of 2010, possibly bringing about a new slight increase in vacancy. Most of the new developments correspond to expansions of existing properties, or new centers belonging to developers already present in the market.

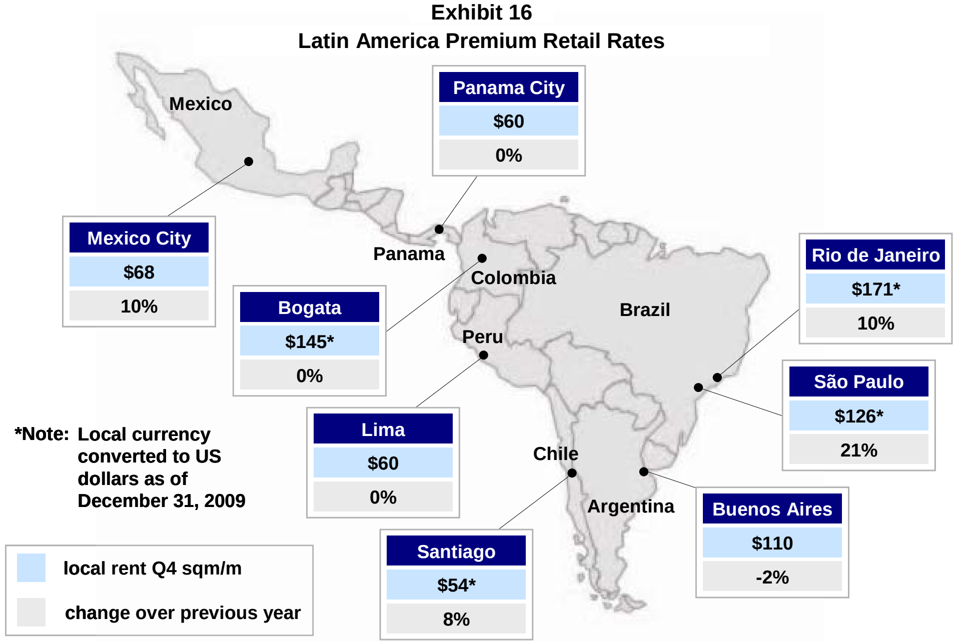
Retail Markets

The retail sector has not been fully institutionalized in Latin America and as such, market level data is more difficult to come by. In general, the high-end retail market in Latin America showed strong performance last year. A recent global retail study by CBRE shows that not a single global retailer exited any of the major markets in Latin America last year. In fact, several global retailers entered the Latin American markets and/or expanded into secondary markets during the recent recession. Furthermore, rents in the best retail districts in the major markets have either maintained their mid-2008 levels, or rebounded quickly from early 2009 lows.[25] Rising employment, improving consumer credit and growing demand from middle class consumers contributed to the expansion of the retail sector in the first quarter of 2010. CBRE retail data shows that high-end Latin American retail properties have so far either maintained or increased their rental rates this year.[26] World class developers have announced that they are planning to bring high-quality products into the region. Exhibit 16 shows premium retail rates for some of the key markets in Latin America.

[25] MarketView, CB Richard Ellis 2009

[26] MarketView, CB Richard Ellis 2010

Exhibit 16
Latin America Premium Retail Rates

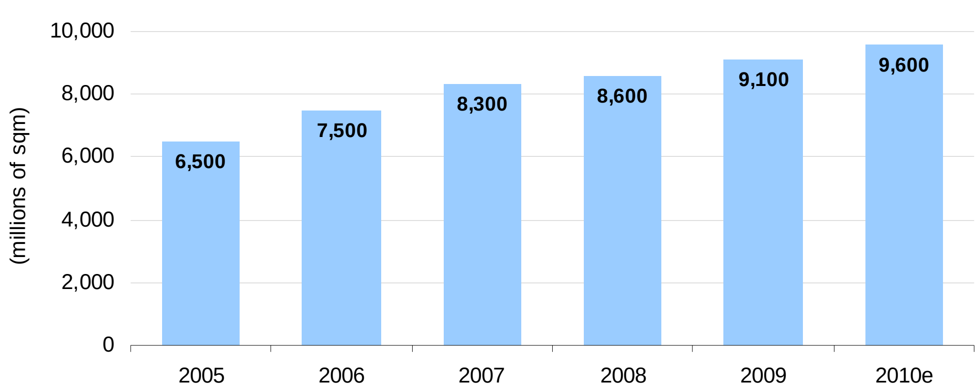


Source: CBRE and RREEF Research
As of December 31, 2009

Brazil

Brazil's demographic trends are favorable for the retail industry. The country is traditionally thought of as a young nation. Approximately 62% of Brazil's population is under 29 years old, a favorable trait given that young people generally spend a higher percentage of their income on retail goods. Approximately four-fifths of the population live in urban areas with easy access to shopping malls. Major developers look for sites along major roadways and populous urban areas that have favorable demographics. With a steady population growth, lower inflation and a rising middle class as key drivers, the shopping center development has boomed in recent years. Consumer spending at Brazilian malls grew more than 10% annually (CAGR) from 2000 to 2008. According to ABRASCE, the Brazilian Shopping Centers Association, 16 new shopping centers were added in 2009, resulting in 392 shopping centers and a total GLA of 9,100 million sqm. 19 more shopping centers are expected to open this year, resulting in 411 shopping centers and 9,600 million sqm in total.

Exhibit 17
Evolution of the Shopping Centers GLA in Brazil



Source: ABRASCE, May 2010

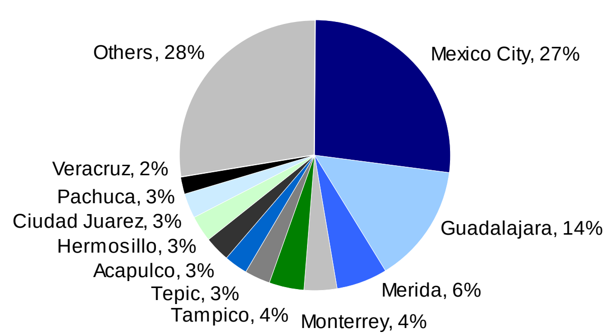
Large shopping malls have evolved to become major retail destinations for Brazilian consumers. With the country's unique demographics in mind, many of these malls provide youth-oriented leisure facilities, making them popular destinations for general leisure among young adults. While over half of Brazil's shopping malls are located in the Southeast, there are now opportunities to develop in the North and Center-West of the country as wealth spreads to new urban centers.

The retail sector is seeing more consolidation as a number of the large players such as Iguatemi, Multiplan, BR Malls, Ancar Ivanhoe and Brascan have gone public.[27] Large Brazilian retailers Insinuante and Ricardo Eletro merged in the first quarter of 2010, resulting in the second-largest non-food retailer in the country. Brazilian shopping mall operator Aliansce raised $315 million in an IPO recently to build and acquire properties.[28] Acquisition opportunities in Brazil are rare and as such, investors should focus on developing new retail centers and expanding large brands. Investment in shopping malls is attractive because Brazilian pension funds and international investors are permitted to participate as shareholders in one or more malls.[29] According to Jones Lang LaSalle, mall owners normally charge tenants a fixed monthly rent, adjustable to match inflation plus a variable fee based on the stores' sales per sqm. Transaction values, therefore, cannot be analyzed by simply looking at the fixed rent. Class C retail properties also offer good opportunities due to rising income and spending power of the lower income groups. The retail sector is expected to continue on a strong growth path as consumer confidence continues to recover from the recent financial crisis. The rise of the middle class, favorable demographics and other key drivers for retail growth mentioned previously will lead international retailers to continue to expand into the country. Brazilian retailer CBD and French retailer Carrefour have recently announced aggressive investment plans for the next two years. Brazilian shopping center company Iguatemi recently announced the construction of a $75 million shopping center in São Paulo.

Mexico

The retail sector in Mexico is growing rapidly, buoyed by strong growth and favorable demographics. Similar to Brazil, Mexico has a relatively young population. With these drivers in mind, international retailers have been expanding into Mexico at a rapid pace. Most of the retail real estate in Mexico is owned by occupiers or specialized retail developers. Foreign investors looking to enter the market typically partner with local developers to fund new developments. Retail sales in Mexico broke into positive territory at the end of last year, first time since the global financial crisis. According to INEGI, Mexico's consumer confidence index rose early this year after dropping in 2009. Demand for space, however, still remains weak. More mature markets are seeing some stability in rents and vacancy levels.[30] Early this year, Wal-Mart announced it will open 300 new stores, creating about 7,000 permanent jobs in Mexico. Home improvement store Lowe's also recently

Exhibit 18
Mexican Retail % of Total Gross Leasable Area (GLA) Growth



Source: CBRE and Berg, April 2010

[27] The Investment Case for Brazil, Jones Lang LaSalle, 2009
[28] Latin American Quarterly – Market Perspective, Prudential 2010
[29] The Investment Case for Brazil, Jones Lang LaSalle, 2009
[30] Latin American Quarterly – Market Perspective, Prudential 2010

made its first foray into Mexico. Exhibit 18 shows how much each market has contributed to total GLA growth in Mexico. While Mexico City is usually the preferred market for first time investors, it only constitutes 27% of total GLA growth. CBRE data shows that many developers are now moving to second and third tier cities such as Tepic, Hermosillo and Pachuca. As long as the peso remains stable, we should expect to see more opportunities for this sector.

Conclusions and Implications for Investors

Latin America is well on its way to becoming a key destination for foreign real estate investment flows as it possesses several key real estate value drivers: rapid economic growth, rising middle class, favorable demographics and growing population. The regional economy is forecast to grow at rates well above those of most developed countries. Compounded with favorable demographic trends, pent up demand from the growing middle class, improving consumer credit and low inflation, the investment case for Latin America property markets is compelling. Furthermore, the unprecedented level of infrastructure investments expected in the near term will provide further support to real estate investments in the region. Transparency for the major economies in Latin America is less of a concern than countries with comparable growth. More market level information will be available as more real estate companies float shares on the capital market.

For investors interested in making direct real estate investments in Latin America for the first time, we recommend the following markets: Mexico City, São Paulo, and Rio de Janiero markets for the office sector and São Paulo/Campinas, Monterrey, and Mexico City markets for the industrial sector. Our evaluation is based a number of factors including the size of the market, quality of the stock, growth of the market, level of transparency, political stability, demographic trends and quality of infrastructure. As previously mentioned, Mexico City is the largest metropolitan area in the Americas and already considered to be among the most dynamic real estate markets in the world. The market is expanding rapidly as nearly 30% of the entire existing stock of Class A/A+ office space is under construction as a result of growing demand for premium office space. São Paulo and Rio de Janiero are home to the largest office markets in Brazil. Rapid economic growth has led to increasing demand for high-end office and high-end industrial space. São Paulo has the second highest Class A office supply under construction and the highest Class A industrial supply under construction in Latin America. Monterrey and Mexico City both serve as key industrial centers and operation hosts for an array of Mexican and multinational companies. These markets are currently the largest Class A industrial markets in Latin America. While prices fell in major industrial markets, developers were able to maintain their rental rates in Monterrey last year.

Recovery is well underway and investment in the region is expected to rise as economic growth continues. Multinationals, with an eye towards long term growth, are returning to the region en masse. Leasing and transaction activity in Latin America are expected to pick up in the near term, with some sectors and countries reacting faster than others. On the supply side, a record amount of high quality supply entered the market last year and even more are under construction. The emergence of established Class A office and industrial markets across Latin America is increasing the size of the investible universe within region to a point where it now warrants greater attention than ever before. Without a doubt, opportunities exist across the region. The key to maximizing returns and mitigating risks is to develop a thorough understanding of the complex market dynamics and legislations that affect each market.

Important disclosure

Key RREEF research personnel, including Asieh Mansour, Head of Americas Research and Peter Hobbs, Head of EMEA Real Estate Research are voting members of the investment committee of certain of the RREEF Alternative Investment Funds. Members of the investment committees vote with respect to underlying investments and/or transactions and certain other matters subjected to a vote of such investment committee. Additionally, research personnel receive, and may in the future receive incentive compensation based on the performance of a certain investment accounts and investment vehicles managed by RREEF and its affiliates.

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