Based on the 8th Edition of Latin American GRI Real Estate

NEW ERA OF OPPORTUNITIES IN LATIN AMERICA

Controlled inflation and lower interest rates expected to boost investment in the region's real estate market

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The forecasted decline in inflation and the subsequent reduction in interest rates in Latin America suggest a more favorable environment for real estate investments in the region. However, the future carries a series of uncertainties, such as fiscal issues, GDP growth, and infrastructure obstacles.

Latin America GRI Real Estate & GRI Hospitality 2024 represented a unique opportunity for executives to evaluate the perspectives and strategies of their peers, as well as for foreign investors and local players to establish business connections aimed at developing the regional real estate market.

Leonardo Di Mauro

Partner | Head of Real Estate LatAm

CONTENT

INTRODUCTION

Latin America GRI Real Estate & GRI Hospitality 2024 attracted over 330 top industry decision-makers to New York, providing a qualified networking environment for senior executives from around the world interested in driving real estate business in Latin America.

Over the course of two days, more than 20 closed-door sessions were held for investors, developers, and financiers across different real estate assets, considering the current economic landscape appears more attractive for Latin countries, as highlighted in this report.

The key factor contributing to this scenario is the forecasted drop in inflation, which will lead to lower interest rates. Additionally, countries like Brazil and Mexico have booming industrial and office sectors. Sustainability is also gaining prominence, with certifications like EDGE and LEED becoming essential, alongside government incentives for green buildings in countries such as Peru, Argentina, and Brazil.

On the other hand, the tourism sector is expanding in the Andean countries, with Colombia leading the way thanks to a record increase in visitors. However, the region faces an urgent need for housing investments, not only in Colombia but also in Chile and Peru. In all three countries, the logistics and data center sectors are attracting capital due to the growing demand for technological solutions.

There was also space to address India, an emerging market experiencing robust economic growth, with forecasts predicting it will become the third-largest economy in the world within the next five to six years.

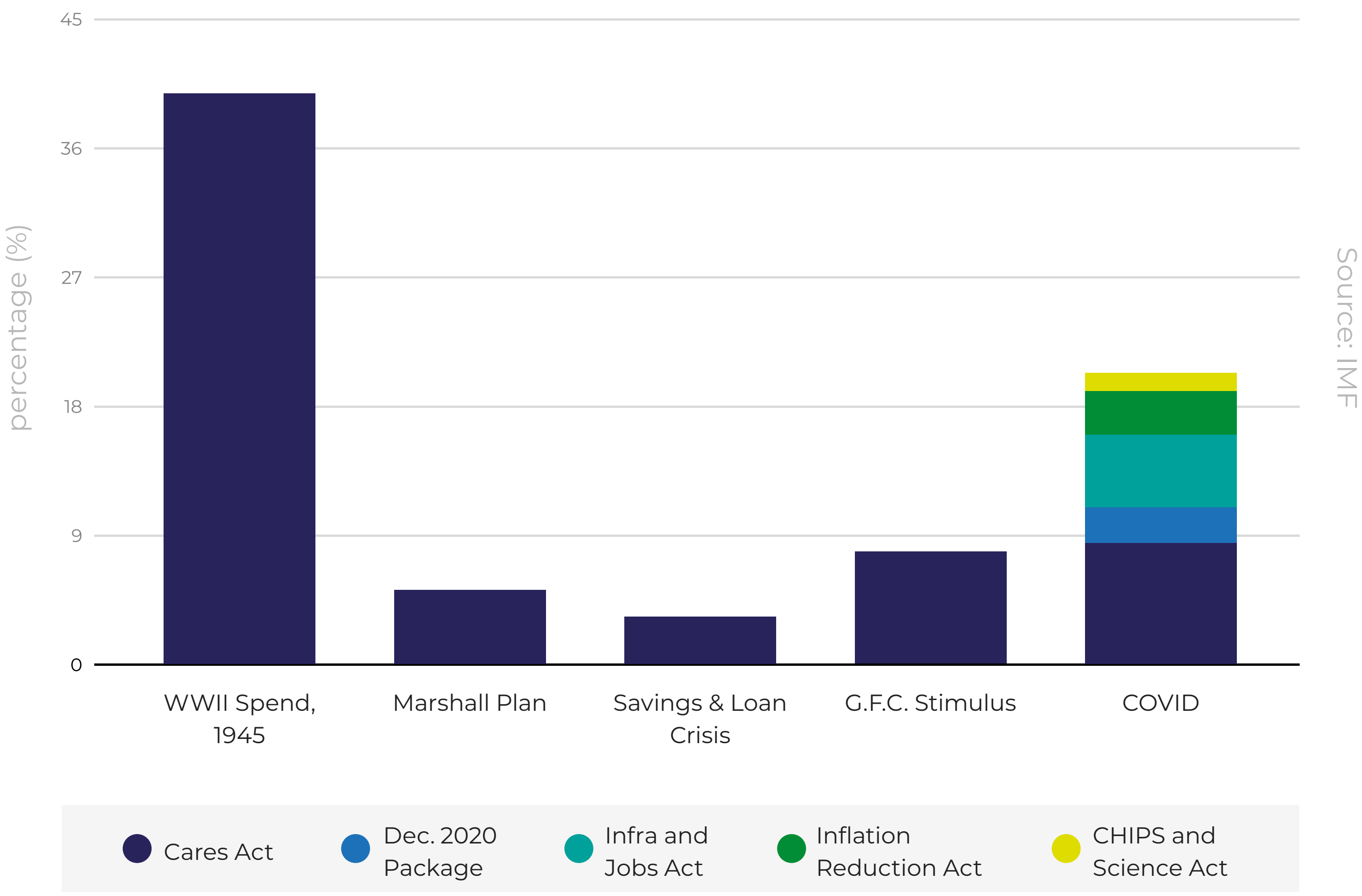
Below are the details of the insights provided earlier, along with the regional and global challenges, ranging from geopolitical issues to infrastructure and energy problems.

ACTIONS SHAPING THE GLOBAL ECONOMY

“The trend is a decline in inflation across all regions.” This encouraging message was conveyed by Richard Barkham, Global Chief Economist at CBRE, during the opening session of the conference. A reduction in interest rates is expected to occur more rapidly in this scenario.

As a starting point for the debate, several factors currently shaping the global economy were highlighted including, the economic stimulus injected by the U.S. government to revitalize domestic production post-pandemic, equivalent to 18% of GDP. For comparison, during World War II, the stimulus was approximately 40% of GDP. It is considered that the pandemic landscape of the past four years, coupled with changes in the country’s policy, has made public investment a challenge.

HISTORIC STIMULUS IN THE U.S. ECONOMY

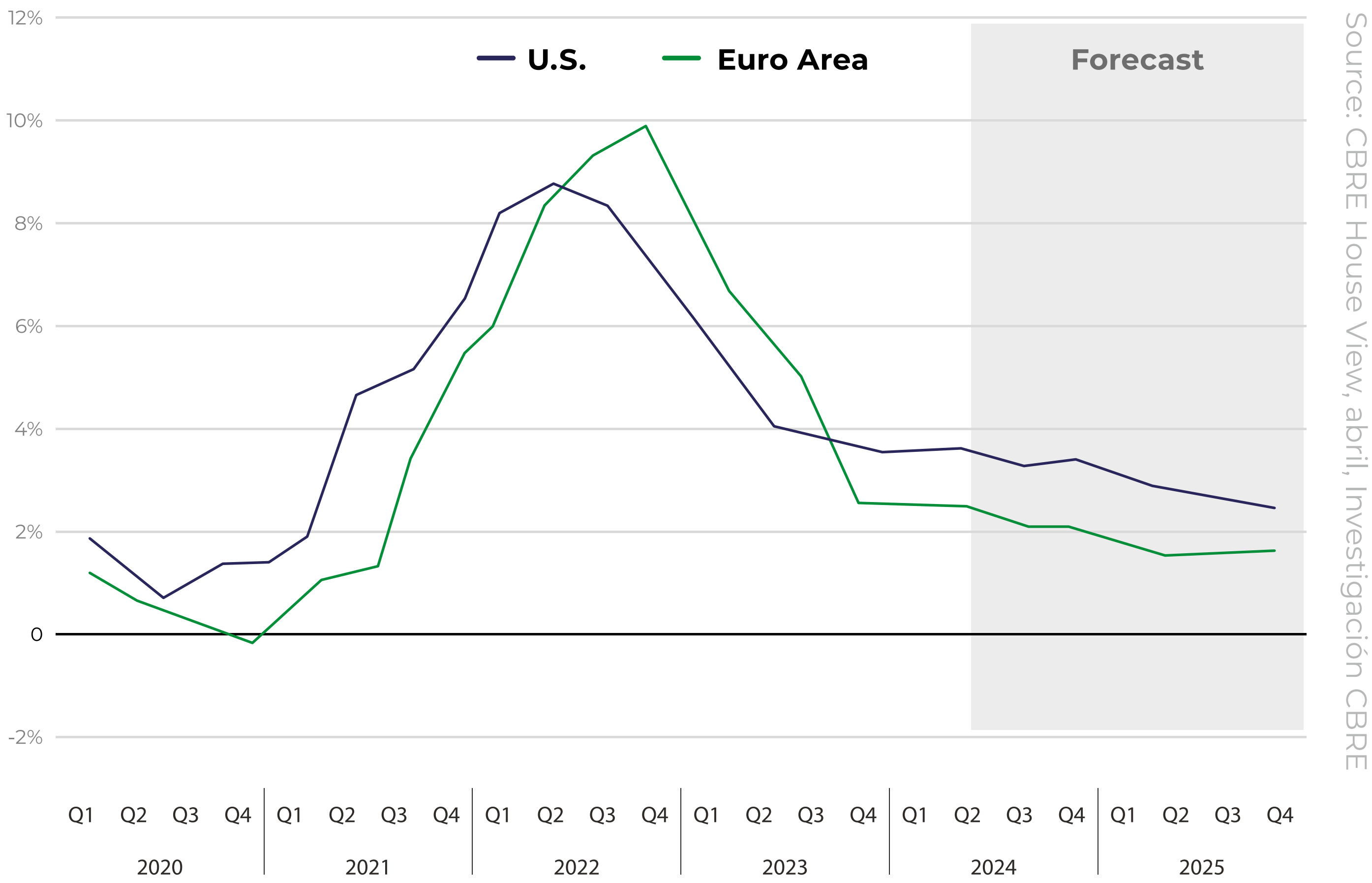


It is worth noting that the U.S. recorded its highest inflation rate in 41 years, reaching 9.1% for the 12 months ending in June 2022. The country is still grappling with the economic consequences of this inflation, facing interest rates that currently sit between 5.25% and 5.50% - their highest levels in about 22 years.

According to Richard Barkham, the market had expected four or five interest rate cuts in 2024: “We won’t get that,” he asserts. Even so, a “soft landing” is anticipated for the U.S. economy, with inflation remaining around 3% throughout the year and approaching 2% by the end of 2025.

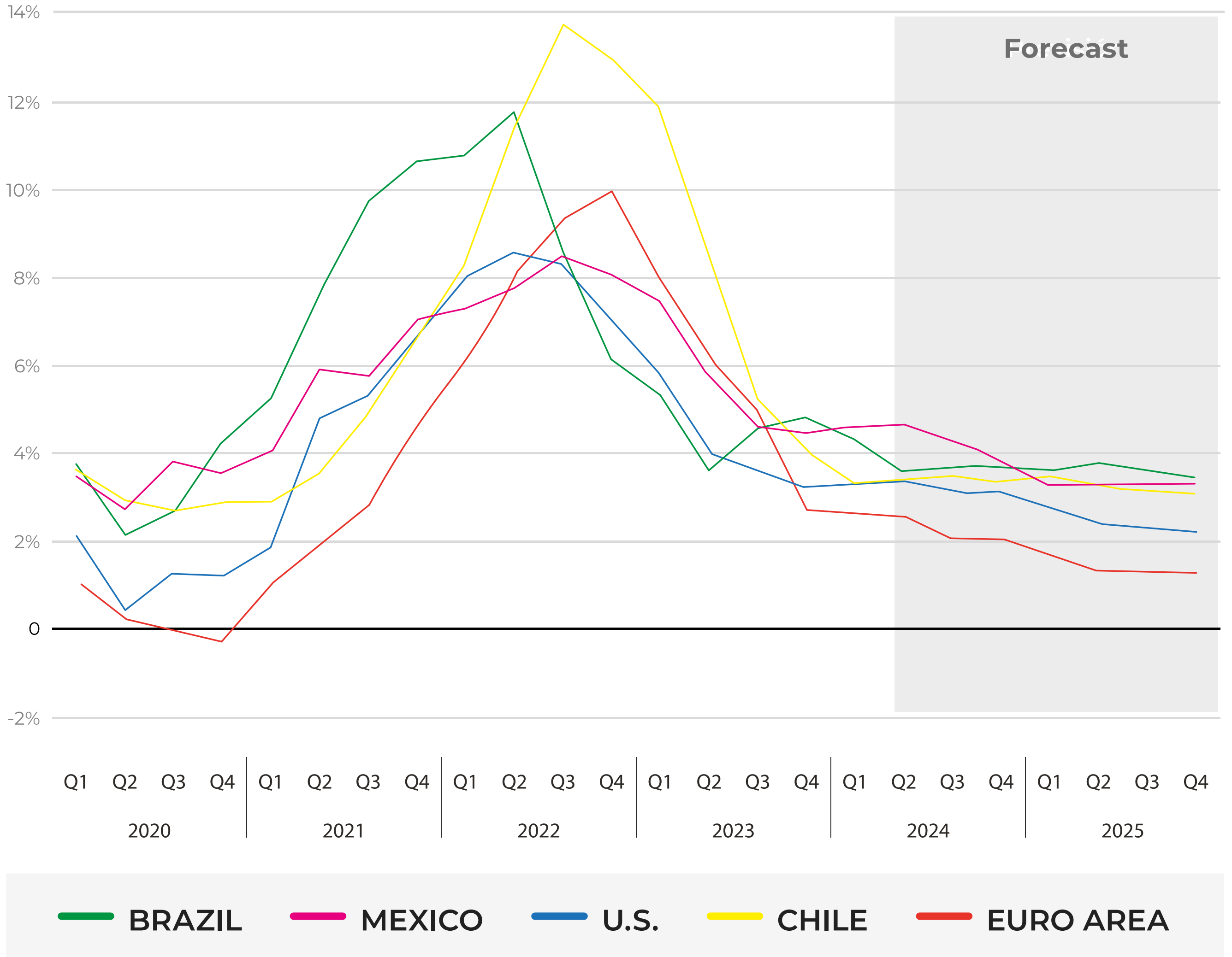
Another relevant factor in the equation is the Eurozone, which is showing stronger-than-expected growth, thanks to economic stimuli similar to those in the U.S. The region is expected to record the lowest inflation levels among major markets, ending the year at 2%, with projections of gradual decline until the end of 2025. With this outlook, the European Central Bank is expected to lead interest rate cuts in 2024.

INFLATION HIGHER FOR LONGER



In Latin America, Brazil and Chile are also experiencing a downward trend in inflation, with rates expected to be between 3-4% during the third quarter of 2024, while Mexico is projected to have a rate above 4%. By the end of 2025, all the above-mentioned countries are projected to have inflation rates between 3-4%.

THE PANDEMIC INFLATION SURGE IS NERALY OVER

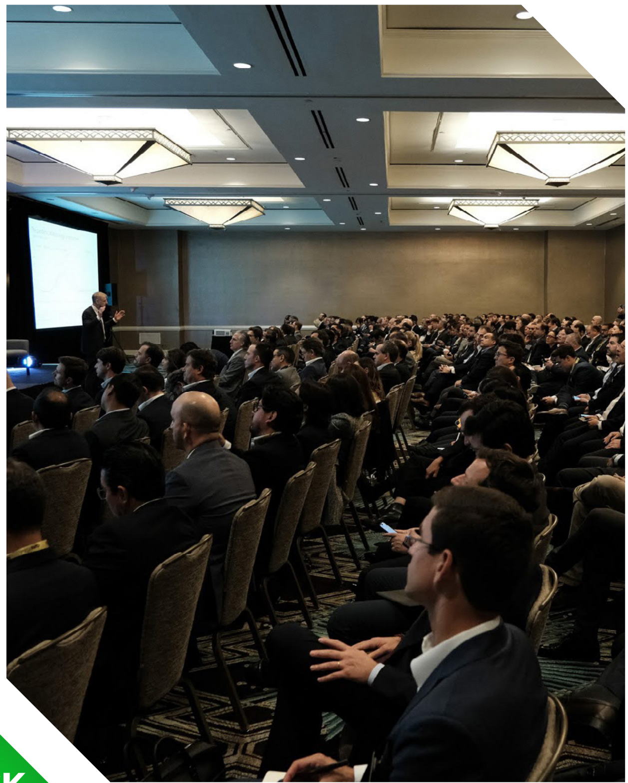


Source: CBRE House View, abril, Investigación CBRE

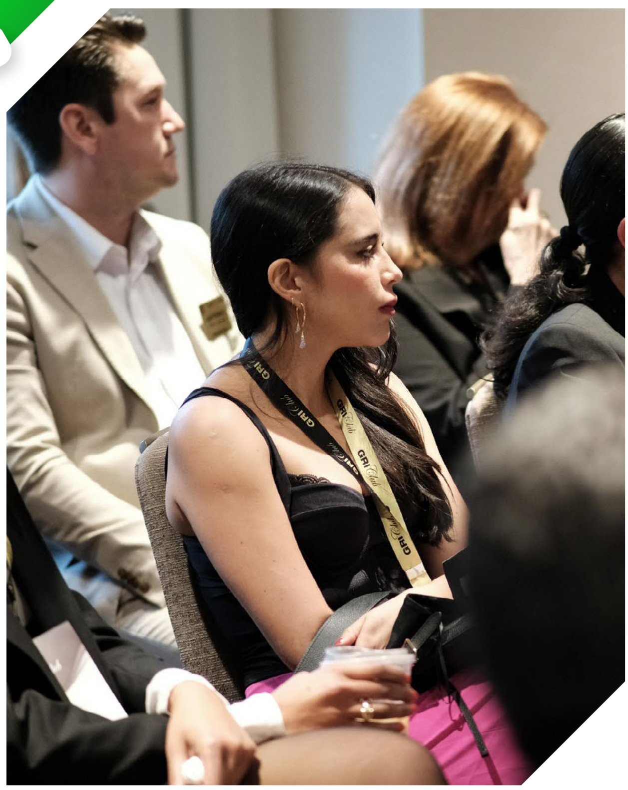
A third factor mentioned is China. Facing challenges in the housing sector, the Chinese have implemented fiscal stimuli and interest rate cuts to revitalize the economy. These efforts have shown positive results, contributing to the country's economic growth in 2023 (5.2%), even with an unstable market.

"Beyond the soft landing in the United States, it's about a recovery in growth in China," Barkham defines. This potential - and anticipated - recovery of the Chinese economy strengthens the commodities market, benefiting various regions, including Latin America.

Projections also take into account geopolitical tensions, such as the war in Ukraine, China and Russia's alignment against developed markets, and the technological war between China and the United States.



CHECK ALBUM



REAL ESTATE OPPORTUNITIES AND THE GROWING GREEN DEMAND

In a discussion on the balance between local and foreign capital in the Latin American real estate market, the recovery of fixed-income markets during 2022 and 2023 and the expansion of private credit were noted. Concurrently, private equity markets are also expected to face a more favorable environment as interest rates begin to decline.

Regarding the opportunities that have attracted international capital, Brazil and Mexico stand out as the countries with the best options for real estate investments. One notable point, different from what is seen in the United States and Europe, is the office sector.

Recently, Mexico City has become the main business district in Latin America, attracting international companies. In the first quarter of 2024, the total net demand for Class A offices in the capital was 60,365 square meters, reaching 75% of pre-pandemic levels, according to a report by Cushman & Wakefield.

In São Paulo, the gross absorption of offices in 2023 was 445,159 square meters, an increase of 17% compared to the previous year, according to Colliers International.

In contrast, the United States faces an oversupply in the office market due to the rise of hybrid and remote work post-pandemic, which has put pressure on rents and increased vacancy rates.

As for trends for the coming years, the focus is on multifamily (residential for rent). The demand for sustainable housing is on the rise, and the development of projects in this mode is seen as a viable solution: “If we want to continue operating on a green basis, multifamily has to be the solution,” emphasized one participant.

According to executives, budgets for sustainable multifamily projects generally increase by around 5% to achieve level two certifications. It is believed that these additional costs will be offset in the future sale of the asset due to its resilience and lower maintenance needs.

A key point highlighted during the meeting was the importance of establishing partnerships between foreign investors and local players for successful investments in the region. Native companies have the expertise to navigate regulatory, social, and political environments, thereby reducing operational risks. On the other hand, global investors bring large-scale capital and knowledge, which is vital for major real estate projects.

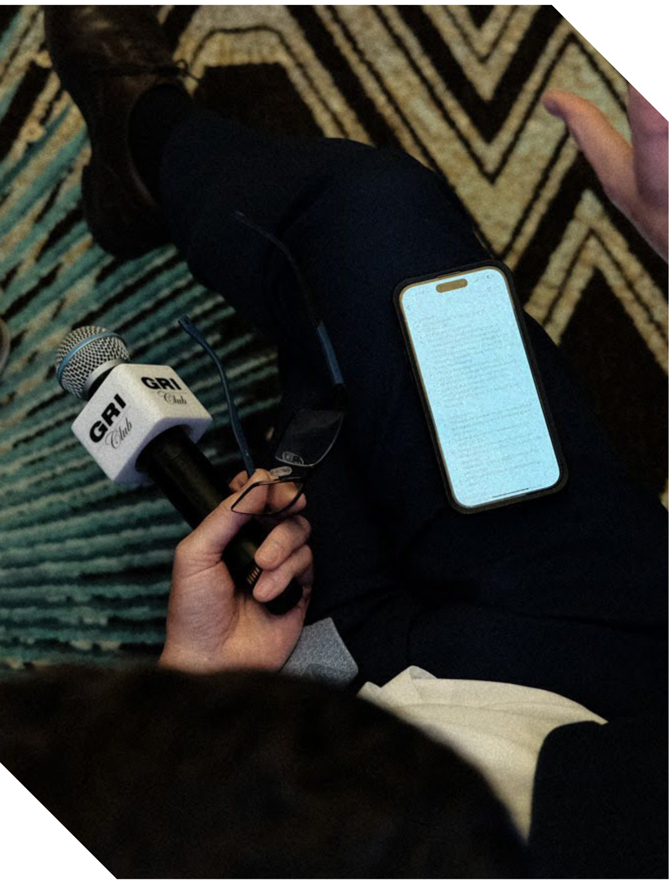
Additionally, foreign players are increasingly demanding projects that meet sustainability criteria, although cultural and operational differences can be an obstacle.

From the perspective of financial institutions, obtaining sustainable certifications is already a priority. Institutions such as BTG Pactual and IFC participated in the conference, paying special attention to a certification that requires a 20% reduction in energy consumption, 20% in water usage, and 20% in building carbon emissions.

It is reported that approximately 80 million square meters have been certified through this tool, representing an investment of USD 80 billion, with USD 35 billion allocated to the region: “Latin America has been our leading region globally,” commented the director of a financial institution.

Increasingly committed to helping their clients implement phased transactions, banks are offering consultancy on the baseline of buildings, their performance, return on investment, and capital plans.

Building resilient structures has become a priority, especially after extreme weather events. “Just look at the recent tragic events in southern Brazil,” one participant recalled, referring to the floods in Rio Grande do Sul, which caused the greatest environmental tragedy in the state’s history.



For greater capacity to face such situations, EDGE and LEED certifications are considered essential. According to executives, they guarantee market competitiveness.

Some national governments are already adapting to the reality of climate change: in Peru, an extra floor of approval is offered for green constructions; in Argentina, licenses for sustainable projects are expedited; Brazil, which will host COP 30, promises to further boost industrial investment in sustainable materials such as green steel and cement, reinforcing the demand for these products in civil construction.

CHANGING USER BEHAVIOR REDEFINES HOSPITALITY

The green agenda is also present in the hospitality sector. During a session dedicated to changes in consumer habits, it was noted that Millennial and Gen Z generations seek experiences aligned with their sustainability values and desire to connect with local communities.

It’s no surprise that 7% of the luxury customers of a hotel company present at the event choose their accommodations based on these criteria. Additionally, hotels that do not meet sustainability requirements may be excluded from business travel programs. It is important to note that regulations vary from country to country, presenting a challenge for foreign investors.

The effort comes not only from hotels: Airbnb has established partnerships with research and development labs in the Netherlands to promote green practices in the region.

Consumers also value memorable experiences: “Travel has become a priority for everyone. We are seeing this all over the world,” said Louise Bang, Chief Sales & Marketing Officer, Caribbean & Latin America at Marriott International, suggesting that the pandemic-induced quarantine has impacted travel habits.

Airbnb’s Director of Supply - USA, Damon Gacicia, confirmed Louise’s observation by reporting that his company has experienced the greatest growth in Latin America since 2019. Since the pandemic, 1,200 cities in the region received their first booking through Airbnb, indicating a diversification of tourist destinations beyond traditional centers. According to Gacicia, the flexibility driven by the rise of remote work has been a crucial factor in this growth.

In the United States, 22 million adults work from home full-time, and 65% of employees value flexibility at work, according to a survey by The Conference Board. This global trend is reflected in the way people choose to live and travel, seeking flexibility not only in work but also in their housing and travel options.

The hospitality sector is attuned to the experiences sought by users, which is why many companies have opted for the construction of luxury hotels combined with residential units, offering comfort and exclusivity for travelers. According to the discussion, this fusion allows families to organize their experiences in a personalized way, such as hiring private chefs or accessing exclusive beaches. This trend reflects the desire for personalization during travel.

Artificial intelligence is another growing trend that contributes to personalization, enabling activities such as automated meeting scheduling and segmented customer service. These alternatives are praised by participants as they reduce the time spent on these tasks.

The use of mobile applications has become increasingly common in hotels. Apps that allow mobile check-in, door unlocking, and food service requests were mentioned. Also noteworthy is the increase in direct bookings through applications, reducing dependence on intermediaries and allowing better control of customer preferences: “This generates a lower cost,” added an executive.

Regarding the sector’s outlook, participants agree on the rise of bleisure travel, which combines business and leisure in a single trip. It’s no surprise that the segment is estimated to reach USD 731.4 billion by 2032, with a compound annual growth rate (CAGR) of 8.9% between 2023 and 2032, according to a report published by Allied Market Research.

There is a growing trend of executives bringing their families, resulting in longer stays and joint enjoyment of destinations. “We have seen this trend in urban locations as well as group trips to resorts,” reported another participant.

MEXICO: THE NEARSHORING POWERHOUSE

Mexico has stood out in the region with the arrival of over 500 foreign companies, particularly Asian ones, driven by nearshoring. This phenomenon is triggering a strong industrial movement in the country, aiming to meet the demands of the U.S. and Canadian markets.

It's worth mentioning that the existence of NAFTA, a Free Trade Agreement between Canada, the United States, and Mexico, facilitates these operations. In 2023, Mexico became the main exporter to the United States, with nearly 50 land ports connecting the two countries.

While these commercial advantages are beneficial, participants expressed concerns about certain aspects. Firstly, the inadequate infrastructure accompanying the volume of industrial properties in the country is a gap already identified by the market. An investor at the conference mentioned implementing ten projects that include airports, railways, and highways.

Interest rates for housing projects intended for factory workers are around 15-16%. Building housing near industrial areas is essential to reduce workers' commutes and ensure affordable housing costs.

A participant also highlighted concerns about the exchange rate. The appreciation of the peso against the dollar, due to high interest rates, slows down investments from North American companies, which evaluate labor and real estate costs in Mexico. Agricultural and industrial exporters selling to the U.S. face reduced margins, about 10-15% lower than before.

On the other hand, the good relationship between Chinese and Mexican investors is expected to continue. Chinese investors and tenants are seeking extensive land areas in Mexico, requesting at least 800 hectares. There is a mix of private capital, government capital, and credit lines from Chinese banks with interest rates around 2%.

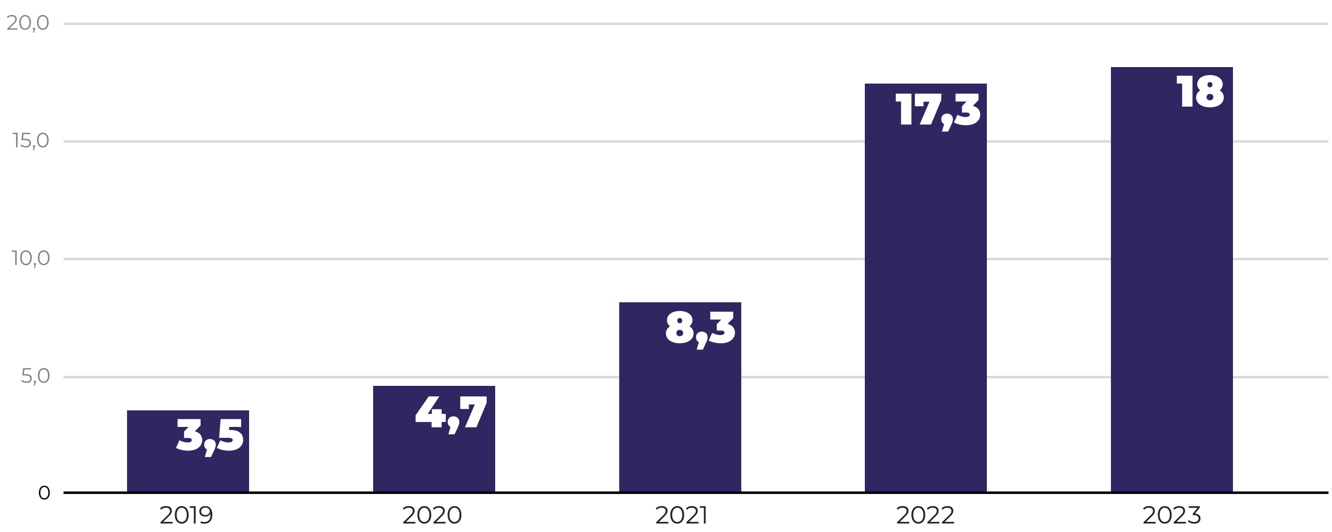
“With 18 years of experience in foreign investment, we’ve never seen this dynamic,” admitted one participant, referring to the growing Chinese investment in Mexico. Another added, “They intend to stay in Mexico for a very long time.”

However, to accommodate these investors, a thorough analysis of the guarantees they can offer in contracts is necessary. One participant suggested that corporate guarantees for projects in Shanghai or Hong Kong, for example, can be complicated for Mexican developers.

Conversely, offering layers of credit or corporate guarantors from solid companies in the U.S. is considered more viable: “We have to be creative,” suggested a developer.

Strategies are being developed in response to the growing nearshoring phenomenon. CBRE reported a significant increase in area absorption for transactions in Latin America, exceeding more than five times the volume between 2019 and 2023.

NEARSHORING IS A KEY LONG-TERM THEME (MILLONS SQ.FT)



Source: CBRE con información de Banxico, 2024

The boom of the nearshoring phenomenon, however, is driving a high demand for energy, largely due to the increase in industrial property occupancy. Monterrey, for example, had 1,695 properties operating in 20.2 million square meters by the end of 2023, according to Colliers.

The country's electrical demand increased by 10%, significantly outpacing the GDP growth of 3.2% in 2023. Industrial tenants are now demanding between 1,000 and 2,000 kVA per hectare, compared to the previous 250 to 500 kVA.

Per square meter, the number of kilowatt-hours demanded increased by more than 15% compared to 2019 and 2020, especially due to the adoption of electric vehicles and other clean technologies. However, this growth has led to more blackouts, such as in Querétaro, where the average outage duration went from 2 to 15 minutes in two years: "The estimate is that a blackout means losses of USD 30,000 to 50,000," warned an executive.

Efforts are underway to change the energy infrastructure landscape due to the issue of insufficiency: "We are currently working on a program to finance transmission lines and substations in Mexico," said a financial player.

Adopting renewable energy in the industrial sector is an additional challenge. Currently, less than 0.5% of the 100 million square meters of Class A industrial properties in Mexico have solar panels: “Many people adopt solar panels, but in industrial assets, the penetration is very low,” lamented a participant. The debate highlighted favorable conditions for solar energy: compared to the U.S., it is 65% cheaper to install solar energy in Mexico, and solar irradiation is 80% higher.

It was mentioned that the government has issued more licenses for onsite energy generation for companies like Microsoft, Train, and Nestlé. This trend is extending to the automotive sector, with brands like Tesla, BYD, and BMW looking to start their own energy generation.

CAN ANDEAN COUNTRIES STAND OUT?

The Andean countries were also a focus of discussion during the conference. After all, do these territories have the potential to demonstrate the same competitiveness as Mexico? Executives highlighted several factors impacting local and international investments.

In Colombia, the challenges of raising funds are evident due to the unstable political environment and high interest rates, which stood at 11.75% at the time of this report. This has led investors to focus on long-term debt businesses, approximately 20 years.

In Chile, on the other hand, interest rates are steadily declining, rekindling interest in development projects. The Central Bank decided to reduce the rate from 6.5% to 6%, and further cuts are expected in the coming months. The situation in Peru is similar: in less than a year, the rate dropped two percentage points, from 7.75% in August 2023 to the current 5.75%.

The lack of incentives for mortgages in Chile is an obstacle for foreign capital, due to the high proportion of debt over assets. This reflects the need for more favorable policies to stimulate the real estate credit market. In Peru, insurance companies play a significant role, while in Colombia their participation is limited.

Regarding the real estate asset most in need of investment, participants agree that overcoming the housing deficit in the Andean region is urgent. Colombians, for example, are only obtaining 6,200 new homes launched each month, according to data from Coordenada Urbana, the information system of the Colombian Chamber of Construction (CAMACOL). At this rate, it is projected that in a decade, Colombia will have less than 30% of the necessary housing supply.

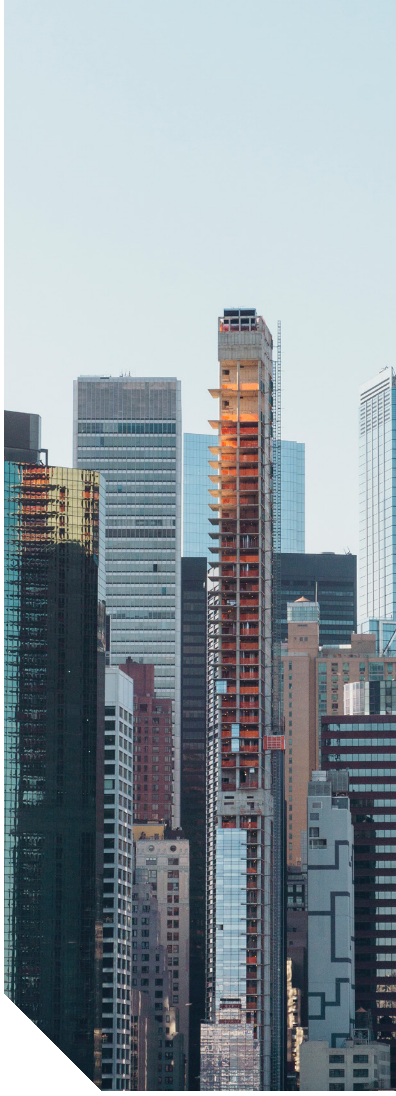
The Chilean Chamber of Construction (CChC) estimated the housing deficit in Chile at 1.1 million homes and asserted that it could only be resolved in 20 years. Meanwhile, 11% of Peruvian families lack housing or live in substandard conditions.

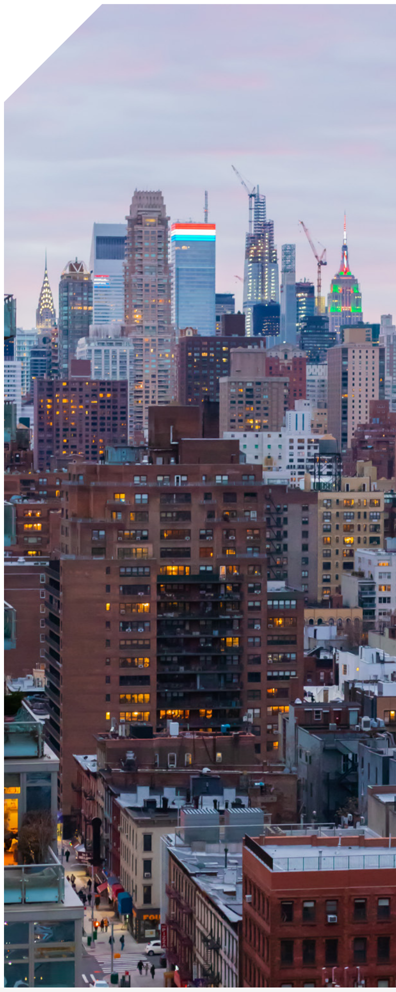
Given this context, executives believe that investing in smaller apartments is a great opportunity. The first step, however, must come from collaboration between the Andean countries, which still lack institutional investors: “Most foreign institutional investors are focused on Mexico and Brazil,” lamented a participant. The discussion reinforced that regional integration will require overcoming exchange rate risks and regulatory differences.

On this last point, it was mentioned that both Peru and Chile offer tax exemptions for local investors, facilitating the attraction of domestic capital in these countries. Colombia undergoes tax reforms every two years, which can constantly alter the fiscal dynamics.

Although the panel conveyed a sense of Colombia’s disadvantage compared to the other countries, participants drew attention to the strength of the tourism segment, which has become one of the sectors driving the national economy. In 2023, the country recorded 5.8 million non-resident visitors, surpassing the government’s projected goal of 5.2 million. This represents a 24.3% increase compared to 2022.

Furthermore, Colombia has the potential to excel with the nearshoring trend: the possibility of using ports in the Caribbean for exports to the United States is a viable option, though there are concerns about the availability of skilled human capital for large-scale production. Comparisons of labor costs, productivity, and engineering training indicate that Mexico has the advantage.





Meanwhile, Peru is developing to become a logistics hub in South America. In the north of Lima, the new mega port of Chancay is being implemented by Cosco Shipping Ports Chancay, with an investment exceeding USD 3 billion. This new port will allow for direct connection from South America to Asia.

Another asset highlighted by executives, with potential across the Andean region, is data centers. However, there are concerns about hyperscale facilities, particularly regarding electrical capacity and energy consumption. The example of Texas clearly illustrates the magnitude of the problem: currently, the state has 89,000 megawatts of energy capacity and will need to add another 56,000 megawatts in the next seven years to meet projected demand.

According to one executive, data centers of this size consume an immense amount of electricity: “A hyperscale data center consumes the same amount of electricity needed to power a city of approximately half a million people,” he warned.

INDIA ADVANCES AMONG EMERGING MARKETS

India also stood out at the conference for its potential to become the third-largest economy in the world in the next five to six years. The country is showing annual growth rates of around 6% and a rising luxury residential market.

In addition to the major cities, the so-called second-tier cities are experiencing significant growth in the residential, retail, and hospitality sectors, indicating an expansion of real estate beyond the primary cities.

With around USD 4 billion invested in real estate, India plans to increase that figure to USD 20 billion in the coming years. Foreign investment is expected to grow as the Indian market continues to evolve and become more liquid.

This dynamic is occurring amidst the disruption of traditional cycles. The shift of supply chains from China to India has brought significant benefits to the national market. However, the growing urbanization demands that urban and social infrastructure keep pace with real estate development.

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Leonardo Di Mauro
Partner | Head of Real Estate LatAm
leonardo.dimauro@griclub.org

GRI Club

GRI Club Latam GRI Club @griclub.latam

griclub.org

Writer: Paulo Alfaro • Designer: Pedro Scarabucci • Translator: Isabella Toledo