KPMG

Americas Real SnapShot

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Introduction

Welcome to KPMG's *2016 Americas Real SnapShot*. This timely report prepared by our experienced team of real estate specialists is designed to provide you with revealing insights on ever-changing markets and opportunities across the Americas region. We examine in detail the key real estate sector markets in the US, Canada, Mexico and Brazil and the diverse factors forging each country's current investment climate.

In the US, the sentiment is one of cautious optimism for a relatively strong 2016 performance by the real estate market. Many feel the US recovery from the 2009 economic crisis will continue for another 2 or 3 years as the economy maintains slow-but-steady overall job growth. The outlook is for 2016 gross domestic product (GDP) growth to likely meet or exceed a six-year average that, while less than robust, reflects the US economy's continued movement in the right direction.

The aforementioned job growth, good real estate fundamentals and the low interest-rate environment are making the US attractive from a global perspective and generating a flood of global capital that is currently at historic highs and poised to continue. Given the volatility of global economic conditions, the US market is being viewed as a safe haven by many nations — or what KPMG's Chief Economist calls "the nicest house in a bad neighborhood."

The retail segment of the US real estate market has been relatively flat. In the office marketplace, we anticipate positive-but-declining absorption, which may be another sign we are reaching the end of the cycle. A noteworthy bright spot is unmet demand in the storage space, which is creating significant investment opportunity. The residential marketplace also looks positive and demographic trends among millennials and aging boomers are helping to drive development and investment opportunities. There is a changing, more positive attitude about homeownership, especially for millennials, though it is still not clear if this is a permanent phenomenon.

Brazil continues to struggle with significant challenges that include political unrest, inflation, regulatory issues and currency fluctuations and the unstable environment has been discouraging to investors. GDP outlook is down, inflation as

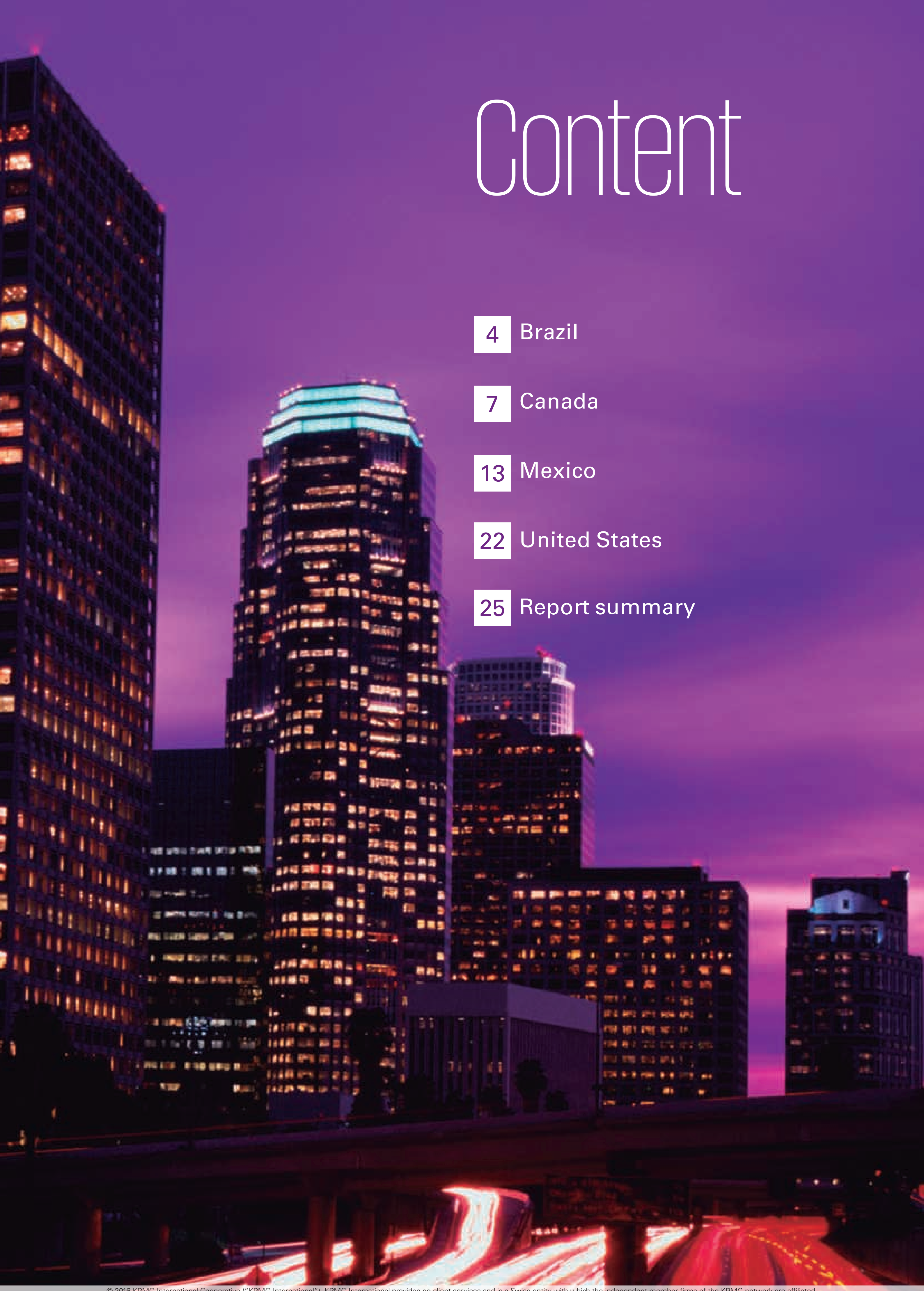
[1] www.tradingeconomics.com/brazil/inflation-cpi

of June 2016 was 8.84[1] percent, unemployment is rising, residential sales are low and office vacancies are high, while shopping-center construction is weaker than expected. While no one seems to believe that Brazil represents anything but a promising long-term investment environment, the current instability makes it particularly difficult to underwrite risk. There is some sentiment that with anticipated changes in political leadership, Brazil's economic prospects will improve.

Mexico's GDP growth was weak overall in 2015. There was a slight quarter over quarter increase from 2.4 percent to 2.6 percent at the end of March 2016 and the trend is expected to continue as the size and income levels of the country's middle class continue to expand. Inflation is low and foreign investment has been high[2]. Security challenges in some parts of Mexico are constraining development opportunities. The situation has made progress but there is more to do to generate broader development. The majority of development is in coastal parts of the country such as tourist areas. That said, Mexico is much further along compared to Brazil in attracting capital and generating new development.

Canada's economy performed weakly in 2015, impacted largely by the global decline in oil prices and a weak Canadian dollar. For 2016, while uneven performance across the country's provinces is anticipated, real estate demand is expected to remain at its current buoyant level and supported by US and Asian demand amid the weaker Canadian dollar. The dollar volume of foreign capital coming into Canada is not as robust as in the US. Still, last year was one of Canada's biggest years ever for foreign capital investment. Canada's larger real estate investment trusts (REITs) have continued to raise capital and invest in real estate assets and that is a positive trend that reflects a healthy appetite in the market.

[2] www.tradingeconomics.com/mexico/gdp-growth-annual



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Brazil

Political and economic challenges create uncertainty among investors

Macroeconomic overview

Brazil continues to endure troubled times amid economic and political instability. On the economic front, Brazil has felt the impact of the slowdown in China, Brazil's main importer of commodities such as mineral ore and soybeans. The strengthening of the US market and indications of a possible interest rate rise there are also having a negative impact by redirecting investment and reducing exposures in emerging countries. In the case of Brazil, this is compounded by the recent loss of the investment grade by Moody's in February 2016, after Fitch and Standard & Poor's also withdrew its investment-grade rating at the end of 2015.

Beyond the fallout over Brazil's economic issues, rating agencies are cautiously watching interim president, Michel Temer, to see if he can rebuild the countries global credibility, following the suspension of Dilma Rousseff.

Brazil's cloudy picture is reflected by its economic indicators. The International Monetary Fund (IMF) recently reviewed projections made last October. For 2016, the previously estimated GDP was a 1 percent decrease, revised to a decrease of 3.8 percent and for 2017, from an increase of 2.3 percent to a flat GDP.

Brazil's government admits that the 4.5 percent target for inflation — as measured by the amplified consumer price index (IPCA) — will only be reached in 2017, after 2015 ended at 10.67 percent and with a 6.6 to 6.9 percent 2016 forecast, according to the Central Bank of Brazil.

The unemployment rate continues to rise, according to the Brazilian Institute of Geography and Statistics (IBGE), climbing to 9 percent by the end of 2015 — versus 6.6 percent a year earlier — and it should be even higher for 2016, according to the International Labor Organization (ILO).

Residential market

Three key factors are having a negative impact on the residential market: high unemployment, restrictions on credit and higher interest rates. The result has been delayed decision-making on home buying as well as the return of many homes previously acquired, due to default. Developers are being left with a substantial stock of residential units and in many cases are postponing new real estate projects.

A real estate market survey by SECOVI-SP (Developers' Association of São Paulo State) shows a total of 20,148 units sold in 2015 in São Paulo, Brazil's main real estate market — a 6.6 -percent decline versus 21,576 units sold in 2014.

However, contract cancellations occurring from January to September 2015 represented 41 percent of the gross sales in that period, according to the Fitch risk rating agency and based on data from nine large companies in the sector. As a result, a unit may have been sold more than once amid the heavy volume of deal cancellations.

Furthermore, according to SECOVI-SP, a total of 21,445 units were launched in the market in 2015, down 37 percent from 2014.

Accordingly, amid weaker sales and the high volume of units returned, SECOVI's report for the sector closed 2015 with 27,055 properties in stock, which is more than one year's volume of sales, without factoring in the possibility of cancellations, considering gross sales of 2015 was 20.148 units.

The forecast is for developers to reduce the launch of new projects, keeping only those with the highest liquidity and thus permitting the volume of stocks to be reduced amid hopes that the economy recovers to perform as in previous years.

If the crisis continues or deepens, a decline in new project launches could generate an imbalance of supply versus demand once the market stabilizes and income and credit conditions improve. As residential development construction requires 3 to 4 years, the next 6 or 7 years could see fewer new units being delivered and higher real estate values amid the limited supply.

Office market

Office vacancy reached 24 percent at the end of 2015, according to JLL in its 2015 Q4 real estate survey. This comes amid a significant volume of commercial offices completed and delivered in São Paulo over the last 2 years.

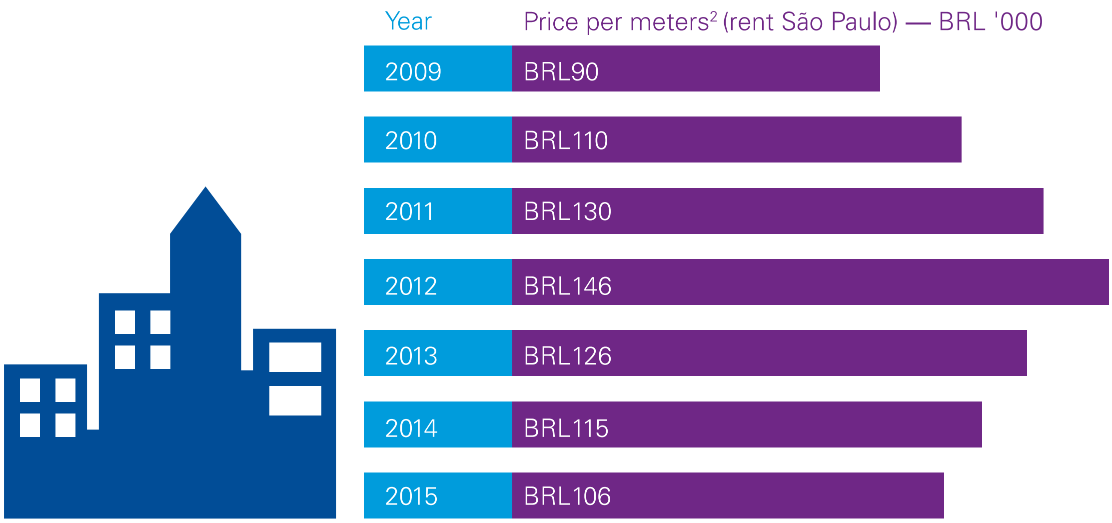
The volume of vacancy has favored the ability of tenants to negotiate with lease holders for greater grace periods and lower leasing costs per square meter. The high volume of new real estate developments is also generating a movement of tenants from class B and A developments toward AAA developments. In Rio de Janeiro, the economic turmoil, particularly in the oil-and-gas sector, has prompted a number of companies to close or reduce operations, resulting in the return of leased spaces and a vacancy rate of 24 percent, according to JLL.

Regarding leasing costs per square meter, the market in Rio de Janeiro has presented averages of BRL102 to BRL116 (USD30 to USD34) in recent years but this stability is relative, since the portfolio has been rejuvenated and the value of leases does not change as newer or better developments come onto the market.

In the current scenario, the number of transactions involving commercial buildings is down because of a marked difference between values being asked and offered. Many sellers do not want to recognize any losses amid the current economic prospects, while buyers price properties to account for the loss of investment grade, an interest-rate increase and prospects for a weak GDP in the next 2 years.

At the same time, some transactions have been driven by the fact that the real's depreciation against the US dollar is making properties less costly when quoted in foreign currency. In December 2015, for the 12-month period, the appreciation of the US dollar in relation to the Brazilian real was 46.66 percent. However, after the suspension of Dilma Rousseff, the real appreciated against US dollar and some transactions, in course, are on hold, waiting a clearer forecast.

Sao Paulo office rent per meter



Source: Cushman & Wakefield

Retail market

For 2015, the Brazilian Association of Shopping Centers (Abrasce) estimated that the pace of expansions and openings in the sector would be maintained amid an anticipated opening of more than 26 shopping centers. By the year's end, 18 new shopping centers were launched in Brazil and the sector, which has seen more than 20 shopping centers opening annually since 2010, still shows strong resilience compared to other sectors. Overall, 2015 sales in Brazilian shopping centers rose 6.5 percent to BRL151.5 billion (USD42.69 billion), according to Abrasce.

Investments have focused on expanding existing shopping centers in mature markets and locating developments in areas of population growth that need shopping amenities. According to Abrasce, the launch of 30 shopping centers is anticipated for 2016, of which 23 are not situated in capital cities.

Warehousing market

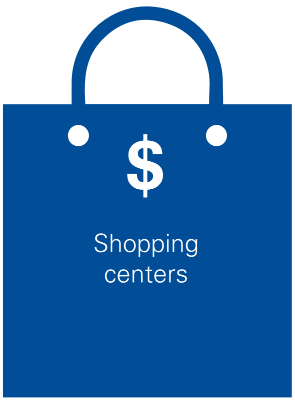
The main corridors of activity in the logistics segment are concentrated on the São Paulo — Rio de Janeiro and the São Paulo/Capital — São Paulo/Interior axes. These two axes still show good performance amid the downturn in the economy, as tenants aim to concentrate activities in fewer distribution centers or exchange older logistics centers for modern new logistics complexes.

Among the real estate markets, the logistics market tends to be the last to feel the impact of changes in the economy, since any decline in the retail market is not reflected immediately by decreasing inventories or repositioning by tenants.

The preference of many tenants to locate in capital cities has increased the vacancy rate in non-urban complexes and investors have concentrated on developing logistics centers not more than 100 kilometers from the capitals.

As for values per square meter, these appear stable at about BRL15 to BRL30 (USD4.25 to USD8.50) in São Paulo and Rio de Janeiro, according to the JLL 2H 2015 Real Estate Research. Those numbers, and the vacancy rate, could face greater pressure ahead if Brazil's troubled conditions persist.

Shopping centers



Year	Number of centers	ABL (millions of meters^2)	Billings (in billions if reals per year)	Growth
2010	408	9.512	91	67.34%
2011	430	10.344	108	18.68%
2012	457	11.403	119.5	10.64%
2013	495	12.940	129.2	8.12%
2014	520	13.846	142.3	10.14%
2015	538	14.680	151.5	6.47%

Source: Abrasce – Brazilian Association of Shopping Centers

Canada

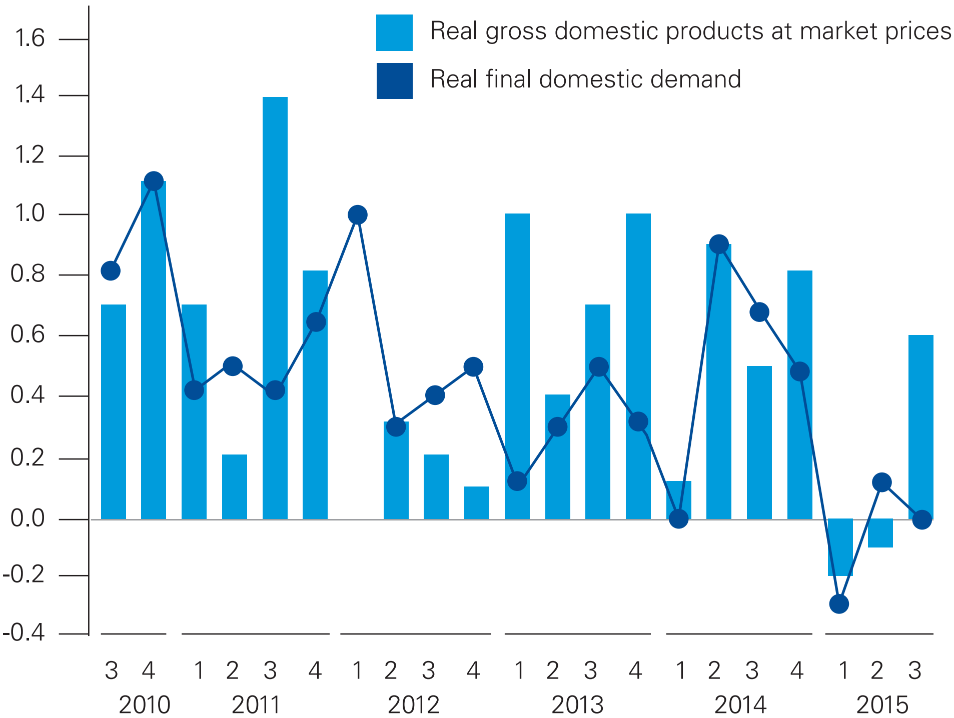
The economy feels the impact of lower oil prices and weaker currency

Macroeconomic overview

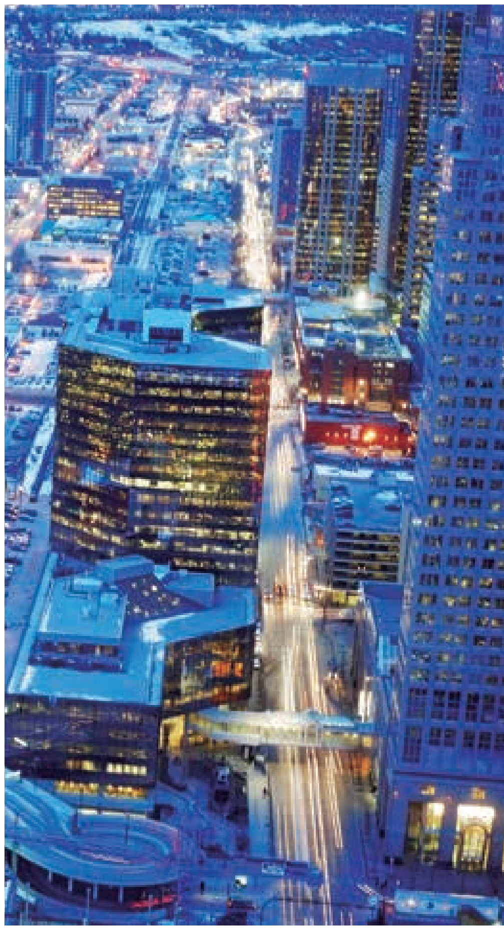
The Canadian economy suffered a mild recession in the first half of 2015, and was largely affected by two factors. First, economic performance was significantly impaired — particularly in Alberta and Saskatchewan — amid the global decline in oil prices. This has continued into 2016, with little improvement expected for Alberta or Saskatchewan in the near term. The second noteworthy factor has been the weakening of the Canadian dollar, which at the same time has the potential to improve demand for Canadian exports and real estate.

Canada's economy slumped in the first two quarters of 2015 amid lower commodity prices: real GDP was down at -0.2 and -0.1 percent in the respective quarters. In Q3, real GDP recovered and managed to climb a healthy 0.6 percent as Canada's weaker dollar boosted exports.

Canadian economy — Quarterly percent change, chained to 2007 dollars



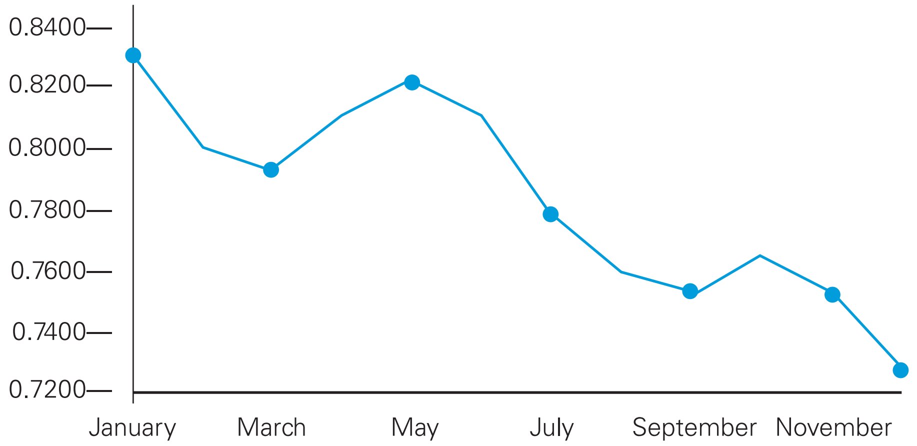
Source: Statistics Canada



Major Canadian banks and the central Bank of Canada expect GDP to close out at between -1.0 and +1.0 percent quarter-over-quarter, annualized, in 2015 amid volatile oil-and-gas prices. Forecasts are positive for 2016, with an estimated GDP growth rate of about 2.0 percent, but uneven performance is expected across the country: stronger in British Columbia and Ontario versus weaker among prairie provinces.

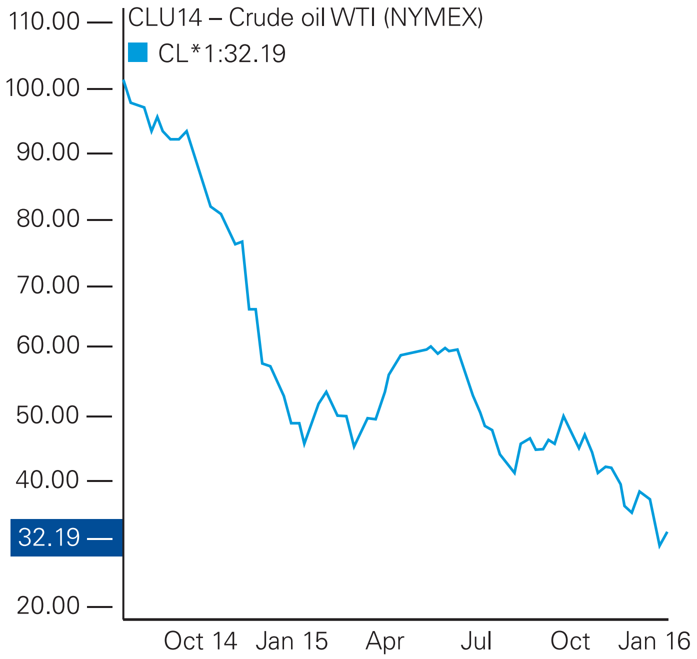
Overall, real estate experts have expressed cautious optimism about the Canadian economy. Growth has been slow but the economy has managed to hold up relatively well given weaker global demand for commodities. As one of Canada's top exports is oil, weaker oil prices have affected the economy in several ways, from job cuts at major companies to reduced capital expenditure in the oil industry. However, as US and Asian demand remains steady or increases in response to the weaker Canadian dollar, Canada should maintain economic stability, while demand for Canadian real estate also looks encouraging due to the favourable exchange rate.

CAD:USD exchange rate — 2015



Source: Oanda.com

Crude oil WTI price chart — 18 Months (July 2014 to January 2016)



WTI – West Texas Intermediate
NYMEX – New York Mercantile Exchange

Source: Nasdaq.com

Office market

The Canadian office market was expected to experience higher vacancy rates going into 2016 due to additional supply. In Q3 2015, the office sector saw additional construction in the downtown and suburban markets: 11.2 million square feet and 6.4 million square feet, respectively.

Some vacancy is expected to be filled by companies in the rapidly expanding technology sector, which accounted for 38 percent of national office leasing transactions in Q2 2015.

Weaker oil prices have affected Alberta the most. Calgary is expected to experience a higher vacancy rate of 18.4 percent for 2016, versus 16.3 percent in 2015 and 9.8 percent in 2014.

It's also noteworthy that more investment-grade office assets are now being sold in major Canadian cities such as Vancouver, where the Royal Bank Tower and the Bentall portfolio were both placed on the market. This creates opportunities for both buyers and sellers: Foreign buyers can enter the Canadian office market while Canadian sellers can extract value and deploy capital earned on other projects. The weakening of the Canadian dollar against other major currencies has helped, giving foreign investors a discount based on the exchange rate.

Central office space	2014	2015 F	2016 F	YoY
Vacancy rate	8.5%	10.1%	11.1%	▲
Class A net rental rate (per sq. ft.)	$25.84	$24.81	$23.71	▼
Absorption (sq. ft. in millions)	1.52	(0.79)	1.46	▲
New supply (sq. ft. in millions)	3.52	3.47	4.47	▲
Under construction (sq. ft. in millions)	11.67	9.94	5.98	▼

Source: Canada Market Outlook 2016, CBRE Research

Suburban office space	2014	2015 F	2016 F	YoY
Vacancy rate	13.4%	15.1%	15.4%	▲
Class A net rental rate (per sq. ft.)	$18.25	$17.92	$17.12	▼
Absorption (sq. ft. in millions)	1.49	(0.34)	1.31	▲
New supply (sq. ft. in millions)	4.44	3.48	2.31	▼
Under construction (sq. ft. in millions)	6.73	5.55	4.27	▼

Source: Canada Market Outlook 2016, CBRE Research

Overall office space	2014	2015 F	2016 F	YoY
Vacancy rate	10.7%	12.3%	13.0%	▲
Class A net rental rate (per sq. ft.)	$21.62	$21.18	$20.37	▼
Absorption (sq. ft. in millions)	3.01	(1.13)	2.77	▲
New supply (sq. ft. in millions)	7.97	6.95	6.78	▼
Under construction (sq. ft. in millions)	18.40	15.49	10.25	▼

Source: Canada Market Outlook 2016, CBRE Research

Industrial market

Canada's industrial market remained strong in 2015 and is expected to outperform in 2016 from a leasing perspective. Sale price per square foot is expected to jump to CAD117.92 (USD91.52) in 2016 from CAD101.68 (USD78.92) in 2014. Calgary and Toronto are two cities in which construction of large buildings and industrial parks is expected to reach 1.0 million square feet.

Industrial space	2014	2015 F	2016 F	YoY
Availability rate	5.4%	5.8%	5.8%	▲
Net rental rate (per sq. ft.)	$6.09	$6.45	$6.59	▲
Sales price (per sq. ft.)	$101.68	$117.43	$117.92	▲
Absorption (sq. ft. in millions)	18.36	12.49	12.61	▲
New supply (sq. ft. in millions)	14.87	20.13	13.80	▼
Under construction (sq. ft. in millions)	18.90	15.35	8.03	▼

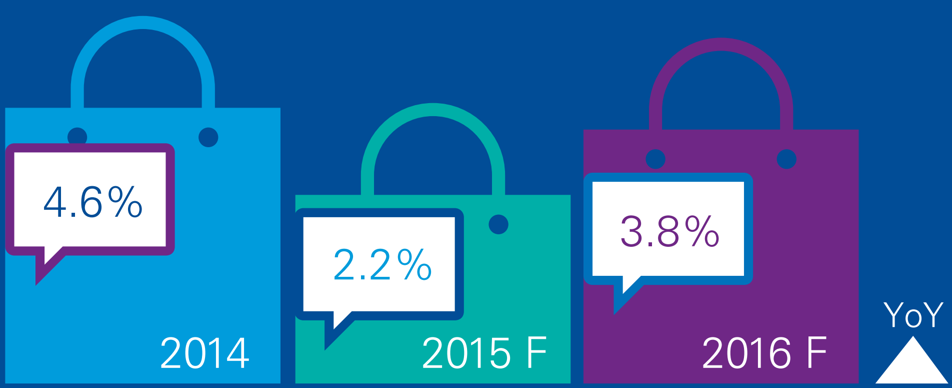
Source: Canada Market Outlook 2016, CBRE Research

Retail market

The Canadian retail market continues to recalibrate amid the departure of some large retailers such as Target. At the same time, luxury retailers such as Nordstrom and Saks have entered the retail market space and will be very selective in choosing prime locations going forward. Among current high-end retailers, some are looking to relocate to first-tier shopping malls and that could drive up vacancy rates in second- and third-tier malls.

In addition, two major trends are developing. First-tier malls situated in major urban centers are being renewed and expanded. Examples include Pacific Centre in Vancouver and the Eaton Centre in downtown Toronto. The second trend of note is regional redevelopment among existing shopping arcades, with older shopping malls being transformed and rejuvenated. This has been increasingly noticeable in Vancouver and its neighboring cities. These trends support the outlook for higher retail sales in 2016.

Retail year over year sales statistics*



*Conference Board of Canada

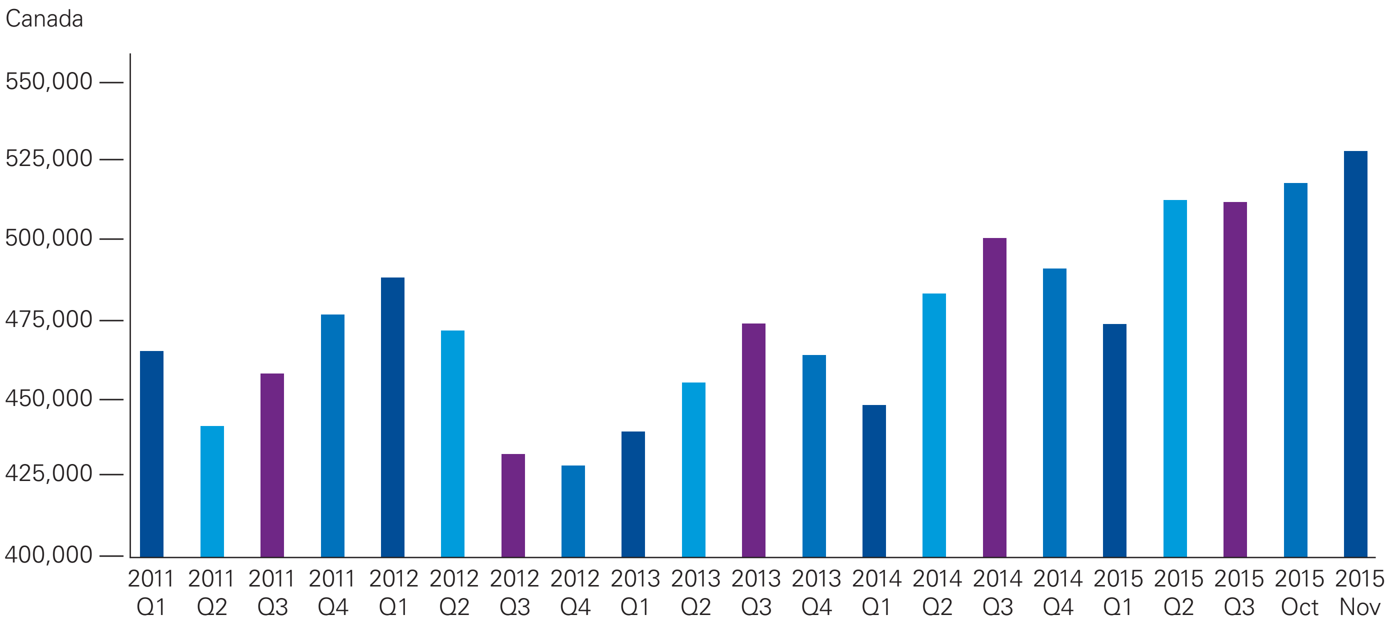
Source: Canada Market Outlook 2016, CBRE Research

Residential market

Canada's housing market saw record investment volume in 2015, thanks to several factors that include the weaker Canadian dollar. This trend is expected to continue into 2016 as demand in multi-family housing remains stable.

From a regional perspective, Alberta has experienced higher vacancy in all areas — including office, industrial and residential — amid weaker oil and gas prices. This is expected to continue into 2016 and challenges are expected in that part of Western Canada and are being felt throughout the residential markets. On the other hand, the Toronto and Vancouver markets are quite simply on fire. Prices for both single and multi-family homes have increased to levels that many believe are no longer affordable. For the rest of the country, the housing market indicates steady but modest growth ahead for prices and sales.

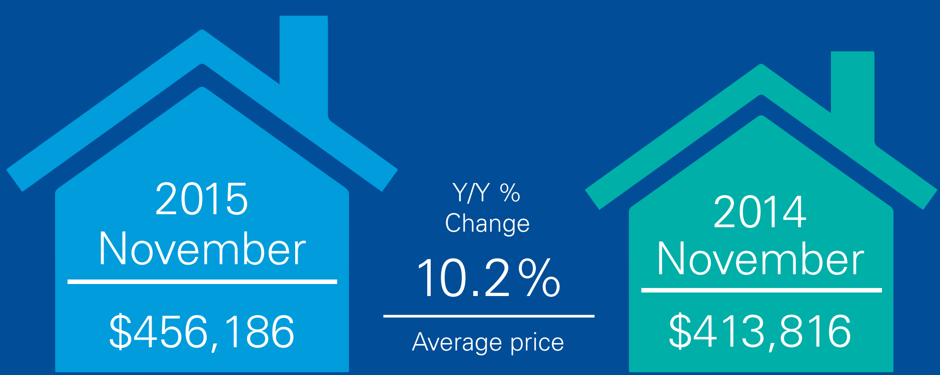
Residential sales activity*



*Seasonally adjusted data at annualized rates

Source: Canada Real Estate Association, Nov 2015

Average house prices – Canada



Source: Canada Real Estate Association, National Average Price Map

Low interest rates have helped to keep housing affordable for average households in most major markets and rates are expected to stay low over the medium term. With the sharp decline in oil prices, many analysts predict the Bank of Canada will hold off on rate increases in 2016 and any future increase is expected to be modest and gradual. Even if interest rates creep higher, the combination of rising incomes and slowing growth in home prices should sustain affordability in most markets.

Capital markets

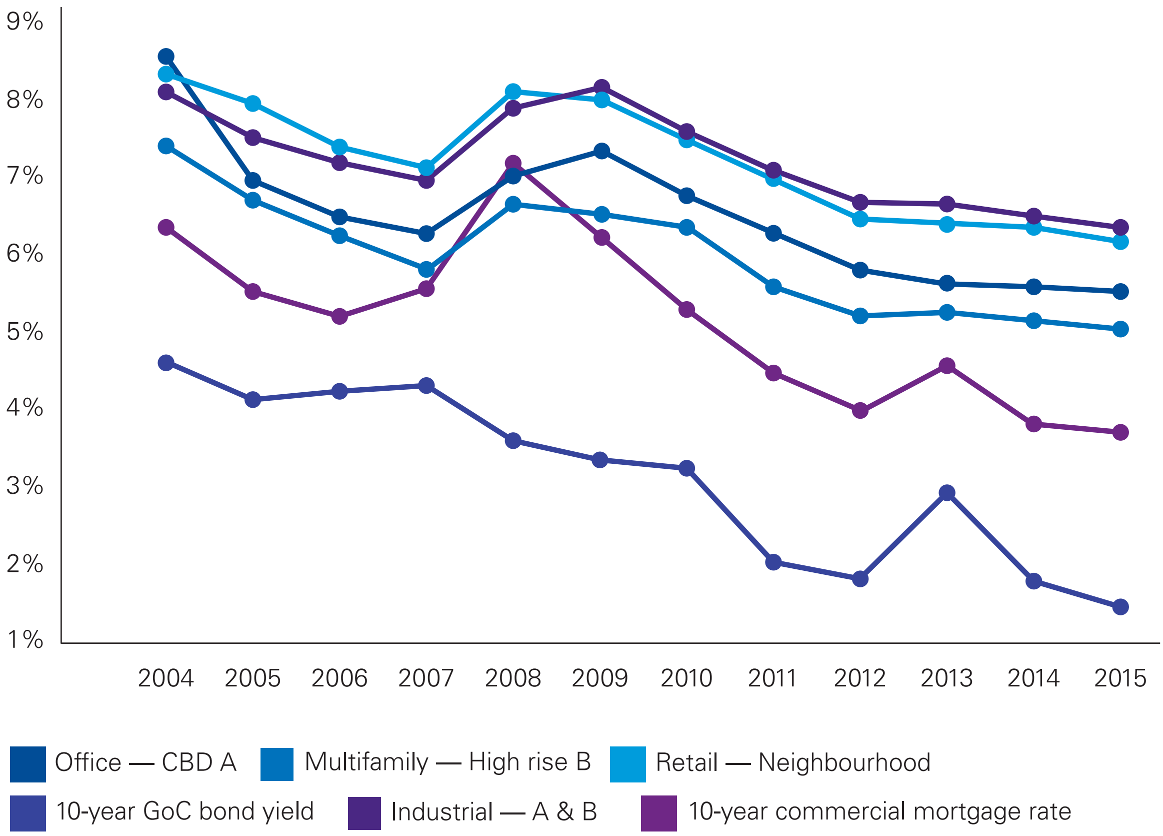
Canadian capital markets experienced considerable volatility in 2015. The Canadian REIT index started the year encouragingly but tailed off considerably in the last half along with the market as a whole. There has been virtually no initial public offering (IPO) activity in the real estate sector since 2013, with only one successful REIT IPO in 2015. Secondary offerings of REIT and real estate operating company (REOC) securities continued but on a slower, unsteady pace, reflecting the same trend as the REIT index: modest volume in the first half of the year, weak volume in the second half.

In light of the above trends, a definite division has emerged between larger, institutional-grade REITs and smaller REITs, many of which were formed during the heady IPO period of 2012 and 2013. Larger REITs have enjoyed greater flexibility in accessing capital and where equity was difficult to raise or costly, larger REITs issued unsecured debt and took advantage of low interest rates. Larger REITs have focused as well on strategic repositioning, recycling or deploying capital and operational improvements in order to increase cash flow.

Smaller REITs faced a more difficult financing environment and some became the target of mergers and acquisitions or, in some cases, unit-holder activism. Targeted sectors have included senior housing, with several significant transactions taking place over the past 2 years: Regal Lifestyle Communities Inc., Amica Mature Lifestyles Inc. and HealthLease Properties were each acquired and taken private. A handful of other smaller REITs either changed ownership, were combined or were taken private.

While sources of public capital were not as abundant, private sources of capital were plentiful and filled the gap to ensure that real estate transactions were competitive. In addition, with the Canadian dollar weaker in the latter part of the year, foreign capital joined in on the pursuit of Canadian real estate. Two purchases in Vancouver of the Royal Bank Centre by a German family and the Bentall Portfolio by Chinese insurance company Anbang, were among the high-profile transactions. In addition, many foreign-financed transactions were executed without visibility. Meanwhile, Canadian pension funds and other institutions continued to be very active investors outside of the country.

Investment yields and cap rates by sector



Source: Bank of Canada, CBRE Resaerch Q4 2015.

Mexico

An expanding middle class and rising incomes create optimism

Macroeconomic overview

Mexico's GDP growth expanded by 2.5 percent in 2015, from 2.1 percent in 2014, linked to an increase of 2.7 percent in primary activities such as agriculture and 3.7 percent in tertiary activities, mainly telecom and media (as a result of structural reforms in this industry) and commerce. But that was offset by poor performance in the mining sector amid low oil and commodity prices. Annual GDP of 2.5 percent in 2015 was consistent with the last 5 years.[3]

Mexico's GDP growth is expected to accelerate in 2016 as the middle class continues to expand, income levels improve and structural reforms take effect; however 2016 offers some major challenges such as low cost of oil, on which Mexico is still significantly dependent, the imminent rise of interest rates and US dollar appreciation; despite such challenges, foreign direct investment is expected to maintain significant inflows to the country as industries such as automotive and aeronautical keep on growing particularly in the Bajio region.

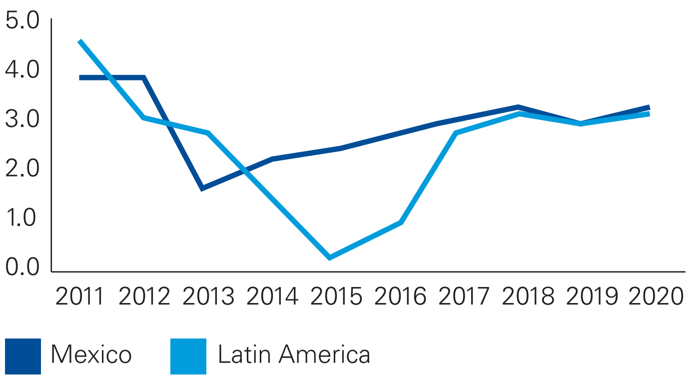
Industrial-sector activity has been constrained by weaker production and global oil prices but that has been offset by increases in other primary-sector activities plus significant consumer spending. The infrastructure sector is expected to slow down amid government spending cuts but Mexico's eventual implementation of structural reforms could raise productivity, mainly in the energy and telecom sectors.

Mexico will continue to benefit from its robust export-based manufacturing sector, mainly in automotive, electronics and other industrial products, thanks to strong US demand and a weaker Mexican peso that has also helped boost the tourism industry.

Inflation was historically low at 2.13 percent in 2015[4], largely a result of lower prices for energy and telephone services brought on by reforms. Inflation is likely to remain relatively low in 2016 as the Mexican peso continues to depreciate against the US dollar.

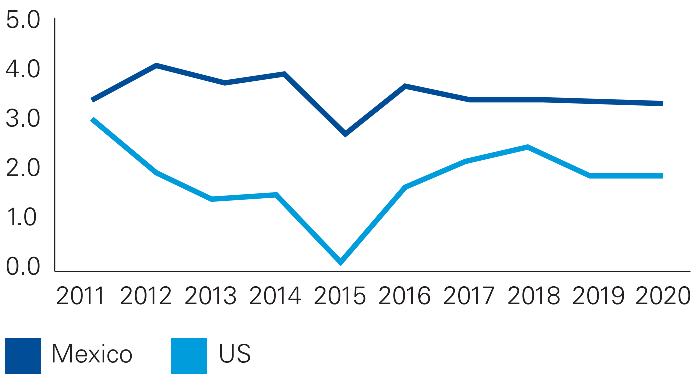
Foreign direct investment (FDI) reached USD21.6 billion in the first three quarters of 2015, one of the highest levels for such a period, and FDI was expected to reach USD26.3 billion by the end of 2015. The opening up of strategic sectors such as energy and telecom are expected to maintain significant levels of FDI.[5]

Real GDP growth (% real change)



Source: The Economist Intelligence Unit

Inflation (% real change; average)



Source: The Economist Intelligence Unit

[3] The Economist Intelligence Unit, Mexico Report, December 2015 and INEGI Report for 2015
[4] The Economist Intelligence Unit, Mexico Report, December 2015
[5] The Economist Intelligence Unit, Mexico Report, December 2015

Foreign direct investment	2011[a]	2012[a]	2013[a]	2014[a]	2015[b]	2016[c]	2017[c]	2018[c]	2019[c]	2020[c]
Foreign direct investment (USD bn)										
Inward direct investment	23.3	19.5	44.9	24.2	26.2	28.5	30.9	33.5	38.4	41.9
Inward direct investment (% of GDP)	2.0	1.6	3.6	1.9	2.3	2.4	2.4	2.4	2.5	2.5
Inward direct investment (% of gross fixed investment)	9.2	7.4	16.9	9.0	10.8	11.1	10.9	10.7	11.0	10.8
Outward direct investment	-12.6	-22.5	-13.1	-8.3	-11.6	-12.0	-13.0	-14.1	-15.3	-16.7
Net foreign direct investment	10.7	-3.0	31.7	15.9	14.6	16.5	17.9	19.4	23.0	25.1
Stock of foreign direct investment	339.0	366.6	391.9	339.2	365.4	393.8	424.7	458.2	496.6	538.5
Stock of foreign direct investment per head (USD)	2,816	3,003	3,167	2,705	2,876	3,062	3,261	3,477	3,725	3,993
Stock of foreign direct investment per head (USD)	29.0	30.9	31.1	26.1	31.4	32.9	32.7	32.5	32.4	32.2

Growth and productivity	2011[a]	2012[a]	2013[a]	2014[a]	2015[b]	2016[b]	2017[b]	2018[b]	2019[b]	2020[b]
Growth and productivity (%)										
Labour productivity growth	1.8	0.5	0.5	1.9	1.3	1.3	1.6	1.8	2.0	1.9
Total factor productivity growth	1.5	0.4	-0.1	1.0	0.7	0.8	1.0	1.1	1.1	1.0
Growth of capital stock	3.6	3.7	3.2	3.1	3.1	3.3	3.5	3.9	3.7	4.2
Growth of potencial GDP	4.1	3.7	1.7	2.3	2.9	3.0	3.2	3.4	3.3	3.3
Growth of real GDP	4.0[c]	3.8[c]	1.6[c]	2.3[c]	2.5	2.8	3.1	3.3	3.0	3.3
Growth of real GDP per head	2.5[c]	2.3[c]	0.2[c]	0.9[c]	1.2	1.5	1.8	2.1	1.8	2.1

a = Actual b = Economist Intelligence Unit forecasts c = Economist Intelligence Unit estimates

Office market

Mexico City's office real estate market continued to experience changes that suggest a turning point ahead. In the second quarter of 2015, the overall vacancy rate increased 2 percent compared to the second quarter of 2014. However, space absorption and inventory growth still reflect a healthy balance of 8.8 percent.

At the same time, there is price stability. Prices increased just 0.8 percent year-over-year, expanding to 10 percent in the last 3 years, while inflation has been 11.5 percent in the same period.[6]

Leasing activity in Mexico City increased significantly in the second quarter of 2015, rising 117.6 percent to reach 6.04 million square feet, compared to 2.77 million square feet in the second quarter of 2014. In the 2015 period overall inventory grew 4.8 percent to 4.06 million square feet, above the average seen for the last 3 years.[7]

The construction pipeline of 15.2 million square feet continues at an all-time record, with 4.4 million square feet completed during the first half of 2015. As a result, although healthy growth in demand is expected, the availability rate is likely to nearly double.[8]

Market indicators

	Q1 15	Q1 16	12-month forecast
Vacancy rate	14.8%	16.1%	▲
Overall net absorption	33k	24k	▼
Under construction	308k	234k	▬
Asking rent class A/A+ USD (square meter/month)	$22.28	$20.78	▲

Source: Cushman & Wakefield

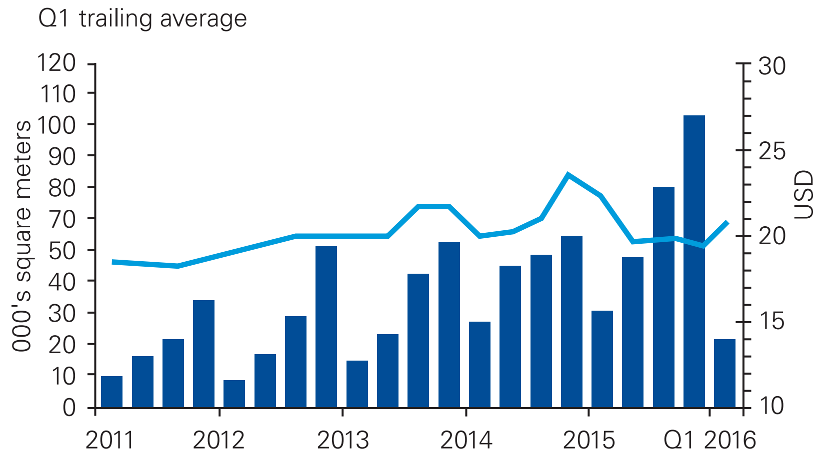
[6] Mexico City Office Snapshot, Q2 2015, Cushman & Wakefield
[7] Mexico City Office Snapshot, Q2 2015, Cushman & Wakefield
[8] Mexico City Office Snapshot, Q2 2015, Cushman & Wakefield

According to the Monterrey City Office Snapshot Q1 2016 report from Cushman & Wakefield, even though the second half of 2015 showed significant leasing activity in Monterrey and was the highest in 5 years, in the first quarter of 2016, it was a very moderate absorption of office space, breaking the upward trend that has been observed since 2012; the number of closed deals in similar to that in previous years, but the area requirements are of a smaller size. The property market in Monterrey is increasing its class-A building supply. A key driver is the depreciation of Mexico's peso against the US dollar and the positive impact on the office space sector, creating higher purchasing power for the dollar; however such fluctuation of the peso against the US dollar has caused irregular changes in asking prices for offices and therefore many developers are choosing to change their asking prices and costs to be quoted in Mexican pesos.

Approximately 234,165 square meters of corporate office buildings are currently under construction in Monterrey at the end of the first quarter of 2016, with an overall absorption of 24,388 square meters and a total inventory of 1.5 million square meters.[9]

In the first quarter of 2016, the overall vacancy rate increased to 16.1 percent, versus 14.8 percent in the first quarter of 2015. At the same time, prices are lower amid a significant supply. Prices decreased in the first quarter of 2016 to USD20.78 per square meter for class A and A+ buildings, from USD22.28 in the 2015 period.[10]

Net absorption/asking rent

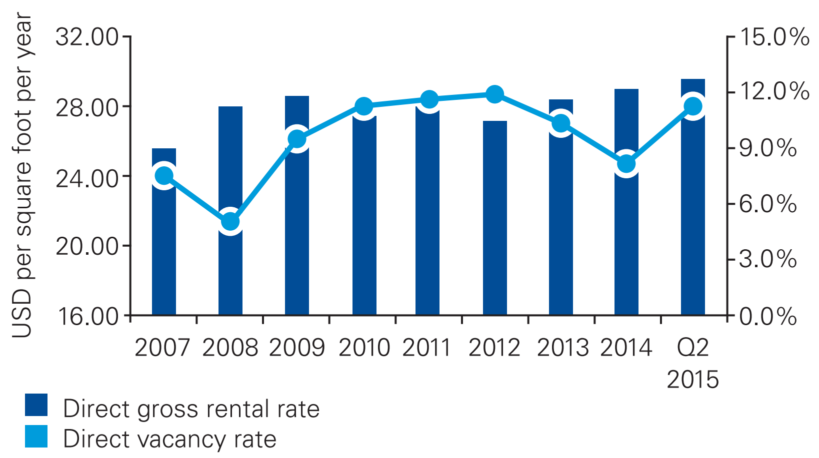


Source: Cushman & Wakefield

Stats on the go

	Q2 2014	Q2 2015	YoY change	12 month forecast
Overall vacancy	6.8%	8.8%	2.0pp	▲
Direct asking rents USD (psf/year)	23.97	24.18	0.8%	◀▶
Leasing activity (sf)	2,777,942	6,045,522	117.6%	▲

Direct rental vs. vacancy rates (class A+/A)



Source: Cushman & Wakefield

[9] Monterrey City Office Snapshot Q1 2016 report from Cushman & Wakefield
[10] Monterrey City Office Snapshot Q1 2016 report from Cushman & Wakefield

Residential market

Mexico over the last 15 years has experimented with a significant increase in housing supply as a result of low interest rates on mortgages granted by the government throughout Infonavit and FOVISSSTE, as well as by commercial banks.

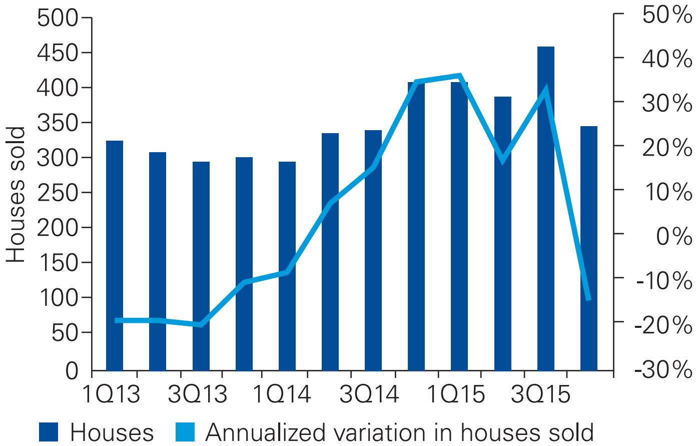
However, during the last 3 years, amid government changes in housing policy that drove developers toward more-centralized projects rather than projects in suburban areas, the four biggest housing developers (GEO, Homex, Urbi and Sare) were either in bankruptcy or under restructuring negotiations. At the same time, this has created opportunities for growth among small to mid-sized developers and is diversifying the market.

According to the Mexican National Housing Commission, prices during the last few years have increased slightly above inflation (estimated at 3 percent for 2015) in larger urban areas but are up by closer to double digits in the Bajio area, particularly in Queretaro and Leon.

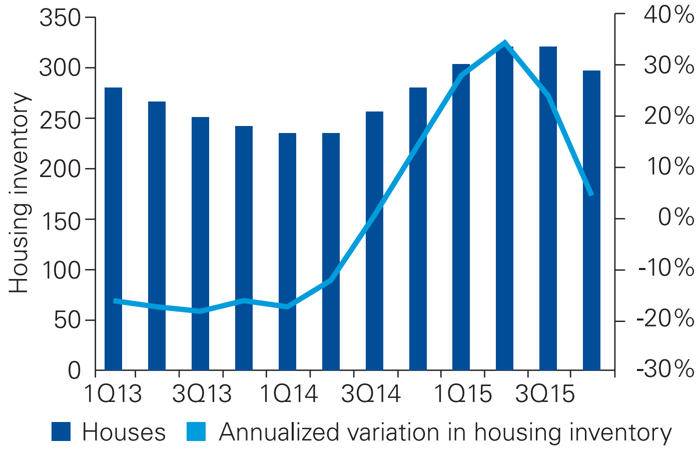
The recovery of housing construction has been gradual since 2014, after inventories came down the previous year and stabilized at around 250,000 units; the housing market in Mexico increased 10 percent during 2015 compared to 2014 as a result among other factors of historically low mortgage interest rates in Mexico, although during the first quarter of 2016, a slight increase in such rates is expected to have an impact in the housing market. At the end of the fourth quarter of 2015 the number of registrations in the National Housing Registry (RUV for its acronym in Spanish) reached the 351,000 units in annualized figures.[11]

At the close of 2014, reactivation of projects experienced a considerable upturn and the encouraging prospect of greater demand and greater tax incentives to reactivate the supply were decisive in motivating house builders in 2015; however the inventory absorption during 2015 was slower than expected causing a decrease of 15.1 percent in the housing sector during the fourth quarter of 2015; it is expected however a slight recovery during the first half of 2016 considering still low mortgage rates, and a stagnant home income and unemployment rate.[12]

Number of houses sold
Annualized number of sales in thousands



Inventory of houses
Annualized inventory in thousands



Source: BBVA Research based on National Housing Registry (RUV)

[11] Mexico Real Estate Outlook First Half 2016, BBVA Bancomer Research
[12] Mexico Real Estate Outlook First Half 2016, BBVA Bancomer Research

Industrial market

In KPMG's *Perspectives of Senior Management in Mexico 2015* report, 71 percent of executives surveyed believed Mexico is safe from an economic downturn and 66 percent of respondents were expecting single-digit economic growth, while 26 percent expected double-digit growth.

The diversity of manufacturing industries in Mexico is creating opportunities thanks to continued growth among Mexico's cost-effective exports, stable macroeconomics and recent structural reforms. This is being reflected by significant expansion in the automotive, aerospace, electronics and medical-device sectors, particularly in the Bajio region, where cities like Queretaro have been achieving average GDP growth of 5.5 percent during the last 10 years.[13]

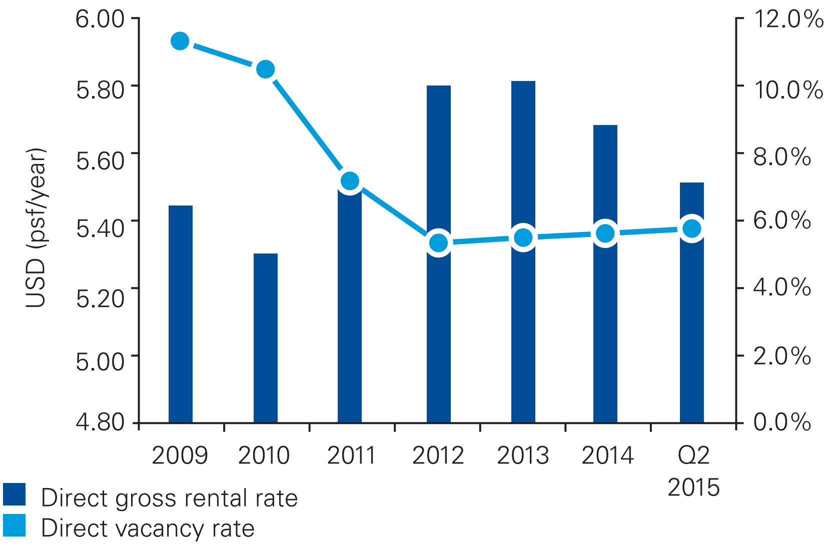
Mexico City's industrial market has been stable over the last few years, with an overall vacancy of 5.4 percent in the second quarter of 2015, and slight increase of 0.1 percent year-over-year when compared to the 5.3 percent vacancy rate in the second quarter of 2014, even with more than three million square feet of new buildings completed during the period.

During the second quarter of 2015, class-A asking rents of USD5.69 per square foot per year reflected a moderate 1.5 percent decrease versus the second quarter of 2014. During the same 2015 period, leasing activity rose 3 percent: to 6.03 million square feet in the second quarter 2015 from 5.85 million square feet in the second quarter of 2014.[14]

Stats on the go

	Q2 2014	Q2 2015	YoY change	12 month forecast
Overall vacancy	5.3%	5.4%	0.1pp	
Direct asking rents USD (psf/year)	5.78	5.69	-1.5%	
Leasing activity (sf)	5,857,547	6,036,159	3.0%	

Direct rental versus vacancy rates



Source: Cushman & Wakefield

[13] Mexico City Industrial Snapshot, Q2 2015, Cushman & Wakefield
[14] Mexico City Industrial Snapshot, Q2 2015, Cushman & Wakefield

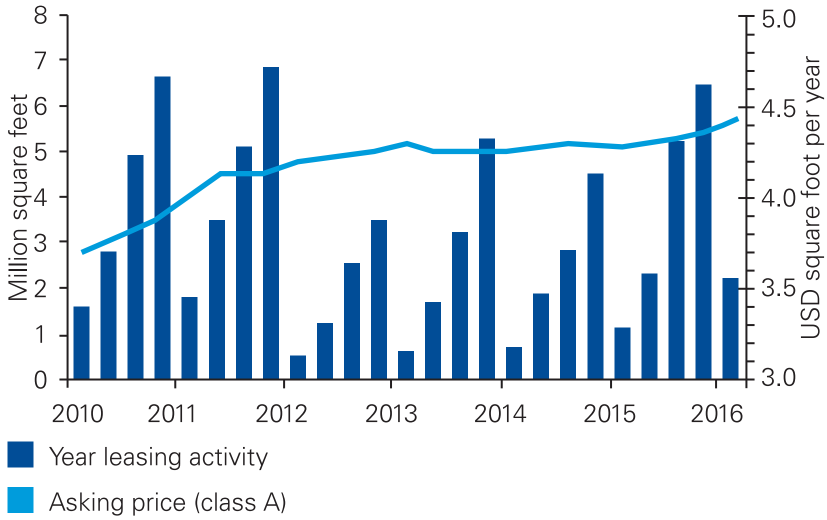
Monterrey has witnessed substantial development during 2015 as well as the first quarter of 2016, with significant investments by companies like KIA Motors. Development was averaging five million square feet at the end of 2015, reflecting a return to numbers witnessed from 2009 to 2011; and the initial activity shows an excellent performance at the beginning of 2016; 2.6 million square feet of net absorption were present in the first quarter of 2016, of which 2.2 million square feet were for rent and 0.4 million of square feet for sale; these figures more than double those in the same period of the previous year. The vacancy rate dropped from 8.0 percent at the first quarter of 2015 to 6.1 percent at the first quarter of 2016; and the asking prices showed a slight increase reaching USD4.41 per square foot in the first quarter of 2016 versus USD4.27 in 2015's first quarter.[15]

Market indicators

	Q1 15	Q1 16	12-month forecast
Vacancy rate	8.0%	6.1%	▼
Overall net absorption	1.106M	2.687M	▲
Under construction	1.119M	2.314M	▬
Asking rent class A USD (sqf/year)	4.27	4.41	▲

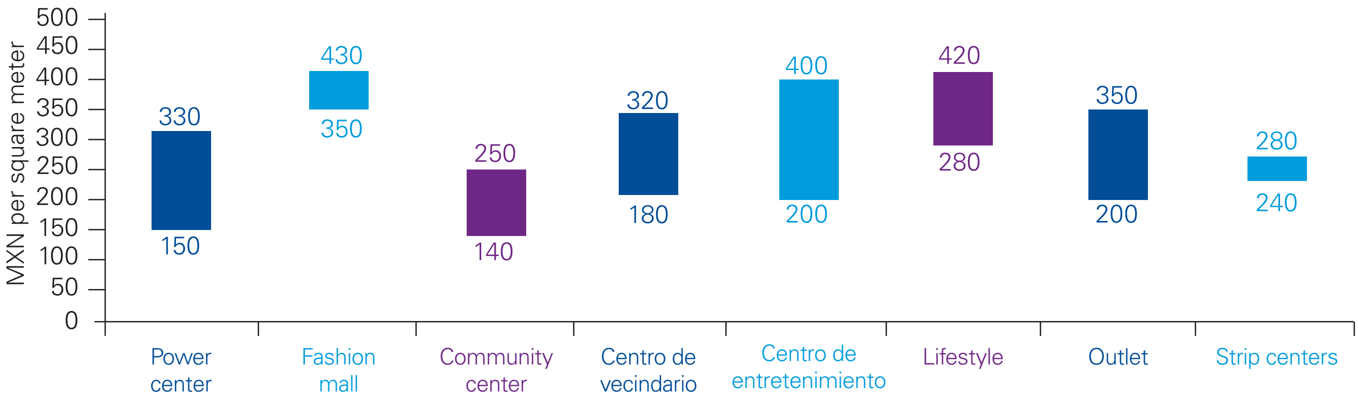
Net absorption/asking rent

Q1 trailing average



Source: Cushman & Wakefield

Range of monthly leasing prices per square meter by type of shopping center



Source: Colliers International

[15] Monterrey City Industrial Snapshot Q1 2016 report from Cushman & Wakefield

Retail market

Mexico's retail sector in 2015 showed ideal conditions for significant growth due to: excess liquidity in Mexican pension funds, or AFORES, and other domestic and international real estate funds; structural reforms; and greater sophistication among Mexican developers.

According to Colliers International, the period 2014 to 2016 is expected to produce about one million square meters of new leasable space in Mexico.

A recent study by the International Council of Shopping Centers (ICSC) offers an optimistic scenario for Mexico in the long term, estimating that by 2025 available leasing area will increase to 23 million square meters, from 17 million square meters currently. This represents 22 square meters for every 100 inhabitants, versus an estimated 14.1 at the end of 2014. In Latin America, Chile has the highest ratio with 19.7 at the end of 2014.

According to Colliers International, the average price per square meter as of December 2014 was in a range equivalent to USD8.80 to USD19.40 for power centers and USD20.60 to USD25.30 for fashion malls. Both power centers and fashion malls represent 78 percent of total retail inventory in Mexico as of the second quarter of 2015, based on a recent research from CB Richard Ellis.

At the end of 2015 there were 10 fibras, or Mexican REITs, in the market. The Fibra Index debuted in 2013 to assess the performance of listed fibras and in 2015 the index fell 5.8 percent, with the Fibra Hotel down 12.3 percent, followed by Danhos off 5.31 percent and Fibra Uno down 4.29 percent. Fibra Shop and Fibra Macquarie fell 2.30 percent while Prologis increased 0.46 percent and Terra rose 3.54 percent during 2015.[16]

Tax reforms in real estate

A new regulation to the *Income Tax Law* (ITL) published in 2015 provides guidance on when Foreign Exempt Pension Funds (FEPFs) may apply the '153 exemption' where the investment was made 'through' foreign entities.

Under the regulation, FEPFs investing 'through' one foreign resident entity may be entitled to leasing income and capital gains exemptions described in the law when:

1. The foreign resident entity derives at least 90 percent income from: disposing of or granting the temporary use or enjoyment of real or immovable property located in Mexico; or the sale of shares worth more than 50 percent of the value derived from real or immovable property located in Mexico.
2. The foreign resident entity is tax-exempt in the country of residence.
3. The FEPF is tax-exempt, including with respect to dividends received from the foreign entity.
4. The FEPF has a direct shareholding participation (voting rights and right to the profits) of at least 95 percent in the foreign resident entity.
5. The foreign resident entity resides in a country with which Mexico has in force a tax treaty to avoid double taxation and is eligible for the benefits of this treaty.
6. The FEPF resides or is formed in a country possessing a comprehensive information-exchange agreement with Mexico.

[16] Bolsa Mexicana de Valores, Indice de Fibras (Mexican Stock Exchange, REIT Index)

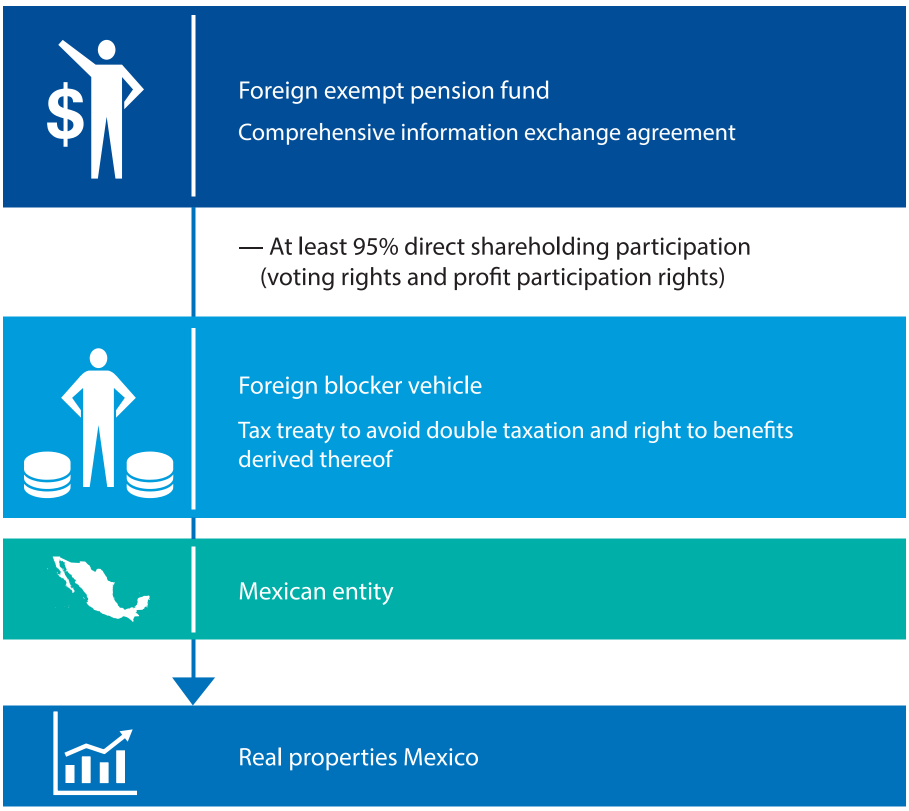
In November 2015, the Mexican Tax Authorities (MTA) published a new general rule clarifying their position as follows:

Mexican resident entities may be entitled to the leasing income and capital gains exemptions described above when they have as shareholders, foreign resident entities, the shares of which foreign entities are in turn owned by FEPF and provided that the following additional requirements are complied with:

1. The FEPF is exempt, including with respect to dividends received from the foreign resident entity.
2. The FEPF has a direct shareholding participation (voting rights and right to the profits) of at least 95 percent in the foreign resident entity.
3. The foreign resident entity has a direct shareholding participation in the Mexican entity.
4. The foreign resident entity resides in a country with which Mexico has in force a tax treaty to avoid double taxation and is eligible for the benefits of this treaty.
5. The FEPF resides or is formed in a country that has in force a comprehensive information-exchange agreement with Mexico.

The approved structure by the MTA would be as follows:

MTA structure



Based on this clarification, there was still some concern that when a FEPF has interposed several foreign entities between it and the investment, it would not be entitled to the exemption.

In December 2015, the MTA issued new tax rules to clarify above-mentioned concerns and the following is a summary:

— There is a transitional period — the deadline is 30 June 2016 — to restructure funds to comply with the new ITL Regulations.

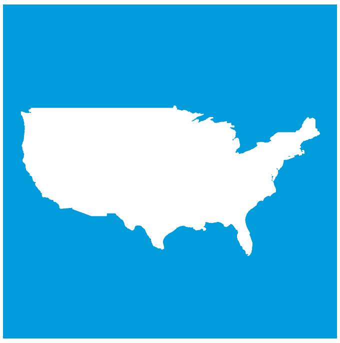
— The 153 exemption was granted in FY2015, even though the structure does not comply with the new ITL Regulations. This is a relevant statement, since the new regulations came into force in October 2015 as mentioned.

— MTA issued transitional rules to restructure the fund, trying to avoid triggering taxes in Mexico. Specifically, if as a result of the restructure there is a transfer of shares, the income determined in the transfer will be exempt if the transaction includes the transfer of: shares or participations of the acquirer; shares or participations of legal entities or investment funds owned by the acquirer; shares or participations of a legal entity or investment fund owned by the acquirer.

— Regarding interest income, the new miscellaneous rules confirm that until December 2015, foreign entities or funds (indirect investment) in which FEPF invest may apply the 153 exemption.

— As clarification of the multi-level structure, MTA confirms the cases in which an investment fund is not considered as foreign resident, and then may be included between the structure aforementioned, when each of the following requirements is complied with:

1. When it does not have a legal personality according to any foreign legal disposition, including civil, commercial or tax. Based on meeting with MTA, no tax transparency entities will be authorized.
2. At the time the fund obtains such income, it is attributable to the recipient thereof.
3. The fund is incorporated in a country with which Mexico has a comprehensive exchange of information agreement.



United States

Slow and steady wins the race

In the tale of *The Tortoise and the Hare*, the tortoise is challenged to a race by the hare. The hare bounds off at an impressive speed but stops to take a nap and awakens to find the tortoise winning. A similar tale could be told about the economies of the Americas versus the United States. In the US, a slow but steady recovery has been underway since mid-2009 and 2016 looks poised to continue the trend.

A combination of shocks, such as the tsunami in March 2011, severe weather in the first quarters of 2014 and 2015, and a significant drop in commodity prices have provided small bumps in the road. But the key reason for slow growth has been the time-consuming process of recovering from a debt-fueled bubble that was centered in financial markets. GDP has averaged only 2.1 percent a year since the US economy resumed expanding in 2010. KPMG projects that 2016 will see growth close to the six-year average, with construction and real estate continuing as particularly positive factors.

Weakness in manufacturing, particularly in the metals and mining sectors, were drags on the economy during 2015. The collapse in commodity prices cut oil production and demand for equipment associated with mining. Additionally, weak growth overseas served to strengthen the US dollar, thereby causing net trade to become an increasingly negative factor as well.

Thus we must ask, is slower growth within the global economy and the domestic manufacturing sector the beginning of the end of US expansion? KPMG research suggests that market volatility in the beginning of 2016 and economic slowness in the fourth quarter of 2015 and first quarter of 2016 represent a soft patch, especially in the oil and gas sector, rather than the impetus for a new recession.

The biggest argument against a recession is the resilience of the US consumer. KPMG forecasts consumer spending to maintain a 3 percent growth rate into 2016, buttressed by strong jobs growth. The US economy has added roughly 14 million jobs since the fourth quarter of 2009, exceeding the 8.7 million jobs lost in the prior peak-to-trough.

Furthermore, the headline unemployment rate so far in 2016 has held between 4.9 percent and 5 percent, the lowest since 2008, while the more-comprehensive U-6 fell from a peak of 17.1 percent in 2009 to 9.7 percent.[17] In addition, legislation removing a ban on oil exports could offer new life and jobs to the struggling oil-and-gas sector and its suppliers. Those combined industries have lost 164,300 jobs since the end of 2014.[18]

Real estate sweet spot

It is KPMG's belief that solid domestic demand will benefit much of the US real estate industry, especially in the multi-family and office sectors. Low interest rates can provide a positive backdrop for the continuation of happy days in building and construction. The Fed lifted its policy rate in December 2015 but policymakers are signaling only two more rate hikes in 2016 and it is very possible given negative rates in the rest of the world that the Fed will only make one increase in 2016. Indeed, negative rates in Europe and Japan mean that even as the Fed raises short-term rates, the long end of the curve will likely be held down by global factors. The Fed believes economic growth will continue to be slow and steady over the next few years, labor markets improvement will broaden and inflation will show signs of sustaining itself at or above 2.0 percent.

Currently, core inflation is close to 2.0 percent and services inflation is solidly above 2.0 percent.

When the top-line inflation rate is no longer dragged down by falling energy prices, the uptrend in service inflation will reassert itself. Thus, at this point in the cycle, with growth remaining steady, rates remaining low and consumers gathering momentum from 6 years of jobs growth, real estate remains in the sweet spot for growth for at least another year — if not beyond.

[17] Haver Analytics, KPMG Economics, US Bureau of Labor Statistics
[18] Haver Analytics, KPMG Economics, US Bureau of Labor Statistics

Mulling the millennials [19]

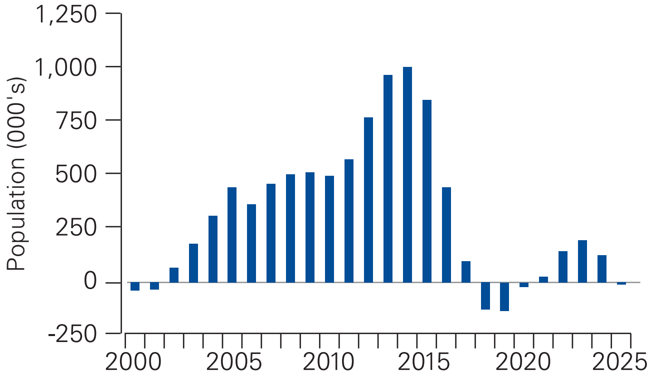
Millennials have had a significant influence on the multi-family segment of the real estate market. Demand has been driven by three main factors: the desire to live in urban settings, a delayed home-ownership rate, and the sheer size of a cohort that grew 11 percent from 2003 to 2015. Many millennials are delaying home purchases, as compared to previous generations, largely due to a combination of their lifestyle preferences and the need for many to pay off student loans. In the first quarter of 2016, the home-ownership rate for those under age 35 years was 34.2 percent, compared to 40.8 percent for the similar age group in 2000.[20]

While stronger demand for rental properties has driven up apartment absorption rates and kept cap rates high in this sector, demographic trends over the next 5 years are less supportive of growth in the multi-family sector. This comes at a time when national apartment starts are extending their five-year growth trend. In 2015, these starts reached their highest level since 1987.[21] The market may be near record highs if millennial demand is indeed the engine many believe it to be. That's because, in the next 5 years, that age group is projected to decline by 0.1 percent annually, a sharp drop from the 1.2 percent annual increase over the previous 5 years.[22] This could slow demand for the multi-family sector over the next several years and market participants would be wise to understand the impact this demographic has had on the sector's growth over this recent cycle.

The boomer boom: Healthcare demand is set to grow

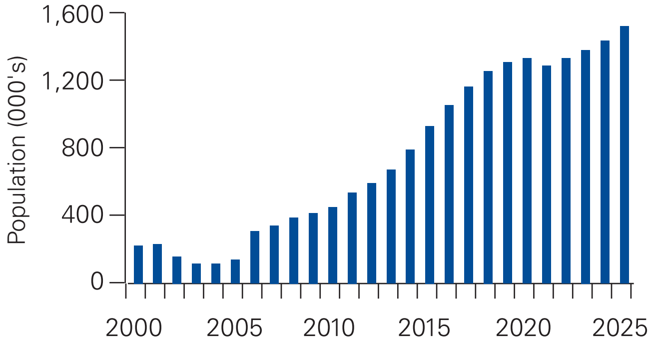
Population shifts may add some caution to the outlook for apartment demand, but demographics are flashing a very positive signal for the healthcare sector. The leading edge of the large boomer generation will set the pace for population growth in the next 5 years. The population aged 70 and older is forecast to grow 4 percent a year from now through 2020,

Annual population change (Age 20 – 34)



Source: KPMG Economics/United Nations/Haver Analytics

Annual population change (Age 70+)



Source: KPMG Economics/United Nations/Haver Analytics

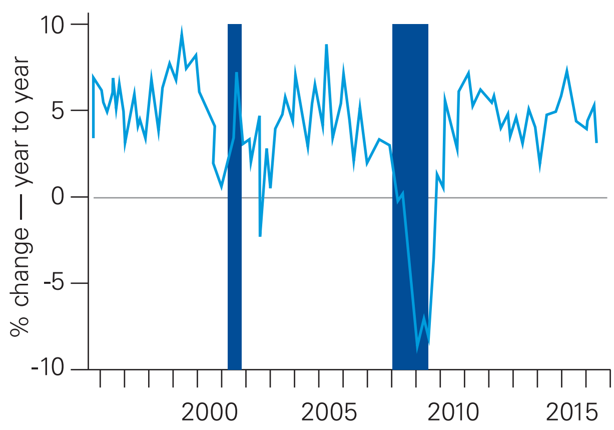
[19] The US Census Bureau does not define the Millennial Generation. In this piece, Millennials are defined as the age cohort born from 1981 through 1995.
[20] US Census Bureau
[21] Haver Analytics, KPMG Economics, US Census Bureau
[22] Haver Analytics, United Nations Population Statistics

compared with a yearly rate of 2 percent from 2003 through 2015.[23] Healthcare REITs are already benefitting from the shift. In the first quarter of 2016, rents and occupancy rates for various assisted-living facilities were at or near post-recession highs, according to property and market intelligence provider, REIS. This happened, even amid sustained increases in supply, as tallied by commercial property investment provider, Real Capital Analytics.

Retail revival

Once left for dead as online store sales grew, the retail sector is poised for moderate growth, with stronger performances expected in high-end markets. Solid job growth and still-cheap gasoline are keeping consumers in shopping mode. A good way to look at retail activity is to exclude sales at gas stations, which have suffered from falling oil prices. Compared to year-ago levels, retail sales excluding gasoline purchases have been increasing at a healthy pace so far in 2016.[24] Among retail REITs, US retail property vacancies matched a near six-year low of 10 percent in the first quarter of 2016, after peaking at 11 percent in 2011, according to REIS.

Retail sales excluding gasoline store sales



Source: KPMG Economics/United Nations/Haver Analytics

Loons helps the office sector soar[25]

Within the office sector, foreign buyers and technology tenants are the primary drivers in markets such as New York and San Francisco, lifting asset values in those markets and pushing share prices higher for REITs located there. While much of the media attention on foreign purchases goes to Chinese buyers, it is Canadian investors who have used their dollar — the loonie — to gobble up the most real estate over the past year among foreign investors, acquiring USD7.3 billion in US office properties. That amount coming from Canada leads purchases from Qatar (USD3.5 billion), Germany (USD3.4 billion), and Norway (USD2.8 billion).[26] Low interest rates worldwide have helped push sovereign wealth and pension funds into real estate.

Elevated values among urban offices have led some investors to shift their focus toward the suburbs or second-tier cities that are popular with the ever-influential millennials. The direction of interest rates and currencies will influence office values significantly, as they will be a key determinant for foreign purchasing power. Another, and perhaps counter-intuitive, feature of foreign purchasing is the amount of liquidity generated due to quantitative easing in Europe and Japan. As liquidity conditions are eased in these markets, investors seek a viable home for their assets and US real estate, despite upheavals in 2009, remains the gold standard globally, especially for the office sector.

Conclusion

KPMG projects the 2016 outlook for US real estate to remain mostly upbeat. Interest rates are expected to remain low. Solid job growth will continue to lift demand for apartments, retail space and offices. Demographic trends will drive the use of healthcare and assisted-living properties. Additionally, the move to negative rates by the Bank of Japan and the deeper commitment to negative rates by the European Central Bank are likely to continue driving foreign investors toward all areas of the US real estate market. This means that 2016 is likely to produce another win for the tortoise and a stellar year for US real estate.

[23] Haver Analytics, United Nations Population Statistics
[24] Haver Analytics, KPMG Economics, US Census Bureau
[25] The Canadian Dollar is often referred to as the Loon or Loonies. The loon is one of the most popular birds in Canada and it appears on its national currency.
[26] All figures in US dollars. Source: Bloomberg Intelligence

Report summary

With the US economy poised to continue its slow, steady improvement amid solid job growth and low interest rates, the outlook is positive across the country's entire real estate marketplace. Global investors certainly seem to agree as evidenced by the significant influx of foreign capital.

Brazil meanwhile faces significant political and economic challenges that it will need to solve if it hopes to increase investment and generate development.

Mexico, while further along in attracting capital and generating new development, also faces challenges of its own to enhance security and manage risk. The situation is improving but the journey toward greater stability and broader investment opportunity continues.

Despite Canada's uneven performance among its provinces amid the impact of low oil prices and a weak dollar, real estate demand is expected to remain relatively strong and supported in part by continued US and Asian demand.

We hope this snapshot of the real estate picture in the Americas has proven both instructive and thought-provoking. KPMG's real estate specialists continue to maintain a clear and timely focus on the diverse factors affecting these economies and their real estate markets to assess investment opportunity. Through both our regional and global networks of interdisciplinary experts, member firms can offer a wide spectrum of real estate-related services for challenging local and international mandates.

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