

LaSalle Investment Management

In April, **Geoffrey Dohrmann**, publisher and editor-in-chief of The Institutional Real Estate Letter, met with **Eduardo Güémez**, managing director and CEO, and **Manuel Zapata**, chief investment strategist, of LaSalle Investment Management Mexico. The following is an excerpt from that conversation.

Dohrmann: *When did LaSalle Investment Management first enter the Mexico market?*

Güémez: We entered the Mexico market in 2004 by leveraging off the regional team and experience of our parent company, Jones Lang LaSalle. Today, LaSalle Investment Management has grown its local team to 20 dedicated professionals.

Dohrmann: *What types of skills are embedded in local team?*

Güémez: We have a complete in-house investment group, including acquisitions, operations and development teams, as well as a regional research and strategy team headed by Manuel Zapata.

Dohrmann: *What property types are you investing in?*

Zapata: Right now we're investing in residential, retail, industrial and office, but we also are beginning to look at hotels, provided we find the right joint venture partner.

Dohrmann: *Where are your investments situated?*

Zapata: That depends on the asset class. In office, Mexico City is the primary market, and we are looking at Monterrey as well. Residential and retail are countrywide strategies because the country is very much under-retailed and in need of modern housing. Our industrial investment currently is concentrated on the border towns. In addition, we're looking at some opportunities along the NAFTA highway from Mexico City to the United States.

WHY MEXICO?

- ❑ In 2006, Mexico was the most transparent real estate market in Latin America, according to the Jones Lang LaSalle Real Estate Transparency Index.
- ❑ Rapidly growing middle class is creating substantial demand for retail, industrial and office spaces.
- ❑ Mexico is the second-largest Latin American economy (after Brazil), and the 12th largest economy in the world.
- ❑ GDP grew 4.7% in 2006, and is expected to grow between 3.3% in 2007. Despite the U.S. slowdown, the Mexican economy is expected to grow at an annual average rate of 3.1% from 2008 to 2012.
- ❑ The Mexican economy created more than 895,000 jobs in 2006 and more than 993,000 jobs in 2007.
- ❑ The government has exhibited more than 10 years of stable fiscal policies
- ❑ Mexican real estate values are appreciating in response to rising institutional investment interest.
- ❑ Attractive investment returns are available on a risk-adjusted basis in comparison to established markets in North America and Europe.



EDUARDO GÜÉMEZ

As managing director and CEO for LaSalle Investment Management Mexico, Eduardo Güémez is responsible for all aspects of LaSalle's operations, investment initiatives and investor relations in Mexico. These initiatives include commingled funds, customized separate account programs and development projects.

MANUEL ZAPATA

As chief investment strategist, Manuel Zapata is responsible for macroeconomic insight, sector analysis, property market forecasting and micro-market underwriting for specific assets in Mexico.

Dohrmann: *Post-NAFTA, the U.S. and Mexican economies have become closely linked. How would a U.S. slowdown impact property investment in Mexico?*

Zapata: A U.S. economic slowdown should impact the Mexican economy less severely than in the past. Currently, the countries' economies are linked through the industrial sector, and the industrial sector in the U.S. is expected to continue growing, although at a more modest rate than in previous years. This sector in Mexico also has very strong fundamentals with healthy growth rates and low vacancies. Even if the economy slows down, the industrial sector is in a very good position to take that slowdown. The other sectors — retail, residential and office — are primarily driven by domestic factors, which continue to do well. The middle class is growing as are employment rates, and the availability of credit is increasing in consumer and mortgage loans. As an example of how well the retail sector is doing here, Wal-Mart is going to invest \$1.1 billion in 175 new supermarkets and 30 new restaurants in Mexico this year alone.

Güémez: In addition, these are long-term institutional investments. At this time we are talking about a 12- to 18-month slowdown/recession, and we believe there should be a limited impact on investments or their returns.

Dohrmann: *How does Mexico stack up on a risk/reward basis relative to some of the other emerging markets?*

Zapata: Mexico offers a very attractive risk-adjusted return. The yield differential between Mexico and U.S. assets is around 250 basis points with comparable risk. In the industrial and office sectors, we use U.S. dollar-denominated rents and, especially in industrial, we have a lot of tenants with headquarters in the U.S., so the tenant credit quality is quite comparable to that in the U.S. market. Some other emerging markets are offering greater returns, but these countries, on average, exhibit a higher risk profile especially as it relates to real estate because there is very little historical data and market information. So although on average Mexico may have slightly lower returns than some other emerging countries, there also is a lot less risk.

Güémez: In addition to having tenants with solid credit and a lease structure that protects owners, Mexico's real estate market has a greater level of transparency than most other emerging markets. Because the real estate market in Mexico has had institutional investors for more than a decade now, it has had to become transparent and liquid. We believe these characteristics decrease the risk profile for the country.

Dohrmann: *But do you think the return premium that you can get covers the risk sufficiently to warrant investing in a foreign country?*

Güémez: Yes, we do. In the industrial sector, we're talking about a class A building — the same building standard that you have in the U.S. — with a U.S.-based tenant and a U.S.-style lease denominated in U.S. dollars. The only difference from a U.S. plant is that it is on the other side of the border. From the operation and legal perspective, you are running the same risk as if you were investing in the south of Texas. So we believe that the return you get is actually very attractive when you consider it is very similar risk.

Dohrmann: *How is the capital flow matching the opportunity?*

Güémez: Capital flows are continuing to increase. There's huge interest for stabilized assets, but there are very few institutional-quality assets on the market to satisfy that demand. So firms like ours are focusing on development to create that base of real estate stock we need to fill the demand.

Dohrmann: *What do you see as LaSalle Investment Management's competitive advantages?*

Güémez: One, our investment strategy is research-based, which gives us a disciplined foundation. We also have a diversified investment strategy versus having a property-specific orientation. Being diversified gives us the flexibility to invest where we see opportunity and avoid sectors that are struggling. Finally, having strong ties with a property management firm like Jones Lang LaSalle provides us with information that is exceptionally hard to get in Mexico. Having a connection to their more than 200 professionals on the ground throughout Mexico gives us an advantage over a dedicated investment group that is unlikely to have this type of presence and resource.

Dohrmann: *Investors often have the impression that inflation is out of control in Mexico. Is this correct?*

Zapata: Not any more. Inflation rates, which have been declining greatly over the past decade, now stand around four percent, which is the same as the U.S. or Canada.

Dohrmann: *What are the implications for the real estate industry of this lower inflation rate?*

Zapata: With inflation decreasing and stabilizing, the cost of having a mortgage, consumer loan or credit card has also been decreasing. The interest rate for a mortgage loan is about 12 percent, which is quite high for a U.S. standard but has greatly improved from 2000, when the interest rate was closer to 20 percent. Also, as inflation has stabilized, banks have been more willing to extend the maturity terms for loans. In 2000 we had loans extending no further than 10 years. Now we have some that are over 20 years. That means the monthly payment for a given loan amount, versus 2000, has decreased about 40 to 45 percent. So this obviously increases the potential for regular people to buy a house, or get a consumer loan and buy more goods.

Dohrmann: *Is the Mexico mortgage market experiencing the same meltdown as that in the United States?*

Zapata: No, and here's why. Although mortgage growth has been around 16 percent per year over the last seven years, the financial institutions have quite conservative underwriting standards with down payments at around 10 percent. There are no interest-only products. In addition, most of the banks still keep the loans on their balance sheets, so they are a lot more careful when they underwrite these loans.

Güémez: Another factor that has helped Mexico stay away from a subprime crisis is that historically many of the loans are actually paid ahead of time. Mexicans, overall, do not like to have a large debt exposure because they've seen that explode a couple of times. So people try to pay their mortgages off as quickly as possible, versus other markets where they extend them as much as they can.

Dohrmann: *How are you taking advantage of the demand for residential housing that the affordability of mortgages is spawning?*

Zapata: All or nearly all of the institutional residential market in Mexico is for-sale properties. There is no multifamily sector, where you have a company owning a set of apartment buildings and managing them professionally. We're therefore developing both multifamily and some single-family for-sale housing, specifically for lower- and middle-income buyers. We're doing some smaller single-family homes for people who are employed in the service industry, as well high-rise condominium-type developments.

Dohrmann: *How are you approaching the retail side?*

Zapata: As with residential, most of the retail demand is for lower- and middle-income retail. For the most part we are looking to develop grocery-anchored malls in cities with populations around 200,000.

Dohrmann: *So, bottom line. Why should U.S. pension funds invest in Mexico, and why with you?*

Güémez: With the slowdown of the market in the United States, Mexico is the perfect market for funds that want to increase their returns without taking on additional risks. We believe there are both short- and long-term opportunities in Mexico, and we provide a very thorough and disciplined approach to finding them. We've been very pleased with the success the company has experienced in Mexico in the past few years, and we expect to continue that success to the benefit of our investors. ❖

CORPORATE OVERVIEW

LaSalle Investment Management is a wholly owned subsidiary of Jones Lang LaSalle (NYSE: JLL) and is one of the world's largest real estate investment managers, with approximately \$50.4 billion of assets under management.

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