# Going pan-LatAm

Real estate investing in Latin America once favored country-specific platforms, but now pan-regional operating platforms may be emerging as the smarter bet.

By Tom McDonald, managing partner of Jaguar Growth Partners

Conventional wisdom suggests that real estate investing is a local activity, benefiting from and requiring boots-on-the-ground market, financing and regulatory expertise. Such was the approach of myself and my partner, Gary Garrabrant, to investing in Latin America – until now.

In the mid-2000s, various operating partners in the region asked us to consider investment opportunities outside of their primary geographies or sectors of focus. At the time, we were resistant to supporting geographical expansion and reminded our partners of the importance of focus and discipline and the benefits of continuing to gain local market share. However, conditions and trends today are evolving to suggest that pan-regional development and operating platforms will become a growing force, if a not dominant one, in the coming years.

Traditionally, Latin American real estate operating platforms have been very local ventures, focusing their activities in their country – and, in some cases, city – of origin. This local concentration has been the result of various barriers, including complicated land acquisition, permitting and approvals; tenant limitations; and limited financing alternatives. In addition to the traditional constraints, operators faced implicit constraints by their investment partners to focus on areas where they were able to leverage their proven competitive strengths and market advantage and not be distracted with higher-risk growth opportunities in new geographies.

Therefore, perhaps it is no surprise that Latin America has lagged other regions in terms of the geographic expansion of business platforms. For example, regional and national expansion of real estate-related platforms already was in full swing in the US and Western Europe in the 1980s, driven by a combination of opportunistic and traditional debt financing, availability of global public and private equity capital, corporate growth plans and the institutionalization of corporate-owned assets.

By contrast, expanding outside of the traditional Latin America comfort zones for operating businesses during that same time period was not obvious or inviting, given the lack of viable cross-border financing and supportive tenant commitments; myopic corporate growth strategies; and, perhaps most importantly, regional political and economic instability. Indeed, inconsistent political leadership and social and business cultural inequities were recognized as considerable barriers to expansion.

Since the 1990s, however, these barriers have been coming down as a result of relative political and economic stability in the region. Regional expansion and, perhaps most importantly, the creation of pan-Latin American platforms have taken hold in multiple business sectors. For example, Mexican consumer product groups Bimbo and Vitro began venturing outside their borders in the 1990s.

Now, conditions prevail to enable real estate-related platforms to follow the lead of these other sectors. This evolution is potentially the most important development for private equity and institutional investors since the public market entrance of real estate companies in Mexico, Brazil, China and India. The value creation and realization opportunities appear clearer for entity-level investments versus property-level investments while also offering other benefits, such as scalability and access to favorable debt and equity financing.

Capturing operating economies of scale seems intuitively more feasible at the entity level, whereas operating benefits at the asset level across vast geographies seems less obvious. Leveraging an existing relationship with a retail or industrial tenant that is executing a strategic regional expansion plan is an obvious benefit to a shopping mall or logistics platform that also wants to broaden its footprint. Meanwhile, growing an existing hotel or specialty finance brand that has deep recognition and operational expertise in one market and quantifiable unmet demand in other similar markets is a logical alternative. The benefits of leveraging office tenants from São Paolo to Mexico City, however, may not seem as plausible or economically compelling.

Scale and diversification are the two most important attributes of regional expansion for both operating and private equity investment partners. Scale, after all, represents the significant investment volume that is necessary for such an expansion and, by extension, the sizable investor universe that this activity attracts. It also allows for increased monetization options from public market vehicles such as Mexican Fibras, sophisticated local pension plans or global strategic operating partners opting for a buy-versus-build strategy.

Meanwhile, diversification through a pan-Latin platform offers the opportunity to spread currency, political and economic risk among countries. This risk mitigation also is attractive to investors, tenants and financing providers searching for similar diversification benefits.

Regional expansion, however, requires cross-border integration that can be extremely complicated. This is particularly true in light of historical business practices in the region's various countries that have inhibited growth and, in some cases, led to failure.

The operating platforms that are led by experienced multicultural management teams, in property sectors that truly benefit from economies of scale, will be the best positioned to assume a leadership role in what should be a significant evolution in the Latin American real estate industry. This evolution mirrors what already has occurred in more developed markets and will attract world-class investment capital to the region. □