RESEARCH

Real Estate Outlook

Chile

2013
Economic Analysis

- **The economic backdrop will be less favorable next year.** We forecast the economy will grow by 4% with a downside bias, and expect an increase in unemployment.
- **Local financial conditions point to higher interest rates and a deterioration of credit indicators.** An increase in external interest rates and the cyclical situation of the economy will contribute to these developments.
- **Housing sales and prices continue strong as the level of stock falls.** There are no signs of a misalignment in prices at aggregate level and we expect stabilization next year.
- **Commercial segment maintains a dynamism difficult to reconcile** with the extensive supply expected in the upcoming quarters.

Index

Closing date: December 13, 2013

1. Summary

The economy has entered a process of slowdown that began with investment, but we expect it will also be followed by a bigger slowdown in private consumption. In part the phenomenon of slowdown has been reflected in the manufacturing sector and in business expectations and confidence. Consumer expectations have had periods of decline, but continue in positive territory, probably buoyed by positive job figures and also the positive impact on household wealth from increased housing prices.

The outlook for the rest of 2013 and 2014 is for growth under its potential, creating slack capacity. Next year we expect GDP to grow at 4%, with a downside bias, while domestic demand will increase by around 4.1% y/y.

Local financial conditions suggest an increase in long-term interest rates, despite the highly probable additional falls in the monetary policy rate in the first half of 2014. The cuts in the monetary policy rate will play a stabilizing role and make conditions for access to credit easier; but on the other hand there will be rises in external rates, which will have a significant impact on local rates in the other direction.

The real-estate market has posted strong sales and sustained price increases, which have continued throughout 2013. We expect the labor market to continue to lose its tightness in 2014, with unemployment rates of around 7% at the close of next year, suggesting a stabilization of prices.

We include our view of the potential impact of another change in the 65% exemption of the VAT payable in the construction sector. In the end, it will probably be granted without a ceiling only on properties of under UF 2,000. The figure is currently applied to housing constructions whose value is not above UF 4,500 and with a limit of UF 225 per home. In certain cases, the conclusion is that there is a high probability of the higher cost assumed by the construction companies will mainly be absorbed by the owners of land associated with values of property costing between UF 2,000 and UF 4,500, with a proportionally greater negative impact at the bottom end of this range.

In the area of commercial units, we are still concerned about the limited reaction of prices to a feeling of ample capacity to absorb square meters of offices that are expected to enter the market in the coming quarters.

We still consider that the main macroeconomic risk is an abrupt and significant fall in the copper price, with impacts on the sustainability of the current-account deficit. In this risk scenario, we see a limited impact on housing prices, in what we expect to be a process of an adjustment in the housing stock.

2. The economic backdrop will be less favorable in 2013-2014

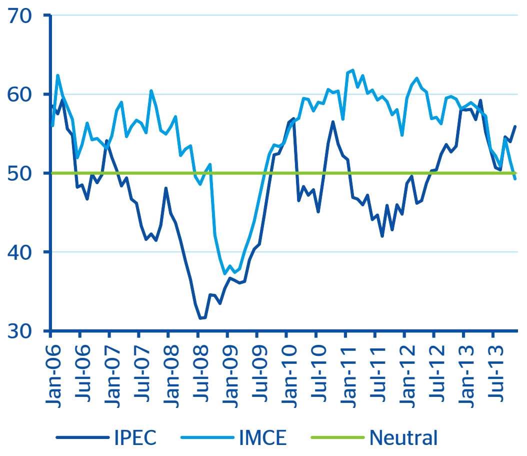
The dynamism of economic activity is showing signs of exhaustion, and we expect GDP to grow below potential in 2013 and 2014, with the main risk coming from abrupt and significant falls in the copper price

The economy has entered a process of slowdown that began with investment, but we expect it will also be followed by a bigger slowdown in private consumption. GDP will end up growing by around 4.2% in 2013 with downside risks. The unemployment rate appears to indicate a tight labor market, but there are signs of a restructuring of employment from salaried to self-employed, and a stabilization in wage growth. We expect more sluggish private investment will end up injecting slack into the labor market that could lead to fewer jobs being created and real wages growing even slower (Chart 1). This would have an impact on people's available income and in the end on their capacity for mortgage borrowing.

Chart 1
Labor market: employment and real wages (y/y % change)

Source: INE and BBVA Research

Chart 2
Consumer and business confidence (Index)



Source: BCCh, ICARE and BBVA Research

In part the phenomenon of slowdown has been reflected in the manufacturing sector and in business expectations and confidence. Consumer expectations have slipped back, but are still in positive territory, very probably buoyed by what are still good job figures (Chart 2).

The outlook for the rest of 2013 and 2014 points to growth under potential, creating some slack capacity. For 2014, our forecasts are for GDP growth of around 4%, with domestic demand growing by 4.1% y/y. This slower pace is in a context of a general slowdown in both the emerging economies and in our main trading partners. International financial conditions have also become somewhat more restrictive, following the discussion of the gradual withdrawal of monthly bond purchases by the Fed, which has also led to more volatile capital outflows.

Gross capital formation has grown at a cumulative total of 7.0% y/y through 3Q13, and we expect growth to be 4.6% in 2014. These increases are significantly lower than those observed in previous years (14.7% in 2011 and 12.3% in 2012). For this reason, we consider that supply in the residential and commercial construction sectors will continue to moderate, thus avoiding significant impacts on prices.

The Chilean Chamber of Construction (CChC) forecasts that after growing by around 5% this year, investment in construction will grow by 4.0% in 2014. According to the CChC, investment in residential property will grow by 2.9% in 2013 and 1.4% in 2014. The slowdown in 2014 is due to reduced investment in public housing, which will no longer be offset by increased growth in investment in private housing.

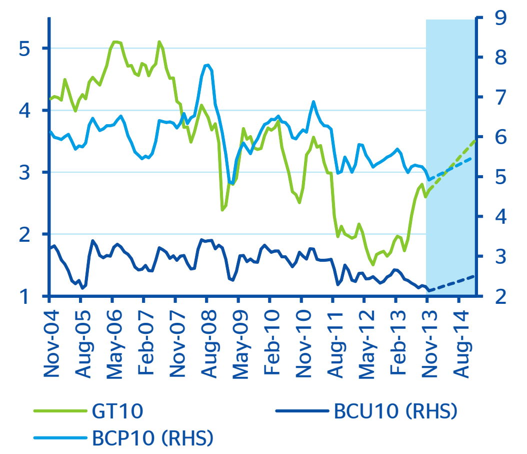
Local financial conditions suggest that long-term interest rates will be maintained or even increased in the long term, while credit conditions at aggregate level could be more restrictive, given the worsening of the credit indicators

Interest rates will be determined by a reduction in the monetary policy rate (MPR), which will have a downward impact on long-term interest rates, but also by a steady increase in external interest rates, which will have a significant effect in the opposite direction.

Locally, the Central Bank will have room for additional cuts to the MPR of not more than 50 bps in our baseline scenario. The additional monetary stimulus will lead to reductions in long-term interest rates. However, we also expect increases in long-term interest rates in the U.S. due to the withdrawal of the unconventional monetary stimulus as a result of the improved performance of the U.S. economy. Overall, given the way external rates have been passed on to their local equivalents, we expect local long-term interest rates to rise moderately in 2014 (Chart 3).

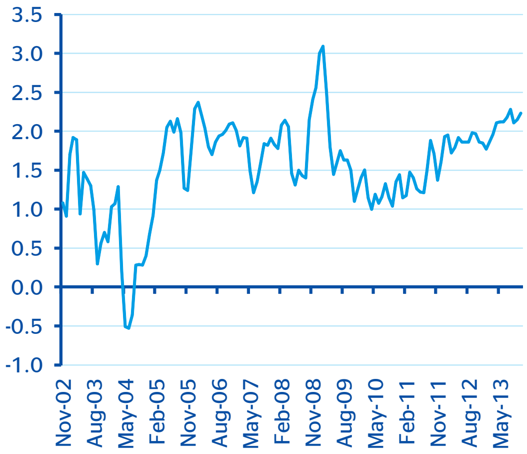
The spread over the funding cost has increased over recent years in a context of job creation, high demand for housing, and above-potential levels of growth in investment and GDP. The falls in reference rates (BCU) has not been reflected by falls in mortgage interest rates, which can also be attributed to increased credit risk. We expect the spread could continue to rise next year, accompanied by the greater mortgage portfolio risk (Chart 4).

Chart 3
Long-term BCU10, BCP10 and GT10 interest rates (percentage)



*The gray area is a forecast.
Source: Bloomberg and BBVA Research

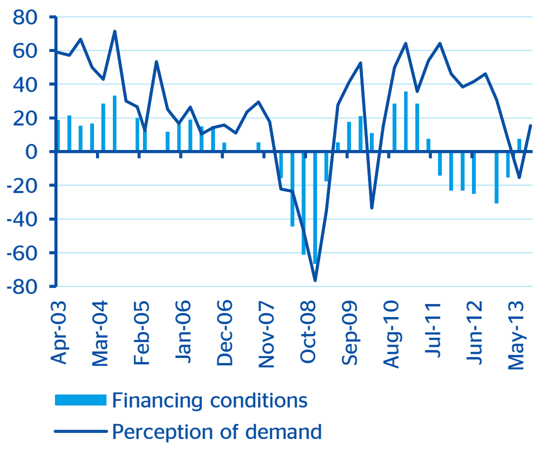
Chart 4
Spread between the average mortgage interest rate and the BCU10 (percentage)



Source: BCCh, Bloomberg and BBVA Research

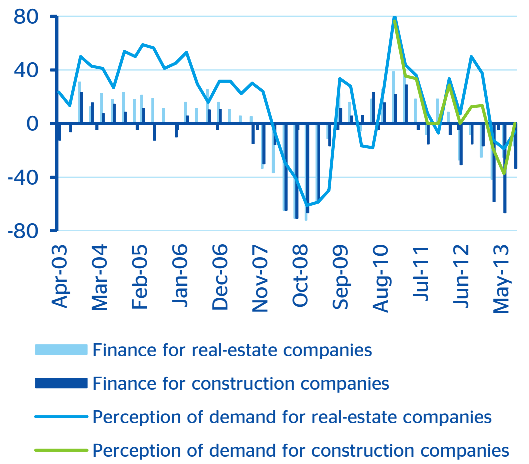
The conditions for mortgage loans have eased, in line with a weaker employment situation and the deterioration of portfolios (Charts 5 and 6). We do not expect credit conditions to improve substantially over the next few quarters, given the conservative banking policies and the worsening of traditional measures used for assigning credit risk to individuals and companies.

Chart 5
Mortgage loan conditions (Index)



Source: BBVA Research, based on the Central Bank of Chile Credit Survey

Chart 6
Real-estate loan conditions (Index)



Source: BBVA Research, based on the Central Bank of Chile Credit Survey

In fact, credit conditions have been affected by uncertainty in the international financial markets and levels of activity below those expected in the first half of the year. The Central Bank's survey of credit conditions shows greater restrictions on lending, particularly to real-estate and construction companies. This is the result of greater levels of risk perceived by financial institutions, with respect to fears of significant and speedy increases in the prices of homes and offices. The situation in fact led to the Central Banks and some private agents warning that such trends could not be projected into the future.

As we explained in the Fourth Quarter Economic Outlook, the main risk is from a steeper and faster fall in the copper price to a level below that estimated for the long term (USD 2.9/lb), which would end up generating an abrupt close of the current-account deficit.

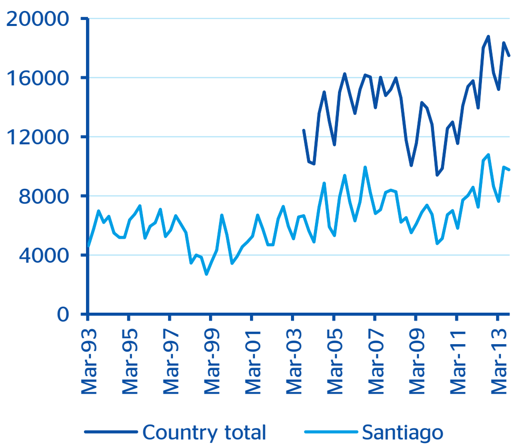
Although the scenario for a steady and healthy reduction of the current account is positive, with a slowdown in domestic demand and a real depreciation of the peso, at this stage it does not appear to be advisable to speed up this process through restrictions to foreign direct investment inflows and/or additional major depreciations in the peso. A risk scenario such as the above could be accompanied by a delay in projects in the residential and commercial construction sectors, increases in stock and, in the end, downward corrections in prices.

3. The real-estate sector maintains dynamism, with lower but persistent price rises

Housing sales and prices continue strong in a context of minor available stock

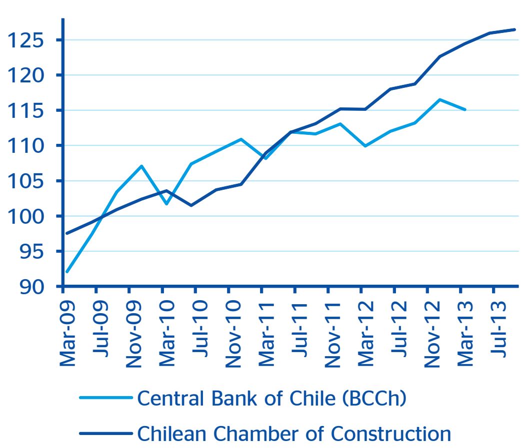
Home sales have continued to increase in 2013, as have average prices (Charts 7 and 8). This situation is consistent with a maintenance of appropriate financial conditions, an improvement in household income levels and the relative lack of locations in districts/regions where demand is highest.

Chart 7
Home sales (units)*



* The figures for the country as a whole were revised in May 2013 according to an update in the methodology for extending the figures.
Source: CChC, INE and BBVA Research

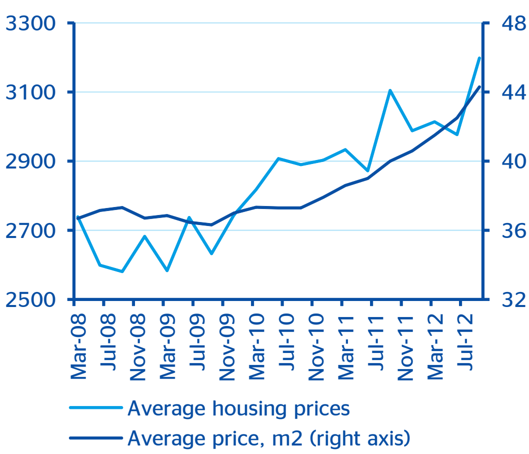
Chart 8
Real home price Index (2009=100)



Source: BCCh, CChC and BBVA Research

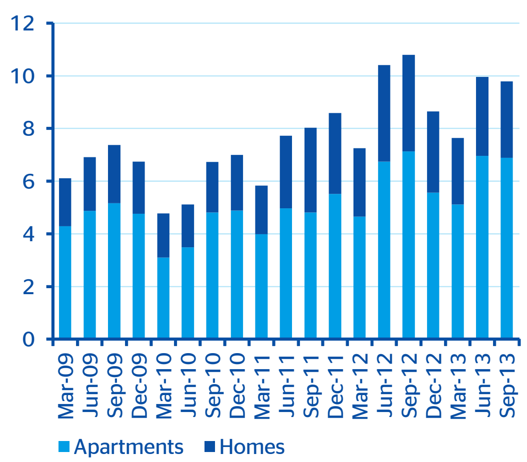
The Metropolitan Area has maintained its prices and sales (Charts 9 and 10). Apartments have made up the bulk of the sales, with nearly 6,900 units sold through September 2013, compared with 2,900 houses sold in the same period.

Chart 9
Metropolitan Area: housing and prices per square meter (UF)



Source: Collect, Ministry of Housing and Urban Development

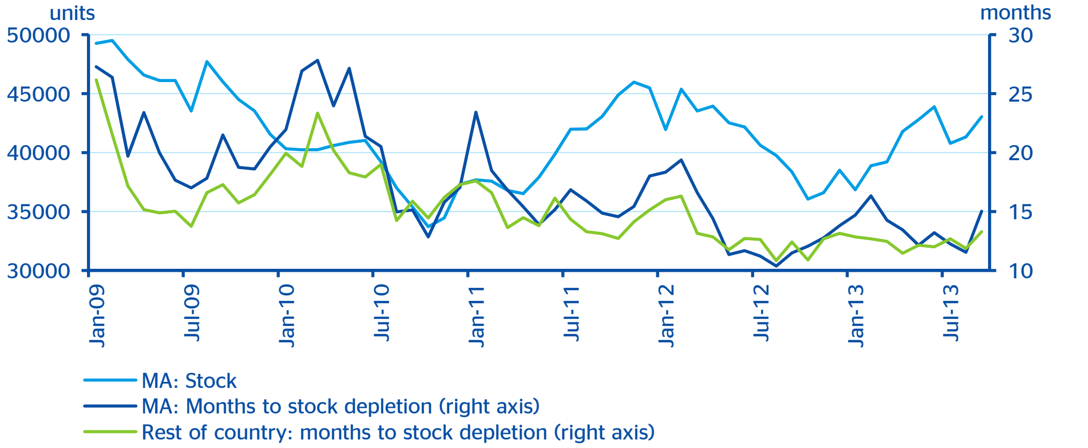
Chart 10
Housing sales in Santiago (thousands of units)



Source: CChC and BBVA Research

The strength of sales has led to a fall in housing stock measured in terms of months available for sale (Chart 11). In this situation, we cannot say that the real-estate market is showing signs of exhaustion; on the contrary, it is highly probable that the fall in units available for sale will for now prevent falls in prices. However, the expected slowdown in the economy that has already been noted in previous quarters, together with below-trend growth over the coming months, suggest worse conditions for household debt. Overall, we expect a moderation in sales, but with current prices being sustained.

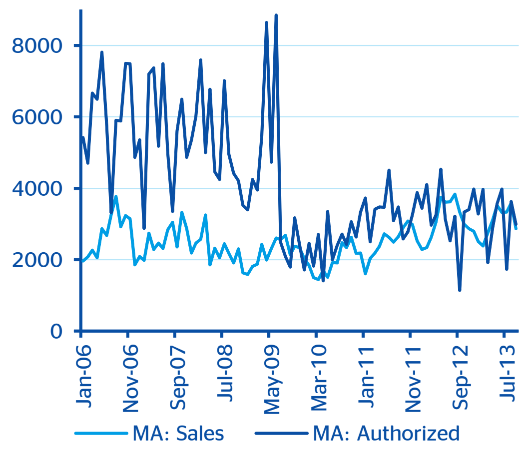
Chart 11
Housing stock and ratio to sales in the Metropolitan Area (MA) and the rest of the country



Source: CChC and BBVA Research

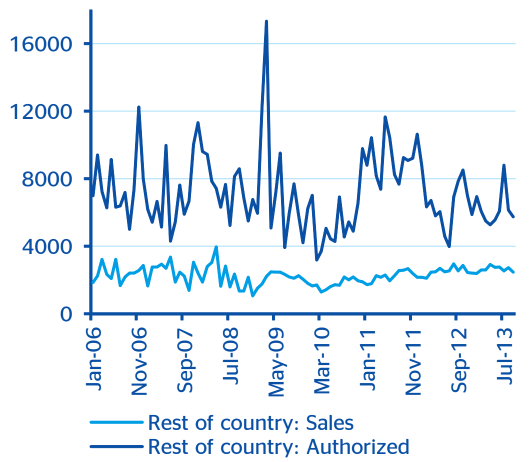
Building permits have not returned to pre-Lehman levels, but have stabilized at around 4,000 units for the Metropolitan Area and 6,000 for the rest of the country (Charts 12 and 13). This evidence supports our view that the supply of homes in the country will not increase substantially in a way that is incompatible with a capacity of absorption at similar or even higher prices than those observed in the recent past. In any event, the tight market situation is still greater in the Metropolitan Area than in the rest of the country, as has been the case in recent years.

Chart 12
Sales and construction permits, MA (units)



Source: CChC, INE and BBVA Research

Chart 13
Sales and construction permits, rest of the country (units)



Source: CChC, INE and BBVA Research

We have to note that although it is not possible to detect any incompatibility between growth of housing prices at aggregate level, continues significative degrees of heterogeneity (Chart 14). However, this is not a symptom of misalignment of the regions and districts with significantly higher rises than the national average. This is because it is not possible to provide an assessment of the role of the fundamentals in these specific trends, as there are aspects that are clearly idiosyncratic and difficult to quantify; and also, because the heterogeneity in the price of homes is a phenomenon that can be clearly seen both in other countries that have had price bubbles and in those where there have not been any misalignments.

Chart 14
Average new home prices (UF)

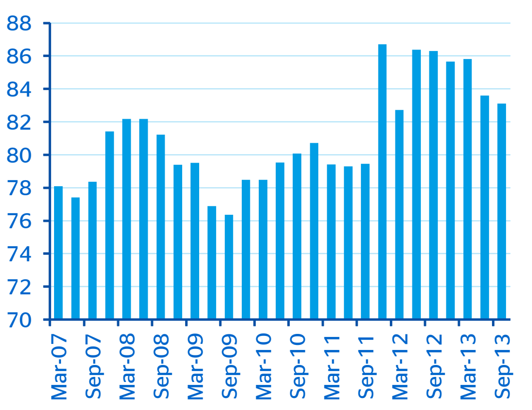
Source: Collect and Ministry of Housing and Urban Development

Stabilization in the loan to value ratio in the banking sector

An important aspect to monitor is the collateral required from people when entering into a mortgage loan. High and growing loan-to-value levels may be a cause for concern, given that they would indicate that the banking sector could be feeding the rise in housing prices in a way that is not in line with fundamentals. In Chile the loan to value ratio increased significantly toward the end of 2011 as household disposable income rose, but stabilized and even fell back in recent quarters.

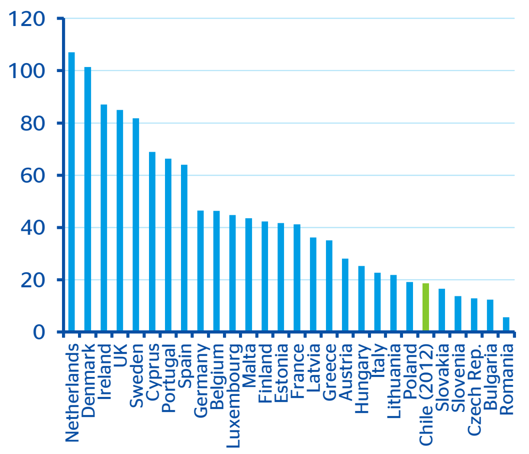
It is important to note that the average loan-to-value does not reflect the recomposition of credit provision within the mortgage portfolio (Chart 15). Although it can be seen that the ratio has not returned to the 2007-2008 levels, people who receive mortgage loans with high loan-to-value ratios belong to higher strata of credit risk. As a result, the weighted risk of mortgage portfolios has not been negatively affected, despite loan-to-value ratios significantly above 80%.

Chart 15
Loan to value ratio (%)



Source: Financial Stability Report, second half of 2012, BCCh and BBVA Research

Chart 16
Mortgage debt over GDP (%)

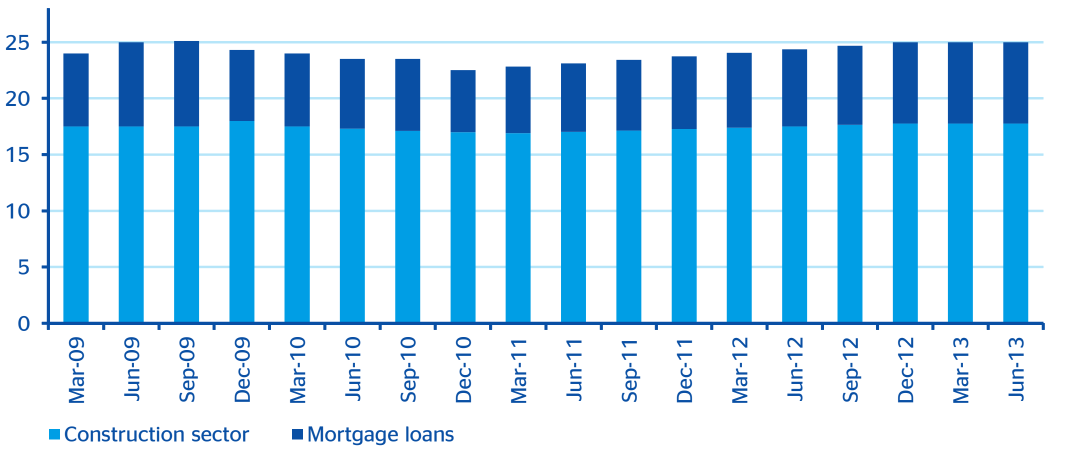


Source: European Mortgage Federation Hypostat 2010 and BBVA Research

There is significant room for more household mortgage debt compared with other countries (Chart 16). Out of a group of developed and emerging countries, Chile has a ratio of mortgage debt to GDP of 20%, which is at the medium-low level of OECD and developed countries.

Bank credit linked to the real-estate sector has not increased after the Lehman collapse as a percentage of GDP (Chart 17), once more indicating that lenders have not been behind the rise in prices. Rather, it has been a response to better labor conditions in terms of jobs and wages.

Chart 17
Bank credit to the real-estate sector (% of GDP)

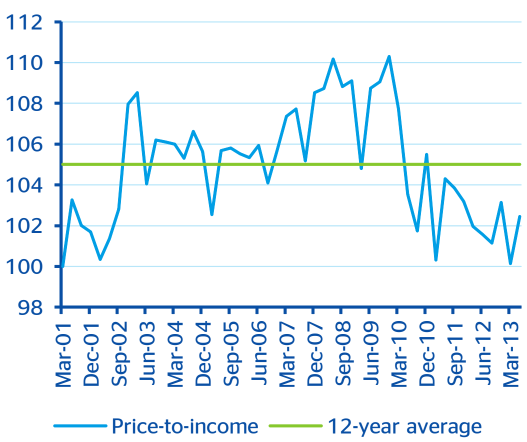


Source: IMF Country Report No. 13, Chile

No signs of a misalignment of housing prices at aggregate level

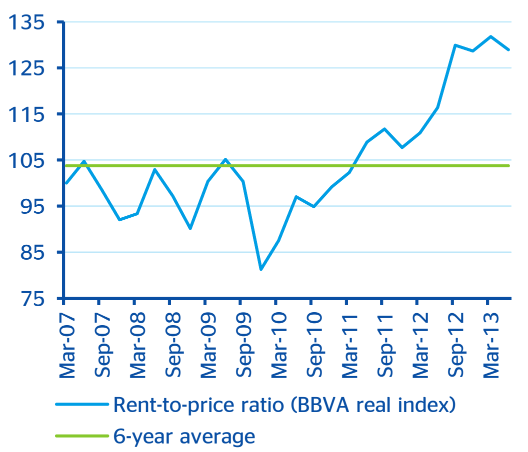
We have analyzed traditional measures of misalignment such as price-to-income and rent-to-price. Both have been constructed based on data available in the Portal Inmobiliario and the Chilean Chamber of Construction. We have found no evidence of misalignment. What is more, our analysis leads us to conclude that housing prices have closely matched the rise in disposable income in recent years (Charts 18 and 19).

Chart 18
Chile: price-to-income ratio (March 2001=100)



Methodological note: Real index of housing prices (IRPV) of the CChC (readjusted to Mar 2001=100). Real household disposable income extracted from the National Accounts (readjusted to Mar 2001=100)
Source: BCCh, CChC, INE and BBVA Research

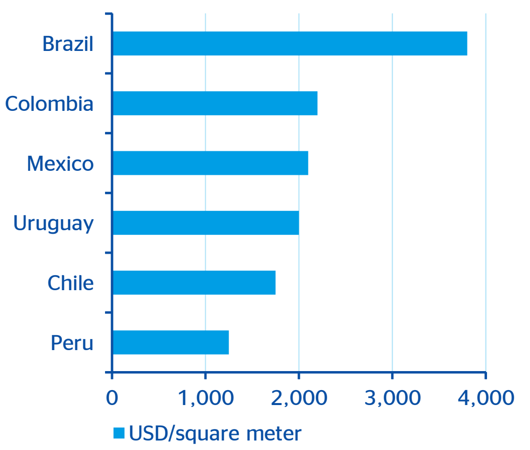
Chart 19
Chile: rent-to-price ratio (March 2007=100)



Methodological note: Real rentals in the main cities from Portal Inmobiliario (Mar 2007=100). Real national housing prices from the CChC (readjusted to Mar 2007=100)
Source: BCCh, CChC, Portal Inmobiliario, INE and BBVA Research

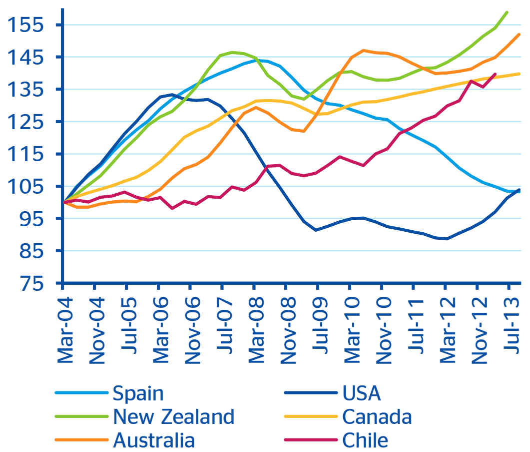
What is more, comparing prices in USD per square meter in Latin America, prices in Chile do not appear higher than in other countries in the region (Chart 20). At the same time, when observing changing housing prices in a group of countries, some of which have had price bubbles, Chile is close to the average, and below other exporting economies such as Australia and New Zealand (Chart 21).

Chart 20
Apartment prices in Latin America (USD/square meter)



Source: IMF Country Report No. 13, Chile

Chart 21
Real housing prices (1Q04 = 100)



Source: Haver and the Chilean Chamber of Construction (CChC) and BBVA Research

Box 1. Changes in the VAT exemption for construction and its potential distributive consequences

This box presents our view of the potential impact of a new change to the 65% exemption on the VAT charged in the construction sector. The change is part of the tax modifications included in the program of Michelle Bachelet's government.

VAT in the construction sector in Chile: objectives and current law

In general terms, the inclusion of construction activity as a sector subject to VAT was introduced in 1974 with Law no. 18630. Under this law, construction contracts and transfers of real estate by construction companies were subject to payment of VAT, currently at a rate of 19%. Article 21 of this law stipulated an exemption of 65% of the VAT charged and generated by a construction company on the sale of construction services or the sale of a property, net of the value of the land.

It is worth noting that the Chilean law defines what is understood as "construction services" fairly precisely, limiting them to the construction and sale of new properties for housing. This contrasts with the law in some countries that also apply partial VAT exemption for construction, but that include a definition of services that is broader than the case in Chile, e.g. contracts for the repair or maintenance of a property. Despite the differences on this point, the aim is the same in the countries where this instrument is applied: to restrict the rise in housing prices related to the application of the full VAT rate on the sale of a new property, and at the same time to generate more competitive conditions for the supply of real-estate for housing.

The construction business lived with these rules until the start of 2008. That year Article 21 was modified restricting the 65% exemption on VAT payment to the sale of housing constructions whose value was not more than UF 4,500. What is more, the limit was only UF 225 per home[1].

This change was a response to the unwanted redistributive effects of a VAT exemption without a limit to the value of the properties. Criticisms have pointed to the regressive nature of the exemption, given that it would favor more in absolute terms those households that can buy higher-value housing, i.e. the highest deciles in terms of income distribution.

The treatment of the VAT exemption as it now affects the sale of construction services is shown in Table 1.

It can be seen that for properties whose sale price is greater, the rate of effective tax for VAT is also higher, converging at 19% once the threshold of UF 4,500 is exceeded. This is independent of the assumptions about the value of the land, which in this exercise is taken to be a percentage of the property's sale price. The effective tax burden of VAT for the constructor thus ranges between 6.7% and 19%, depending on the value of the property, taking intermediate values for homes whose prices range between UF 2,000 and UF 4,500.

New change to the VAT exemption and redistributive effects on income from land

The proposal put forward by Michelle Bachelet proposes an even more restrictive VAT exemption, applicable without a ceiling only to properties of under UF 2,000. Thus to understand how the new VAT rate will affect construction services, we have prepared an exercise based on the same assumptions as in Table 2.

Table 1
How the current exemption works

(a)	Property price (UF)	1,500	2,000	3,000	4,000	4,500	5,000
(b)	Land value (Est. 30%)	450	600	900	1,200	1,350	1,500
(a)-(b)	Aggregate Construction Value (ACV)	1,050	1,400	2,100	2,800	3,150	3,500
(c)	VAT charge without exemption (19% ACV)	200	266	399	532	599	665
(d)	VAT exemption (65% of (c))	130	173	259	346	389	N/A
(e)	Exemption limit*	225	225	225	225	225	N/A
(c)-min{(d),(e)}	Effective VAT (UF)	70	93	174	307	374	665
	Effective VAT (% ACV)	6.7	6.7	8.3	11.0	11.9	19.0

*Note: this is the exemption under current law, which allows up to UF 225, whatever the value of the property.
Source: BBVA Research

1: Decree of Law 910, March 2008.

Table 2
How the adjusted exemption works

(a)	Property price (UF)	1,500	2,000	3,000	4,000	4,500	5,000
(b)	Land value (Est. 30%)	450	600	900	1,200	1,350	1,500
(a)-(b)	Aggregate Construction Value (ACV)	1,050	1,400	2,100	2,800	3,150	3,500
(c)	VAT charge without exemption (19% ACV)	200	266	399	532	599	665
(d)	VAT exemption (65% of (c))	130	173	N/A	N/A	N/A	N/A
	Increased cost due to VAT (UF)	0	0	225	225	225	0
	Increased cost due to VAT (% (b))	0	0	25.0	18.8	16.7	0
(c)-(d)	Effective VAT (UF)	70	93	399	532	599	665
	Effective VAT (% ACV)	6.7	6.7	19.0	19.0	19.0	19.0

*Note: this is the exemption under current law, which allows up to UF 225, whatever the value of the property.
Source: BBVA Research

The exercise shows that in these cases there would be a significant difference in the VAT paid by housing constructions of less than UF 2,000, whose rate would be close to 7%, and those of a higher value, which would pay the rate of 19%. This is unlike the current situation, in which, as we have explained, there is a partial tax benefit for housing constructions with prices of between UF 2,000 and UF 4,500.

Moreover, the conclusion is that **there is a high probability of the greater cost assumed by the construction companies will mainly be absorbed by the owners of land associated with properties costing between UF 2,000 and UF 4,500, with a proportionally greater negative impact at the bottom end of this range.** The critical factor lying behind this is that the increased cost of VAT will not lead to higher prices of homes within the range of prices under analysis, other things being equal. However, this assumption is no longer critical for our conclusions if demand conditions weaken in 2014, i.e. economic activity slows and the unemployment rate increases, thus limiting the extent that costs can be passed on from the constructor to the consumer.

If costs are passed on to the value of the properties, this would mainly affect the UF 2,000 to UF 4,500 price range. In this case, we would anticipate demand to be replaced to some extent, shifting the supply of properties to those under UF 2,000 and over UF 4,500. In this scenario, the drain on profitability of land associated with properties with prices between UF 2,000 and UF 4,500 could be exacerbated to the benefit of the owners of land associated with property prices below UF 2,000 and above UF 4,500.

Is there any evidence that allows us to make our statement with respect to the possible redistributive effects of the profitability of land? The only data we have to support our conclusions are the composition of sales of properties after the modification of Article 21. The change limited the VAT exemption to properties valued at under UF 4,500 and with a limit of UF 225 starting in 2008.

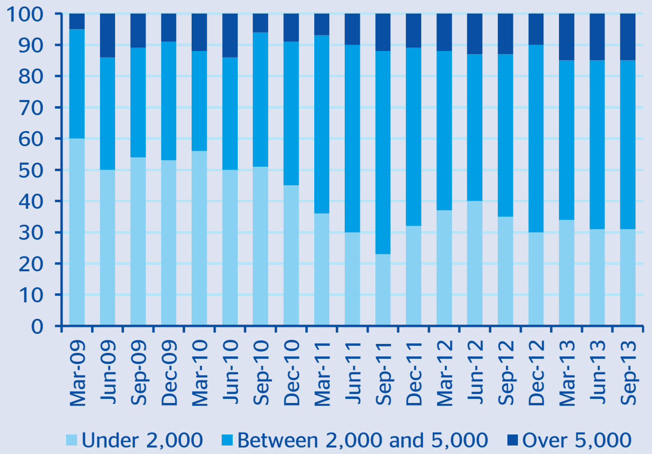
After this modification, we should have observed a greater level of concentration of sales of properties at prices above UF 4,500. Conversely, there should have been fewer properties under UF 4,500, in particular those with prices under UF 2,000, where the limit to the exemption is not restrictive (those at UF 225).

Charts 22 and 23 would confirm our view. They show that sales of properties above UF 5,000 have increased their share of total sales since 2009, while those with prices of under UF 2,000 have reduced theirs as a proportion of total property sales.

By way of example, homes of more than UF 5,000 have increased their share from an average of 9.6% to around 12.6% (in 3Q13 the figure was 15%), and something similar can be seen in the sales of apartments of over UF 5,000. However, we should recognize that this exercise does not allow us to isolate the effect of the adjustment to the law itself from the changes to household income distribution since 2009.

Chart 22

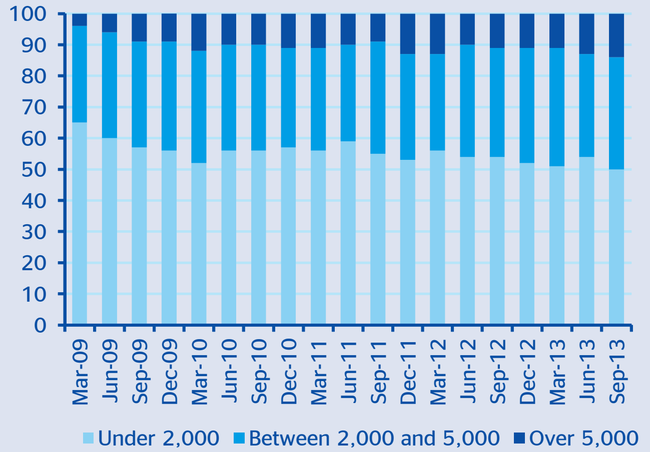
Sales of houses by price stretch in UF (percentage)*



*Sales in Greater Santiago.
Source: CChC and BBVA Research

Chart 23

Sales of apartments by price stretch in UF (percentage)*



*Sales in Greater Santiago.
Source: CChC and BBVA Research

4. The office market assumes an enormous capacity for absorption

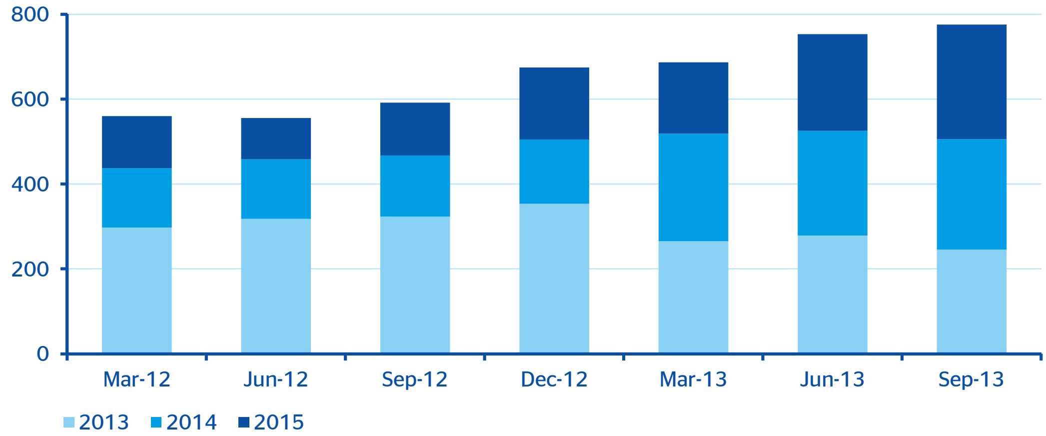
After the contraction in 2009, domestic demand has been key to the performance of the economy. In line with this, the non-tradable sector of the economy expanded at 4.7% y/y in the first six months of 2013, far more than the tradable sector at 3.3% y/y. In particular, and with the exception of Restaurants and Hotels and Housing Services, other service activities for companies and individuals saw better performance than the economy as a whole. This supports the sustained strength of the commercial real-estate market. However, this growth pattern showed clear signs of exhaustion in 2013, and we expect this trend to intensify in 2014.

Non-residential real-estate market is maintaining a dynamism that is difficult to reconcile with its capacity for future absorption

The office market has absorbed the inflow of a substantial volume of available square meters, affecting vacancy rates and rental prices. This could be heightened if the new projects expected for 2013-2014 are incorporated, with around an additional 500,000 square meters of class A and A+ office space (Chart 24).

It is important that the investment and financing decisions of the actors involved should take into account that the trends in prices and demand in this sector may not continue, particularly given the external risks described, the forecast increase in supply and the expected economic slowdown.

Chart 24
Projected entry of new class A and A+ office projects (thousands of square meters)



Source: Central Bank of Chile, based on information from Global Property Solutions

Corporación de Bienes de Capital (CBC) currently forecasts no residential real estate investment at USD 1,615 million for 2012, 27% above estimates at the close of 2012. For the period 2013 to 2016, CBC has made upward adjustments of USD 1.679 million to its estimate, to total investment for the period of USD 4,026 million. However, the nature of this correction is heterogeneous, with the main driver behind the increase being retail and office investment.

Thus real-estate investment for retail use is estimated at USD 1,475 million in 2013-16, amounting to an 83% increase over the figure in the survey at the close of 2012, reflecting a worrying optimism in the sector, despite a domestic scenario that is less favorable than forecast. It is important to note that, as is usual, the higher investment volume is concentrated in the initial years of the survey, so that nearly USD 1,260 million will be executed in the period 2012-13 (Table 3).

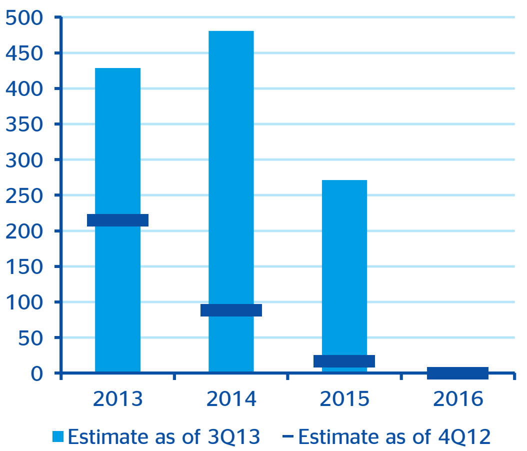
Table 3
No residential real-estate investment* (millions of dollars)

	2013		2014		2015		2016	
	4Q12	**3Q13**	**4Q12**	**3Q13**	**4Q12**	**3Q13**	**4Q12**	**3Q13**
Retail	615	700	186	560	5	202	0	13
Offices	215	429	88	481	17	271	0	0
Tourism	75	48	73	69	70	86	67	0
Industry	169	147	144	173	115	111	82	43
Healthcare	63	138	56	97	15	101	0	3
Other	135	153	102	152	52	50	3	0
No residential real-estate	**1,272**	**1,615**	**649**	**1,531**	**274**	**821**	**152**	**59**

*Note: Estimated at the stated quarter
Source: BBVA Research based on Corporación de Bienes de Capital

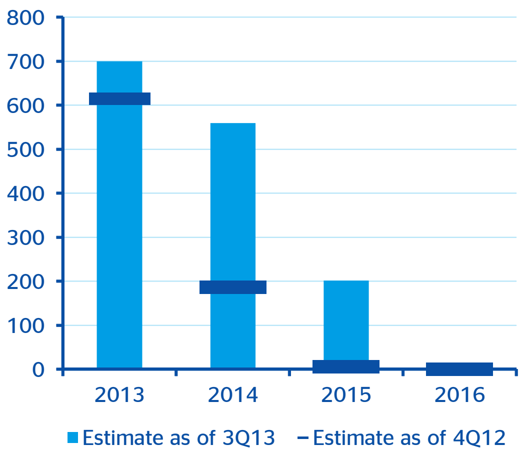
In turn, investment in office construction also saw upward corrections in recent quarters. For the period 2013-2016, it should reach USD 1,181 million, 269% higher than estimated at the close of last year (Charts 25 and 26). This is compatible with the significant volume of square meters that would enter the market (Chart 24), and for which the effective capacity for absorption in terms of quantity and time must be taken into account.

Chart 25
Office real-estate investments (Million dollars)



Source: BBVA Research based on Corporación de Bienes de Capital (CBC)

Chart 26
Retail real-estate investment (Million dollars)



Source: BBVA Research based on Corporación de Bienes de Capital (CBC)

Retail projects exceed industrial projects in no residential real-estate investment through 2020

No residential real-estate investment for industrial use fell for the period 2013-16 if we compare the survey at the close of 2012 with the third quarter of 2013. This sub-sector focuses a significant part of no residential real-estate investment through 2020, according to the complete information on projects from CBC (Table 4). However, investment for retail activities is clearly leading the rest, at more than USD 3,000 million (Table 5).

Table 4

No residential real estate investment in industry (*) (Millions of dollars)

Project name	Investment (USD MM)	Development stage
Pudahuel airport and business park	1,085	Construction
Business park	945	Construction
Kaufmann distribution center	144	Detail engineering
La Farfana logistics center	100	Construction
Claro Chile corporate building	57	Construction
Hacienda El Montijo industrial lot division	23	Construction
Bío Bío scientific and technological park	18	Detail engineering
Polo Científico Tecnológico complex II phase	15	Deferred
Total	2,387	

*Projects through 2020
Source: BBVA Research based on Corporación de Bienes de Capital

Table 5

Non-residential real-estate investment in retail activity (*) (millions of dollars)

Project name	Investment (USD MM)	Development stage
Business park	945	Construction
Costanera Center mega-project	818	Construction
Puertas de Chicureo	250	Construction
Portal Vitacura	240	Deferred
Plaza Los Dominicos Mall	218	Construction
Plaza Egaña Mall	175	Construction
Casa Costanera	170	Detail engineering
Barrio Independencia Mall	102	Detail engineering
Vivo Los Trapenses Mall	85	Construction
Plaza Arica Mall	70	Detail engineering
Centro Nuevo	70	Construction
Plaza Copiapó Mall	66	Construction
Portal Bio Bio project	62	Construction
Stripcenter La Dehesa	60	Construction
Loteo Santa Carmen	50	Detail engineering
Lo Valledor wholesale distribution center	43	Deferred
Power Center José Alcalde Délano Oriente	42	Construction
Mall Paseo Chiloé	36	Construction
Andres Bello Tunnel	30	Construction
Plaza Sucre underground parking lots	25	Construction
Victoria Mall	25	Detail engineering
Vivo Peñalolen mall	23	Detail engineering
Arauco Chillan Mall Extension	20	Construction
Plaza O'Higgins underground parking lots, Valparaíso city	15	Construction
Total	3,640	

*Projects through 2020
Source: BBVA Research based on Corporación de Bienes de Capital

Finally, the CBC survey shows that the office market has projects totaling USD 1,463 million through 2020, mainly concentrated in 2013-2015. These include the "Parque Titanium Santa Rosa de Las Condes", "Parque Empresarial Aconcagua" and "Santiago Down Town" projects, concentrating around 37% of total investment recorded under this heading (Table 6). This once more shows how fast real-estate projects are created in this sub-sector. Their maturity and entry onto the market will be focused in 2014 and 2015.

Table 6
Non-residential real-estate investment in offices (*) (Millions of dollars)

Project name	Investment (USD MM)	Development stage
Titanium Park Santa Rosa de Las Condes	300	Construction
Aconcagua business park	141	Construction
Stgo Down Town	100	Construction
Parque de las Naciones	100	Deferred
Estoril Capital	90	Construction
Triangulo de Vitacura	80	Construction
World Green Center	75	Detail engineering
Alto El Plomo	70	Construction
Ventana al Mar	60	Deferred
Titanium Copiapó	55	Construction
Citypark phase II	55	Construction
Centro Costanera	50	Construction
Edificio Los Militares	50	Construction
Centro El Alba	40	Construction
Apoquindo Downtown	35	Construction
Príncipe de Gales 5921	35	Construction
Edificio Vida Security	32	Construction
Construction of new studios and offices	22	Construction
Edificio Coronel Pereira	20	Construction
Edificio Caupolicán 150	20	Deferred
Apoquindo office	18	Construction
Panamericana center	15	Construction
Total	**1,463**	

*Projects through 2020
Source: BBVA Research based on Corporación de Bienes de Capital

DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document is based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances, investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates´ salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons.The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA is not a member of the FINRA and is not subject to the rules of disclosure affecting such members.

"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance".

BBVA is a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.

BBVA | RESEARCH

This report has been produced by the Chile Unit:

Chief Econmist for Chile
Jorge Selaive
jselaive@bbva.com

Hermann Gonzalez
hermannesteban.gonzalez@bbva.com

Fernando Soto
fsotol@bbva.com

Aníbal Alarcón
aalarcona@bbva.com

BBVA Research

Group Chief Economist
Jorge Sicilia

Emerging Markets:
Alicia García-Herrero
alicia.garcia-herrero@bbva.com.hk

Cross-Country Emerging Markets Analysis
Álvaro Ortiz Vidal-Abarca
alvaro.ortiz@bbva.com

Asia
Stephen Schwartz
stephen.schwartz@bbva.com.hk

Mexico
Carlos Serrano
carlos.serranoh@bbva.com

Latam Coordination
Juan Ruiz
juan.ruiz@bbva.com

Argentina
Gloria Sorensen
gsorensen@bbva.com

Chile
Jorge Selaive
jselaive@bbva.com

Colombia
Juana Téllez
juana.tellez@bbva.com

Peru
Hugo Perea
hperea@bbva.com

Venezuela
Oswaldo López
oswaldo_lopez@bbva.com

Developed Economies:
Rafael Doménech
r.domenech@bbva.com

Spain
Miguel Cardoso
miguel.cardoso@bbva.com

Europe
Miguel Jiménez
mjimenezg@bbva.com

United States
Nathaniel Karp
nathaniel.karp@bbvacompass.com

Global Areas:

Economic Scenarios
Julián Cubero
juan.cubero@bbva.com

Financial Scenarios
Sonsoles Castillo
s.castillo@bbva.com

Innovation & Processes
Clara Barrabés
clara.barrabes@bbva.com

Financial Systems & Regulation:
Santiago Fernández de Lis
sfernandezdelis@bbva.com

Financial Systems
Ana Rubio
arubiog@bbva.com

Financial Inclusion
David Tuesta
david.tuesta@bbva.com

Regulation and Public Policy
María Abascal
maria.abascal@bbva.com

Recovery and Resolution Policy
José Carlos Pardo
josecarlos.pardo@bbva.com

Global Regulatory Coordination
Matías Viola
matias.viola@bbva.com

Contact details:

BBVA Research Latam
Pedro de Valdivia 100
Providencia
97120 Santiago de Chile
Tel: +56 26791000
E-mail: bbvaresearch@bbva.com
www.bbvaresearch.com