

DATE OF INVESTMENT **DEC 2010**AMOUNT **US\$3.5 MILLION**PARTICIPATION/STAKE **50%****COMPANY NAME****Altos del Libertador**www.altos.com.uy**INDUSTRY / SECTOR** Real Estate
(Residential Development)**LOCATION(S)** Montevideo, Uruguay**DESCRIPTION**

Altos del Libertador is a residential real estate project developed by Altius Group in partnership with Peninsula Investments Group in what was originally the "Alpargatas factory", located in the traditional neighborhood of Goes in Montevideo, Uruguay. Once the retrofit development is concluded, the project will have 382 condos from 30-116 m2 targeting middle income families. The project is built on the site of a 40,000 m2 factory, which was purchased by a developer that soon after starting construction of the first phase went bankrupt during the 2000 financial crisis. For over a decade, the property was abandoned, contributing to an increase in crime and urban decay in this traditional neighborhood of Montevideo. Today, because of the project, the opening of the renewed Mercado Agrícola de Montevideo (MAM) and other surrounding development initiatives, the region of the Altos del Libertador project is experiencing a period of urban revival after transforming from a high-crime area to a thriving, middle class neighborhood and tourist destination.

INVESTOR PROFILE

Peninsula is an asset management firm focused on real estate investments across Latin America. The firm was founded by a team with extensive experience in the region that wanted to focus on under-invested segments of the real estate market. In this context, the firm's strategy is to target the mid-to low-income housing market, where there is a deficit of more than 20 million homes. Peninsula has a total of three funds under management, which will invest in over 18,000 housing units across the region. The fund's backers include multi-lateral investors, pension funds, fund-of-funds and family offices. Peninsula's target is to develop 4,339 homes with its second fund.

FUND NAME**Peninsula Investment Group II****FUND SIZE** US\$60.68 million**TOTAL AUM** US\$494.17 million**OPPORTUNITY**

As part of its overall investment thesis, Peninsula seeks projects that target housing for low-and middle-income families. While this segment has been successfully developed in other countries in the region, Peninsula recognized a need for more investment in the affordable housing segment in Uruguay. When Peninsula started to look at possible investments in Uruguay, the local government was also seeking to attract private investment in this segment, which had been neglected after the bankruptcy of the main mortgage lender, Banco Hipotecario del Uruguay. Based on its experience in the region, Peninsula concluded that the best model to develop low-income housing would be using the public-private partnership (PPP). But at that time, Uruguay did not have an adequate regulatory framework for housing PPPs. Having recognized the potential of this market, Peninsula began working closely with the government to develop a legal framework that would attract investment to this segment. Peninsula played a key role in the passage of Law 18.795, which gave a series of tax breaks to investors in the affordable housing segment and paved the way for the first PPP in the housing sector. Once the law was passed, the National Housing Agency (Agencia Nacional de Vivienda - ANV) launched a tender offer for the first public-private partnership in the country with the objective of co-developing a residential real estate project. Peninsula Investments Group together with its local development partner, Altius Group, competed with several other companies and was selected by the ANV. This process took nearly 18 months and the contract was ultimately awarded to Peninsula and its partner based on their track record in the mid-income sector across Latin America, the proposal to revitalize the neighborhood, the architectural plan to retrofit the Alpargatas factory, and the innovative partnership structure.

EXECUTION

To assure the success of the project, Peninsula identified that the first step was to revitalize the Goes neighborhood that had been taken over by a local gang, which had pushed up crime in the area. Peninsula understood that the Altos del Libertador alone would not be sufficient to revitalize the Goes neighborhood. Peninsula recognized the need to build other partnerships to help speed up a turnaround. Peninsula identified Montevideo's Fruit and Produce Marketplace (Mercado Agrícola, MAM), which was owned and managed by the Municipality of Montevideo, as an ideal partner in the renovation process. At that time, the marketplace was in a state of disrepair and needed to be renovated and to modernize its business model to attract visitors and new vendors.

Peninsula presented its vision of Goes to the municipal government, which immediately came on board with the project. But the city lacked the resources to invest in the project. To secure backing for the project, Peninsula worked closely with the Municipality and several multilateral organizations, including the International Development Bank (IDB), the Agencia Española de Cooperación Internacional para el Desarrollo (AECID) and others. Because of this process, the city raised over US\$13 million to transform MAM into a modern marketplace that includes stores with local crafts, a fresh fruit and vegetable market, restaurants, and a supermarket. Today, the market has become a leading tourist attraction in Montevideo and receives over 300,000 visitors a month.

Because of the investment structure, Peninsula was required to work very closely with the housing authority, which managed all purchases and expenses. This was a very bureaucratic process and required Peninsula to be extremely organized, as all purchases had to be approved and paid by the housing authority. Similarly, the project needed to be concluded without any construction loans, which also required Peninsula to seek alternate mechanisms to finance construction. Ultimately, phase one of the project was financed through equity and pre-sales.

On the operational side, transforming the factory into a modern residential building was a challenging process. The architectural design needed to strike a balance between the existing structure and a successful residential space. Additionally, underground parking lots, a swimming pool, and a glassed roof had to be incorporated into the existing structure. Industrial waste at the factory needed to be managed extremely carefully to guarantee that residents were living in a healthy space. This added additional costs and delayed completion of the project.

OUTCOME

The first phase of the project was delivered in 2014, the second phase in 2017 and the third phase will be delivered in 2018. In total, the project will have delivered 382 high-quality apartments to families who might otherwise be living in sub-standard housing. In addition to the turnaround of this historical region of Montevideo, the project was a pioneer in public-private partnerships in Uruguay and will likely pave the way for future housing developments targeting middle income families. Finally, the project has shown that it is possible to have both a positive return on investment – which in this case achieved a 3.39-fold return on invested capital and a 31% IRR – and also have high social returns for the population.

ESG IN FOCUS



FUND ESG POLICIES

During the project feasibility phase, the technical team undertakes an evaluation of the ESG issues from different perspectives. Each project site must be carefully evaluated based on environmental criteria as well as archeological facts, to avoid potential impact on historical patrimony. Peninsula also analyzes the potential impact of a project on the local flora and fauna, if applicable. Following this process, the team issues a report to the investment committee, so that all potential ESG risks are thoroughly evaluated. When necessary, Peninsula will consult outside experts to help with further evaluation of ESG risks.

COMPANY ESG INITIATIVES

The main goal of this project was to provide affordable, quality housing to an underserved population. In addition to achieving this, the project also played a fundamental role in allowing middle class Uruguayans to reclaim a region of Montevideo which had suffered from years of neglect and urban decay. Today, in addition to attracting visitors, the Goes region of Montevideo is attracting shop owners, restaurants and other retailers. Likewise, many of the families originally from the region that had been forced to leave because of security issues are now moving back.

Additionally, Peninsula built the project taking into consideration energy and water efficiency elements. All public areas of the building have LED lighting and motion detectors to reduce electricity consumption. Apartments have hot-water on demand, rather than less-efficient heaters. To the extent possible, the building takes advantage of natural light and to reduce heating and cooling costs.

The project also offers on-site daycare and playgrounds for different age groups, as well as common spaces for teens and families. Similarly, the project has a pool and a gym, not only to improve quality of life for residents but also to increase the convenience for families.