

## THE RECESSION IS OVER



Brazil's President Michel Temer (left) and Finance Minister Henrique Meirelles (right) - amid the political turbulence, their efforts to shore up the finances and drive the economic recovery is starting to pay off



Alberto Ramos, Goldman Sachs

***“We would interpret the second quarter data as broadly positive - particularly given that they cover the period in which corruption allegations were levelled against President Temer”***

Neil Shearing, EM Economist at Capital Economics (FT, Sept. 1st 2017)

***“...we see the early dynamics of a cyclical recovery”***

Alberto Ramos, Latin America Chief Economist at Goldman Sachs, on Brazil's Q2 GDP growth (FT, September 1<sup>st</sup> 2017)

***“Instead look to Brazil as the real poster child of 2017, where growth has picked up as the country recovers from its worst recession in a century.”***

Bloomberg article on the world economy (Bloomberg, March 20<sup>th</sup> 2017)

Dear Reader,

Although the storm clouds surrounding the political establishment in Brazil continue to cast their shadow, there is finally some light breaking through and Brazil is now officially in recovery. Two consecutive quarters of positive GDP growth, falling unemployment, low inflation and falling interest rates, all bode for brighter times ahead.

President Temer has faced two criminal charges over the last three months and, although it was unclear whether he would be able to survive the first one, it is now likely that he will survive the second charge. His position has been reinforced over recent weeks, helped by some mistakes made by the prosecution and also by the positive economic figures recently announced. Some analysts believe his support in Congress is recovering and that he might even be able to get the pension reform bill back on track. Meanwhile, the government has already announced an important USD 14bn privatization program, which includes Brazil's main electricity company, Eletrobras.

Investors' view on Brazil is now becoming positive, with Brazil's stock market reaching all-time highs in September and October. According to the Financial Times, investors “seem less concerned than ever about Brazil's political troubles”. They are now more focused on the brighter economic outlook. Forecasts are improving. David Beker, economist with Bank of America Merrill Lynch, has doubled his growth forecast for next year from 1.5% to 3.0%.

In the real estate market, the Self Storage sector continues to enjoy the media spotlight, as another major Brazilian magazine highlighted its growth during the recent recession. Lastly, the co-working space in Brazil has lift-off, with the arrival of the USD 20bn start-up WeWork in Brazil.

Please read on for more on the above and some other interesting topics.

All the best,

The Prolifico Team

## INSIDE BRAZIL

### **Government announces USD 14bn privatization programme**

Michel Temer recently announced the government's plan to privatise 57 state-assets, in what could raise USD 14bn into the public coffers. The plan includes the sale of a controlling stake in Eletrobras, Latin America's biggest producer of electricity, and the national mint and the lottery unit of the state-run bank Caixa Econômica Federal. Also included are highways, ports and airports, including São Paulo's city airport, Congonhas.



Privatizations: Eletrobras, Brazil's electricity company

### **Congress approves labour code reform**

Last July, Michel Temer scored an important win in Congress, when the upper house passed the government-sponsored labour reform. Amid the political turmoil, Temer was able to gather the necessary votes and got the bill passed by 50 votes to 26. Early in April, the proposal passed in the lower house by 296 votes to 177. Labour reform has been a main priority for this government. It makes more than 100 changes to the labour code, including the elimination of mandatory union fees and higher requirements for workers to sue employers. Supported by the business industry, this reform is seen as an important step in improving Brazil's competitiveness.



Brazilian Congress passes labour reform

### **GDP expands for the second quarter in a row**

With two consecutive quarters of GDP growth, Brazil has officially ended its worst recession in history. GDP grew 0.2% in Q2 from the previous quarter, while in Q1 it has expanded by 1.0% compared with the previous quarter, reports IBGE. Compared with last year's Q2, Brazil's GDP expanded 0.3% in Q2 2017. One of the main contributors to these figures was consumer spending, which rose by 1.4% after contracting for nine quarters. Unemployment figures have also been improving, with the unemployment rate now at 12.8% in Q3, down from 13.0% in Q2 and 13.7% in Q1.



Henrique Meirelles  
Brazil's Finance Minister

### **Inflation at its lowest since 1999**

Brazil's consumer price index (IPCA) fell to 2.46% in the 12 months to August, reaching its lowest level since February 1999, when it was at 2.24%. It's the 12<sup>th</sup> monthly consecutive drop of IPCA, which in January 2016 reached 10.70%, its highest in more than a decade. IPCA is now slightly below the Central Bank's new target range of 3% to 6%. For Finance Minister, Henrique Meirelles, a lower IPCA is good news, since Brazilians' purchasing power will increase and the Central Bank has more flexibility. The continuous fall in inflation has allowed the Central Bank to cut the benchmark interest rate (Selic) from 14.25% in October last year to 8.25% in September.



## BRAZIL EXTRA

### **Carrefour makes for Brazil's biggest IPO in 4 years**

In July, Carrefour Brasil, the largest supermarket chain in the country, raised BRL 5.12bn in Brazil's biggest IPO since 2013, by selling 91.2m shares in the secondary market and 205.8m in the primary market. With better economic prospects, after positive GDP numbers, significant cuts in interest rates and inflation under control, more companies are also expected to follow-suit with their IPOs this year. Investors' confidence seems to be revitalised, as the iBovespa stock index reached an all-time high in September by breaking the previous record of 73.516 points set in May 2008.



Carrefour with the biggest IPO in Brazil in 4 years

### **Bovespa Stock Exchange merges with Cetip**

Brazil's antitrust watchdog, Cade, approved the takeover of the clearinghouse, Cetip, by São Paulo's financial bourse BM&FBovespa. The BRL 12bn deal gives BM&FBovespa control of the largest Latin American securities clearinghouse. On closing the deal, Bovespa has been renamed B3 and became the largest market structure player in Latin America, according to Reuters. Despite the new name, its benchmark index will remain iBovespa. With a market capitalization of USD 13bn, B3 has emerged as the 5<sup>th</sup> largest stock exchange operator in the world, according to its CEO.



B3 - former BM&FBovespa São Paulo's Stock Exchange

### **São Paulo reduces time to set up a business to 7 days**

In May, the mayor of São Paulo announced the creation of a state and federal partnership that aims to cut the time to launch a new business in the city from 101 days to 7 days. A new company's registry can now be submitted through an online platform, which essentially combines different business organs. This new process has much less bureaucracy, with businesses being allowed to start operating even before the authorities check all the documents. By 2018, the city expects to have reduced the time to launch a new business to only 2 days. According to Plus55, similar processes are being adopted in at least 5 other states across Brazil.



João Doria  
Mayor of São Paulo

### **Brazilian congress approves "all-in-one" ID card**

In May, President Temer sanctioned the creation of a new database, gathering all information about citizens' identity, as well as the creation of a new ID card, the National Civil Identity (ICN). The new ID card will gather, in a single card, the citizen's biometrics as well as the information that is currently spread over 3 different cards: identity number (*RG*), taxpayer register (*CPF*) and voter register. According to senator Randolfe Rodrigues, the new ID card will help to significantly reduce "red tape" in Brazil.



New Brazilian ID card

## REAL ESTATE

### **Self Storage successful during Brazil's recession**

In an article published by Istoé magazine, the Self Storage sector was highlighted as a thriving business during the economic crisis in Brazil. Referencing a research report from Engebanc, the magazine says that the number of units in the country has been growing continuously since 2012. As opposed to what happened in other real estate sectors, the country's recession has even brought new opportunities to the Brazilian Self Storage market, with companies that were struggling or went bankrupt during the crisis turning to Self Storage as they saw it as a cheapest and most practical solution to store their assets, such as inventories, equipment, furniture and documents.



Self Storage grows in Brazil

### **Redstone, student housing operator from the US, arrives in Brazil**

Brazil's Mitre Realty and USA's RedStone Residential formed a joint-venture to invest in the Brazilian student housing market. Their plan is to invest BRL 340m over the next 4 years in São Paulo's metro area and develop 2.500 beds. According to RedStone's CEO, Grant Collard, the student housing sector is still early-stage in Brazil but has strong fundamentals, such as millions of students living away from home. Mr. Collard says that student housing tends not to be influenced by the macro scenario and that "the size of this potential market [in Brazil] is huge". The JV has kicked-off with the construction of its first 222-bed site near Mackenzie University. The building will have Wi-Fi, study room, swimming pool and gym. The monthly rent for an individual room is projected to be BRL 2.800.



Inside a RedStone facility  
Texas, USA

### **WeWork opens its first unit in São Paulo**

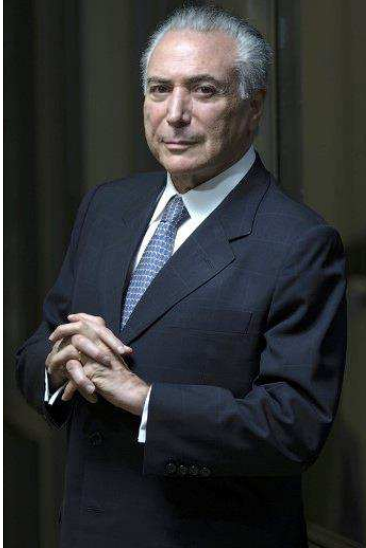
USA's fast-growing shared office space provider, WeWork, has arrived in Brazil. The company, which operates co-working spaces in more than 140 locations around the world, opened its first unit in São Paulo at the beginning of July. Located at Av. Paulista, the new facility has 10.600m<sup>2</sup> distributed over five floors, with capacity for 2 thousand members. By the end of the year, the company plans to open 5 more locations in the country, made up of 3 in São Paulo and 2 in Rio de Janeiro. Valued at about USD 20bn, WeWork is one of the world's most valuable start-ups. For Pato Fuks, General Manager at WeWork Latin America, the company is "happy to launch WeWork in Brazil and eager to work very close with start-ups and companies of all sizes in order to establish Latin America as a creativity, entrepreneurship and innovation global centre".



WeWork  
arrives in Brazil

## TEMER SURVIVES

**SPECIAL  
REPORT**



Michel Temer  
President of Brazil



JBS headquarters  
São Paulo



Eduardo Cunha  
Former Lower House Speaker

The storm clouds of political uncertainty were back over Brazil in recent months and the market-friendly president, Michel Temer, was in its epicenter. This was brought about by Rodrigo Janot, Brazil's General Prosecutor, after he asked for Temer's indictment because of corruption charges. However, Temer managed to avoid this because he still has enough support in Congress, which blocked the prosecution from going ahead.

The turmoil resulted from evidence provided by Joesley and Wesley Batista, owners of the world's leading meatpacking company, JBS, as part of a plea bargain deal. The two brothers secretly taped a meeting with President Temer, where he allegedly authorized the businessmen to bribe former lower house Speaker, Eduardo Cunha, in order to maintain his silence. As a result of other evidence provided by the JBS owners, the police were also able to find a video showing a former aide of President Temer, Rodrigo Rocha Loures, running down a street carrying a suitcase, which allegedly contained BRL 500.000 in cash from bribes paid by JBS. According to the prosecution, this money was meant to pay Temer. Based on this evidence, Chief public prosecutor Rodrigo Janot pressed the initial charges of passive corruption against Temer, in June.

However, in order to prosecute a sitting president in Brazil, the charges need to be accepted by a majority of 2/3rds in the lower house of Congress. If that is the case, the President would be put on trial and would have to step down for 180 days.

The vote in Congress took place in August and concluded with 263 votes against the trial and 227 in favour, with the rest abstaining or absent. It was an important win for President Temer, since he only needed 172 votes to block the indictment. The win in Congress does not mean, however, that Temer will be free from these charges, but only that the process will be paused until the end of his term.

More recently, just days before ending his 4-year mandate on September 17<sup>th</sup>, Brazil's Attorney General, Rodrigo Janot, managed to press a second set of charges against Michel Temer. These new set of charges were already expected, when the first charges were made. The President now faces charges for obstruction of justice and criminal conspiracy. Six other members of his party (PMDB) were also charged, along with Joesley Batista, of JBS, and Ricardo Saud, executive of JBS's holding company, J&F.





Rodrigo Janot  
Brazil's former Attorney General



Wesley Batista  
Owner and former CEO of JBS



Joesley Batista  
Owner and former Chairman of JBS



Judge Sergio Moro  
Head of car-wash probe

As with the first set of charges, Congress now needs to vote on whether the prosecution should go ahead and the President be put on trial. For now, it seems likely that Temer will be able to win again and shelve the indictment, since Mr. Janot pressed these new charges in a weakened position, after the arrest of the Batista brothers, owners of JBS.

The Batistas, who had negotiated a plea bargain, in order to stay out of jail, were arrested in September for allegedly breaking the original deal. New recordings suggest that Wesley and Joesley withheld information from prosecutors and colluded with a member of Janot's team to negotiate the deal in exchange for information against the President. The claims damaged Mr. Janot credibility and therefore reinforced the perception that Temer would be in a better position to fight these new charges. According to Eurasia, quoted by the FT, the President is likely to beat the new indictment easily, which would give his government "some room to begin negotiating a pension reform proposal with a possible lower house vote" before the end of the year.

Since the vote on the first round of charges, the outlook for pension reform has been uncertain. The Government needs a 3/5th majority (308 votes) in the lower house in order to send the bill to the Senate. Before the JBS plea deal, they seemed to have enough votes, but the 263 votes that blocked Temer's indictment would come up short for approving the bill. The expectation is, however, that even if the original project is not completely approved, at least a lighter version including the minimum wage will be passed. Some analysts also believe that the better economic prospects currently reinforce Temer's position within Congress.

Pension reform has been one of this government's main goals. With the government currently spending 13% of GDP on pensions, reform is seen as inevitable, meaning that if not approved under Temer's administration, it will undoubtedly happen under a new government to be elected next year.

For the elections in 2018, a centre-right government seems to be a likely scenario, considering the Brazilian left-wing appears even more weakened, after seeing its better positioned candidate, former president Lula da Silva, be convicted by Judge Sergio Moro and sentenced to 9.5 years in prison for money laundering and passive corruption. The case is still subject to appeal, but according to analysts, Lula is very likely going to lose and therefore be unable to run, under Brazilian law, for any position in public office.

## PROLIFICO UPDATE

### PROLIFICO

Prolifico Group recently received investment from a strategic partner. It continues to form strategic joint ventures in alternative real estate sectors in Brazil.

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Moby Self Storage, Prolifico's majority-owned self storage operator, is about to open its first Sao Paulo property. Moby currently has 4 assets in Rio and 1 in Sao Paulo. Moby continues to expand its platform to take advantage of the low real estate and construction prices. It is currently in talks with a number of larger investors to scale out the platform more rapidly.

<http://mobystorage.com.br/>

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ZAK is currently analysing a pipeline of distressed assets in Sao Paulo and Rio, which are ready to be acquired and retrofitted into student housing facilities.

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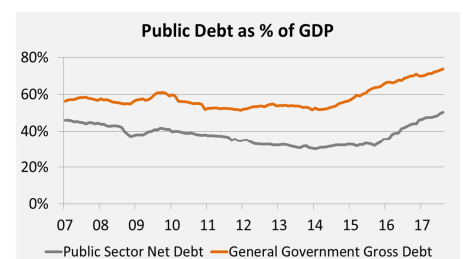
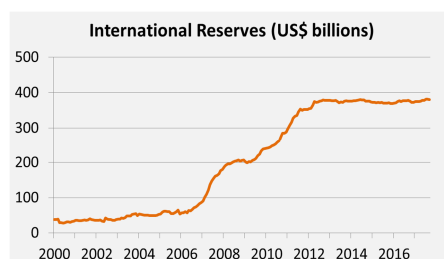
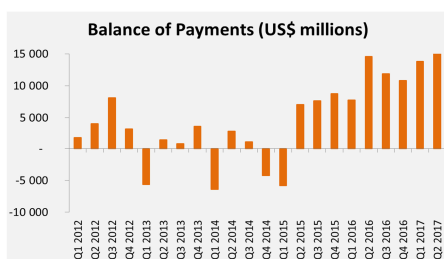
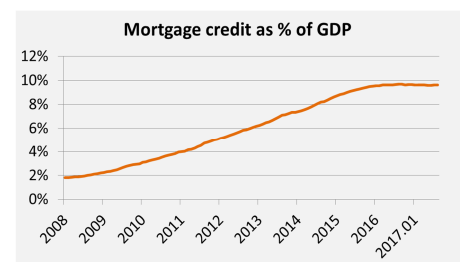
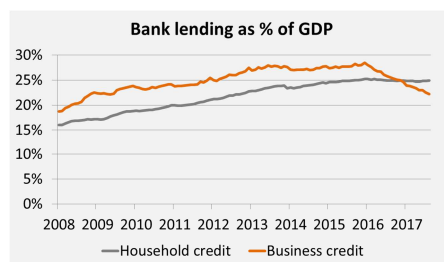
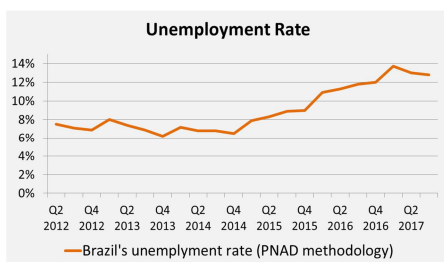
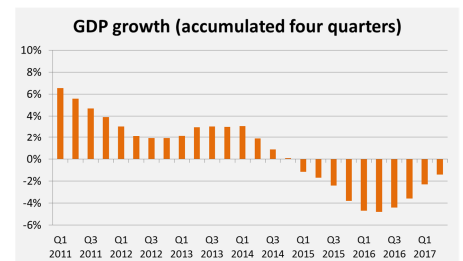
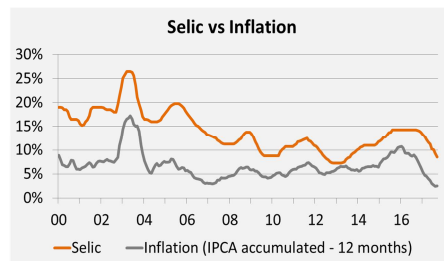
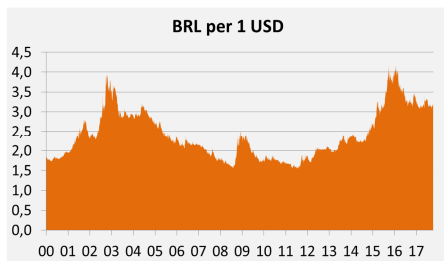
Prolifico has a term sheet with an experienced joint venture operating partner to roll out a platform of senior living assets across Sao Paulo and Rio de Janeiro and aims to close its first transaction in Q4 this year.



## KEY ECONOMIC DATA

GDP Q2 2017 (12 months)	-1.4%	US Dollar <sup>1</sup>	R\$ 3.17		2017 <sup>4</sup>	2018 <sup>4</sup>
Benchmark Interest Rate (Selic) <sup>1</sup>	8.25%	Dollar variation YTD <sup>3</sup>	-2.77%	GDP	+0.70%	+2.43%
Inflation - IPCA September'17 <sup>2</sup>	2.54%	British Pound <sup>1</sup> Euro <sup>1</sup>	R\$ 4.19 R\$ 3.74	Selic	7.00%	7.00%
IBOVESPA Year to Date <sup>1</sup>	+27.68%	Unemployment (PNAD) Q3 2017	12.8%	US Dollar	R\$ 3.16	R\$ 3.30
IBOVESPA October'17 <sup>1</sup>	+3.50%	International Reserves <sup>1</sup>	US\$ 381 billion	Inflation	2.98%	4.02%

1. as of October 10<sup>th</sup> 2017
2. twelve month period
3. variation of the price of 1 USD in BRL terms (as of October 10<sup>th</sup> 2017)
4. projections for year-end, as of October 6<sup>th</sup> 2017, according to the focus bulletin of the Central Bank (median of market expectations)



Source: Brazilian Central Bank, IBGE, IPEA, Google Finance and Portal Brasil. (Data as of October 10<sup>th</sup> 2017 or the most recent available)

*Prolifico is an alternative real estate & private equity investment management firm in Brazil. The company invests in high yielding real estate backed business models that are resilient in all macroeconomic scenarios, such as self storage, student housing, senior living and data centres. <http://www.prolifico.com.br/>*

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