RESEARCH

# LATIN AMERICA
## 2Q16 INDUSTRIAL MARKET

Newmark Grubb Knight Frank

# LATIN AMERICA INDUSTRIAL MARKET KEEPS GROWING

With a population of more than 600 million inhabitants, equivalent to 9% of the world's population, Latin America has seen its industrial inventory grow considerably over the last decade to more than 569.6 million square feet of Class A space

**Buenos Aires, Argentina**

Since 2002, the industrial market in Argentina has seen sustained growth, mainly driven by the metallic and automotive sectors. In Buenos Aires, the road infrastructure offers the area excellent connectivity that has boosted the development of industrial parks within the region. Consequently, the industrial inventory in the Buenos Aires metropolitan area consists of 20.1 million square feet of Class A space with an average asking rate that currently stands at $7.58/SF. The vacancy rate is approximately 8.6%.

**Rio de Janeiro, Brazil**

Rio de Janeiro is the second most industrialized state in Brazil and has the largest rail grid in the country. Its current Class A industrial inventory stands at 14.2 million square feet. However, Rio has a 23.4% vacancy rate, the second highest in Latin America after Sao Paolo's, with average asking rent currently at $7.01/SF.

**Sao Paulo, Brazil**

Sao Paulo is Brazil's main market. Its inventory is among the largest on the continent with 91.9 million square feet of Class A space.

Brazil has traditionally commanded high asking rates in both the office and industrial markets. In Sao Paolo, industrial asking rates stand at $6.24/SF, with prime space available at rates of up to $11.86/SF. On the down side, Sao Paulo's vacancy rate is roughly 27%, the highest in Latin America.

**Santiago, Chile**

One of the region's most politically stable countries, Chile has had the highest nominal GDP in Latin America since 2006. Its industrial market has grown since 2010 into nearly 12.6 million square feet of Class A space with $5.01/SF average asking rate and a 13.7% vacancy rate.

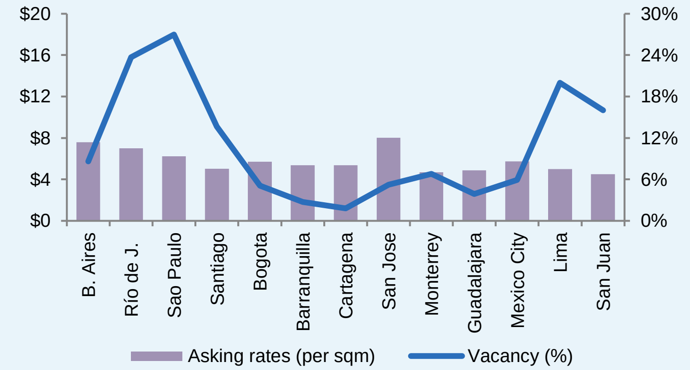
**Bogota, Colombia**

Amid the global economic downturn, Colombia has outperformed other Latin American countries. The industrial market in Bogota posted inventory levels of 48.4 million square feet at average yearly asking rates of $5.69/SF. The vacancy rate stands at 13.6%. The inventories of Barranquilla and Cartagena, the other two major industrial markets in Colombia, consist of 26.9 million square feet and 19.3 million square feet, respectively.

### Latin America Overview

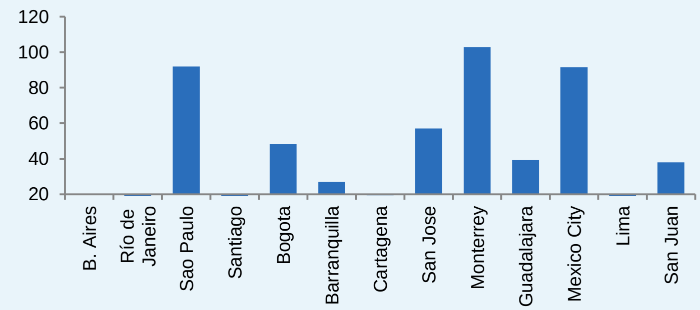
- 9% of the World's population
- GDP: $5.7 billion
- 569.6 million square feet of Class A space
- Leads the world in food production
- Inventory is expected to increase considerably over the next few years

### Asking Rate vs. Vacancy Rate




### Inventory per City

Square feet (millions)




### Market Summary

| | Current Quarter | Prior Quarter | Year Ago Period | 12 Month Forecast |
|---|---|---|---|---|
| Total Inventory | 569.6 M | - | - | ←→ |
| Vacancy Rate | 59.1 M | - | - | ↑ |
| Quarterly Net Absorption | 10.4% | - | - | ←→ |
| Average Asking Rent | $5.77 | - | - | ←→ |
| Under Construction | - | - | - | ↑ |
| Deliveries | - | - | - | ↑ |

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### San José, Costa Rica
Over the last couple of quarters, the industrial market in the San Jose metropolitan area has seen increased demand for built-to-suit (BTS) spaces for logistics and distribution purposes. As a result, total industrial inventory now exceeds 57.0 million square feet, of which 5.2% remains available at asking rates of $8.03/SF.

### Monterrey, Mexico
Monterrey is the largest industrial hub in both Mexico and the Latin America region. Its development has been closely associated with its proximity to the United States and the strong presence of manufacturing plants in the city. Its inventory currently stands at 102.9 million square feet. Solid absorption has also driven vacancy rates down to 6.8%. Asking rent for Class A space averages $4.68/SF.

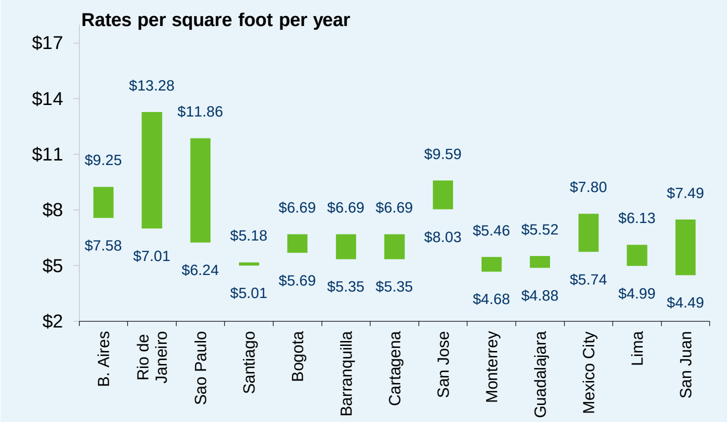
### Mexico City, Mexico
Mexico City's industrial inventory has grown over the past two years at a rate that is second only to Monterrey's has consolidated as a major logistics and distribution hub with 91.5 million square feet of Class A space. Although construction activity remains robust, absorption has outpaced new deliveries, and the vacancy rate currently stands at 5.9%. Asking rent in this market averages $5.74/SF.

### Guadalajara, Mexico
The industrial market in Guadalajara is adjusting to a number of companies in the IT, home appliance and food and beverages sectors, that have invested in new spaces. The current inventory of 39.2 million square feet is expected to grow over the next years, especially if the low vacancy rate of 3.9% continues. Asking rent averages $4.88/SF.

### Lima, Peru
Although Peru's economy remained solid in the first quarter of 2016, growth lost some steam in this quarter. The industrial market in Lima is catching up with its Latin American neighbors in terms of inventory (7.3 million square feet), with robust construction underway. This market has remained competitive with average asking rent of $4.99 USD per square foot per year, one of the lowest in the region due to high vacancy of 20%.

### San Juan, Puerto Rico
Puerto Rico has been one of the most dynamic economies in the Caribbean region in recent years. Industry has surpassed agriculture as the main economic activity. The inventory in San Juan is nearly 38.0 million square feet, with asking rates averaging $4.49/SF. The region's vacancy rate remains high, however, at 16%.

### Asking Rates Range per Submarket




### Market Summary

| City | Total Inventory (SF) | Under Construction (SF) | Total Vacancy Rate | Qtr Absorption (SF) | YTD Absorption (SF) | Total Asking Rent (Rate/SF) |
|---|---|---|---|---|---|---|
| Buenos Aires | 20,106,965 | | 8.6% | - | - | $7.58 |
| Rio de Janeiro | 14,199,532 | | 23.4% | - | - | $7.01 |
| Sao Paulo | 91,944,782 | | 26.6% | - | - | $6.24 |
| Santiago | 12,617,917 | | 13.7% | - | - | $5.01 |
| Bogota | 48,437,550 | | 5.1% | - | - | $5.69 |
| Barranquilla | 26,909,750 | | 2.7% | | | $5.35 |
| Cartagena | 19,375,020 | | 1.8% | | | $5.35 |
| San Jose | 57,029,230 | | 5.2% | - | - | $8.03 |
| Monterrey | 102,905,037 | | 6.8% | - | - | $4.68 |
| Guadalajara | 39,296,846 | | 3.9% | - | - | $4.88 |
| Mexico City | 91,522,783 | | 5.9% | | | $5.74 |
| Lima | 7,319,452 | | 20.0% | - | - | $4.99 |
| San Juan | 37,999,963 | | 16.0% | - | - | $4.49 |
| **Latin America** | **569,664,828** | | **10.7%** | - | - | **$5.77** |

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## ECONOMIC CONDITIONS

Latin America's economic downturn, which began in the second half of 2015, has continued into 2016. Although the sustained recovery in commodities prices has allowed Latin American currencies to stabilize, exchange rate volatility has increased, over the past year and a half. Moreover, the regional GDP growth projection was cut by 0.1 percentage points in the LatinFocus Consensus.

Analyses by the International Monetary Fund have not only marked down economic growth in the region, but anticipate Latin America's economy will contract by 0.5%, making 2015 and 2016 the first two consecutive years of negative performance since 1982. "This rate, however, masks the fact that many countries continue to grow"*, whereas a small number of countries face recession—some as a result of domestic factors.

The region remains vulnerable to the economic slowdown in China—the destination of 15 to 25% of exports from Brazil, Chile, Peru, Uruguay and Venezuela—and to a decline in commodities prices. Additionally, growth in Latin America is expected to remain below historical trends in the near future due to factors such as lack of infrastructure networks, shortcomings in quality education and low export diversity.

The IMF expects the region to recover slightly in 2017. However, the recession in Brazil, where growth is contracting by 3.8%, is expected to continue, while Chile will face a slowdown of its economic growth to 1.5%. In contrast, the growth outlook for Mexico and Central America remains robust, as a result of the continued recovery in the United States. Mexico's economy is expected to grow by a moderate 2.4%, although low oil prices and rising inflation may hinder development in the country.

On a positive note, according to Angel Melguizo, head of OECD for Latin America, the region can look forward to more flexible financial conditions, greater access to foreign capital and an end to the decline in prices for natural resources. This will allow for greater flexibility in monetary policy and growth recovery.

**Sources**: FocusEconomics, El Economista and the International Monetary Fund

Class A + Industrial Park, Mexico City

### Population and GDP

| Country | City | Country population | City population | GDP per capita |
|---|---|---|---|---|
| Argentina | Buenos Aires | 43,835,942 | 15,000,000 | 17.6 |
| Brazil | Rio de Janeiro | 209,643,134 | 6,320,000 | 11.7 |
| Brazil | Sao Paulo | 209,643,134 | 11,320,000 | 11.7 |
| Chile | Santiago | 18,126,540 | 6,600,000 | 20.5 |
| Colombia | Bogota | 48,747,632 | 9,400,000 | 3.0 |
| Costa Rica | San Jose | 4,859,169 | 13,730,000 | 11.2 |
| Mexico | Monterrey | 128,658,621 | 4,900,000 | 19.9 |
| Mexico | Guadalajara | 128,658,621 | 4,434,878 | 15.1 |
| Mexico | Mexico City | 128,658,621 | 20,116,842 | 16.1 |
| Peru | Lima | 31,760,131 | 9,600,000 | 9.7 |
| Puerto Rico | San Juan | 3,620,897 | 493,250 | 28.5 |
| Dominican Republic | Santo Domingo | 10,596,532 | 2,908,607 | 5.8 |
| **Total** | | **966,808,974** | **104,823,577** | **14.2** |

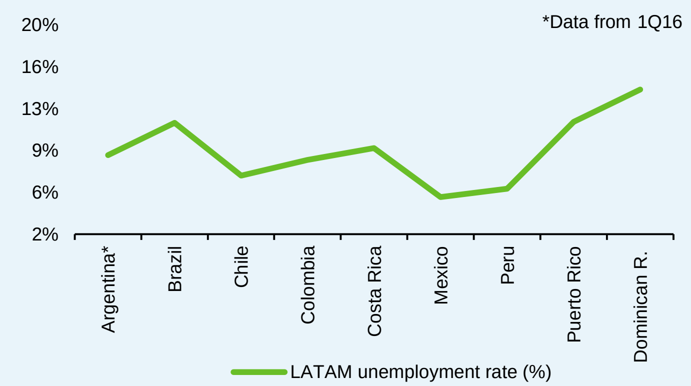
Sources:
Argentina: Clarin; --Brazil: Investing.com, GE; Chile: Chilean Statistics Institute; Colombia: DANE; Costa Rica: La República; Mexico: INEGI; Peru: INEI; Puerto Rico: Bureau of Labor and Statistics; Dominican Republic: Trading Economics

### Exchange Rate vs. U.S. Dollar

| Country | Exchange rate (June 2016 average) |
|---|---|
| Argentina | $15.03 |
| Brazil (Real) | $3.21 |
| Chile | 662.00 |
| Colombia | $2,920.15 |
| Costa Rica | $546.67 |
| Mexico | 18.28 |
| Peru (Sol) | $3.28 |
| Puerto Rico | $1.00 |
| Dominican Republic | $46.13 |

Source: Investing.com

### Latin America Unemployment Rate




Sources: Argentina--Clarin; Brazil--Investing.com; GE; Chile--Chilean Statistics Institute; Colombia-DANE; Costa Rica--La República; Mexico--INEGI; Peru--INEI; Puerto Rico--Bureau of Labor and Statistics; Dominican Republic--Trading Economics

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**Latin American Locations**

**Newmark Grubb Knight Frank has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents.**

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