



BUENOS AIRES 4Q17 OFFICE MARKET

EFFICIENCY IN REAL ESTATE INVESTMENTS

The Office Market

Buenos Aires is the largest office market in Argentina, with nearly 20.2 million square feet of total stock, including 13.7 million square feet of rentable Class A space.

The low vacancy trend continued through the fourth quarter of 2017, although net absorption turned positive again after a negative third quarter. The vacancy rate decreased from the previous quarter, closing at 6.2%.

Regarding vacancy and the new Class A office stock, note the incorporation of the Banco Macro tower in the Catalinas-Retiro submarket, with a total of 376,737 square feet. The tower was 100% engaged at the time of the incorporation, as it is occupied by the Macro Bank.

Vacancies from the previous quarter were also filled. In the South submarket, 29,231 square feet was occupied in the Chile and Paseo Colon building, leaving 81,095 square feet available. By contrast, the vacancy rates of the other submarkets indicated only small transactions on isolated floors.

The average asking rent increased from the previous quarter, reaching \$30.53/SF.

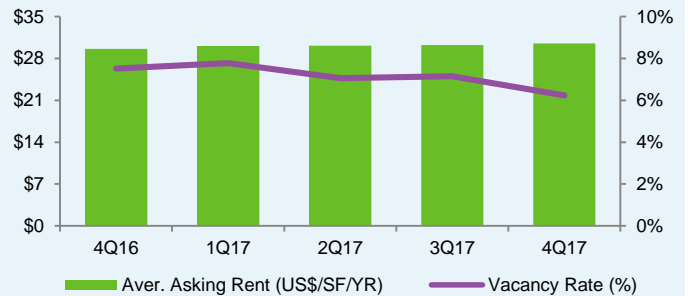
Class A leasing activity reached its highest level of the year in the fourth quarter of 2017, mostly because of the reactivation produced after the October mid-term elections, which resulted in the positive net absorption of 496,883 square feet.

Current Conditions

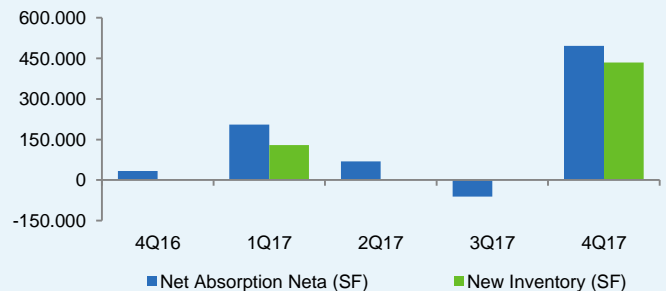
- The weighted average asking price raised slightly compared to the prior quarter, averaging \$30.53/SF.
- Recent closures of new contracts and renewals exceeded the weighted average asking price, marking an upward trend for the fourth quarter of 2017.
- Class A vacancy dropped to 6.23%, one of the lowest in Latin America.

Market Analysis

Asking Rent vs. Vacancy



Net Absorption



Source: Newmark Grubb BACRE

Argentina

Capital City	Buenos Aires
Population (2014)	44,044,800
GDP MM (2017)	USD 719,8
GDP per capita (2016)	USD 16,343
Currency	Peso
Unemployment Rate	8.3%



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	Forecast
Total Inventory (SF)	20,2MM	19,5MM	19,4MM	↑
Vacancy (%)	6.23%	7.15%	7.51%	→
Net Absorption (SF)	496,833	-60,818	-224,275	→
Average Asking Rent	\$30.53	\$30.23	\$27.51	→
Under Construction (SF)	3,958,020	5,053,075	4,207,264	→

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Rent Values by Submarket

There are specific areas within each submarket that stand out from the rest. For example, the blocks located in Catalinas between Avenida Leandro N. Alem and Avenida Madero have average asking rents as high as \$44.59/SF, compared with \$33.06/SF for the rest of the submarket.

Likewise, in Northern Buenos Aires, the most popular and most expensive buildings are located around the intersection of Avenida General Paz and Autopista Ingeniero Pascual Palazzo. Although the average value of the submarket is \$29.26/SF, there are properties of \$33.44/SF.

Lastly, the Panamericana Corridor has areas that are in high demand because of the submarket's geographical distribution and extension. The offices most in demand are located in the Panamerican Bureau, Thames Office Parc, Urbana, Optima Business Park, Bureau Parc San Isidro and Edision Officia complexes. Asking rents are highest in Edision Officia, where they average \$28.98/SF, compared with \$26.44/SF for the rest of the submarkets.

Inventory Change

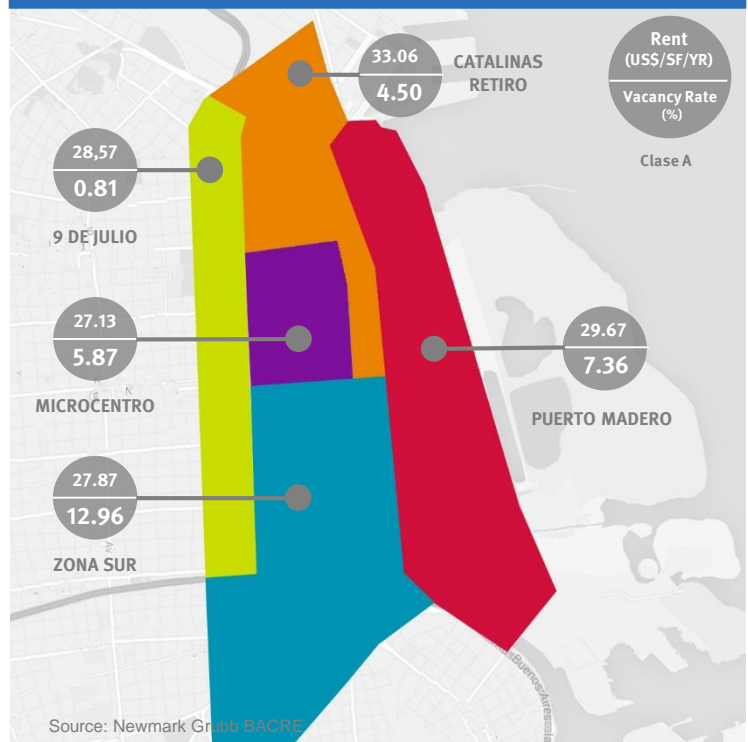
New space incorporated during the fourth quarter included the Banco Macro tower in the Catalinas-Retiro submarket. The tower, which totals 567,258 square feet, added 376,737 leasable square feet to the inventory. This new addition is 100% occupied by Banco Macro, however, so although the stock was modified significantly, vacancy did not increase.

With the new addition, positive net absorption totaled 496,883 square feet for the fourth quarter and 709,161 square feet for the year.

Class A inventory is expected to increase in the first quarter of 2018 with the addition of the World Trade Center III building, totaling 41,172 square feet in the Puerto Madero submarket, and the Dot Zetta and Coca Cola buildings, totaling 312,153 and 69,965 square feet, respectively, in the North submarket.

In the northern area of the city, the Panamericana submarket will incorporate the Olivos Office Center building, with 129,167 square feet, and Nodus II, with 86,111 square feet. The Libertador submarket will add the Mill Offices building to its stock, with 129,167 leasable square feet but with no available surface at the time.

CABA Submarkets: Asking Rent - Vacancy Rate



Northern Area Submarkets: Asking Rent - Vacancy Rate





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Investment administration and management

The strategy of investment and management of real estate portfolios is a fundamental service for different actors. Among these, two large groups stand out: companies that want to maximize their spaces by reducing operating costs, and investors that seek to maximize their incomes and the overall performance of their real estate portfolios.

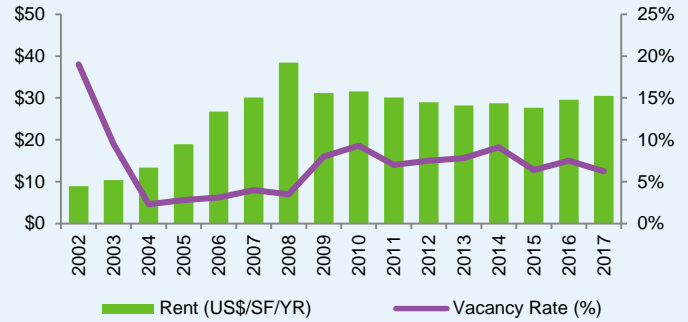
At certain companies, quantitative improvements are achieved that optimize the efficiency of their spaces with reductions of up to approximately 35.0% of occupancy. This translates into lower occupancy and maintenance costs and a number of qualitative improvements, including a company business strategy aligned with the new needs of real estate assets, more productive workspaces and better recruitment.

To make these improvements, a company must first determine a convenient location for its properties. The company must then configure its operations and manage the properties in order to reduce occupancy costs, attract and retain a qualified work force, provide optimal access to customers and suppliers, and achieve maximum efficiency in its business.

This requires a company to determine the market value of its properties and then, based on this analysis, develop a strategy for purchasing, selling or leasing a property.

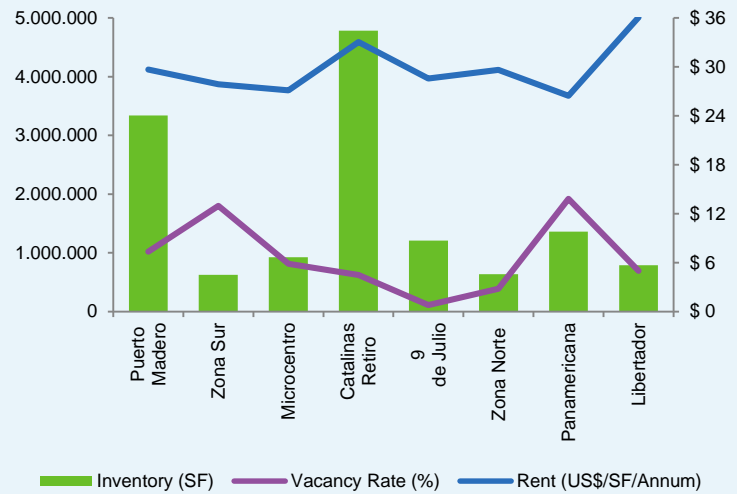
Other challenges arise when one company acquires another. When faced with a large number of properties and a need to readjust the portfolio, the acquiring company must determine which properties to retain and which ones to dispose of.

Average Asking Rent vs. Vacancy Rate (Class A)



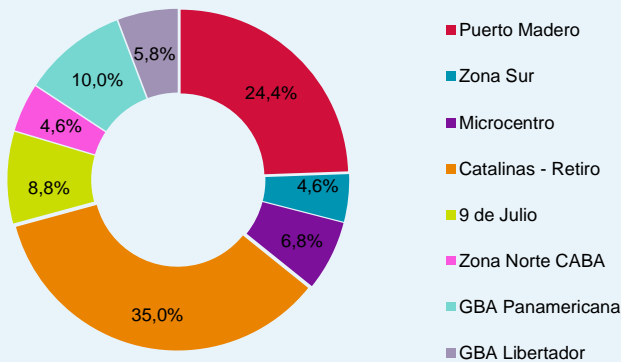
Source: Newmark Grubb BACRE

Inventory - Average Asking Rent - Vacancy By Submarket



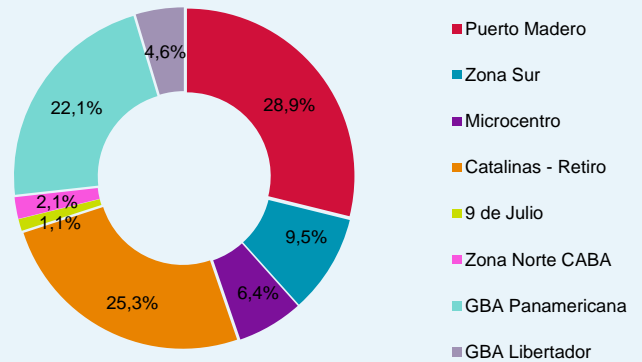
Source: Newmark Grubb BACRE

Inventory Composition



Source: Newmark Grubb BACRE

Vacancy Composition



Source: Newmark Grubb BACRE



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In this case, it is necessary to determine the highest and best use of each property and whether it is possible to increase its productivity, maximizing its value. Such has been the case with some of the city's industrial plants, which have been converted into office spaces.

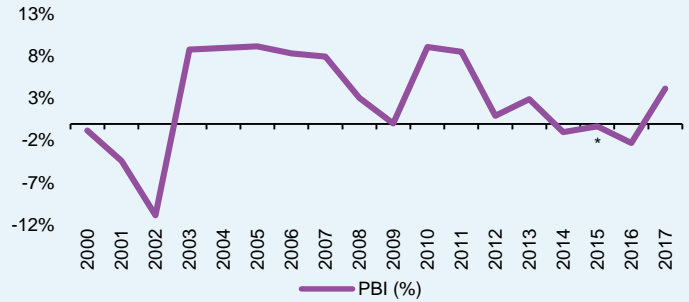
Companies in the middle of an acquisition usually have offices located in different buildings. Those offices either have soft deficiencies, such as disseminated work teams, or hard deficiencies, such as duplicate basic services in different locations. The latter increase the use of space, not to mention operating and maintenance costs. Different alternatives are considered for the relocation and consolidation of workspaces with the aim of improving efficiency and reducing occupancy costs by as much as 35.0%.

Then there are private investors, private investment funds and, absent today in Argentina but no less important, institutional investors, such as pension funds. Portfolio management helps the client maximize the performance and value of their real estate assets as a whole, including offices, retail and multi-family businesses.

The objectives of investors are concrete: increase returns; reduce vacancies; diversify assets; assess values; evaluate possible changes in use; adapt buildings to new technologies; obtain LEED certifications; draw up an adequate management and general maintenance plan of the assets; and detect opportunities in new developments.

To meet these objectives, assets, rents, vacancies and uses of rents are examined. Assets that will no longer increase in value are put on sale, while assets that will increase in value are purchased. Investors may also buy Class B buildings with good locations, adapt them to new technologies, transform them into LEED buildings and convert them to improve profits.

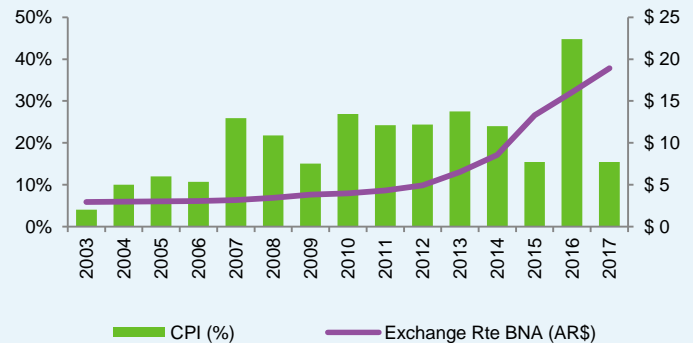
GDP



Source: World Bank

* GSP 2015 = 1,00, Cepal

Argentina's Exchange Rate - CPI



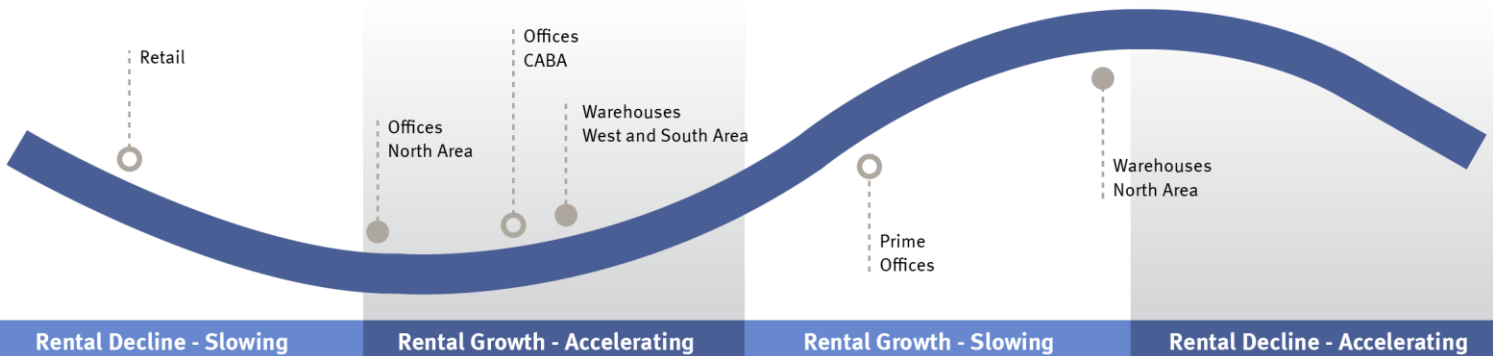
Source: Banco de la Nación Argentina, INDEC

1999-2007 INDEC Source

2008-2014

Calculated through the price for the consumer geometrical average calculated by statistical institutes

Real Estate Cycle – Office Market | Industrial Market | Retail





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Submarket Statistics

By Submarket

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (US\$/SF/YR)	Sublet Asking Rent (US\$/SF/YR)	Total Asking Rent (US\$/SF/YR)
CABA								
Puerto Madero	3,339,780	157,422	7.36%	13,444	46,285	\$29.67	N/A	\$29.67
South Area	625,802	580,766	12.96%	29,321	29,320	\$27.87	N/A	\$27.87
Microcentro	924,221	690,639	5.87%	0	85,928	\$27.13	N/A	\$27.13
Catalinas-Retiro	4,784,555	379,966	4.50%	416,143	441,341	\$33.06	N/A	\$33.06
9 de Julio	1,207,301	0	0.81%	0	42,962	\$28.57	N/A	\$28.57
Midtown	634,069	1,030,353	2.81%	0	0	\$29.26	N/A	\$29.26
GBA								
Panamericana Corridor	1,362,419	530,865	13.83%	0	9,752	\$26.44	N/A	\$26.44
Libertador Corridor	789,920	588,010	5.00%	37,975	53,572	\$36.05	N/A	\$36.05

By Class

Class A	13,668,065	5,053,075	6.23%	496,883	709,161	\$30.23	N/A	\$30.53
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Principal Buildings Under Construction – Class A						
	Project	Submarket	Total Area (SF)	Rentable Area (SF)	Date	Leed
	WTC III	Puerto Madero	82,343	41,171	3Q 2017	
	Nodus II	Corredor Panamericana	SD	131,427	1Q 2018	
	Mil Offices	Corredor Libertador	441,319	376,736	1Q 2018	
	Olivos Office Center	Corredor Panamericana	238,528	129,382	1Q 2018	
	Al Río Torre Norte	Corredor Libertador	435,894	342,876	2018	
	Torre IRSA	Catalinas – Retiro	597,880	376,736	2019	
	Centro Empresarial Libertador	Zona Norte	701,213	646,243	2019	
	Blas Parera 31	Corredor Panamericana	252,177	129,102	2019	

** Las imágenes son de caracter ilustrativo.
*Las superficies de los proyectos son aproximadas



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Glossary of Terms

Absorption

A measure of the change in occupied space

Availability

Space marketed for lease regardless of when the space will be available or whether the space is vacant or occupied

Deliveries

The total RBA of properties added to the inventory once construction has been completed

Direct Space

Available space offered for lease by the building owner, landlord, or owner representative

Leasing Activity

The volume of leases signed including new leases, direct and sublet leases, extensions and renewals, and leases signed in proposed or under construction buildings

Occupancy

Any space physically occupied by a tenant, regardless of lease status of the space

Rentable Building Area (RBA)

A measurement of the total square feet in a building including the tenant and common areas such as the lobby and hallways

Sublet Space

Available space offered for lease by a building tenant seeking a subtenant to fulfill the remaining lease obligation

Under Construction

Buildings under construction are defined by the time the foundation is poured through the time the building is certified for occupancy

Vacancy

Space not physically occupied by a tenant, regardless of the lease status or availability of space

Weighted Average Rent

The asking dollar amount for the use of available space, weighted by size--the average does not include negotiable or unpublished rates and is reported as full service including operating costs

Office inventory includes all multi-tenant and single tenant buildings at least 20,000 square feet in total rentable building area. Owner occupied buildings are not included in the inventory.

Newmark 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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