

LATIN AMERICA 3Q17 OFFICE MARKET

QUARTERLY ABSORPTION GOING DOWN WHILE MEXICO CITY GROWS IMPRESSIVELY

This year, political conjuncture marked the real estate market regional agenda. The absorption of the office market maintains its negative trend dropping from 3.1M square feet last quarter to 817,800 square feet in the current period. Stands out Mexico City's dynamism, whose inventory raised 2.88M square feet, higher than the combined amount of new space in the rest of the cities.

Buenos Aires, Argentina

This was a quarter with no variation in Buenos Aires' inventory or construction. However, vacancy has increased in 60,800 square feet and the rate raised from 6.4% to 7.2%. With the negative absorption this quarter, the year-to-date absorption dropped to 212,200 square feet. Nonetheless, the asking rent was stable and stood at \$30.23/SF.

Rio de Janeiro, Brazil

Rio de Janeiro's office market inventory was increased in 412,800 square feet and stood at 24.2M square feet. Construction activity lost 323,000 square feet and the quarterly absorption dropped 44,600 square feet compared with the last quarter. This scenario proves the slow down of the market. Draws attention the \$0.44 increase of the asking rent which reached \$25.92/SF.

Sao Paulo, Brazil

Brazil's financial center has the second highest inventory growth of the region and surpassed 43.8M square feet. Construction of new office space is on a positive trend and the vacancy rate stood stable at 20.1%. The quarterly absorption was nearly 40% lower than the prior quarter but Sao Paulo leads the region's year-to-date absorption at 2.8M square feet. The average asking rent grew slightly and stood at \$31.80/SF.

Santiago, Chile

Santiago's office inventory showed a moderate growth and reached 23.2M square feet. This quarter, 360,800 square feet new office space was delivered and nearly the same amount was reduced from the construction activity. Vacancy rate and absorption maintained the same amounts as the prior quarter. Although the stability of the market, asking rent raised in 8% and reached \$24.84/SF.

Condiciones Actuales

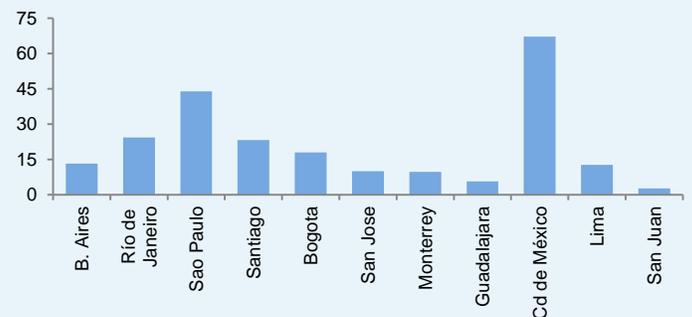
- The total inventory in the region was increased by 2.5% and reached 230.2M square feet.
- Construction activity maintains its positive trend.
- The vacancy rate continues stable.

Precios Promedio de Renta vs. Disponibilidad



Inventario

Square feet, Millions



Resumen de Mercado

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory (SF)	230.2M	224.7M	-	↑
Vacancy Rate	16.4%	16.1%	-	↔
Quarterly Net Abs. (SF)	817,842	288,192	-	↓
Avg. Asking Rent	\$25.92	\$25.47	-	↑
Under Construction (SF)	39.1M	38.0M	-	↔
Deliveries (SF)	5.5 M	-	-	↓

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Bogota, Colombia¹

The absorption of office space in Bogota decreased in the first quarter to 190,200 square feet. The office market in this city posted 17.9 million square feet of inventory at average asking rate of \$24.21/SF. The vacancy rate dropped slightly to 8.8%.

San Jose, Costa Rica

San Jose's inventory grew moderately and reached 10M square feet. The construction activity of new office space maintains its positive trend. Both the vacancy rate (8.8%) and the asking rent (\$24.18/SF) stay and the same levels as the prior quarter.

Monterrey, Mexico

The northern city of Monterrey experienced a growth of 5.6% of its inventory this quarter and reached 9.7M square feet. Although construction activity dropped to 2.1M square feet, there are a large number of projects on the underway. Despite the increased quarter absorption, the delivery of new office space pushed the vacancy rate to surpass 21.2% and a slight increase on the asking rent at \$24.84/SF.

Guadalajara, Mexico

The city showed signs of stability in the current quarter. Apart from the unchanged inventory, the rest of indicators performed in the positive route. Construction activity raised in 1.1M square feet and reached 2.7M square feet. The vacancy rate dropped 3.6% and stood at 11.4% while the absorption raised to 626,100 square feet.

Mexico City, Mexico

Despite the dynamism shown by the Mexican office market in the past couple of years, the total vacancy has reached high levels. Top notch building construction allows a large number of companies to renew their facilities and, as a consequence, pushed real estate developers to keep investing all over the city.

However, most of the buildings entered the market during the 2015 – 2017 period, which made the vacancy rate raise from 9.9% to 16.3% this quarter, the highest in the last two years. The inventory, in the same period of time, grew 10 M square feet.

Lima, Peru

The inventory in the capital of Peru reached 12.6 M square feet due to the delivery of 258,300 new office space. No new construction project has started this quarter and the vacancy rate stood at the same level stood at 28.2%, the same as the second quarter. The asking rent suffered a noticeable drop of 2.1% and closed at \$18.62/SF.

San Juan, Puerto Rico²

San Juan's current office inventory remains unchanged at 2.7M square feet and is not expected to increase in the short term, as there are no new projects announced. Asking rates fell to \$19.00/SF. The city's absorption recorded 37,800 square feet in the second quarter.

Market Summary

City	Total Inventory (SF)	Under Construction (SF)	Total Vacancy (SF)	Total Vacancy Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Total Asking Rent (Price/SF)
Buenos Aires	13,233,549	5,053,085	914,287	7.2%	-60,816	212,275	\$30.23
Río de Janeiro	24,235,427	710,418	8,719,381	36.0%	-1,604	-296,879	\$35.60
Sao Paulo	43,813,419	2,662,227	8,806,945	20.1%	477,121	2,809,284	\$31.80
Santiago	23,257,021	1,631,023	1,362,108	5.9%	368,470	1,111,944	\$24.84
Bogotá ¹	17,953,001	1,442,364	1,579,066	8.8%	190,198	190,198	\$24.21
San José	10,016,701	938,861	954,899	9.5%	113,645	482,632	\$24.18
Monterrey	9,684,817	2,118,348	2,048,404	21.2%	163,321	529,057	\$24.84
Guadalajara	5,597,233	2,728,328	638,590	11.4%	200,994	626,169	\$23.30
Cd de México	67,063,056	20,904,030	10,943,226	16.3%	-849,423	1,259,011	\$28.50
Lima	12,656,109	933,048	3,569,022	28.2%	178,143	495,786	\$18.62
San Juan ²	2,700,000	-	382,000	15.7%	37,792	-5,264	\$19.00
Latin America	230,210,348	39,121,732	39,917,928	16.4%	817,842	7,414,213	\$25.92

¹ First quarter data. ² Current quarter information unavailable due the recent natural disasters..

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ECONOMIC CONDITIONS

Latin-American countries show good progress during the last quarter. Sadly, some countries in the region were stroke by natural disasters that will slow their short-term economic growth. However, an adequate management during the reconstruction process may open new windows of opportunity.

Argentina

The Argentinian economy shows signs of reactivation, mainly driven by construction, agricultural and consumer sectors. The latter was benefit by the growth of local services, such as transport and communications, and imported goods and services, such as cars, pharmaceutical products and tourism. In consequence, the GDP reported a growth of 2.7% in the last quarter in comparison with the same period last year. In addition, public investments and GDP growth are in a positive trend for the third consecutive quarter. With this, the project growth of the GDP for 2018 stands at 3.5%.

Brazil

Brazil's economy maintains its positive trend after two years with negative numbers. After the last report of the Banco Central, the growth projection was raised from 0.5% to 0.7%. Although the construction market keeps going down, other markets have shown positive numbers such as agriculture (12.1%) and mining (4.2%). The economy shows a gradual recovery despite the low levels of usage of the industrial capacity and an unemployment rate of 13%. For next year, there is an optimistic projection for the growth of the GDP (2.2%), exports (4%) and imports (6%).

Chile

After reaching its lowest level on the first quarter, Chilean economy shows moderate signs of recovery. The projection for the growth of the GDP in the current year is 1.3%. The construction market is still falling but private and public consumption show a growth of 2% and 3% respectively. Furthermore, inflation stands stable, under 2%. For the next year, growth will be determined by the presidential elections in November in which, if the candidate preferred by the corporate sector wins, the growth is projected in 2.4%.

Colombia

The Colombian economy has grown 1.6% in the last quarter, maintaining the positive trend throughout the year and with the expectation of a better scenario for the next years until it reaches 3% in 2019. Although, the growth in the telecommunications market during the past months, the recently signed peace agreement lay the foundations for important improvements for tourism, foreign investments and the reactivation of the oil market.

Latin America's Population and GDP

Country	Population (millions)	GDP per capita	City	Population (millions)
Argentina	44.08	14.3	Buenos Aires	15.33
Brazil	207.68	10.3	Rio de Janeiro	12.98
			Sao Paulo	21.29
Chile	18.39	13.7	Santiago	6.54
Colombia	49.29	6.2	Bogota	9.97
Costa Rica	4.97	12.0	San Jose	1.18
			Monterrey	4.59
Mexico	123.52	8.0	Guadalajara	4.92
			Mexico City	21.15
Peru	31.83	6.5	Lima	10.07
Puerto Rico	3.36	29.7	San Juan	2.46
Total	483.12			110.48

Source: International Monetary Fund, United Nations

Exchange Rate vs U.S. Dollar

Country	4Q16	1Q17	2Q17	3Q17
Argentina (ARS)	\$15.75	\$15.80	\$16.15	\$17.41
Brasil (BRL)	\$3.35	\$3.26	\$3.31	\$3.14
Chile (CLP)	\$672.69	\$674.97	\$665.23	\$633.11
Colombia (COP)	\$3,061	\$2,907	\$2,996	\$2,957
Costa Rica (CRC)	\$547.38	\$549.29	\$571.44	\$576.44
México (MXN)	\$19.82	\$19.30	\$18.30	\$17.86
Perú (PEN)	\$3.39	\$3.28	\$3.26	\$3.24
Puerto Rico (USD)	\$1.00	\$1.00	\$1.00	\$1.00

Source: Investing.com

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ECONOMIC CONDITIONS

Costa Rica

Economy projection for the Costa Rica economy is still adjusting downwards, with an estimate of 3.8% growth for the GDP by the end of the year. The fiscal deficit has become a constant threat because it stands at 3.2% of the total GDP and raises an imminent tax increase. On the positive note, the depreciation of the colon has encouraged exporters and the proximity of national elections will push public investment, leading the construction market growth.

Mexico

In September, a strong earthquake affected the states of the center and south of the country. In Mexico City, in spite of the intensity of the disaster, only 0.1% of the real estate inventory –estimated in 2 million of buildings- was affected. Although people in the city are back to their normal activities, the earthquake could promote a negative impact over the economy.

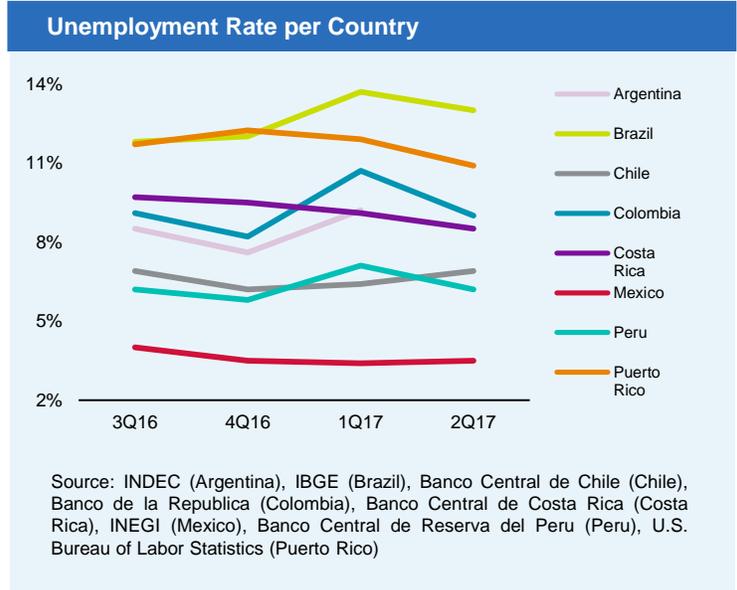
During August, the renegotiation of the North American Free Trade Agreement (NAFTA) started. United States, Canada and Mexico have settled their postures in meetings between the three countries. The close trade relations could be favored or affected according with the final results of the renegotiations.

Peru

The mineral prices and important public investments reassure a sharp increase of the Peruvian economy as of the third quarter. So far, the north region of the country drags the economy fall caused by El Niño phenomenon but the infrastructure projects may revert the low public investment in the past 4 years with the recovery of nearly 15% of the executed budget. This, along side a boost in business confidence and the exchange rate stability, will help to improve the growth of the GDP for this year of 2.4% and around 3.9% for 2018.

Puerto Rico

After the strike of hurricane Maria, damages are calculated over 30 billion dollars. Puerto Rico's ailing economy declared bankruptcy in May to seek help in the payment of its debt and the compliance of its financial obligations. Sadly, natural disasters have dramatically affected the electricity supply, which affects the tourism market, its main source of income.





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Latin America Locations

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