



BUENOS AIRES 2Q18 OFFICE MARKET

THE CHALLENGE OF NEW INCORPORATIONS

The Office Market

Buenos Aires is the largest office market in Argentina, with nearly 21.5 million square feet of total stock, including 14.7 million square feet of rentable Class A space.

The market's low vacancy trend continued through the second quarter of 2018, resulting in another quarter of positive net absorption. The vacancy rate increased slightly from the previous quarter, closing at 6.9%.

This increase reflects new Class A office space that came onto the market during the second quarter: Hit 2, Hit 5 and Tesla Patricios, which added a combined 353,142 square feet to the South submarket. Both Hit 2 and Hit 5 were fully engaged at the time of the incorporation, while Tesla Patricios is 79.0 engaged. In the Polo Dot submarket, the Coca Cola building added 76,424 square feet to the inventory, which was then fully leased by Coca Cola.

No significant transactions occurred among the vacancies from the previous quarter. Variations were the result of small transactions on isolated floors.

The average asking rent decreased from the previous quarter, reaching \$30.69/SF.

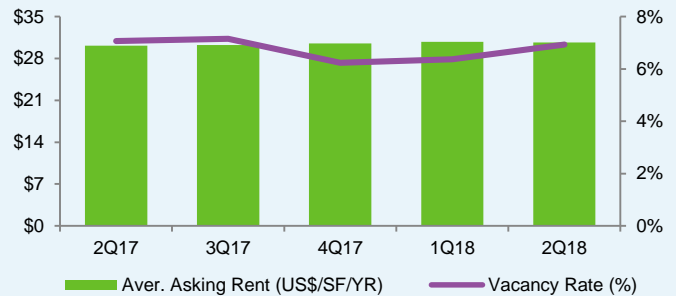
Class A leasing activity showed promise, as net absorption totaled positive 231,484 square feet.

Current Conditions

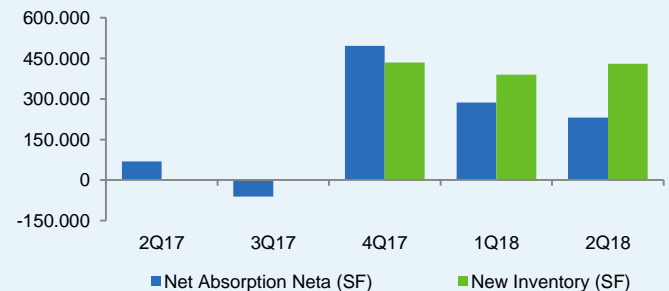
- The weighted average asking price decreased slightly from the prior quarter, averaging \$30.78/SF.
- Recent closures of new contracts and renewals exceeded the weighted average asking price, marking an upward trend for the second quarter of 2018.
- Class A vacancy raised slightly to 6.4%, one of the lowest vacancy rates 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 708,5
GDP per capita (2016)	USD 16, 086
Currency	Peso
Unemployment Rate	9.1%



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	Forecast
Total Inventory (SF)	21,5MM	20,2MM	19,5MM	↑
Vacancy (%)	6.93%	6,23%	7.06%	→
Net Absorption (SF)	231,483	496,833	68,508	→
Average Asking Rent	\$30.69	\$30.53	\$30.12	→
Under Construction (SF)	4,376,107	3,958,020	5.053.075	→

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Rent Values by Submarket

Every submarket has a particular area that outperforms 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 \$33.10/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, recently named Polo Dot. Although asking rents in that submarket average \$27.98/SF, some properties there command as much as \$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 \$31.21/SF, compared with \$28.80/SF for the rest of the submarket.

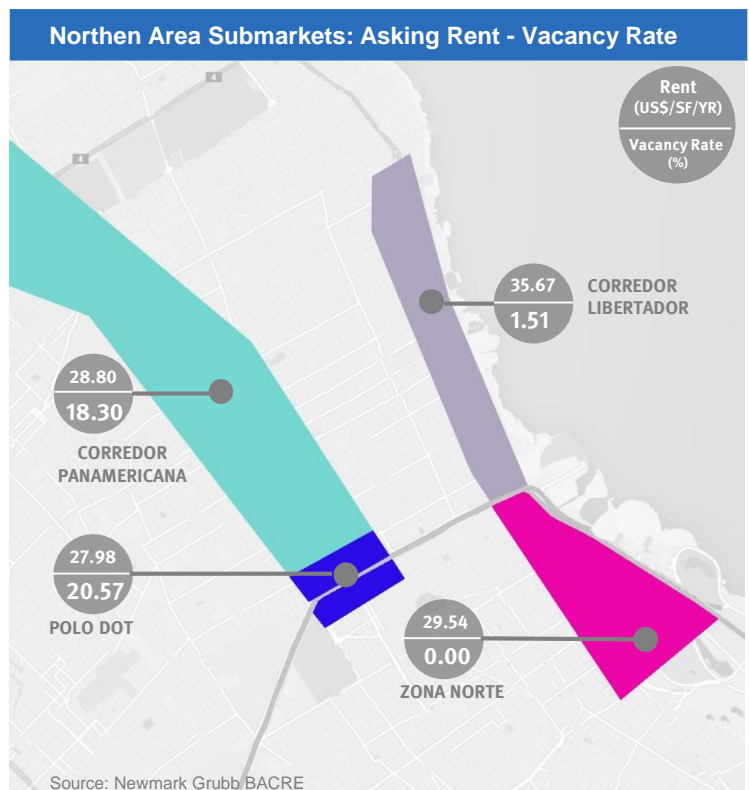
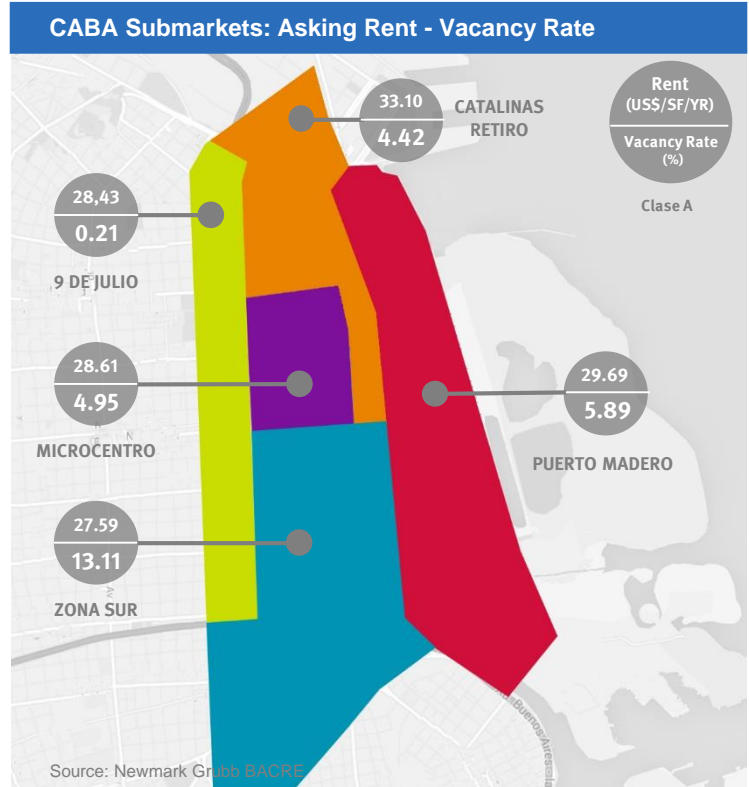
Inventory Change

New space incorporated during the second quarter of 2018 includes: Hit 2, with 99,028 total square feet and 86,111 leasable square feet; Hit 5, with 106,563 total square feet and 89,430 leasable square feet; Tesla Patricios, with 296,007 total square feet and 177,690 leasable square feet in the South submarket; and the Coca-Cola building, with 161,458 total square feet and 76,424 leasable square feet in the Polo Dot Corridor.

The occupancy rates of the new additions are as follows: Hit 2 and Hit 5 are fully engaged, with no available space; Tesla Patricios is 79.0% engaged, with 38,050 square feet available; and the Coca-Cola building was fully occupied at the time of incorporation. Consequently, even though the stock changed significantly, vacancy did not increase.

With these new additions, positive net absorption for the first half of the year totaled 231,488 square feet.

Class A inventory is expected to increase in the second half of 2018 with the addition of the World Trade Center III building, totalling 41,172 square feet in the Puerto Madero submarket, the Dot Zeta buildings, totalling 312,153 square feet in the Polo Dot submarket, and the Open Office 770 building, totalling 75,100 square feet in the Corredor Libertador submarket.





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The Challenge of New Incorporations

Today, the rentable Class A space in Buenos Aires totals 14.7 million square feet; 83.0% corresponds to the city, distributed in eight submarkets, and 17.0% corresponds to the two submarkets of Greater Buenos Aires. In the next two years, 3.7 million square feet will be incorporated, a figure that represents 25.0% of the total stock; 84.0% of this area will be located in the city, with the largest reception in the North Zone submarket (645,835 square feet) and Polo DOT (667,362 square feet). For the 16.0% located in Greater Buenos Aires, the Libertador Corridor has the greatest potential with almost 430,556 square feet; 15.0% of the portion under construction has been let already and will not be available at the time of its incorporation, generating a variation in the stock of the corresponding submarkets but not in the vacancy.

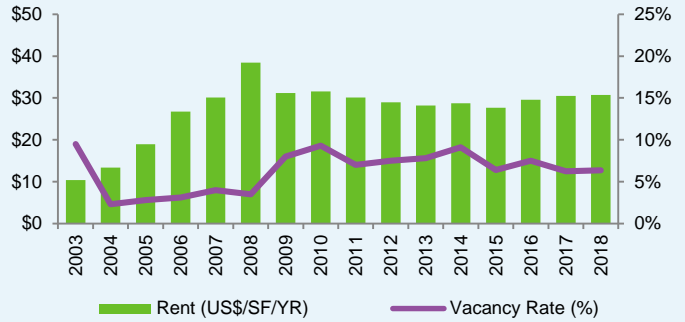
The Future of Employment

The challenge in terms of the occupation of new spaces and the configuration of Buenos Aires as a business center will be the articulation of new work methodologies, such as coworking and the home office, in addition to more traditional uses of office space. These new methodologies will define areas of greater development or demand as well as mixed use in neighborhoods, buildings or complexes that allow the greatest diversity and flexibility to attract new workers.

Wherever the work experience is more attractive, talent will be concentrated and projects will be more successful. Another challenge will be to overcome the historical average of 750,000 square feet of Class A absorption per year, in order to increase the pace of the future Class A office space offer.

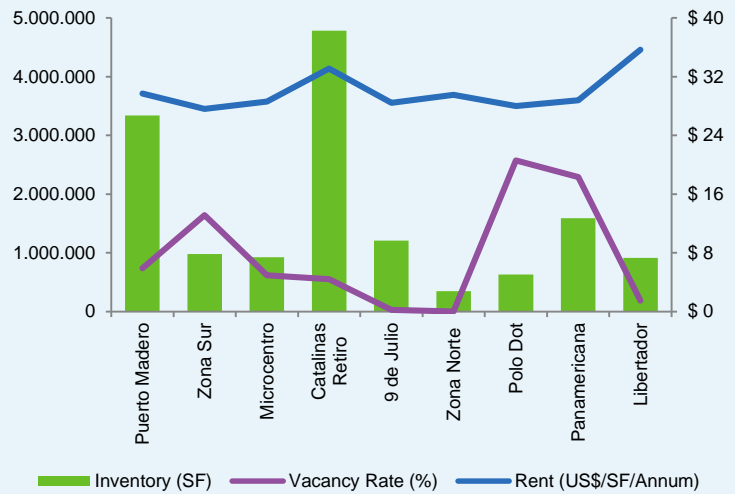
Economic growth, the incorporation of younger generations into the work force and a choice of better spaces for companies looking to enhance the work experience and retain talent will drive the absorption of new inventory at a more accelerated pace.

Average Asking Rent vs. Vacancy Rate (Class A)



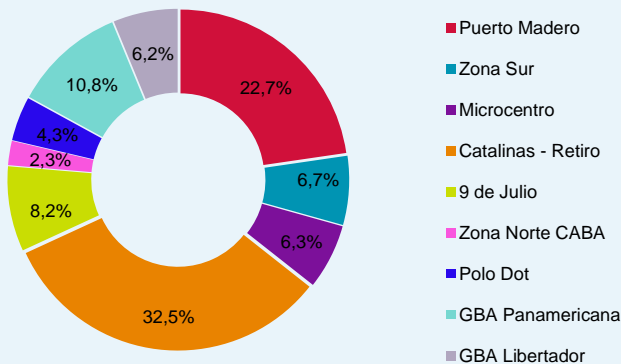
Source: Newmark Grubb BACRE

Inventory - Average Asking Rent - Vacancy By Submarket



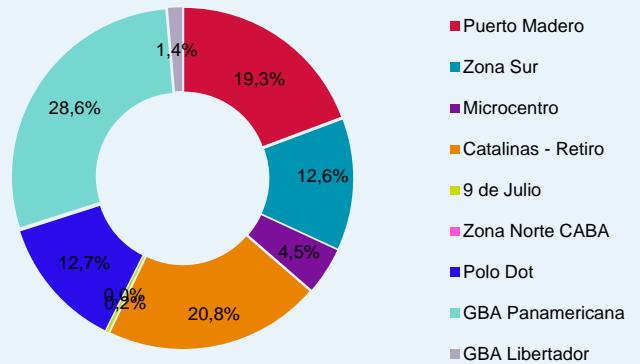
Source: Newmark Grubb BACRE

Inventory Composition



Source: Newmark Grubb BACRE

Vacancy Composition



Source: Newmark Grubb BACRE



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Demand by sector

The need for space in the coming years will be determined by three major sectors: energy, technology and services and financial services.

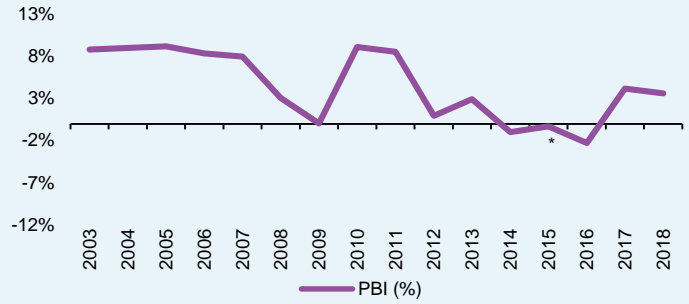
- Energy: 320,000 - 430,500 square feet in 5 years.
- Technology and services: 270,000 - 325,000 square feet per year sustained over time (without considering advertising and media).
- Financial services: 540,000 square feet per year.

Stock, prices and vacancy

The new additions to the Class A office market will be affected by several factors: economic growth, the flight to quality of companies that currently occupy Class B buildings to Class A buildings; and the incidence of unsatisfied demand and consolidation of new work modalities.

The historical absorption of the city is 810,000 square feet per year. Starting from the analysis of the current stock and the inventory to be built and incorporated until 2025, and assuming three absorption scenarios with average values of approximately 1,100,000 square feet and 50.0% more and 25.0% less for the positives and negatives, we project scenarios where the values of rent and vacancies will be closer to the levels of the region, and the market will occasionally exceed vacancy rates of 19.0%, which means sustained income values in the premium segments.

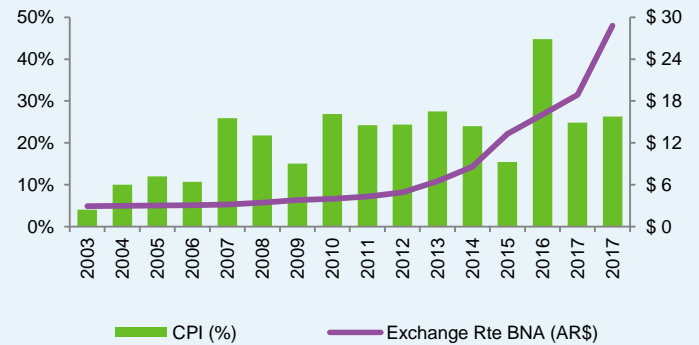
GDP



Source: World Bank

* GSP 2015 = 1,00, Cepal

Argentina's Exchange Rate - CPI



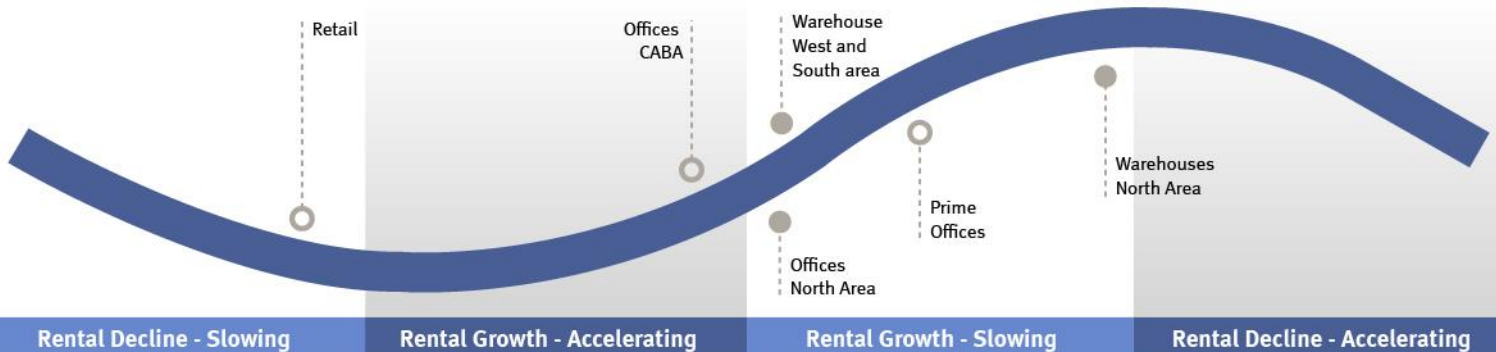
Source: Banco de la Nación Argentina, INDEC

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	174,375	5.89%	33,626	49,151	\$29.69	N/A	\$29.69
South Area	978,944	322,917	13.11%	216,602	216,602	\$27.59	N/A	\$27.59
Microcentro	924,221	614,619	4.95%	-22,863	8,514	\$28.61	N/A	\$28.61
Catalinas-Retiro	4,784,554	826,711	4.42%	-13,659	3,574	\$33.10	N/A	\$33.10
9 de Julio	1,207,301	0,00	0.21%	7,239	7,239	\$28.43	N/A	\$24.43
Midtown	344,552	646,243	0,00%	0	17,793	\$29.54	N/A	\$29.54
Polo Dot	629,957	780,028	20.57%	91,579	108,575	\$27.98	N/A	\$27.98
GBA								
Panamericana Corridor	1,592,314	593,242	18.30%	-81,041	-45,542	\$28.80	N/A	\$28.80
Libertador Corridor	916,460	417,973	1.51%	0	152,654	\$35.67	N/A	\$35.67

By Class

Class A	14,718,083	4,376,407	6.93%	231.483	518,560	\$30.69	N/A	\$30.69
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Principal Buildings Under Construction – Class A

	Project	Submarket	Total Area (SF)	Rentable Area (SF)	Date	Lead
	Torre IRSA	Catalinas – Retiro	597,880	376,736	2Q 2019	
	Blas Parera 31	Polo Dot	252,177	129,102	3Q 2019	
	Centro Empresarial Libertador	Zona Norte	701,213	646,243	4Q 2019	
	Nodus II	Polo Dot	SD	131,427	4Q 2019	
	Millenium Global Building	Microcentro	259,410	20,000	2019	
	Torre Odeón	Microcentro	269,098	23,500	2019	
	Al Río Torre Norte	Corredor Libertador	435,894	342,876	2018	
	Lumina Florida	Polo Dot	369,363	243,242	2018	



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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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