

BUENOS AIRES OFFICE MARKET

CHANGES IN THE WORKPLACE

THE OFFICE MARKET

Buenos Aires is the largest office market in Argentina, with nearly 21.9 million square feet of total stock, including 15.6 million square feet of rentable Class A space.

The market's low vacancy trend continued through the third quarter of 2018, resulting in another quarter of positive net absorption. The vacancy rate decreased slightly from the previous quarter, closing at 6.4%.

New Class A office space came on the market during the third quarter at the Zetta building, located in the Polo Dot submarket. The building added 335,963 square feet to the inventory, and was already fully leased by Mercado Libre.

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 dropped slightly from the previous quarter, reaching \$30.58/SF.

The recent abrupt changes in economic conditions, particularly the fluctuation in exchange rates and the increase in interest rates, make this a particular moment for the real estate market.

Nevertheless, the third quarter of 2018 showed a positive net absorption of 355,876 square feet, as a result of the Zetta building delivering fully occupied.

ARGENTINA

Capital City	Buenos Aires
Population	44,044,800
GDP MM (Q2 2017)	USD 752,8
GDP per capita	USD 17,092
Currency	Peso
Unemployment Rate (Q2 2017)	9.6%



CURRENT CONDITIONS

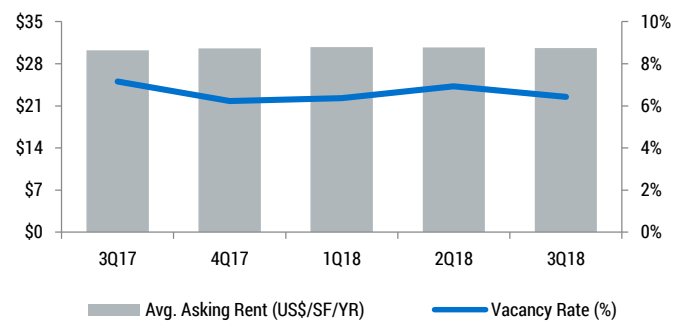
The weighted average asking price decreased slightly from the prior quarter, averaging \$30.58/SF.

Recent closures of new contracts and renewals exceeded the weighted average asking price, marking an upward trend for the next quarter.

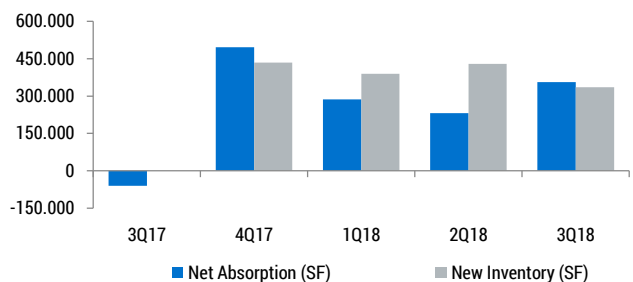
Class A vacancy dropped slightly to 6.4%, one of the lowest vacancy rates in Latin America.

MARKET ANALYSIS

Asking Rent and Availability



Net Absorption



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	22,9 MSF	21,5 MSF	19,5 MSF	↑
Availability Rate	6.42%	6.93%	7.15%	→
Quarterly Net Absorption	355,876 SF	231,483 SF	-60,818 SF	→
Average Asking Rent	\$30.58	\$30.69	\$30.23	↗
Under Construction	4,1 MSF	4,4 MSF	5,1 MSF	↗

RENT VALUES BY SUBMARKET

Every submarket has a particular area or property that outperforms the rest. Thus, observers are able to verify that significant variations exist between certain properties and the average of each submarket.

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 \$32.85/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. Some properties there command as much as \$32.33/SF, whereas asking rents in that submarket average only \$29.17/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 \$33.33/SF, compared with \$28.55/SF for the rest of the submarket

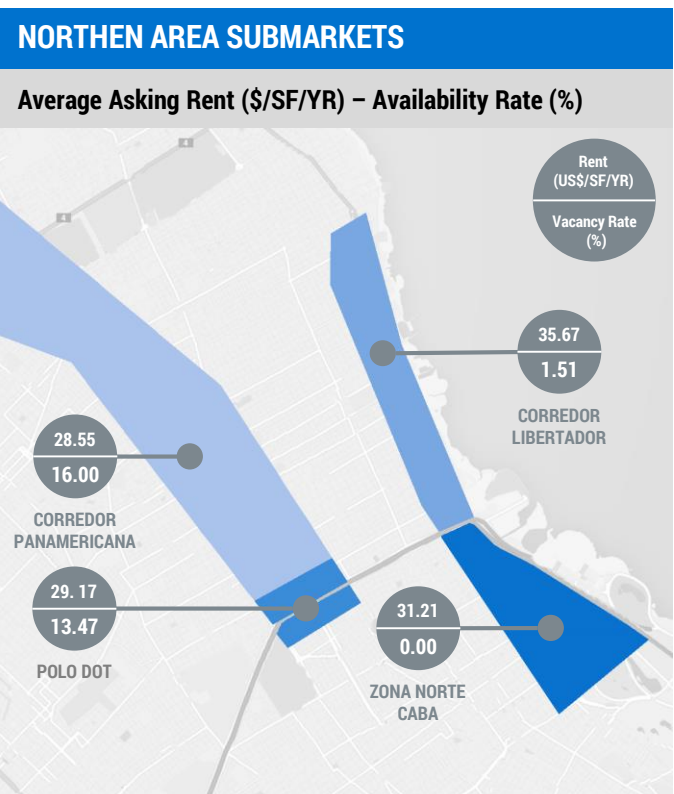
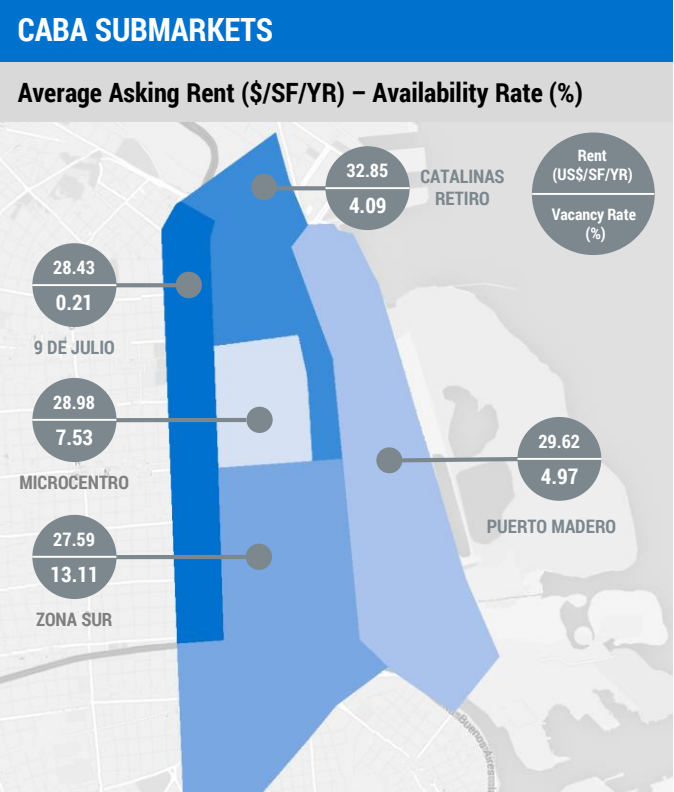
INVENTORY CHANGE

As new space incorporated during the third quarter of 2018 in the Polo Dot Corridor, the Zetta building came on the market. It is located in the Polo Dot submarket, with a total of 587,709 square feet and a profitable 335,963 square feet. The building was fully occupied at the time of incorporation by Mercado Libre. Consequently, even though the stock changed significantly, vacancy did not increase.

With these new additions, positive net absorption for the third quarter of 2018 totaled 355,876 square feet.

Notably, the Zetta building was incorporated in this period due to its recent opening, despite being leased beforehand, in different macroeconomic conditions .

No new incorporations are expected for the final quarter of this year.



CHANGES IN THE WORKPLACE

Availability of Collaboration Support Technology

Using technology tools for remote work is not news. What is news, however, is the access to these solutions through cheap and accessible devices. In order to access work materials and interact with colleagues 24/7 an employee only needs a device that's connected to the internet.

The Office as an HR Tool

The growing shortage of qualified specialists will lead organizations to offer less traditional ways of working, the possibility of working in alternative locations, non-conventional office solutions and greater flexibility. One of the latest trends in human resources is to use the potential of office space as a means of attracting and retaining talent.

The Pressure for Sustainable Development

Society is increasingly aware of how humans are contributing to climate change. Many corporations reacted to the problem of sustainable development by reducing energy consumption, recycling and reusing materials. At the same time, they demand that property owners increase the energy efficiency of their buildings and reduce the negative influence on the environment.

Social Participation

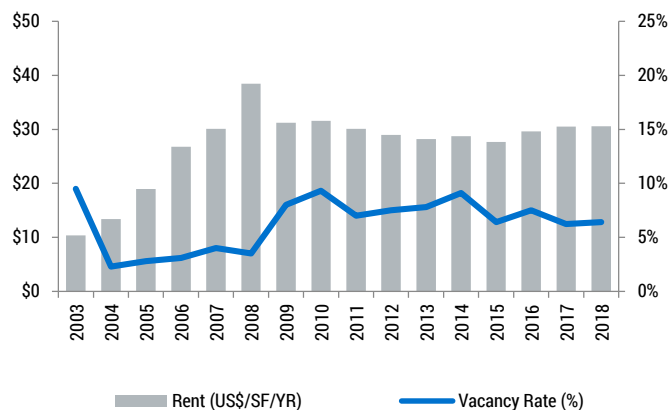
Social participation means sharing responsibility for the space with the users, treating it as a common good that belongs both to the property owner and the tenants as well as sharing the decisions regarding events or changes that will take place in that space. These trends tend to reflect what is happening in cities and society in general.

Growing Organization Dispersion

Companies are becoming dispersed, both in terms of space and structure. Although most employees still commute to the office to work with their team, a growing number of them is able to work from different places.

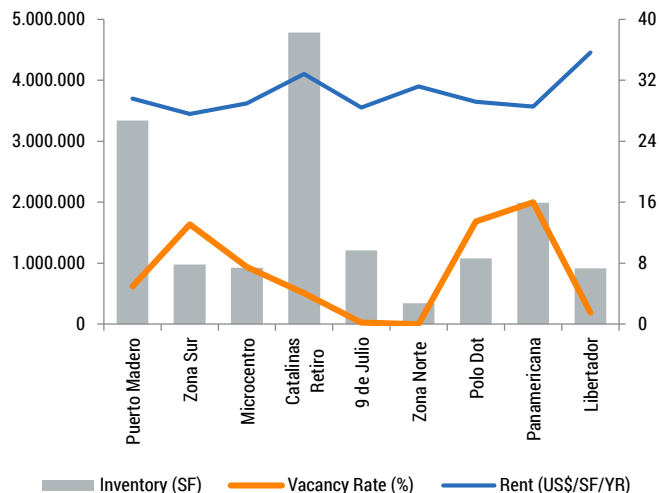
AVERAGE ASKING RENT vs AVAILABILITY

Class A

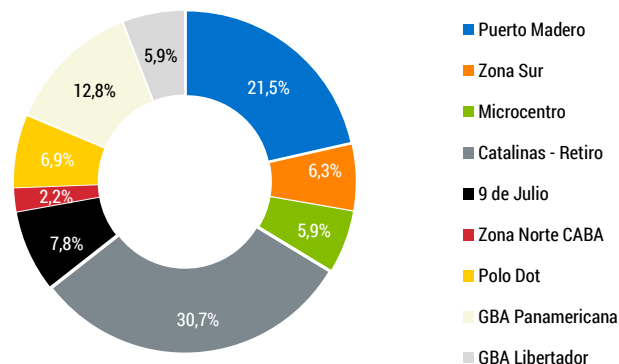


INVENTORY – AVG. ASKING RENT - AVAILABILITY

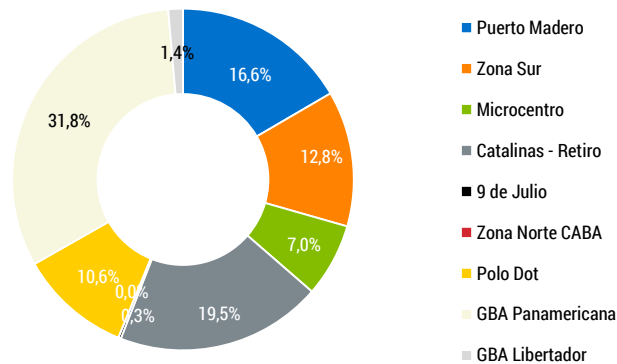
By Submarket



INVENTORY COMPOSITION



AVAILABILITY COMPOSITION



Innovation as The Driving Force

Modern organizations need to stay innovative. Creating workplaces and programs that allow people from different teams to exchange ideas could foster more innovative thinking and avoid the stagnation of established teams. Bright ideas and innovative solutions appear when people with different skills and experience begin to interact.

Sharing Economy

This is an economic model in which people have the option to lease or rent objects owned by other people. For the office sector, the collaborative economy means an influx of freelancers, co-working spaces and sharing office equipment. It is a solution that enables organizations and employees to react quickly to changes.

Agile

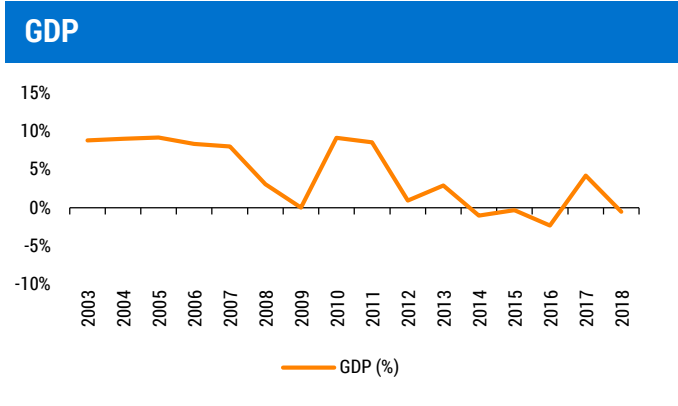
Agile is a flexible way of working first implemented by IT companies that realized innovation and the creation of customized solutions for each client are key qualities. Its success was so great that organizations from other sectors soon followed, making this approach one of the most popular forms of project management in the world.

VUCA

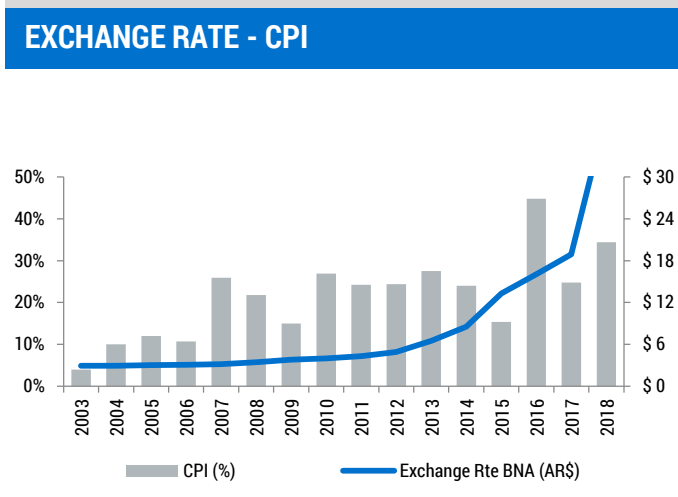
VUCA, which stands for Volatility, Uncertainty, Complexity and Ambiguity, is a reflection of the changing conditions that organizations have had to deal with in recent years. Ever increasing amounts of data and information are generated and exchanged all over the world at a pace never seen before. VUCA presents the context in which organizations have to function and is related to the perception of the conditions for decision making, problem solving and future planning.

The Changing Nature of Work

The workspace is much more than just a desk. Younger generations treat the office as a work tool and not as a symbol of hierarchy. As a result, preferences regarding the characteristics and location of the workspace have changed. The office is evolving towards a space of cooperation and sharing information.



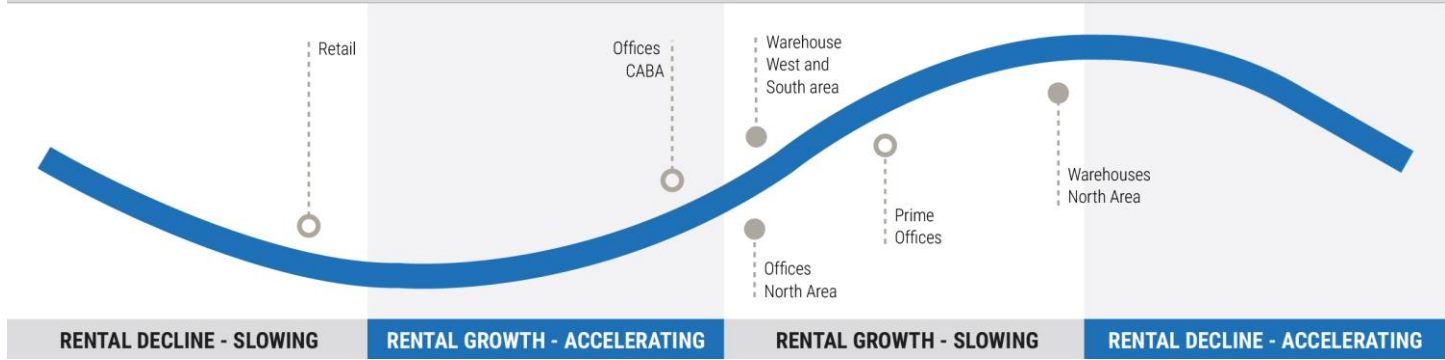
Source: INDEC
GSP 2015 = 1,00 Cepal



Source: Banco de la Nación Argentina, INDEC
1999-2007/2015-2017 INDEC
2008-2014 Calculated through the price for the consumer geometrical average calculated by statistical institutes

REAL ESTATE CYCLE
















Office Market, Industrial Market, Retail



MARKET STATISTICS

	Total Inventory (SF)	Under Construction (SF)	Total Availability 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)
By Submarket								
CABA								
Puerto Madero	3,339,780	174,375	4.97%	30,763	79,914	\$29.62	N/A	\$29.62
South Area	978,944	322,917	13.11%	0	216,602	\$27.59	N/A	\$27.59
Microcentro	924,221	614,619	7.53%	-23,874	-15,360	\$28.98	N/A	\$28.98
Catalinas-Retiro	4,784,554	826,711	4.09%	16,221	19,795	\$32.85	N/A	\$32.85
9 de Julio	1,207,301	0	0.21%	0	7,239	\$28.43	N/A	\$24.43
Midtown	344,552	646,243	0.00%	0	17,793	\$31.21	N/A	\$31.21
Polo Dot	1,079,856	465,883	13.47%	359,719	468,294	\$29.17	N/A	\$29.17
GBA								
Panamericana Corridor	1,990,471	593,242	16.00%	-26,953	-72,495	\$28.55	N/A	\$28.55
Libertador Corridor	916,460	417,973	1.51%	0	152,654	\$35.67	N/A	\$35.67
By Class								
Class A	15,566,139	4,061,962	6.42%	355,876	874,436	\$30.58	N/A	\$30.58

MAIN CLASS A BUILDINGS UNDER CONSTRUCTION

	Project	Submarket	Total Area (SF)	Rentable Area (SF)	Date	Leed
	Blas Parera 31	Polo Dot	252,177	129,102	1Q 2019	
	Torre IRSA	Catalinas – Retiro	597,880	376,736	2Q 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	215,278	2019	
	Torre Odeón	Microcentro	269,098	252,952	2019	
	Al Río Torre Norte	Corredor Libertador	435,894	342,876	2018	
	Lumina Florida	Polo Dot	369,363	243,242	2018	

The areas of the projects are approximate
The pictures are illustrative

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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. Newmark Knight Frank Research Reports are available at www.ngkf.com/research

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