

LATIN AMERICA 1Q18 OFFICE MARKET

DELIVERIES FOR MORE THAN 4.5 MILLION SQUARE FEET

The market maintained the trend of last year during the first quarter of 2018. An important highlight is Buenos Aires' inventory growth while keeping its vacancy rate stable. In the other hand, the office market of Lima shows little dynamism both in the delivery and absorption of new office space. Mexico City shines with the highest absorption of the region which represents more than 50% of the total square feet reported in Latin America this last quarter.

Buenos Aires, Argentina

The office market of Buenos Aires experienced an important inventory growth this last quarter with the delivery of more than 632,000 square feet and reached 14.3 million square feet of inventory. At the same time, quarter absorption grew more than 15% and surpassed 573,000 square feet. As a consequence, vacancy rate stood stable at 6.4%, while the asking rent increased only by 0.8% and reached an average of \$30.78/SF.

Rio de Janeiro, Brazil ⁰

The inventory of the office market of Rio de Janeiro showed no variation and stood at 23.7 million square feet. Quarter absorption dropped to - 531,000 square feet and the vacancy rate stood a 41.0% the highest of the region. The average asking rent dropped for the second consecutive quarter by 10.7% to \$29.54/SF.

Sao Paulo, Brazil ⁰

This Brazilian city reached an inventory – after the adjustments in criteria- of 48.3 million square feet. Construction activity showed signals of confidence un the market and stood at 4.8 million square feet- Vacancy rate grew to 22.9%, while the asking rent dropped in nearly 10.0% to \$27.05/SF.

Santiago, Chile

More than 215,000 square feet were delivered in the first quarter and the office inventory reached 23.4 million square feet. Total vacancy dropped in 97,000 square feet and the vacancy rate stood at 5.3%. Quarter absorption increased dramatically from 26,000 to 312,000 square feet during this period. Asking rent, mostly due to the variation of the exchange rate, raised in 7.0% and reached \$25.94/SF.

⁰ Inventory changed due to an adjustment in criteria

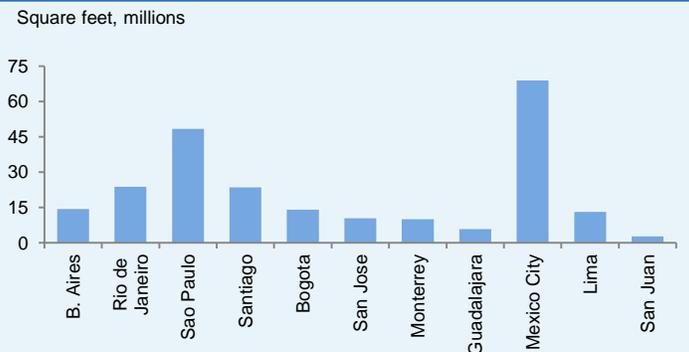
Current Conditions

- The region's inventory grew by 2.0% for a total of 234.9 million square feet.
- Average asking rent dropped to \$24.97/SF in spite of the strengthening of the US dollar.
- Total vacancy, at 16.4%, remains on an upward path but is still in last year's range.

Asking Rent and Vacancy



Inventory per City



Market Summary

	Current Quarter	Prior Quarter	12 Month Forecast
Total Inventory (SF)	234.9M	230.3M	↑
Vacancy Rate	16.4%	16.0%	↔
Quarterly Net Abs. (SF)	2.2M	3.6M	↔
Avg. Asking Rent	\$24.97	\$25.31	↑
Under Construction (SF)	37.1M	37.1M	↔
Deliveries (SF)	4.7M	3.7M	↓

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Bogota, Colombia¹

Bogota's office Market posted an inventory of 14.0 million square feet with an average asking rate of \$23.85/SF. The city registered a vacancy rate of 10.1%, or 1.4 million square feet. The absorption in this quarter was 75,000 square feet.

San Jose, Costa Rica

The office market of this capital city keeps its positive note, as 159,000 square feet were delivered to inventory, for a total of 10.4 million square feet. Total vacancy raised in 92,000 square feet and reached 9.2%. This is explained by the fact that quarter absorption dramatically dropped from 343,500 to 67,000 square feet in the first quarter of the year.

Monterrey, Mexico

The Mexican city reported a first quarter with signs of stability. The inventory, that surpassed the 10.0 million square feet mark, grew in 108,500 square feet and total vacancy, which dropped in 13,000 square feet, stood at 19.3%. Although quarter absorption slightly raised to 245,500 square feet, the asking rent increased to \$23.92/SF due to the strengthening of the US dollar.

Guadalajara, Mexico

There was no variation in the inventory of Guadalajara during this quarter. Construction activity keeps its large projection and increased to nearly 2.5 million square feet. Total vacancy was reduced by 51,000 square feet, which dropped the vacancy rate to 12.6%. Quarter absorption dropped by nearly 20,000 square feet and the asking rent to \$22.04/SF.

Mexico City, Mexico

The inventory of the office market of Mexico City continues to lead the ranking of the region. The city experienced, in the first quarter, deliveries for 1.3 million square feet and reached an inventory of 68.9 million square feet. Construction activity dropped by more of 10.0% to 17.2 million square feet.

This last quarter, vacancy maintained stood stable with 10.0 million square feet. Although there was a 28.0% decrease in the absorption, vacancy rate only dropped by 0.4% to 14.4%. Asking rent experienced a slight increase to \$28.29/SF.

Lima, Peru

The inventory in Peru's capital increased in nearly 207,000 square feet during the last quarter and reached a total of 13.1 million square feet. Construction activity raised from 712,500 to 1.0 million square feet. Vacancy dropped by 38,000 square feet and the vacancy rate stood at 28.4%, one of the highest of the region.

San Juan, Puerto Rico¹

San Juan's inventory ended the year unchanged. However, vacancy decreased during the fourth quarter, as a result of the occupation of federal agencies and the U.S. Army, which arrived to assist with the disaster recovery. Consequently, the San Juan office market's year-to-date absorption totaled 46,250 square feet, and its average rent increased to \$20.35/SF.

¹ Data from the 4Q17

Market Summary

City	Total Inventory (SF)	Under Construction (SF)	Total Vacancy (SF)	Total Vacancy Rate	Qtr Net Absorption (SF)	Total Asking Rent (Price/SF)
Buenos Aires	14,300,759	3,777,702	911,004	6.4%	573,609	\$30.78
Río de Janeiro ⁰	23,735,595	734,594	9,734,062	41.0%	(530,876)	\$29.54
Sao Paulo ⁰	48,347,447	4,832,522	11,090,605	22.9%	(46,446)	\$27.05
Santiago	23,472,299	1,527,399	1,239,098	5.3%	312,283	\$25.94
Bogotá ¹	14,052,435	1,945,609	1,416,670	10.1%	74,981	\$23.85
San José	10,433,942	853,546	961,562	9.2%	67,070	\$24.24
Monterrey	10,051,533	2,689,471	1,937,364	19.3%	245,460	\$23.92
Guadalajara	5,812,511	2,497,066	730,697	12.6%	51,667	\$22.04
Mexico City	68,945,944	17,212,655	10,052,695	14.6%	1,296,082	\$28.29
Lima	13,132,508	1,058,308	3,734,754	28.4%	169,155	\$18.62
San Juan ¹	2,699,998	-	297,956	11.0%	-	\$20.35
Latin America	234,984,971	37,128,870	42,106,467	16.4%	205,593	\$24.97

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ECONOMIC CONDITIONS

At the beginning of the year, Latin American countries shows a positive tendency. Although the international economic context favors many mining countries or in the search to improve their commercial relations, it will be the internal policies that take advantage of this context.

Argentina

The historical commercial deficit that reached last year, is explained by its low export capacity. The strong recession the country went through began in 2015 and for this 2018 economic growth is expected to reach 2.5%. In addition, Argentina has redirected an active agenda in international politics. In 2018 Argentina will assume the presidency in the G-20, has expressed his intention to join the OCDE and has initiated its role as observer in the Pacific Alliance.

Brazil

By 2018, the Brazilian economy is expected to grow by 2.89%. This will be possible as long as the labor conditions improve and low inflation impulses the private consumption, the residual effects of the recent recession disappear and political conditions maintain the promotion of investment. However, uncertainty remains and might generate a new wave of political scandals as those experienced recently. Two projections for this year correspond to the variation of the exchange rate from 3.31 *reales* per US dollar last year to 3.34 for 2018 and an increase in tax collection of 200% as a result of oil exploitation.

Chile

According to the Economic Activity Monthly Indicator, the Chilean economy grew 4% in the 2nd month of the year. This growth represents the biggest monthly expansion in the last two years, it was due to a recovery of the mining sector. The OCDE declared that the economic recovery of Chile is product of the renewed confidence of the investors and the progressive rise in the exportation volumes, consequence of the low interest rates, the rise of the foreign demand and the stability of the copper prices. Because all of this factors, a growth of 3.5% is expected for this year.

Colombia

Due to the electoral year, the possible recovery of the Colombian economy would be delayed until the new president is elected. The economic analysts expect the inflation for this year to be around 3.49% because of the rise to the value-added tax, the prices indexation and the rise to the minimum wage during 2017. With the inflation control, it is expected a short term consumption reactivation.

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
Mexico	123.52	8.0	Monterrey	4.59
			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	2Q17	3Q17	4Q17	1Q18
Argentina (ARS)	\$16.15	\$17.41	\$17.84	\$19.96
Brasil (BRL)	\$3.31	\$3.14	\$3.28	\$3.25
Chile (CLP)	\$665.23	\$633.11	\$633.07	\$600.37
Colombia (COP)	\$2,996	\$2,957	\$3,013	\$2,830
Costa Rica (CRC)	\$571.44	\$576.44	\$569.81	\$569.81
México (MXN)	\$18.30	\$17.86	\$19.14	\$18.53
Perú (PEN)	\$3.26	\$3.24	\$3.24	\$3.24
Puerto Rico (USD)	\$1.00	\$1.00	\$1.00	\$1.00

Source: Investing.com

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ECONOMIC CONDITIONS

Costa Rica

Costa Rica Central Bank expects for 2018 a little deceleration of the gross domestic product to 3.7%. The businessmen show a conservative position in front of a year which shows signs of weakness in employment generation and new investments attraction. It is expected that during the economic conditions, the local currency depreciates close to 3.6% this year.

Mexico

The economy of Mexico experienced an increase of 1.1% in the first quarter of 2018 compared with the same period the previous year. Service sector led the growth with 1.2%, compared with the primary and secondary sectors with 0.8% and 0.7% respectively.

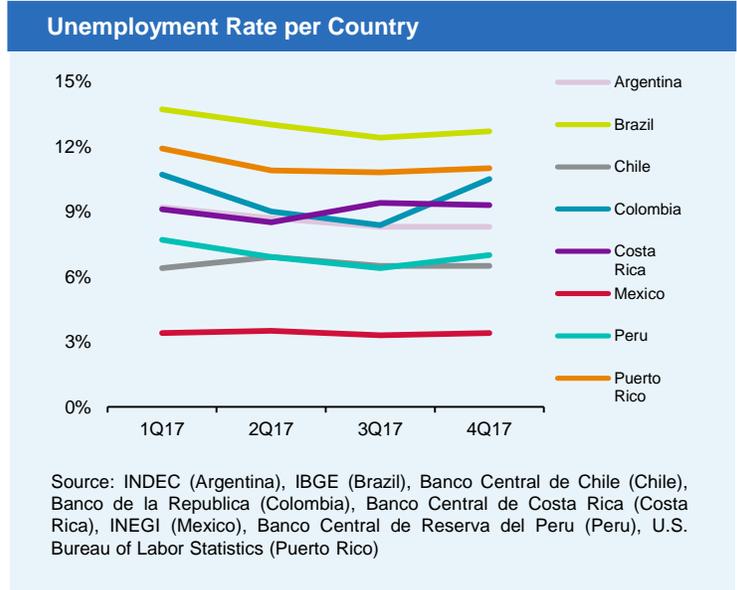
The OECD reported at the end of the year a growth of 2.3% for 2018 but recently adjusted its projection to 2.8%. This is explained by an improvement in the global projections for the economies of the G20, specially pushed by commerce and investment. This leads to a constant concern on the effects that may generate a commercial war, such as the increase in steel and aluminum tariffs, where Mexico was excluded.

Peru

Politics uncertainty that concluded with the President resignation and the problems in construction activity are the primary constraints to improve the projections of growth of 3.5% for this year. The objectives of the Ministry of Economics and Finance, ratified by the new Council of Ministers, for the rest of 2018 are to increase the public investment and tax collection and to improve the quality of public expenditure. Also, it is expected a surplus of nearly 9 thousand million US dollars in the trade balance and that the exchange rate stands in a range between 3.20 to 3.25 soles per dollar, limited by the national and international environment.

Puerto Rico

The economy of Puerto Rico stands in a climate of uncertainty. To this date, there is no guarantee on the amount of federal funds that will be delivered for the economic rehabilitation –not for its reactivation-, the period in which the money will be invested, nor the amount that will be received from private insurance. On the other hand, the rate of population decrease is a predictable consequence but very alarming after a 2017 full of issues. It is estimated that this phenomenon will continue in 2018 and 2019 and 14% of the population will be lost.



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Latin America Locations



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