RESEARCH 4Q **2018**

Newmark Knight Frank

LATIN AMERICA **INDUSTRIAL MARKET**

THE REGION'S 2018 YEAR-TO-DATE ABSORPTION: 3.1MM SQM

The sum of the inventories of the Latin American cities analyzed reached a total of 39.26 million square meters, 470,000 sqm more than the previous quarter. A stable construction activity reported a total of 2.35 million square meters, due to the reactivation of slowed down markets. The region's year-to-date absorption summed 3.1 million square meters and the vacancy rate dropped to 10.4%.

BUENOS AIRES, ARGENTINA

Vacancy rate under 10%

The industrial inventory of the Argentine capital increased by 12,000 square meters and reached a total of 2.25 million square meters. Construction activity stayed and the same level as the previous quarters and total vacancy decreased to 5.0%. Quarterly absorption dropped after two periods and closed in 23,500sqm. However, vacancy rate reported 9.7% - less than the previous quarter- and the average asking rent stood stable in \$6.60/sqm/mo. Year-to-date absorption totaled 179,000 square meters, with which, in spite of the crisis, it reached 2.7 the amount stated in 2017.

RIO DE JANEIRO, BRAZIL

Recovering dynamism

Inventory growth and projects under construction recovered this quarter reporting 1.88 million square meters and 120,700m² respectively. In spite of the deliveries, total vacancy dropped to 581,000 square meters and the vacancy rate lowered to 30.9%, the highest of the region. The average asking rent raised to \$5.11/sqm/mo. Year-to-date absorption was 99,000 square meters, showing an important upturn compared to with a negative 2017.

SAO PAULO, BRAZIL

Great absorption

The industrial inventory of Sao Paulo showed a slight growth and reported 8.1 million square feet of lease area. Projects under construction raised to nearly 609,000 square meters, the highest of the region, regardless of a total vacancy larger than 1.9 million square meters. Quarterly absorption increased to 132,500 square meters and the average asking rent dropped to \$4.60/sqm/mo.

CURRENT CONDITIONS

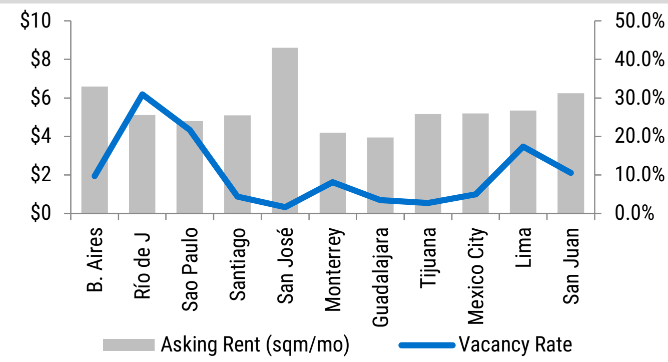
The inventory increased in 470,000 square meters between the analyzed cities.

Total vacancy dropped and reported a rate of 10.4%, nearly 5% less than last year.

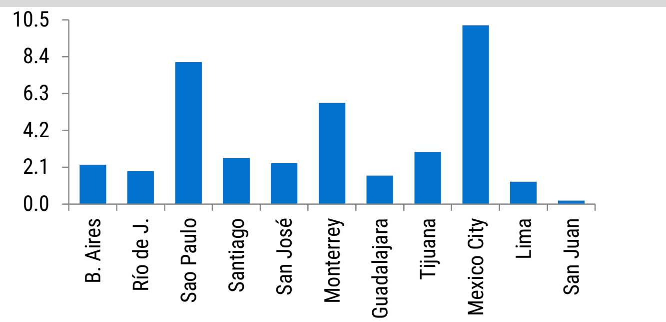
Year-to-date absorption was 3.1 million square meters, almost 50% more than 2017.

MARKET ANALYSIS

Asking Rent and Vacancy Rate



Total Inventory per City (sqm, in millions)



MARKET SUMMARY

	Current Quarter	Prior Quarter	12-Month Forecast
Total Inventory (sqm)	39.26 M	38.79 M	↑
Vacancy Rate	10.4%	11.1%	↑
Qtr Net Absorption (sqm)	702,347	919,074	↑
Avrg Asking Rent (sqm/mo)	\$5.48	\$5.47	↓
Under Construction (sqm)	2.35 M	2.08 M	↓
Deliveries (sqm)	0.47 M	0.77 M	↑

SANTIAGO DE CHILE, CHILE[1]

Absorption moderates

The capital of Chile experienced a growth of 106,000 square meters in class A industrial inventory throughout the second semester of the year. With this, the inventory reached a total of 2.62 million square meters and the projects under construction lowered to 153,600 square meters. The average asking rent dropped again to $5.09/sqm/mo. Absorption this semester was below the previous one, with what year-to-date absorption totaled 362,600 square meters.

SAN JOSE, COSTA RICA

Vacancy rate lowers

The Central American city showed an increase in the inventory of nearly 53,000 square meters and exceeded 2.33 million square meters. Construction activity dropped in 38.0% to 62,200 square meters. The average asking rent and total vacancy stood stable with 37,300 square meters. Vacancy rate remained as the lowest in the region with 1.6% after a quarterly absorption upturn to 54,100 square meters. Year-to-date absorption summed 122,000 square meters, which showed a reduction of almost 25% compared with 2017.

MONTERREY, MEXICO

Positive absorption

Due to the good performance in the industrial area of Monterrey's Metropolitan Area, vacancy rate lowered from 8.5% to 8.1% at the end of the year. Markets that showed the largest leasing activity were Apodaca and Guadalupe with 44.0% and 20.7% respectively. The highlight was the built-to-suit project of Whirlpool in Apodaca.

For the first quarter of 2019, we expect more than 28,000 square meters to be delivered to the class A industrial inventory. In the other hand, we estimate the average asking rent to stand between a range from $4.20 to $4.22/sqm/month, with the highest princes in Apodaca, Guadalupe and Monterrey submarkets.

TIJUANA, MEXICO

Slowdown in a great year

The industrial market of this northern city of Mexico experienced a growth of almost of 21,000 square meters and closed the year at 2.98 million square meters. Total vacancy reported 79,400 square meters, at a similar level as the previous period. In spite of the reduction in the absorption of this quarter, year-to-date absorption registered more than 287,000 square meters, 50% more than the last year.

MEXICO CITY, MEXICO

Dynamic north submarket

In this quarter, inventory grew by 50,000 square meters and ended the year with a total of 10.2 million square meters. Projects under construction surpassed the 500,000 square meters mark. This dynamism, 18% above 2017, is due to the great activity in the Cuautitlán and Tlalnepantla submarkets.

The largest volume of deals were in the Tepotzotlán submarket for a total of 49,900 square meters. Two of the most important deals were with Hasbro for 28,300 square meters and the Mexican retail company Elektra for 9,900 square meters. Vacancy rate stood in 5.0%, 0.1% under the previous quarter. Tepotzotlán and Cuautitlán submarkets present most of the available class A lease area with 42.7% and 14.9% respectively. Compared with 2017's year-to-date absorption, there is a 35% reduction.

GUADALAJARA, MEXICO

Vacancy drops

This quarter, class A industrial inventory of Guadalajara reached a total of 1.62 million square meters. In spite of an important reduction in the quarterly absorption, vacancy rate dropped to 3.5%. The average asking rent reduced to $3.95/sqm/mo. Year-to-date absorption totaled 94,000 square meters, above the previous year.

LIMA, PERU

Great second semester

The capital of Peru experienced a new important growth in class A lease area and exceeded 1.28 million square meters in this quarter. Despite these deliveries, projects under construction raised to 281,500 square meters. With this good level of absorption for the second quarter in a row, the vacancy rate slightly decreased to 17.4%. The average asking rent stood stable in $5.35/sqm/mo. As a consequence of this great second semester, year-to-date absorption was 440,500 square meters, far above the 100,000 square meters in 2017.

As a consequence of the delivery of said surface, the projects under construction dropped to 20,110 square meters and the vacancy rate to 18.0%. Year to date recovered and added 309,700 square meters in this period. The average asking rent increased slightly to $5.30/sqm/mo.

SAN JUAN, PUERTO RICO

A market with few variations

The industrial market of San Juan does not show variations both in inventory, which remains below 200,000 square meters, and in construction, which show no projects yet. This quarter 1,000 square meters were occupied and the vacancy rate reported 10.5%.

MARKET STATISTICS

City	Total Inventory (sqm)	Under Construction (sqm)	Vacancy Rate	Qtr Absorption (sqm)	Year-to-Date Absorption (sqm)	Average Asking Rent (USD/sqm/mo)
Buenos Aires	2,255,100	125,000	9.7%	23,500	179,061	$6.60
Río de Janeiro	1,883,858	120,734	30.9%	18,781	99,040	$5.11
Sao Paulo	8,091,118	602,633	21.7%	186,447	601,164	$4.79
Santiago de Chile[1]	2,629,164	153,656	4.4%	112,678	362,678	$5.09
San José	2,339,775	62,216	1.6%	54,125	121,970	$8.61
Monterrey	5,768,884	269,101	8.1%	76,171	325,761	$4.19
Guadalajara	1,619,867	25,454	3.5%	24,621	93,929	$3.95
Tijuana	2,978,208	192,054	2.7%	18,302	287,772	$5.16
Mexico City	10,204,882	519,140	5.0%	55,965	603,587	$5.19
Lima	1,286,630	281,570	18.0%	130,750	440,491	$5.35
San Juan	199,742	-	10.5%	1,007	11,639	$6.25
Latin America	**39,257,228**	**2,351,558**	**10.4%**	**702,347**	**3,127,092**	**$5.48**

ECONOMIC CONDITIONS

ARGENTINA

Inflation on the rise

Strategies adopted by the Argentinian government at the international Monetary Fund agreement, according to *El País*, were to stablish a range of exchange rate fluctuation and the withdrawal of currency from the market to slowdown inflation.

At the end of 2018, exchange rate stabilized under 40 pesos per dollar and the economy has most probably contracted in 2%. Inflation reported 47%, radically different to the 12% estimated a year ago and the highest in 27 years. Public debt, in the other hand, increased up to 80% of the GDP.

BRAZIL

Growth expectations

Opposite to the moderate growth (1.3%) shown by the Brazilian economy in 2018, the projection for 2019 is 2.5%. This expectation is related to the revision of the expensive national pension structure, noted as the main cause for the budget deficit for many years. Elijah Oliveros-Rosen, Senior Economist of Standard & Poor's for Latin America, expects this reform to promote more investment, to attract new capital and to strengthen the exchange rate.

The Central Reserve Bank revealed that they will maintain the interest rate in 6.5%, the record low. With that measure, inflation should stand at 3.9% and 3.8% for 2020.

CHILE

Closing a good year

The most recent delivery of the Central Bank's Monthly Economic Activity Indicator (Imasec in its Spanish acronym) reported a GDP growth of 4.0% at the end of 2018, the highest in 5 years. In this context, mining sector showed and expansion of 0.5% in December, and the non-mining sector increased in 2.8% promoted by services.

The Economic Commission for Latin American and the Caribbean (ECLAC) reaffirmed the economic slowdown for this country and kept the GDP growth projection of 3.9% for 2018 and 3.3% for 2019. It also expects the increase in unemployment and a potential reduction of raw materials prices to affect consumption.

COLOMBIA

Positive projections

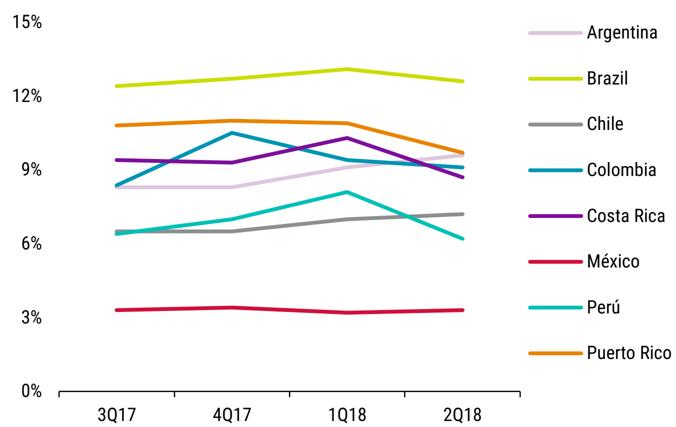
The latest projections made by the World Bank (WB) maintained the growth forecast of Colombia in 3.3%. The journal *El País* show that this country stands in fifth place in the list of largest GDP growth of Latin American countries, behind Bolivia, Paraguay, Peru and Chile. It also takes into consideration the recent Venezuelan migration as an opportunity to lead growth with the supply of labor force and raise in consumption and investment.

In addition, the tax reform started in the first day of the year with the expectation to reduce the budget shortage of 2019 by half. Additionally, the government announced the cut of various social programs for 1.2 billion pesos in the short term and up to 5 billion in the medium term.

EXCHANGE RATE

Country	1Q18	2Q18	3Q18	4Q18
Argentina (ARS)	$19.96	$27.41	$35.20	$37.09
Brazil (BRL)	$3.25	$3.86	$3.95	$3.82
Chile (CLP)	$600.4	$636.7	$658.9	$687.2
Colombia (COP)	$2,830	$2,885	$2,968	$3,233
Costa Rica (CRC)	$569.8	$566.9	$573.3	$603.5
Mexico (MXN)	$18.53	$18.61	$18.81	$20.13
Peru (PEN)	$3.24	$3.27	$3.29	$3.37

UNEMPLOYMENT RATE PER COUNTRY



COSTA RICA

Construction leads

The Central Bank of Costa Rica (BCCR in its Spanish acronym) reported that the year-on-year Monthly Economic Activity Index (IMAE) for November was 1.9%. This figure, 1.2% below its 2017's index, confirms that 2018 was a year of economic slowdown. The BCCR assigned this dynamism downsize to events like protests against the tax reform and variations in trades between Central America countries due to the political status of Nicaragua.

In this context, the sector with the largest growth is construction (with nearly 6.0%), followed by communications, financial and agricultural. Finally, on December 3th the congress approved the tax reform promoted by the government. The expectation is to avoid the growth of budget deficit and the external debt, which surpasses the 50% of the GDP.

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	Río de Janeiro	12.98
			Sao Paulo	21.29
Chile	18.39	13.7	Santiago	6.54
Colombia	49.29	6.2	Bogotá	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**

MEXICO

Government change

This quarter was marked by the cancellation of the New International Airport of Mexico (NAIM). This success will cost the country US$50,000 MM already invested in the construction plus fines and the resign of 0.5% of GDP.

The President's vision is to split economic power from the government so the President on duty won't be pressured by the large capitals. However, under the current economic model this seems tough. Foreign capitals are owners of 35% of the national stock market and more than 20% sovereign debt. On the other hand, the Bank of Mexico points the following risks for 2019: 1) Economic growth drops at the beginning of each government. 2) There is a lack of experienced staff in the Tax Administration Service (SAT) that could endanger a proper collection. 3) The quality of public expense might get worse due to the priority of social aid programs over public investment.

PERU

Important growth by the end of the year

According to the National Institute for Statistics (INEI), in November national production raised to 5.27%, the largest in the past 6 months. With it, year-to-date growth was 3.62%, slightly below the 3.7% projection of the Central Bank. This entity stated that the Peruvian economy must have grown in 5% in the past 12 months due to an improvement in the domestic demand.

Construction activity increased in 13.5%, the largest in the past 12 months. Domestic consumption of concrete expanded in 7.29% and public investment in 34.3%. In other activities, fish production grew in 188.5%, primary manufacture in 40.3%, and mining and fuel dropped in 2.52%.

PUERTO RICO

Much to be done

At the end of 2018, governor Ricardo Roselló promised that 2019 would be the year to construct the new Puerto Rico. As set by NBC News, to achieve that objective they need federal funds for housing, efficient investment to rebuild infrastructure and to address informal construction and abandoning houses. It is necessary to act quickly because the long-lasting government shutdown postponed the delivery of the relief funds expected on January.

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