RESEARCH **4Q 2018**

Newmark Knight Frank

# LATIN AMERICA **OFFICE MARKET**

## CLASS A INVENTORY SURPASSES 23 MILLION SQM

The sum of the inventories of the Latin American cities reached a total of 23.18 million square meters, 260,000 sqm more than the previous quarter. Vacancy rate stood at 17.5%, edging down 40 basis points for the second quarter in a row. Quarter absorption in the region dropped in 26,000 sqm and totaled 320,000 square meters. Accordingly, year-to-date absorption was 1.31 million square meters, 225,000 sqm more than 2017.

### BUENOS AIRES, ARGENTINA

**A new positive quarter**

The office inventory of the capital of Argentina grew in nearly 42,000 square meters, the second largest of the region, and reached a total of 1.49 million square meters. Quarterly absorption rose again and reported a total of 42,000 square meters and the vacancy rate dropped to 6.2%. The average asking rent showed a slight reduction to $27.43/sqm/mo. This positive trend quarter-on-quarter is displayed with a year-to-date absorption of 123,600 square meters, double what was reported on 2017.

### RÍO DE JANEIRO, BRASIL

**No inventory variations**

This Brazilian city kept its inventory on 2.20 million square meters. Quarterly absorption dropped to 12,700 sqm and the vacancy rate to 39.6%. The average asking rent rose one dollar and closed the quarter at $23.24/sqm/mo. In a year of ups and downs, year-to-date absorption was 67,350 square meters, better than last year.

### SAO PAULO, BRASIL

**Outstanding market**

The industrial market of Sao Paulo reached a total of 4.65 million square meters of inventory. Quarter absorption reached a total of 78,300 square meters, which allowed the reduction of the vacancy rate to 21.8%. The asking rent reported a slight increase to an average of $19.87/sqm/mo. This city showed a year-to-date absorption of 248,000 square meters, the second largest of the region and at the same level of 2017.

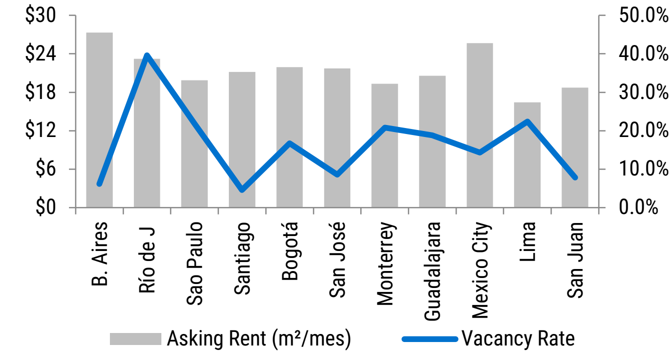
## CURRENT CONDITIONS

This quarter deliveries were for more than 250,000 sqm. By doing so, it surpassed a total inventory of 23.18 million square meters.

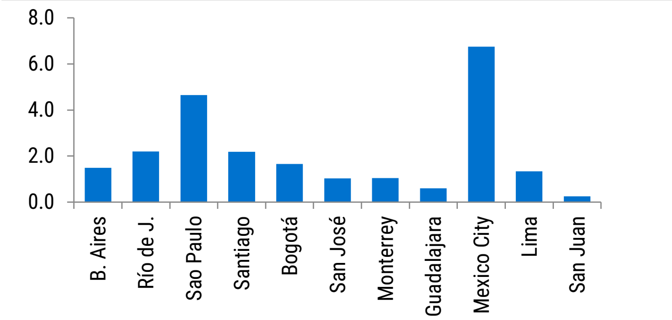
Year-to-date absorption (1.31 million square meters), was led by Sao Paulo and Mexico City. These two cities provided 40% of the absorption.

## 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) | 23.18M | 22.92M | ↑ |
| Vacancy Rate | 17.5% | 17.9% | ↑ |
| Qtr Net Absorption (sqm) | 319,667 | 346,035 | ↑ |
| Avrg Asking Rent (sqm/mo) | $21.45 | $21.53 | ↓ |
| Under Construction (sqm) | 3.07M | 3.45M | ↓ |
| Deliveries (sqm) | 259,334 | 313,068 | ↓ |

## SANTIAGO DE CHILE, CHILE

### Construction on the rise

Class A office inventory in the Chilean capital did not record any movements for the second quarter on the row, standing at 2.19 million square meters. With one of the lowest quarterly absorptions of the region –3,600 sqm-, the vacancy rate slightly reduced to 4.6%. However, construction activity raised again so a reactivation for 2019 is expected. The average asking rent reported $21.15/sqm/mo. Year-to-date absorption in this city totaled 55,000 square meters, almost half of what was reported the previous year.

## BOGOTA, COLOMBIA

### Vacancy under 17%

The inventory of Bogota closed the year with total of 1.66 million square meters. With a year-to-date absorption of 178,200 square meters, the vacancy rate was 16.7%.

## SAN JOSE, COSTA RICA

### Rising absorption

This important Central America city office inventory grew in 3.0% and reached a total of 1.03 million Class A square meters. The quarter absorption kept its positive trend and reported 28,100 square meters, with what the total vacancy stood in the range of 88,000 square meters. In consequence, the vacancy rate closed at 8.6%. Year-to-date absorption was 68,000 square meters, below 2017 due to a slow start of the year.

## MONTERREY, MEXICO

### Best year-to-date absorption

In spite of the reduction of the market dynamic this quarter, data corresponding to 2018 is very positive. The vacancy rate of 20.7% this quarter is similar to its counterpart on 2017, even though there were deliveries for a total of 117,500 square meters during the year. Also, year-to-date absorption was 95,800 square meters, the highest in recent years and 35% above the former one.

Buildings under construction represent 35% of the current inventory. Out of 371,300 square meters of these buildings, 61% are on sale or presale, which proves that they will be finished in the next 2 years. Planned projects, in the other hand, totaled 350,000 square meters (equivalent to 33% of the inventory) and are programmed to be ready in the next 5 or 6 years.

## GUADALAJARA, MEXICO

### One step away from 600,000 sqm of inventory

The inventory of this Mexican city reached a total of 593,850 square meters. Quarterly absorption dropped and year-to-date absorption totaled 24,700 square meters, one of the lowest of the region. Vacancy rate raised to 18.8% and the average asking rent dropped to $20.60/sqm/mo.

## MEXICO CITY, MEXICO

### Heavy construction activity

The office market ends the year with stability and without disturbs in spite of the intense election campaign and the change of government. During the year, deliveries totaled 467,200 square meters and vacancy rates stood close to 14%. Despite this growth, total vacancy never surpassed a million square meters.

With this intense construction activity, inventory in the fourth quarter reached 6.74 million square meters. Areas with the largest growth were the north submarket with 142,000 square meters (30% of the annual growth), followed by Santa Fe with 81,100 sqm and Periférico Sur with 80,400 sqm. Monthly asking rents registered a slight reduction due to the new supply and consequently stands at $25.93/sqm/mo.

Year-to-date absorption in this important market totaled 283,600 square meters, more than 20% in the previous year. This is justified by important deals in this quarter such as the Department of Health with 31,800 sqm, Sky with 7,800 sqm and Nest with 7,700 sqm.

## LIMA, PERÚ

### Good absorption levels

This quarter, the capital of Peru experienced a growth of 20,500 sqm class A office space and surpassed 1.33 million sqm inventory. The quarter absorption kept its good trend at 50,800 sqm. In consequence, vacancy rate decreased again to 22.4%. Quarterly absorption was 162,800 sqm, showing an important improvement compared with the previous year, when 1/3 of this amount was reported.

## SAN JUAN, PUERTO RICO

### Market with little variations

San Juan office market did not present any inventory and projects under construction variations, still with over 250,00 sqm class A existing office space and no developments under construction in the pipeline. Quarterly absorption reported 609 sqm, which moved the vacancy rate to 7.8%. The average asking rent stood at $18.75/sqm/mo.

## 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 | 1,488,143 | 340,392 | 6.2% | 42,427 | 123,664 | $27.30 |
| Río de Janeiro | 2,199,170 | 38,528 | 39.6% | 12,648 | 67,349 | $23.24 |
| Sao Paulo | 4,646,298 | 394,140 | 21.8% | 78,369 | 247,978 | $19.87 |
| Santiago de Chile | 2,191,890 | 270,352 | 4.6% | 3,598 | 54,982 | $21.15 |
| Bogotá | 1,662,832 | 95,112 | 16.7% | 29,381 | 178,271 | $21.71 |
| San José | 1,029,943 | 65,402 | 8.6% | 28,132 | 67,932 | $21.71 |
| Monterrey | 1,041,178 | 371,357 | 20.8% | 4,254 | 95,832 | $19.31 |
| Guadalajara | 593,848 | 163,274 | 18.8% | 5,592 | 24,709 | $20.60 |
| Mexico City | 6,746,099 | 964,738 | 14.3% | 63,857 | 283,583 | $25.67 |
| Lima | 1,335,050 | 54,320 | 22.4% | 50,800 | 162,778 | $16.45 |
| San Juan | 250,838 | - | 7.8% | 609 | 8,002 | $18.75 |
| **Latin America** | **23,185,289** | **3,075,646** | **17.5%** | **319,667** | **1,315,080** | **$21.45** |

# 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

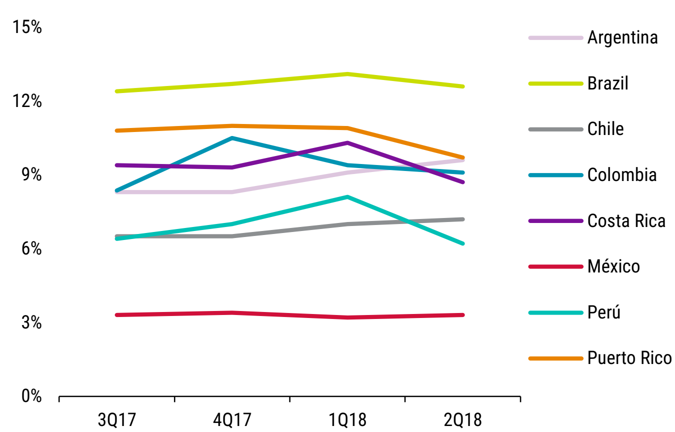
The latest projections made by the World Bank (WB) maintained the growth forecast of Colombia in 3.3%. The journal *El País* show that this country stands in fifth place in the list of largest GDP growth of Latin American countries, behind Bolivia, Paraguay, Peru and Chile. It also takes into consideration 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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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.mx/en/localmarketreports.html