RESEARCH **3Q 2018**

Newmark Knight Frank

LATIN AMERICA **OFFICE MARKET**

ABSORPTION UP

The sum of the inventories of the Latin American cities analyzed reached a total of 21.31 million square meters, 300,000 sqm more than the previous quarter. Construction activity reported a total of 3.33 million square meters, similar to the previous period. Vacancy rate stood at 18.0%, edging down 40 basis points, even as the inventory increased in 1.5%. Quarter absorption in the region improved in 120,400 sqm and totaled 346,000 square meters.

BUENOS AIRES, ARGENTINA

The positive trend continues

The office inventory of the capital of Argentina grew in nearly 31,000 square meters, one of the largest of the region, and reached a total of 1.44 million square meters. Quarterly absorption rose from the previous quarter and reported a total of 33,060 square meters and the vacancy rate dropped to 6.4%. The average asking rent showed stability and ended the third quarter at $27.43/sqm/mo.

RÍO DE JANEIRO, BRASIL[1]

Absorption recovers

This Brazilian city reported a total inventory of 2.20 million square meters. Quarterly absorption rose in 34,600 sqm, which led the vacancy rate to drop by 1.7% and ended the quarter in 40.1%. Construction reduced to 50,400 square meters and no variations are expected soon. Asking rent reduced in more than $1 and closed the quarter in $22.24/sqm/mo.

SAO PAULO, BRASIL[1]

Noticeable inventory growth

The industrial market of Sao Paulo reached a total of 4.63 million square meters of inventory. Construction rose to 452,700 square meters but, as happens in Río, no variations are expected in the sort term. Quarter absorption reached a total of 68,400 sqm, which allowed the reduction of the vacancy rate to 22.8%. Finally, the asking rent dropped in 1.0% and reported an average of $19.24/sqm/mo.

[1] Adjustments in inventory due to criteria revision

CURRENT CONDITIONS

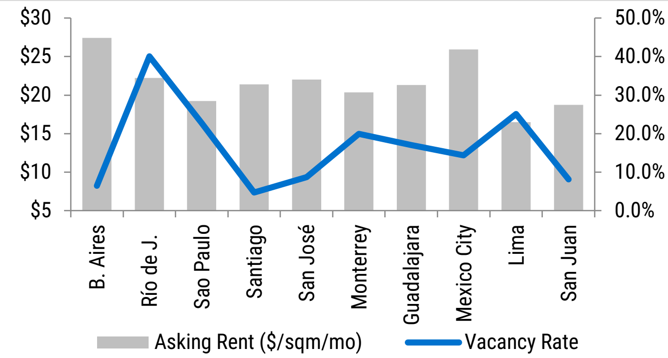
Third-quarter absorption improved 53.4% over the previous quarter and totaled 346,000 sqm.

The vacancy rate (18.0%) edged down 40 basis points, even as 313,000 sqm of new product delivered during the quarter.

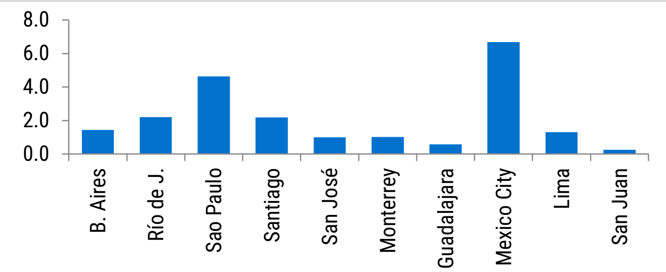
The average rental rate across the region ended the third quarter of 2018 at $21.52/sqm/mo, similar to the previous quarter.

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)	21.31M	20.99M	↑
Vacancy Rate	18.0%	18.4%	↑
Qtr Net Absorption (sqm)	346,035	225,564	↓
Avrg Asking Rent (sqm/mo)	$21.52	$21.57	↓
Under Construction (sqm)	3.33M	3.33M	↓
Deliveries (sqm)	313,068	377,747	↓

SANTIAGO DE CHILE, CHILE

Outstanding construction activity

Class A office inventory in the Chilean capital did not record any movements during this period, standing at 2.19 million sqm. In the same fashion, the availability rate kept steady despite a minor vacancy experienced during this quarter. On the contrary, the area under construction increased over 57% in comparison with last year's same period, reporting a total of 227,700 sqm for 2018-3Q. The average rental rate decreased to $21.41/sqm/mo for class A buildings.

SAN JOSE, COSTA RICA

Absorption rising

This important Central America city office inventory surpassed the 1 million Class A sqm mark during this period. The quarter absorption showed another rise by reaching 21,700 sqm occupied, with this, the available space located at 87,000 sqm. In consequence, the availability rate closed alt 8.7% and the average rental rate at $22.03/sqm/mo.

MONTERREY, MEXICO[1]

Stable vacancy rate

2018-3Q inventory growth was 78,100 sqm, it has reached 1.02 million sqm. The availability decreased because of the 53,500 sqm absorption, which in big part responses to the fact that most of the buildings that entered the market this period, were already partially occupied. The year to date absorption sums 91,578 sqm. This amount of space has surpassed the previous years and ratifies the market's positive trend. In that sense, the availability rate has been fluctuating between 18% and 22% in the last few years and it is expected that this trend continues for the next couple of years.

By number of transactions and space occupied, banks and financial service companies stand out as the most active tenants. Most of this offices belong to existing companies in need of extra space because of their constant growth. In addition, WeWork represented a good amount of occupied space with a 16,500 sqm absorption in different locations.

GUADALAJARA, MEXICO

Moderate growth

This period, Guadalajara presented a class A building inventory growth that made it reach 576,100 sqm. By this third quarter, the absorption stayed in similar levels than last period, reporting a year to date absorption of 9,300 sqm, one of the lowest of the region. With this, the availability rate raised to 17.3%, meanwhile the average rental rate located at $20.83/sqm/mo.

MEXICO CITY, MEXICO

Vacancy remains stable in a dynamic context

Class A office inventory in the Mexican capital keeps its ascending trend and surpassed 6.67 million sqm this quarter. This is the product of 371,000 sqm that entered the maket, which did not alter the availability rate staying at 14.1%.

This quarter the office market experienced an intense activity in sale and lease operations, for a total of 127,657 sqm, while the net absorption closed at 28,300 sqm. The projects under construction do not stop either, right now there are 1.56 million sqm under construction, mainly located at the Insurgentes, Polanco and Santa Fe submarkets.

The average rental rate remains without significant changes, located for this quarter at $25.93/sqm/mo. The highest rental rates are located in Reforma, Lomas de Chapultepec and Polanco submarkets, the three of them integrate the CBD, where we find better conditions for tenants due to the amount of offered spaces.
The operation that stood out for this quarter, was the Total Play operation –telecomm company-, which occupied a total of 21,000 sqm in the Periferico Sur corridor.

LIMA, PERÚ

Good absorption levels

This quarter, the capital of Peru experienced a 22,500 sqm class A office space growth and surpassed 1.31 million sqm inventory. The quarter absorption located at 55,900 sqm, similar to the absorbed area for the first semester of 2018, in consequence, the availability rate again decreased to reach 25.1%. The projects under construction decreased as well to report 64,300 sqm, and the rental rate closed at $16.50/sqm/mo.

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. The quarter absorption reported 1,068 sqm absorbed area, which moved the availability rate to 8.1%. The average rental rate raised a little to $18.75/sqm/mo.

MARKET STATISTICS

City	Total Inventory (sqm)	Under Construction (sqm)	Vacancy Rate	Absorbed This Quarter (sqm)	Absorbed Year-to-Date (sqm)	Average Asking Rent (USD/sqm/mo)
Buenos Aires	1,446,143	377,369	6.4%	80,637	162,597	$27.43
Río de Janeiro	2,201,432	50,446	40.1%	36,433	54,701	$22.24
Sao Paulo	4,630,000	452,673	22.8%	68,453	169,609	$19.24
Santiago de Chile	2,191,890	227,669	4.7%	-2,049	51,384	$21.41
San José	1,000,384	81,527	8.7%	21,770	39,800	$22.03
Monterrey	1,025,398	320,459	19.9%	53,499	91,578	$20.37
Guadalajara	574,133	195,834	17.0%	9,807	19,117	$21.31
Mexico City	6,675,888	1,562,623	14.4%	68,104	219,726	$25.93
Lima	1,314,550	64,320	25.1%	55,888	111,978	$16.50
San Juan	250,838	-	8.1%	1,068	7,393	$18.75
Latin America	**21,310,656**	**3,332,920**	**18.0%**	**346,035**	**880,308**	**$21.52**

ECONOMIC CONDITIONS

ARGENTINA

Downward projections

The positive trend shown by the Argentinian economy at the beginning of this year vanished with the terrible drought that affected the country and the recent devaluation of the peso. As a result, the International Monetary Fund again lowered its estimates and projected a regression of 2.6% for this year and 1.6% in 2019. Other factors attributed to this regression are: the prolonged trade dispute between the United States and China, the instability of the Turkish economy and the electoral uncertainty of Brazil.

The peso devalued more than 50%, while inflation is estimated to close at 40.5%, the second highest in the region behind Venezuela. Venezuela however, will be the main concern of the new president of the Central Bank, which is estimated to be reduced to 20.2% in 2019.

BRAZIL

In the middle of presidential elections

In the latest report of the International Monetary Fund, economic growth was reduced to 1.4% and 2.4% for 2018 and 2019, respectively. This reduction was attributed, compared with the announcement of the same institution in April, to the projections due to the national footprint of truck drivers and external financial conditions. The last quarter of the year should maintain a GDP growth of 1.7%, similar to what happened in the same period of 2017.

In addition, after the favorable results for the candidate of the right in the first round of elections, the Brazilian real grew by 2%. In any case, the winner will find a government with a positive foreign exchange reserve but with a deficit that exceeds 7% of the public debt.

CHILE

Upward growth review

In the Monetary Policy Report (iPoM) published by the Central Bank of Chile, the estimate of GDP growth for this year was revised. Thus, it was established in a range between 4.0% and 4.5%, more than 0.5% above what was announced last quarter. Between the commercial war, the instability of emerging economies and the exchange rate, the region as a whole has seen its growth expectations cut.

With the continuous increase over the average price of copper, the Chilean peso was one of the most appreciated currencies. Finally, experts believe that Chile will be the country with the best performance in the region, although it is noticeable that it is in a process of slowdown.

COLOMBIA

Favorable conditions

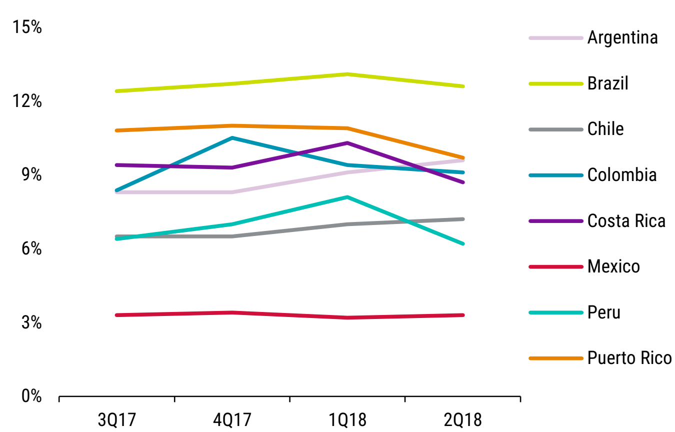
In the IMF's "Global Economic Perspectives" report, an economic growth of 2.8% was projected for 2018 and 3.6% for 2019. This favorable overview is mainly due to the improvement in consumer confidence, the increase in private consumption and the stable monetary policy. The rise in oil prices will also impulse the foreign investment in this sector and be enhanced by the policies of the new president Duque. In addition, after these electoral results, the construction sector and infrastructure development will rebound in the remainder of the year.

Inflation for 2018 and 2019 is projected at 3.2% and 3.4% respectively. For its part, the Colombian peso depreciated by 3.0% in this last quarter, but this is seen as an opportunity to impulse the exports.

EXCHANGE RATE VS U.S. DOLLAR

Country	4Q17	1Q18	2Q18	3Q18
Argentina (ARS)	$17.84	$19.96	$27.41	$35.20
Brazil (BRL)	$3.28	$3.25	$3.86	$3.95
Chile (CLP)	$633.1	$600.4	$636.7	$658.9
Colombia (COP)	$3,013	$2,830	$2,885	$2,968
Costa Rica (CRC)	$569.8	$569.8	$566.9	$573.3
Mexico (MXN)	$19.14	$18.53	$18.61	$18.81
Peru (PEN)	$3.24	$3.24	$3.27	$3.29

UNEMPLOYMENT RATE PER COUNTRY



COSTA RICA

Fiscal reform on target

Experts project the Central American country to maintain an economic growth of near 3.3%, in spite of the uncertainty generated from the questioned fiscal reform. Although the current president set the goal of this reform to be performed before the end of the year, there is a strong opposition that may slow the process. If it is not completed, the Central Bank of Costa Rica esteemed that more than 40% of the budget of 2019 will be used to pay the debt and it will be put aside infrastructure investment and social assistance. Furthermore, the reform implies the imposition of a 13% VAT to most of goods and services, whom represents more than 65% of the economy of the country.

Nonetheless, construction sector maintains its good shape with a annual growth of 4.3%.

MEXICO

Decisions of president-elect

This quarter was marked by several announcements made by the president-elect regarding the measures and projects he will promote at the start of his administration. These statements have taken place in the context of the successful renegotiation of the NAFTA –now called USMCA- which concluded on September 30th.

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
			Cd. de México	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**

After declaring the winner of the July election, both the IMF and the Bank of Mexico showed concern over the campaign promises that imply less tax collection, higher assistance spending and new projects. However, over the past months, López Obrador showed more sensibility to the political and economic repercussions of his statements. In that sense, the commitment of a significant amount of resources in the energy sector or the cancellation of the new airport could reduce the investor confidence in the country. Although there are still important decisions to be made, the elected president is displaying signs of separation from idealism towards an administrative pragmatism.

PERU

Stable projections

The Peruvian Central Reserve Bank (BCRP) maintained its economic growth projection for 2018 at 4.0%, while for 2019, it fell from 4.2% to 4.0%. Domestic demand for 2019 presented a larger cut from 4.4% to 4.0%, mainly due to the reduction of private consumption and private investment in 0.1% and 1.0% respectively, and a marked deceleration of public investment from 5.0% to 2.8%. Meanwhile, the trade surplus for this year was reduced from 9 to 7 million dollars, in a context in which the expectation of exchange has been reduced in a generalized manner.

However, the BCRP highlights the country's strong macroeconomic indicators such as: low public debt, high international reserves and low inflation, despite the high international financial volatility. Finally, inflation is estimated to end the current year at 2.2% and 2.0% for the subsequent one.

PUERTO RICO

A year after Maria

A year has passed since the devastation caused by Hurricane Maria and the International Monetary Fund forecasted a 2.3% drop in the economy of Puerto Rico by 2018 and 1.1% by 2019. The austerity measures -imposed after the declaration of bankruptcy of the island- hampered the economic recover. One indicator is that of small businesses, the main source of work in the island, where 8,000 of the 45 thousand employers closed their business in the last year. On the positive side, unemployment has been reduced significantly by the demand for workers in the construction sector and, although temporary, it provides a source of work for a large part of the population.

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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