RESEARCH 3Q **2018**

Newmark Knight Frank

LATIN AMERICA **INDUSTRIAL MARKET**

CONSTRUCTION ACTIVITY REMAINS HIGH AS INVENTORY CONTINUES TO GROW

The sum of the inventories of the Latin American cities analyzed reached a total of 38.79 million square meters, 760,000 sqm more than the previous quarter. A stable construction activity reported a total of 1.90 million square meters, in spite of the large amount of deliveries. Quarterly absorption in the region totaled 794,070 square meters and the vacancy rate decreased again, reporting 11.1%.

BUENOS AIRES, ARGENTINA

Quarterly absorption on the rise

The industrial inventory of the Argentine capital increased by 94,000 and reached a total of 2.24 million square meters. Both construction activity and the vacancy remained without major variations. Quarterly absorption increased close to 80.0% compared with the previous quarter, for a total of 81,100 square meters, and the vacancy rate closed at 10.3%. The average asking rent, on the other hand, dropped by $1.00/sqm to $6.70/sqm/mo.

RIO DE JANEIRO, BRAZIL

No variation in the inventory

For the second consecutive quarter, this Brazilian city did not show alterations both in its inventory – which stands at 1.87 million square meters- and the projects under construction. In this period, the market had a reduction of near 280,000 sqm of vacant area, with which the vacancy rate dropped to 31.2%, still the highest in the region. Year to date absorption is 80,200 square meters and the average asking rent decreased to $4.90/sqm/mo.

SAO PAULO, BRAZIL

Market slowdown

The industrial inventory of Sao Paulo had a increase of 94,200 square meters and exceeded 8 million square meters of leasable area. Projects under construction increased to about 609,000 sqm, the highest of the region, despite having a vacancy of more 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

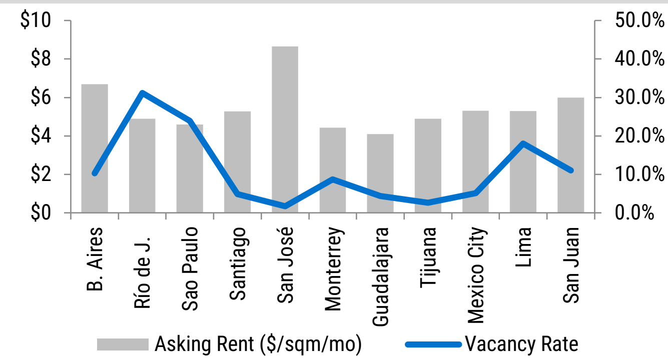
The region reported an increase in inventory of 760,000 square meters between the analyzed cities.

The vacancy rate (11.1%) edged down 20 basis points compared with the second quarter.

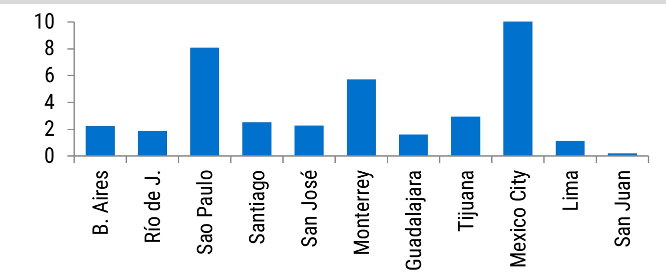
The average rental rate across the region ended the third quarter of 2018 at $5.47/sqm/mo, dropping down for the second consecutive quarter.

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)	38.79 M	38.01 M	↑
Vacancy Rate	11.1%	11.4%	↑
Qtr Net Absorption (sqm)	794,074	941,683	↓
Avrg Asking Rent (sqm/mo)	$5.47	$5.59	↓
Under Construction (sqm)	1.90 M	1.96 M	↓
Deliveries (sqm)	0.77 M	1.06 M	↑

SANTIAGO DE CHILE, CHILE[1]

Good start of the year

The capital of Chile experienced a significant growth of 12.3% in the Class A industrial inventory throughout the first 6 months of the year. With this, the inventory reached a total of 2.52 million square meters and the projects under construction rose to 181,600 square meters. Similarly, the accumulated absorption to date rose to 250,000 square meters in the first half of the year and the availability rate increased to only 4.9%. The average rental price was reduced to $ 5.27/sqm/mo, mainly due to changes in the exchange rate.

SAN JOSE, COSTA RICA

Rebound in construction

The Central American city showed an increase in the inventory of 23,300 square meters and exceeded 2.28 million square meters. At the same time, the construction activity reached 100,200 square meters, an increase of 43% compared to the previous period. Quarterly absorption increased and was reported at 38,500 square meters, while the availability rate rose slightly to 1.7%, even the lowest in the region. As a result, the accumulated absorption reached 67,845 square meters and the average price was reduced to $ 8.66/sqm/mo.

MONTERREY, MEXICO

2.0% inventory growth

The industrial inventory of Monterrey exceeded 5.72 million square meters class A. With a total availability of 500,200 square meters available, this market ended the quarter with an availability rate of 8.7%. As a result, the accumulated absorption reached 249,600 square meters and the average rent price was set at $ 4.43/sqm/mo.

TIJUANA, MEXICO

Low vacancy rate remains

The industrial market of this northern city of Mexico experienced a growth of almost of 100,000 square meters and closed the quarter at 2.96 million square meters. The quarter absorption recovered considerably and closed the quarter at 80,000 square meters. Some outstanding operations were: Maxon with about 6,700 square meters in VP Lagoeste and Jacuzzi with more than 16,000 square meters in the Florido submarket. The total availability reached to 76,200 square meters and the accumulated absorption totaled 269,500 square meters. The average rental price remained stable and closed the quarter at $ 4.90/sqm/mo.

MEXICO CITY, MEXICO

Inventory surpassed the 10 million sqm mark

The industrial inventory of the Mexican capital showed a great quarterly growth with the delivery of 162,800 square meters and totaled 10.1 million square meters. Construction increased in 16.1% to 505,600 square meters, maintaining the bet on the future after the recent presidential elections. Although the quarterly absorption dropped to 190,000 square meters, the vacancy rate reported 5.1%.

In this quarter, the automotive sector highlights with the occupation of 16,000 and 13,000 square meters in San Martín Obispo and Convento City Park respectively. With this, year to date absorption totaled 547,600 square meters and the average asking rent remained stable at $5.31/sqm/mo.

GUADALAJARA, MEXICO[2]

Active quarter

The class A industrial inventory of Guadalajara reached a total of 1.61 million square meters in this quarter. In a very active period, the absorption finished very close to 50,000 sqm and the vacancy rate reduced to 4.4%. The average asking rent remained stable at $4.10/sqm/mo.

LIMA, PERU

Inventory grows

The capital of Peru experienced a significant growth in class A lease area and exceeded 1.13 million square meters in this quarter. 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, vacancy area added 1,400 square meters, so the vacancy rate rose to 11.0%. The average asking rent remained at $6.00/sqm/mo.

[1] The information reported for the Santiago de Chile market is of a semi-annual nature.

[2] An adjustment was made to the classification criteria of class A inventory.

ESTADÍSTICAS DE MERCADO POR CIUDAD

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	2,243,100	125,000	10.3%	81,175	155,561	$6.70
Río de Janeiro	1,866,202	102,317	31.2%	61,721	80,259	$4.90
Sao Paulo	8,085,118	608,877	23.9%	132,569	414,717	$4.60
Santiago de Chile[1]	2,523,007	181,656	4.9%	250,000	250,000	$5.27
San José	2,286,824	100,199	1.7%	18,025	67,845	$8.66
Monterrey	5,727,332	185,662	8.7%	43,432	249,590	$4.43
Guadalajara[2]	1,610,152	35,170	4.4%	49,385	69,308	$4.10
Tijuana	2,956,776	39,908	2.6%	80,812	269,470	$4.90
Mexico City	10,152,287	505,588	5.1%	189,987	547,622	$5.31
Lima	1,135,830	20,110	18.0%	138,400	309,741	$5.30
San Juan	199,742	-	11.0%	-1,432	10,632	$6.00
Latin America	**38,786,370**	**1,904,487**	**11.1%**	**794,074**	**2,424,745**	**$5.47**

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

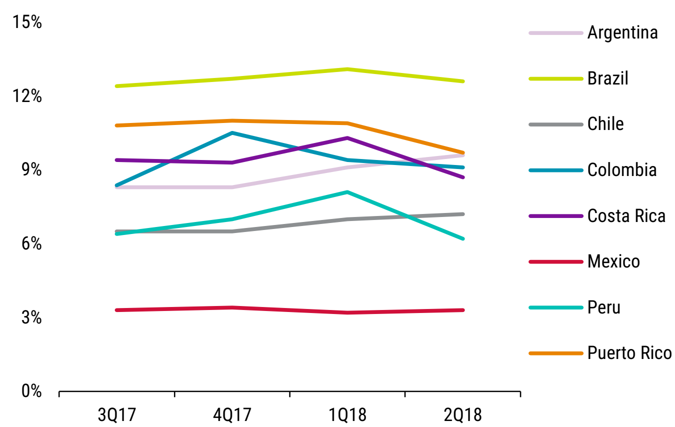
In the IMF's "Global Economic Perspectives" report, an economic growth of 2.8% was projected for 2018 and 3.6% for 2019. This favorable overview is mainly due to the improvement in consumer confidence, the increase in private consumption and the stable monetary policy. The rise in oil prices will also 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.

NEWMARK KNIGHT FRANK LATIN AMERICA OFFICE LOCATIONS

GIOVANNI D'AGOSTINO
Regional Managing Director LATAM
52.55.5980.2000
gdagostino@ngkf.com.mx

ALEJANDRO WINOKUR
Argentina | Director
54.11.4787.6889
awinokur@ngbacre.com.ar

MARINA CURY
Brazil | Managing Director
55.11.2737.3130
marina.cury@newmarkgrubb.com.br

MANUEL AHUMADA
Chile | Managing Director
56.2.2230.1000
mahumada@contempora.com

JUAN MANUEL TORRES
Colombia | Director
57.1.2230.1053
jmtorres@ngfg.co

CARLOS ROBERTO ROBLES
Costa Rica | President
50.6.4000.5171
crobles@ngcentralamerica.com

MARCO YAGUI
Peru | Executive Officer
51.1.277.8400
myagui@contempora.com.pe

HECTOR APONTE
Puerto Rico | Managing Director
78.7.460.5555
haponte@ngcarib.com

MEXICO CITY RESEARCH
Corporativo Espacio Santa Fe
Carr. Mexico-Toluca 5420, PH1
Santa Fe, CDMX, 05320
52.55.5980.2000

JUAN FLORES
Director of Research
jflores@ngkf.com.mx

DIEGO LEÓN
Market Research - Analyst
diego.leon@ngkf.com.mx

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