RESEARCH

LATIN AMERICA
1Q18 INDUSTRIAL MARKET

MEXICO AND BRAZIL LEAD THE GROWTH OF INVENTORY

During the last quarter, the industrial market of Latin America delivered nearly 12 million square feet. Vacancy rate showed an important reduction and the asking rent stood stable. Projects under construction surpassed 33 million square feet, keeping its rising trend.

Buenos Aires, Argentina

The industrial market of Buenos Aires continued its positive trend, which had started in the first quarter of 2017. The city's inventory increased by 496,500 square feet and reached more than 22.6 million square feet. However, total vacancy grew only in 185,000 square feet, and the vacancy rate increased again slightly to 10.3%. Quarterly absorption dropped in nearly 10% and reached 311,000 square feet. Construction activity showed an important increase to 1.3 million square feet, and the asking price stood at $8.25/SF.

Río de Janeiro, Brazil

The industrial market of Rio de Janeiro keeps experiencing a slowdown in absorption since the previous quarter. The market's inventory increased by 495,000 square feet during the quarter and surpassed 20 million square feet. Construction activity dropped in 27.0% to 1.1 million square feet. The vacancy rate increased to a notorious 34.4%, one of the highest in Latin America. Quarterly absorption reported -529,500 square feet from the prior quarter. The average asking rent raised by less than 2.0% to $7.02/SF.

Sao Paulo, Brazil

São Paulo's industrial market continued the positive trend of prior quarters. Vacancy still exceeded 22.4 million square feet yet continued to decrease to a rate of 26.1% during the quarter. This is because the city showed one of the highest absorptions of the region with 3.3 million square feet and 5.9 million square feet under construction, confirming a dynamic market in the future. The average asking rent decreased slightly to $6.20/SF.

Santiago, Chile[1]

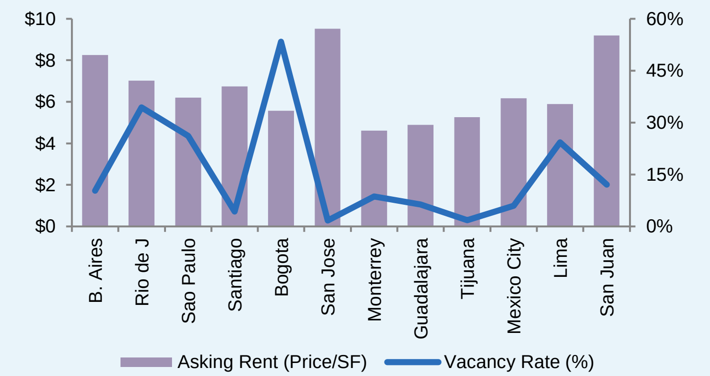
The industrial market of Santiago registered deliveries totaling 854,000 square feet in the second semester of the year, which raised its inventory to 24.1 million square feet. The market's vacancy rate reached 4.3%, 1.7% higher than in the third quarter. The asking rent increased from $6.38/SF to $6.74/SF , and absorption weakened by 30.0% to 503,300 square feet.

[1] Chile's industrial market information is delivered on a bianual basis.

Current Conditions

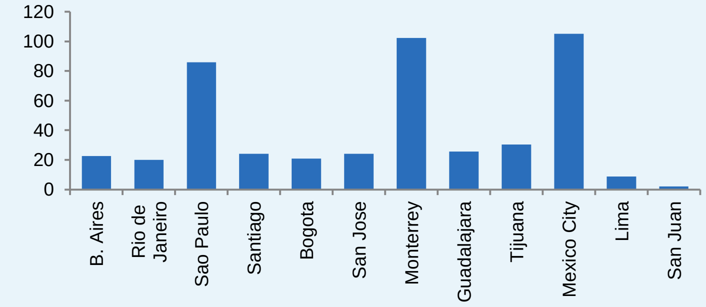
- The inventory in the region grew in 11.9 million square feet and reached 472.5 million square feet this quarter.
- The vacancy rate dropped to 13.5%.
- Current construction exceeds 33.8M square feet.

Asking Rent and Vacancy



Inventory per City

Square feet, Millions



Market Summary

	Current Quarter	Prior Quarter	12 Month Forecast
Total Inventory (SF)	472.5M	460.5M	↑
Vacancy Rate	13.5%	15.2%	↑
Quarterly Net Abs. (SF)	9.2 M	6.0 M	↔
Avg. Asking Rent	$6.61	$6.53	↔
Under Construction (SF)	33.8 M	28.1 M	↔
Deliveries (SF)	12.0 M	6.4 M	↓

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Bogota, Colombia[2]

The industrial market in Bogota posted an inventory of 20.9 million square feet with an average asking rate of $5.57/SF. This city registered a vacancy rate of 53.4%, equivalent to 11.2 million square feet. Absorption in the fourth quarter totaled 305,800 square feet.

San Jose, Costa Rica

San Jose's industrial inventory increased by 305,000 square feet during the first quarter to more than 24.1 million of square feet. Similar to the previous quarter, the market's quarterly absorption totaled 279,000 square feet and the vacancy rate was 1.7%. The asking rent held stable at $9.52/SF, the highest in the region.

Monterrey, Mexico

The inventory of Monterrey remained the second-highest of the region with 102.3 million square feet and 5.4 million square feet under construction. The vacancy rate increased to 8.6%. The average asking rent increased to $4.60/SF.

Mexico City, Mexico

This is the city with the region's largest industrial inventory: 105.1 million square feet. Total vacancy increased to 6.2 million square feet, equivalent to 5.9%. This time, its quarter absorption dropped in nearly 40% to 1.3 million square feet.

[2] 1Q17 Market data.

Guadalajara, Mexico

Guadalajara's inventory experienced no changes during the first quarter and stood at 25.7 million square feet. Total vacancy dropped in nearly 215,000 square feet and reported 1.6 million square feet. Vacancy rate dropped to 6.4%.

Tijuana, México

The border city's inventory reached 30.4 million square feet in the first quarter. Vacancy stood at 532,000 square feet, equivalent to 1.7%. Quarter absorption totaled 1.8 million square feet, and the average asking rent was $5.26/SF.

Lima, Peru[3]

The industrial inventory of Lima maintained a growth rate of 4.5% and reached 8.8 million square feet. Absorption noticeably increased during the fourth quarter to 403,600 square feet, while the vacancy rate dropped slightly to 24.3%. The average asking rate was stable at $5.89/SF.

San Juan, Puerto Rico[3]

The industrial market of San Juan showed no change either to its inventory or number of projects on the way. Quarterly absorption reached 100,000 square feet, and the vacancy rate dropped to 12.0%. The asking rent increased to $9.20/SF.

[3] 4Q17 Market data.

Market Overview per City

City	Total Inventory (SF)	Under Construction (SF)	Total Vacancy (SF)	Total Vacancy Rate	Qtr Absorption (SF)	Asking Rent (Price/SF)
Buenos Aires	22,621,702	1,345,489	2,327,157	10.3%	310,926	$8.25
Rio de Janeiro	20,087,630	1,101,331	6,905,490	34.4%	(530,241)	$7.02
Sao Paulo	85,878,177	5,905,867	22,424,098	26.1%	3,311,538	$6.20
Santiago[1]	24,181,748	1,269,765	1,040,676	4.3%	503,331	$6,74
Bogota[2]	20,968,882	10,575,714	11,193,702	53.4%	305,835	$5.57
San Jose	24,151,383	868,755	402,011	1.7%	279,237	$9.52
Monterrey	102,303,139	5,425,183	8,822,305	8.6%	1,260,432	$4.60
Guadalajara	25,691,107	902,371	1,634,220	6.4%	214,449	$4.89
Tijuana	30,460,972	1,670,268	532,329	1.7%	1,824,190	$5.26
Mexico City	105,175,510	4,253,111	6,236,728	5.9%	1,287,977	$6.18
Lima[3]	8,839,764	546,053	2,148,067	24.3%	403,668	$5.89
San Juan[3]	2,150,000	-	259,000	12.0%	91,000	$9.20
Latin America	**472,510,020**	**33,863,907**	**63,925,785**	**13.5%**	**9,262,343**	**$6.61**

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

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 leaded 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.

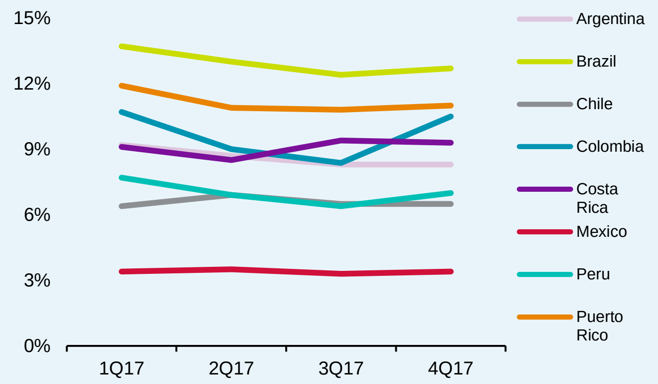
Peru

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.

Unemployment Rate per Country



Source: INDEC (Argentina), IBGE (Brazil), Banco Central de Chile (Chile), Banco de la Republica (Colombia), Banco Central de Costa Rica (Costa Rica), INEGI (Mexico), Banco Central de Reserva del Peru (Peru), U.S. Bureau of Labor Statistics (Puerto Rico)

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Latin America Locations

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.

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