RESEARCH

LATIN AMERICA
4Q17 INDUSTRIAL MARKET

HIGH STAKES IN A STABLE MARKET

Latin America's industrial market delivered more than 15 million square feet in the final quarter of 2017, while its vacancy rate was essentially unchanged. However, year-to-date absorption surpassed 12.0 million square feet, confirming the confidence in the region

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 780,000 square feet during the quarter to end 2017 at more than 22.1 million square feet. Total vacancy grew by 436,500 square feet, and the vacancy rate increased slightly to 9.7%. Quarterly absorption reached 343,800 square feet, a major improvement. Construction activity was unchanged, and the asking price stood at $7.80/SF.

Río de Janeiro, Brazil

The industrial market of Rio de Janeiro experienced a significant slowdown in absorption during the final quarter of 2017. The market's inventory increased by 701,000 square feet during the quarter and totaled 19.6 million square feet at year-end. Construction activity stayed dynamic with 1.5 million square feet. The vacancy rate increased by 2.2% to 30.0%, one of the highest in Latin America. Quarterly absorption dropped 214,500 square feet from the prior quarter, and year-to-date absorption totaled negative 1.34 million square feet. The average asking rent fell by 8.4% to $6.91/SF.

Sao Paulo, Brazil

São Paulo's industrial market continued the positive trend of prior quarters through the end of 2017. Vacancy still exceeded 21.8 million square feet yet continued to decrease at a rate of 26.6% during the quarter. Consequently, São Paulo overcame a slow start to absorb 1.58 million square feet in 2017, one of the highest absorption totals of the year. The average asking rent decreased slightly to $6.53/SF.

Santiago, Chile[1]

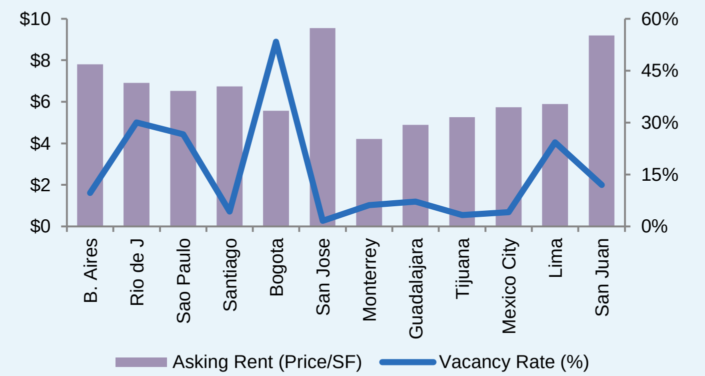
The industrial market of Santiago registered deliveries totaling 854,000 square feet in the second semester of the year, which raised its inventory to 24.1 million square feet. The market's vacancy rate reached 4.3%, 1.7% higher than in the third quarter. The asking rent increased from $6.38/SF to $6.74/SF,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

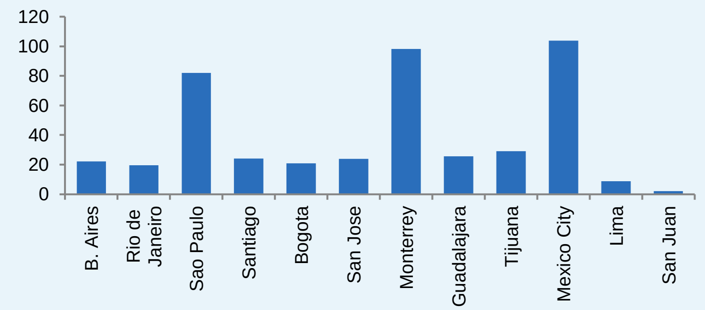
- The inventory in the region was increased in 1.4% and reached 460.5M square feet
- The availability rate and the average asking rent remained unchanged.
- Current construction exceeds 28.2M square feet despite the fact that 6.4 million square feet were delivered this quarter.

Asking Rent and Vacancy



Inventory per City

Square feet, Millions



Market Summary

	Current Quarter	Prior Quarter	12 Month Forecast
Total Inventory (SF)	460.5M	454.0 M	↑
Vacancy Rate	15.2%	15.1%	↑
Quarterly Net Abs. (SF)	6.0 M	6.8 M	↔
Avg. Asking Rent	$6.53	$6.58	↔
Under Construction (SF)	28.1 M	29.8 M	↔
Deliveries (SF)	6.4 M	4.5 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 233,800 square feet during the fourth quarter to more than 23.8 million of square feet. The market's quarterly absorption totaled 284,600 square feet, less than half that of the previous quarter. The vacancy rate decreased slightly to 1.6%, and the asking rent held stable at $9.55/SF, the highest in the region.

Monterrey, Mexico

The inventory of Monterrey remained the second-highest of the region with 98.2 million square feet and 2.8 million square feet under construction. Vacancy increased by nearly 543,000 square feet to reach 6.0 million square feet. The average asking rent dropped for the second time in 2017 to end the year at $4.21/SF.

Mexico City, Mexico[3]

The city with the region's largest industrial inventory had 5.3 million square feet under construction. Total vacancy dropped to 3.3 million square feet, equivalent to 3.2%. Its year-to-date absorption in 2017 was 8.4 million square feet, the highest in the region.

[2] First quarter data.

Guadalajara, Mexico

Guadalajara's inventory of industrial space grew by more than 230,000 square feet during the fourth quarter and closed the year at 25.7 million square feet. The city has 1.3 million square feet under construction and a total vacancy of 1.8 million square feet. The average asking rent ended the fourth quarter at $4.89/SF.

Tijuana, México

The border city's inventory reached 29.0 million square feet in the fourth quarter. Vacancy stood at 958,000 square feet, equivalent to 3.3%. Year-to-date absorption in 2017 totaled 2.0 million square feet, and average asking rent was $5.26/SF.

Lima, Peru

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

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.

Market Overview per City

City	Total Inventory (SF)	Under Construction (SF)	Total Vacancy (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Asking Rent (Price/SF)
Buenos Aires	22,125,217	957,988	2,141,598	9.7%	343,799	703,099	$7.80
Rio de Janeiro	19,593,685	1,506,947	5,881,304	30.0%	72,915	-1,338,083	$6.91
Sao Paulo	81,955,044	1,399,308	21,812,504	26.6%	1,586,191	4,143,879	$6.53
Santiago[1]	24,181,748	1,269,765	1,040,676	4.3%	503,331	1,225,945	$6,74
Bogota[2]	20,968,863	10,575,714	11,193,702	53.4%	305,835	305,835	$5.57
San Jose	23,846,226	696,942	376,091	1.6%	284,630	1,722,871	$9.55
Monterrey	98,234,252	2,814,106	6,013,850	6.1%	221,155	2,499,692	$4.21
Guadalajara	25,691,107	1,356,576	1,848,669	7.2%	-882,145	689,267	$4.89
Tijuana	29,062,441	2,313,229	957,988	3.3%	1,348,624	2,007,666	$5.26
Mexico City	103,853,433	4,730,695	4,215,556	4.1%	2,096,142	10,021,136	$5.73
Lima	8,839,764	546,053	2,148,067	24.3%	403,668	1,056,715	$5.89
San Juan	2,150,000	-	259,000	12.0%	91,000	127,595	$9.20
Latin America	**460,501,804**	**28,167,322**	**57,889,007**	**15.2%**	**6,069,308**	**23,165,616**	**$6.61**

ECONOMIC CONDITIONS

Latin American countries reported mixed results in the last quarter of 2017. The political situation continues to negatively affect the stability of economic policies in most countries involved in electoral processes or corruption scandals. However, the increase in the international prices of minerals and the greater demand for raw materials has benefited several of the producing countries.

Argentina

The results of the congressional elections in October reinforced current government policy. The reforms that aimed to reduce economic distortions allowed a slight improvement. The, according to the ECLAC (Economic Commission for Latin America and the Caribbean), went from 2.9% in 2016 to 3.0% in 2017. This was also because of the increase in prices of raw materials and the recovery of the Brazilian economy. However, the fiscal deficit remains high at 6.0%, and inflation, although reduced from 40.5% to 22.9% in 2017, is above the initial goal. Therefore, larger and constant reforms are needed. With them, it is possible for the Argentinian economy to increase to 3.5% and inflation to decrease to 15.0%.

Brazil

The positive financial indicators of the Brazilian economy signaled an upward adjustment in the projected growth of 1.1% in 2017 and up to 3.0% in 2018. With the recession over, the agricultural sector led growth this year, expanding 12.8%, in line with the increase in family consumption.. Inflation closed this year at 2.8%, the lowest since 1998, and it is estimated to reach between 4.0% and 4.2% in 2018.

Chile

Chile's economy grew at a rate of 3.2% in the year ending November 2017. The economy's highest rate of growth in two years, it can mostly be attributed to the recent spike in the manufacturing and mining sectors. Mining production increased by 2.9%, and the international price of copper, of which Chile is the world's largest producer, rose by 26.8%. In addition, the balance of trade reached a surplus of $6.9 billion, which makes a positive economic background possible for 2018.

Colombia

The growth in the Colombian economy stood at 1.8% in 2016, down from 2.0% in 2016. The drivers of this year's growth were the agricultural and services markets, in contrast with the fall of the mining sector. Inflation reached 4.1% in November. The economy may require constant recovery to reach 2.6% in 2018, as a result of oil prices and better performance of the American and European markets.

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	1T17	2T17	3T17	4T17
Argentina (ARS)	$15.80	$16.15	$17.41	$17.84
Brasil (BRL)	$3.26	$3.31	$3.14	$3.28
Chile (CLP)	$674.97	$665.23	$633.11	$633.07
Colombia (COP)	$2,907	$2,996	$2,957	$3,013
Costa Rica (CRC)	$549.29	$571.44	$576.44	$569.81
México (MXN)	$19.30	$18.30	$17.86	$19.14
Perú (PEN)	$3.28	$3.26	$3.24	$3.24
Puerto Rico (USD)	$1.00	$1.00	$1.00	$1.00

Source: Investing.com

ECONOMIC CONDITIONS

Costa Rica

Costa Rica's economy grew 3.9% in 2017, 0.1% less than expected and below the 4.5% reached in 2016. This slower growth was mostly a consequence of the losses inflicted by the tropical storm upon the agricultural sector. Inflation in December was at 2.5%, as a result of the increase in international prices of primary goods. It is urgent that the nation reduce its fiscal deficit in order to prevent financing from negatively impacting the private sector. According to the ECLAC, Costa Rica may become the region's third-largest economy with the largest increase in productivity in 2018. In addition, the economy is projected to grow 4.1% in 2018.

Mexico

Mexico suffered an historical increase in its inflation rate during 2017, mostly because of an increase in the price of fuel. This affected the costs of public transportation and cargo transport.

The Mexican economic agenda in 2018 will be defined by two events: the NAFTA renegotiations which will conclude in March or April, and the presidential elections in July. Consequently, the first quarter's prospects are uncertain. Once they are known, stability and economic growth will return to the market.

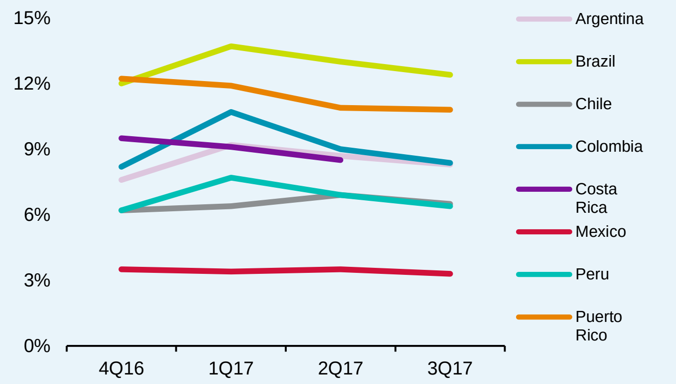
Peru

Peru's economic prospects are looking more positive for 2018 than for previous quarters. There have been major improvements in the country's construction, public investment and mining sectors, with larger exports and higher prices in the latter. However, the current political instability may slow economic growth to less than 4.0%, the government's target rate. On the other hand, last year's natural events and the 2019 Pan American Games have created reconstruction and infrastructure projects that will benefit from public investment in 2018.

Puerto Rico

The Tax Cuts and Jobs Act (TCJA) may further complicate the recovery of Puerto Rico. The island's status as an unincorporated organized territory means this reform will impact the island's controlled foreign corporations (CFC). The 12.5% tax on intellectual property territories such as Puerto Rico will affect investment in pharmaceutical and medical equipment companies. The rate breaches between Puerto Rico and the rest of the United States may discourage future investment on the island.

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

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