RESEARCH

Newmark Knight Frank

# LATIN AMERICA
## 4Q17 OFFICE MARKET

# MORE THAN 5.7 MILLION SQUARE FEET ABSORBED BETWEEN SAO PAULO AND MEXICO CITY

2017 was characterized by the constant growth of the capitals of Brazil and Mexico. Annual absorption in Mexico City and Sao Paulo totaled 5.7 million square feet. These cities also had the largest inventories in the region, with 67.6 million square feet and 44.5 million square feet, respectively. The average vacancy rate in Latin America stood at 16.0%.

### Buenos Aires, Argentina

The fourth quarter of the year confirmed the recovery of the office market in Buenos Aires. The vacancy rate decreased by 0.7% to 6.2%, equivalent to 852,000 square feet. Absorption grew noticeably by 497,000 square feet, bringing year-to-date absorption to 709,000 square feet. Total inventory reported 13.6 million square feet, and the average asking rent held stable at $30.54/SF.

### Rio de Janeiro, Brazil

The office market of Rio de Janeiro showed growth in inventory due to the delivery of 889,400 square feet and reached 25.1 million square feet. Absorption regained steam with 405,600 square feet, and vacancy stood at 36.6%, the highest of the region. In a year marked by ups and downs, year-to-date absorption was 108,800 square feet, and the average asking rent dropped by 7.7% to $32.84/SF.

### Sao Paulo, Brazil

Brazil's financial center boasted the region's fastest growing inventory, which surpassed 44.5 million square feet. Despite this rapid growth, both the vacancy rate of 20.3% and quarterly absorption of 471,000 square feet are signs of market stability. Year-to-date absorption totaled 3.3 million square feet, the highest in Latin America. The average asking rent dropped by $1.95/SF and ended the year at $29.84/SF.

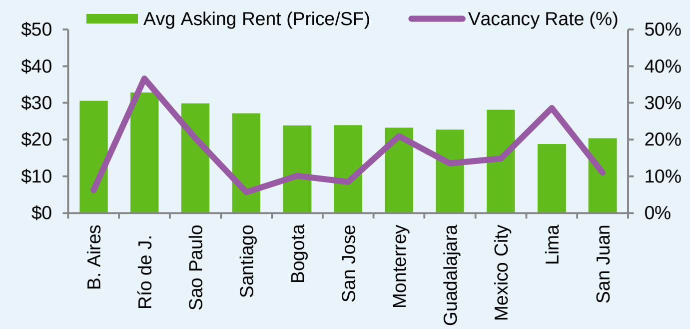
### Santiago, Chile

Santiago's office inventory was unchanged, with a total of 23.2 million square feet. Quarterly absorption fell off by 26,000 square feet, yet the vacancy rate dropped slightly to 5.7%. This market ended the year with a significant slowdown and 1.1 million square feet of year-to-date absorption. The average asking rent increased by 9.2% to $27.11/SF.

## Current Conditions

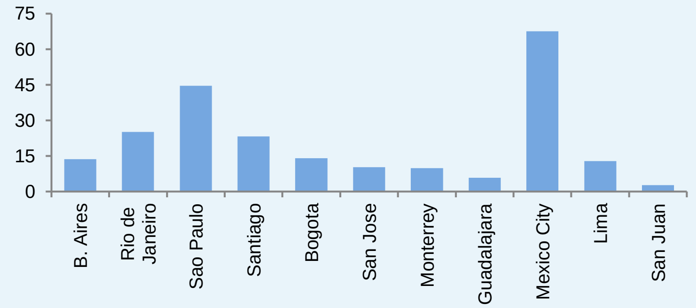
- The region's inventory grew by 1.6% for a total of 229.9 million square feet.
- Year-to-date absorption in the region totaled 7.9 million square feet.
- Total vacancy, at 16.0%, stands at the same level of last quarter in spite of the growth of 3.7 million square feet of the inventory

## Asking Rent and Vacancy




## Inventory per City

Square feet, millions




## Market Summary

| | Current Quarter | Prior Quarter | 12 Month Forecast |
|---|---|---|---|
| Total Inventory (SF) | 229.9M | 226.2M | ↑ |
| Vacancy Rate | 16.0% | 16.3% | ↔ |
| Quarterly Net Abs. (SF) | 3.6M | 0.8M | ↓ |
| Avg. Asking Rent | $22.94 | $23.23 | ↑ |
| Under Construction (SF) | 37.1M | 39.1M | ↔ |
| Deliveries (SF) | 3.7M | 5.5M | ↓ |

# LATIN AMERICA
## 3Q17 OFFICE MARKET

### Bogota, Colombia
Bogota's office Market posted an inventory of 14.0 million square feet with an average asking rate of $23.85/SF. The city registered a vacancy rate of 10.1%, or 1.4 million square feet. The absorption in this quarter was 75,000 square feet.

### San Jose, Costa Rica
The office market of this capital city closed the year on a positive note, as 258,400 square feet were delivered to inventory, for a total of 10.2 million square feet. Fourth-quarter absorption totaled 343,500 square feet, double the amount reported in the previous quarter, and the vacancy rate dropped to 8,5% The average asking rate decreased slightly to $23.96/SF.

### Monterrey, Mexico
The city reported a positive fourth quarter. Its inventory increased by 258,200 square feet, for a total of 9.9 million square feet. The city's vacancy rate, although stable, remained high at 20.9%, with nearly 2.7 million square feet under construction. Year-to-date absorption totaled 761,300 square feet, and asking rent at year-end averaged $23.19/SF.

### Guadalajara, Mexico
Guadalajara's inventory grew by 215,000 square feet during the fourth quarter, for a total of 5.8 million square feet. The city's vacancy rate fell to 13.5%, while its absorption dropped to 71,500 square feet. In a year with several ups and downs, year-to-date absorption totaled 697,700 square feet and the average asking rent decreased slightly to $22.72/SF.

### Mexico City, Mexico
The office market reported the largest inventory in the region with 67.6 million square feet after the delivery of 522,000 square feet in the fourth quarter.

There was a remarkable increase in absorption during the fourth quarter, from 9.9 million square feet to 10.9 million square feet. Consequently, the vacancy rate decreased by 1.5% to 14.8. Year-to-date absorption totaled 2.5 million square feet, the second-highest in Latin America.

### Lima, Peru
The inventory in Peru's capital surpassed 12.9 million square feet, as 269,000 square feet of new office space was delivered during the fourth quarter. The city's vacancy rate ticked up to 28.6%, one of the highest of Latin America. Nevertheless, Lima's asking rate, already the lowest in the region, held stable at $18.81/SF. Year-to-date absorption totaled 637,300 square feet, which does not encourage expectations of future growth for the coastal city.

### San Juan, Puerto Rico
San Juan's inventory ended the year unchanged. However, vacancy decreased during the fourth quarter, as a result of the occupation of federal agencies and the U.S. Army, which arrived to assist with the disaster recovery. Consequently, the San Juan office market's year-to-date absorption totaled 46,250 square feet, and its average rent increased to $20.35/SF.

**Market Summary**

| City | Total Inventory (SF) | Under Construction (SF) | Total Vacancy (SF) | Total Vacancy Rate | Qtr Net Absorption (SF) | YTD Net Absorption (SF) | Total Asking Rent (Price/SF) |
|---|---|---|---|---|---|---|---|
| Buenos Aires | 13,668,078 | 3,916,858 | 851,931 | 6.2% | 496,884 | 709,159 | $30.54 |
| Río de Janeiro | 25,124,882 | 579,454 | 9,203,186 | 36.6% | 405,649 | 108,769 | $32.84 |
| Sao Paulo | 44,530,253 | 2,957,675 | 9,052,836 | 20.3% | 470,943 | 3,280,226 | $29.84 |
| Santiago | 23,257,021 | 1,631,023 | 1,336,103 | 5.7% | 26,006 | 1,137,950 | $27.11 |
| Bogotá | 14,052,435 | 1,945,609 | 1,413,670 | 10.1% | 74,981 | 833,837 | $23.85 |
| San José | 10,275,078 | 938,861 | 869,767 | 8.5% | 343,509 | 826,141 | $23.96 |
| Monterrey | 9,943,011 | 776,013 | 2,074,302 | 20.9% | 232,296 | 761,353 | $23.19 |
| Guadalajara | 5,812,511 | 2,671,463 | 782,364 | 13.5% | 71,505 | 697,674 | $22.72 |
| Mexico City | 67,585,105 | 19,611,704 | 9,987,940 | 14.8% | 1,234,986 | 2,493,998 | $28.09 |
| Lima | 12,925,206 | 712,571 | 3,696,607 | 28.6% | 141,513 | 637,299 | $18.81 |
| San Juan | 2,700,000 | - | 297,956 | 11.0% | 84,045 | 78,781 | $20.35 |
| **Latin America** | **229,873,577** | **37,081,035** | **39,569,661** | **16.0%** | **3,582,315** | **7,982,871** | **$25.57** |

# 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 that, 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 experience the region's third-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.

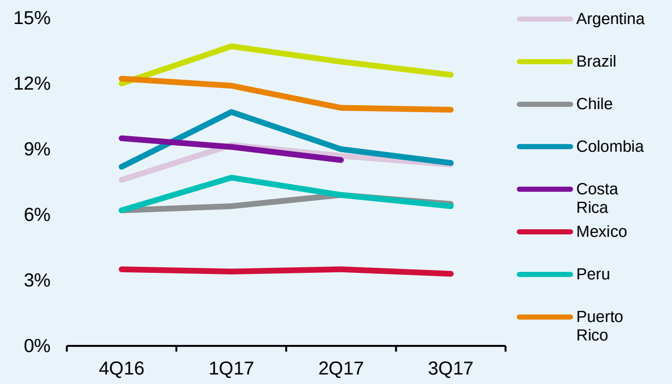
### Peru

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**

**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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