

GRAN SANTIAGO, CHILE Q3 2019 OFFICE MARKET

COWORKING OPERATORS DRIVE DEMAND FOR NEW OFFICE SPACE

Economic expectations have adjusted downwards throughout the year, from an original GDP growth projection of 3.50% for 2019 to a range of 2.25-2.75% according to the latest Ipm by the Central Bank. The international landscape has seen relevant changes in the last quarter, highlighted by the trade conflict between USA and China. However, local economic measures have been ineffective in achieving impactful results amid a context of labor and tax discussions. The investment component of the economy (FBCF) performed well and was driven mostly by large mining projects, translating into activity in the engineering and construction sectors. Nevertheless, this activity was mostly limited to those industries.

The office market remains tight, with steady demand outpacing new supply. Construction activity is slowly gaining traction, although pipeline is still below the 5 year average. This situation has particularly hit the Class A market, where vacancy rate has dropped constantly for all but one quarter since early 2016. During this period, it was observed how some large units vacated back onto the market were quickly leased out by awaiting tenants in submarkets such as Nueva Las Condes and Santiago Centro. This situation highlights how decision-makers must be agile, diligent and efficient when browsing and evaluating alternatives.

General Class A+B vacancy rate dropped 140 basis points from the previous period to 4.55%, which represents 174,000 sqm available at the moment. Half of the submarkets in the city recorded a vacancy rate below 3%, and they represent only one third of the space under construction. Therefore, it is expected that the bulk of absorption in the next couple of years will come either from the leasing of the limited existing units, or from units released back to market. Important leasing activity was recorded in the following buildings: Nueva Santa María (3,000 sqm), Costanera Lyon I (1,400 sqm) and Nueva Costanera 3605 (3,000 sqm).

Most of the space currently in the market comprises units between 250-350 sqm. which makes it difficult to arrange larger units. As a consequence some companies are getting into leases for smaller offices right now, in order to be in line for priority opportunities in the same building later. Situations such as these are behind the rise in interest for flexible office space –corporate coworking, that allow for incremental growth in the number of desks.

During Q3 2019 20,500 sqm were delivered, spread between 10,500 sqm in Costanera Center (Class A) and 10,000 sqm in Nucleo Bellavista (Class B). Similar to 2018, most of the new supply with mid and large plate size, has been leased out to coworking operators. The latest example being Nucleo Bellavista, adding to Los Militares 4615 earlier in the year. It is expected that this trend will continue during 2020.

Looking into the year-end –a regular pattern at this stage of the year- there is an open question on whether deals in the making will come into effect by december. Additionally, at least 30,000 sqm are projected to enter the market. From a pricing standpoint, there were no significant changes during the year, perhaps a synthonm of cautious clients or a higher negotiation leverage, even in a context of low availability.

Current conditions

- General vacancy rate reached a new low since 2013, closing at 4.55%
- 2019 Year-to-date absorption totals 100,000 sqm
- A new stage of the Costanera Center tower entered the Class A market, with over 20,000 sqm of office space. In Class B the Nucleo Bellavista building was delivered (10,000 sqm)
- Average asking rates remain unchanged

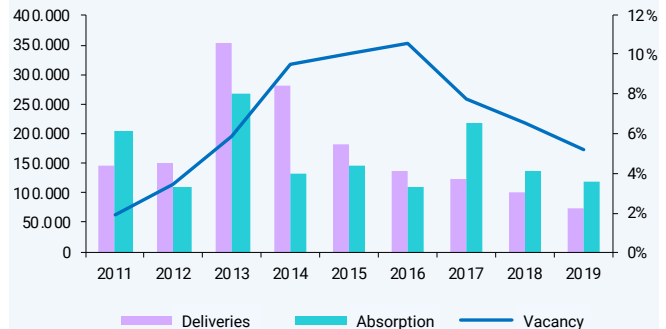
Total inventory (sqm)



Central Bank 30/09/19

CPI (12 months)	2.1%
Unemployment	7.0%
<u>Exchange rate</u>	
(CLP/USD)	718.4
UF (CLP/UF)	28,022
<u>Interest rate (CLP)</u>	
BCP 5 years	2.48%
BCP 10 years	2.71%

Class A+B: Evolution 2011-2019



Class A+B: Market summary

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total inventory (sqm)	3,826,345	3,806,763	3,788,594	↑
Vacancy	4.55%	5.90%	7.06%	↓
Net absorption (sqm)	53,425	18,246	19,739	↔
Avg. Asking rate (month)	0.49	0.49	0.48	↑
Under construction (sqm)	265,373	285,873	227,669	↔

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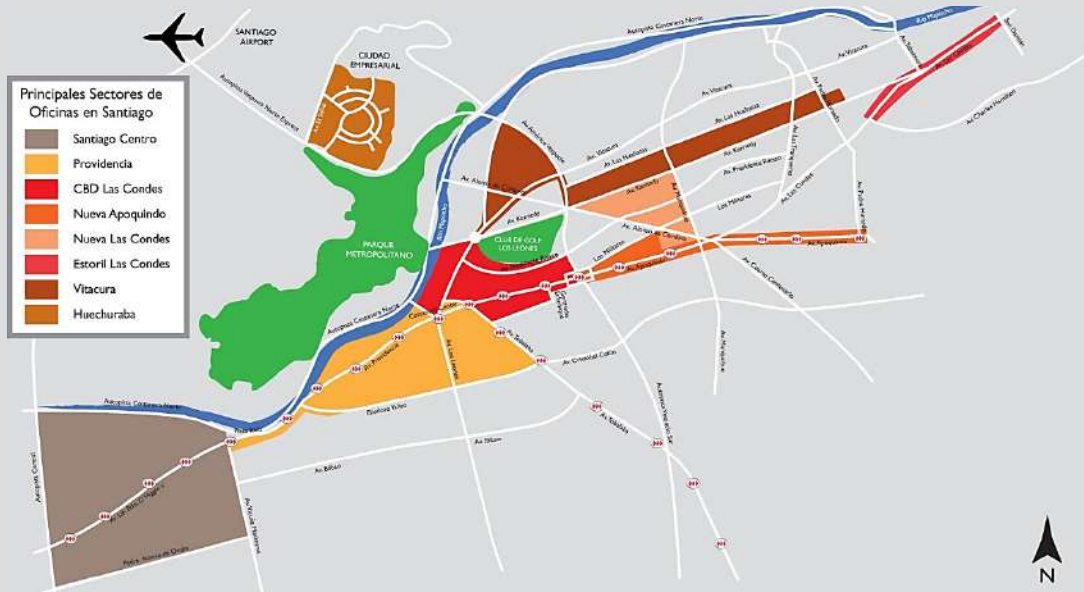
Santiago submarket statistics

CLASS A							
Submarket	Inventory (sqm)	Vacancy (sqm)	Vacancy (%)	Deliveries (sqm)	Absorption (sqm)	Under Construction (sqm)	Avg. Asking Rate (UF/sqm)
CBD (Las Condes)	866,213	30,698	3.54%	10,500	7,895	114,733	0.60
Nueva Las Condes	439,835	6,585	1.50%	0	5,370	34,852	0.58
Nueva Apoquindo	262,343	5,391	2.05%	0	4,875	0	0.54
Santiago	445,577	7,839	1.76%	0	600	0	0.42
Providencia	188,423	14,661	7.78%	0	5,573	0	0.49
Total	2,202,390	65,174	2.96%	10,500	24,313	149,585	0.53

CLASS B							
Submarket	Inventory (sqm)	Vacancy (sqm)	Vacancy (%)	Deliveries (sqm)	Absorption (sqm)	Under Construction (sqm)	Avg. Asking Rate (UF/sqm)
CBD (Las Condes)	125,784	5,457	4.34%	0	-37	0	0.54
Nueva Las Condes	69,559	959	1.38%	0	398	7,296	0.56
Nueva Apoquindo	77,649	4,651	5.99%	0	1,307	17,310	0.52
Estoril	97,270	26,570	27.32%	0	1,477	14,697	0.45
Santiago	254,113	4,944	1.95%	10,000	12,041	0	0.40
Providencia	439,272	10,788	2.46%	0	6,154	41,461	0.46
Vitacura	248,107	18,120	7.30%	0	6,337	25,619	0.51
Huechuraba	312,201	37,548	12.03%	0	1,436	9,405	0.30
Total	1,623,955	109,037	6.71%	0	19,113	115,788	0.47

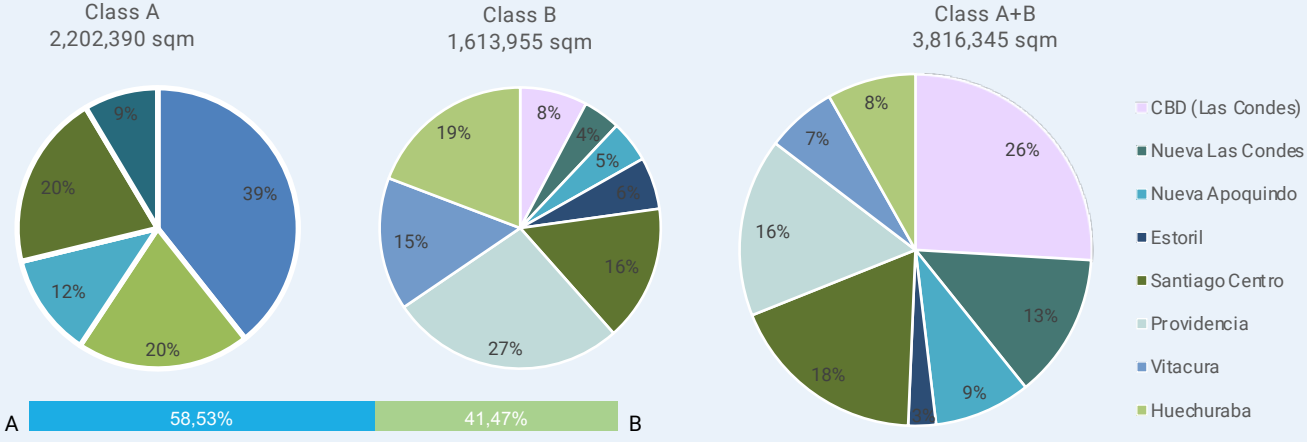
CLASS A+B	3,826,345	174,212	4.55%	20,500	53,425	265,373	0.49
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Submarket map

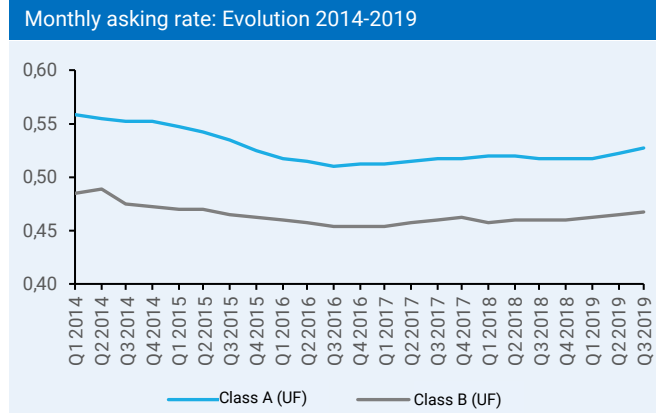
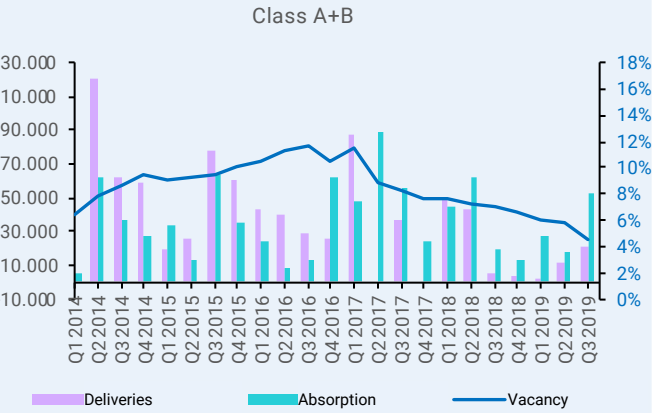
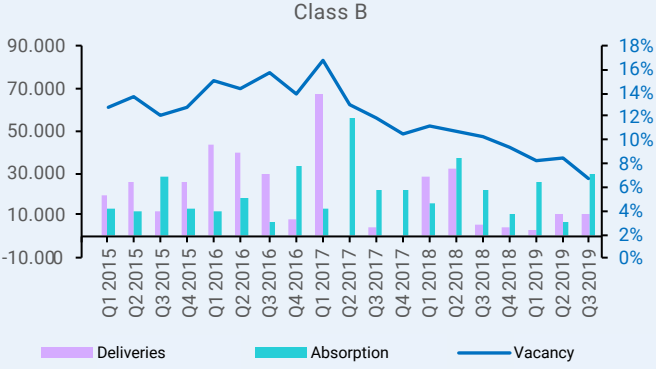
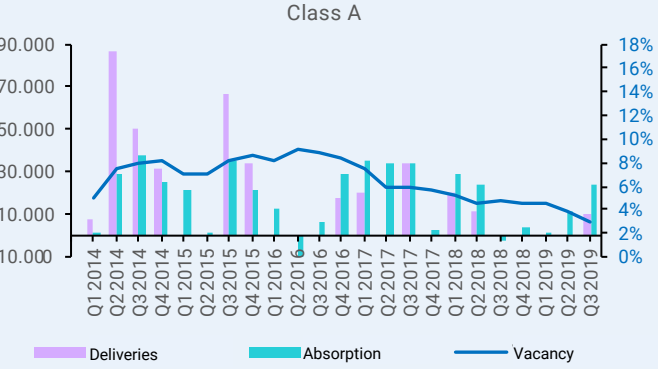


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Market breakdown



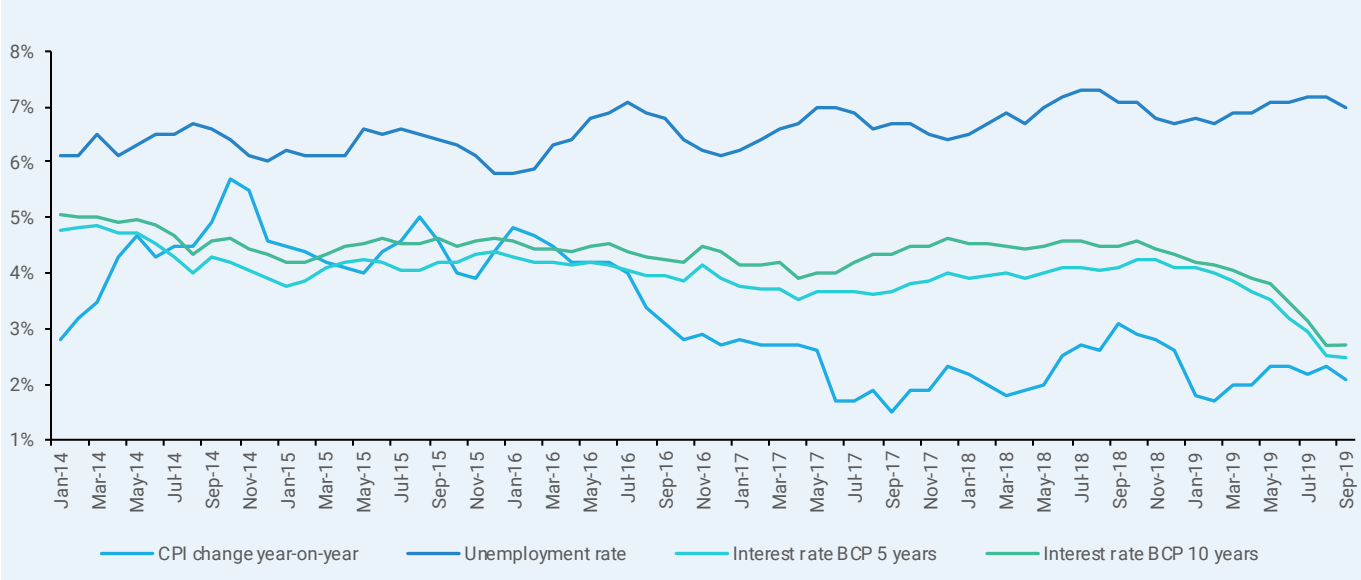
Deliveries, net absorption and vacancy: Evolution 2015-2019



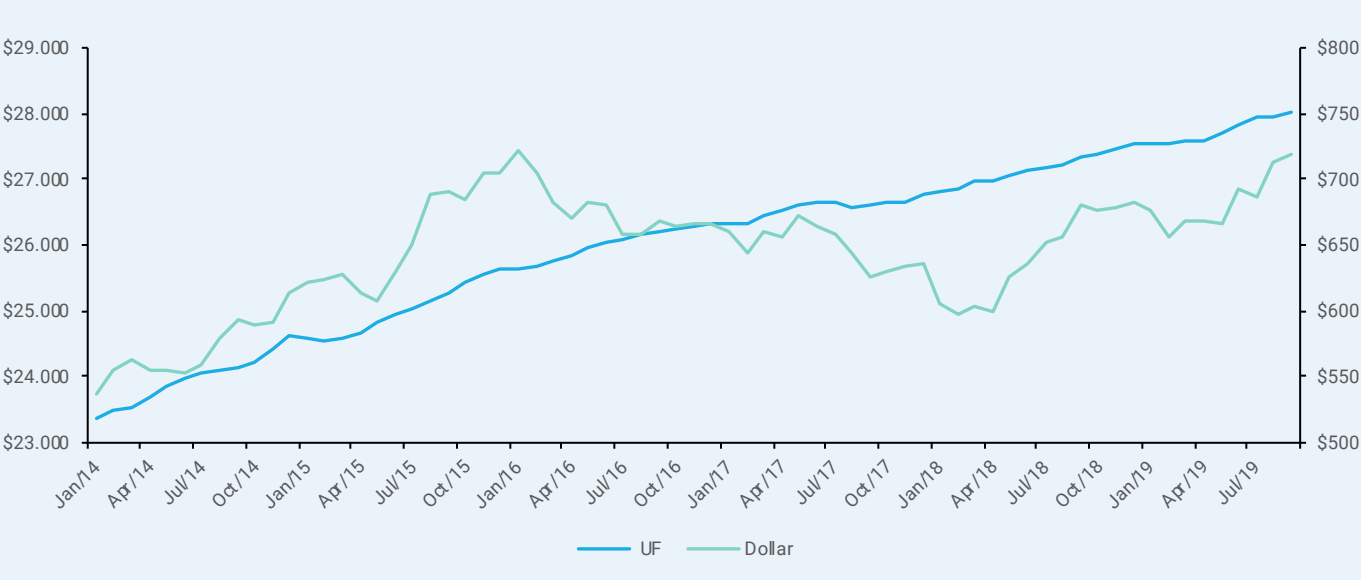
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Q3 2019 OFFICE MARKET

Chile macroeconomic indicators (Central Bank of Chile)

CPI, unemployment and treasury bonds (BCP, in Chilean pesos): Evolution 2014-2019



UF and dollar: Evolution 2014-2019



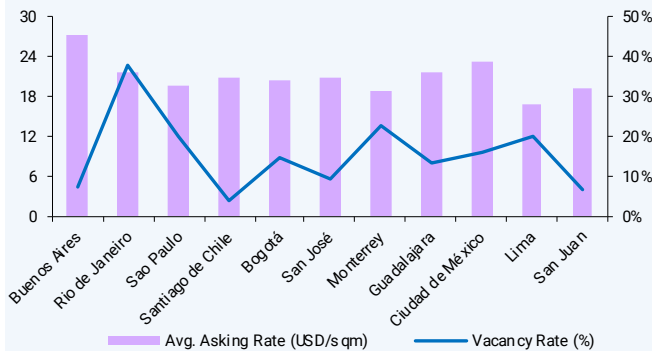
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Latin America Class A office markets Q2 2019 (VIEW FOOTNOTE)

Current conditions

- Out of 590,000 sqm delivered in the region, more than 50% are located in Mexico City
- Vacancy rate was 17.2%, only 0.1% above the previous quarter, even considering absorption decreased by 45%.

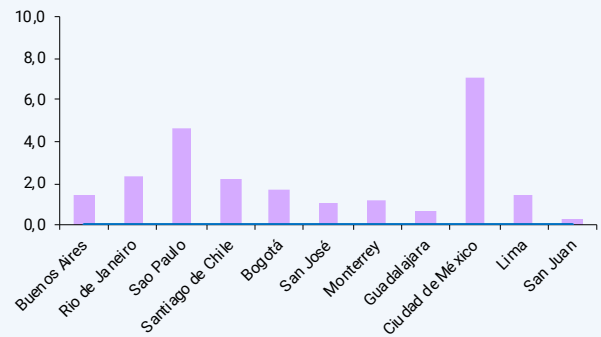
Average asking rate vs Vacancy



Market summary

	Current Quarter	Prior Quarter	12 Month Forecast
Total inventory (sqm)	23,95M	23,36M	↑
Vacancy	17,2%	17,1%	↑
Net absorption (sqm)	103.619	187.913	↑
Avg. Asking rate (month)	USD 20,93	USD 21,28	↓
Under construction (sqm)	2,67M	2,88M	↓
Deliveries (sqm)	589.256	214.598	↓

Total inventory by city (sqm., millions)



Market statistics by city

City	Total Inventory (sqm)	Under Construction (sqm)	Vacancy (%)	Absorption (sqm)	YTD Absorption (sqm)	Avg. Asking rate (USD/sqm)
Buenos Aires	1,473,291	447,427	7.7%	16,328	7,449	27.18
Rio de Janeiro	2,299,161	20,297	37.8%	3,901	29,639	21.73
Sao Paulo	4,692,134	153,768	20.1%	17,249	60,528	19.76
Santiago de Chile	2,191,890	160,085	4.0%	11,615	13,401	20.78
Bogotá	1,746,000	72,600	14.6%	36,700	89,366	20.62
San José	1,053,282	123,913	9.5%	10,090	28,357	20.63
Monterrey	1,111,051	383,003	22.8%	22,533	37,330	18.98
Guadalajara	659,558	121,888	13.3%	8,838	16,301	21.63
Ciudad de México	7,096,456	1,106,269	15.8%	-61,137	-52,591	23.33
Lima	1,373,230	78,393	20.3%	34,715	57,986	16.80
San Juan	250,838	-	7.0%	2,787	3,771	19.25
Latinoamérica	23,946,891	1,667,643	17.2%	103,619	291,532	20.93

NOTA

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Newmark Knight Frank

Glossary

Absorption

A measure of the change in occupied space. Availability Space marketed for lease regardless of when the space will be available or whether the space is vacant or occupied.

Deliveries

The total RBA of properties added to the inventory once construction has been completed.

Direct Space

Available space offered for lease by the building owner, landlord, or owner representative.

Leasing Activity

The volume of leases signed including new leases, direct and sublet leases, extensions and renewals, and leases signed in proposed or under construction buildings.

Occupancy

Any space physically occupied by a tenant, regardless of lease status of the space.

Rentable Building Area (RBA)

A measurement of the total square feet in a building including the tenant and common areas such as the lobby and hallways.

Sublet Space

Available space offered for lease by a building tenant seeking a subtenant to fulfill the remaining lease obligation.

Under Construction

Buildings under construction are defined by the time the foundation is poured through the time the building is certified for occupancy.

Vacancy

Space not physically occupied by a tenant, regardless of the lease status or availability of space.

Weighted Average Rent

The asking dollar amount for the use of available space, weighted by size—the average does not include negotiable or unpublished rates and is reported as full service including operating costs.

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