RESEARCH Q2 2021

Costa Rica Office Market

Business Expansion Reactivated

For the second quarter of 2021, the office real estate market in the GAM registers slight changes compared to the first quarter of the year. After several months of uncertainty, there has been a reactivation in the interest of users to resume the initiatives of expansion and establishment of business operations gestated since 2019. As well as new needs on the part of companies already installed to migrate their activity to other properties. In search of greater efficiency in leased spaces with more flexible contractual conditions.

Increase in the remodeling of spaces, by property owners in categories B and C in search of retaining their current tenants. Due to the high levels of migration present during the last three years.

It is important to note that the requirements of some users have begun to materialize to reduce the areas used. Based on the recent teleworking model (which although it is true does not propose the total disuse of offices) it predicts a rotating work scheme between the office and the home, which allows tenants to contract the spaces.

Current Conditions

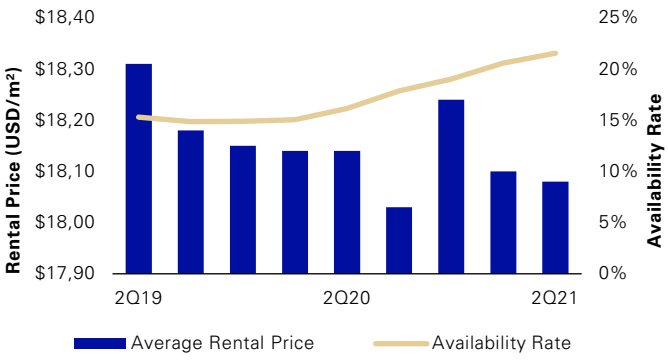
- More favorable office market for current and future tenants, who consider the current situation to achieve better conditions.
- Increase in migration to modern properties that provide optimal facilities and amenities with the latest trends.
- Reduction of spaces due to the fact that a hybrid work modality has been implemented.

Market Overview

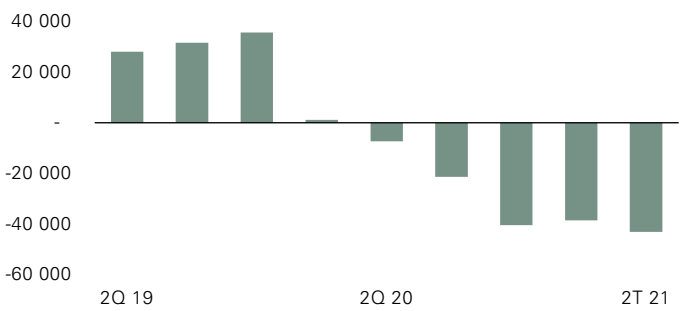
	Current Quarter	Previous Quarter	Previous Year	12 Month Projection
Total Inventory (m²)	2.39M	2.36M	2.26M	↑
Availability Rate	24.02%	23.01%	17.47%	↑
Quarterly Net Absorption (m²)	(43,160)	(38,548)	(7,382)	↓
Rental Price (USD/m²/month)	$18.08	$18.10	$18.14	↓
Under Construction (m²)	71,239	95,704	178,602	↓

Market Analysis

AVERAGE RENTAL PRICE AND AVAILABILITY RATE



NET ABSORPTION (m²)



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Increasing Availability Rate

Of the entire market, this indicator was set at 21.53% and excluding Class C it was 18.30%. This is justified by the migration and reduction of areas by companies already installed. As much as for the delay in the negotiation of conditions of the new demand during the first six months of the year.

The results at the end of the second quarter of 2021 reflect a significant deterioration in the office real estate market. Where the increase in the availability rate and the decrease in demand place the market in the oversupply phase according to the Real Estate cycle. Over the past year, a considerable delay in the closing of transactions has been confirmed. Consequence of the uncertainty that users of this type of facility have experienced.

The current scenario forecasts an increase in availability due to the reduction of spaces and the exit of companies. Whose business was affected by the mobility restriction measures, projecting a more flexible modality of work. Which workers have rotating schemes of assistance to the office and work from home.

Conservative Inventory Growth

By the end of June 2021, the office market inventory was set at 2,394,295 square meters of total leasable area. -1.39% compared to the same period in 2020.
Quarterly supply growth was quite conservative. It corresponds to new class A+ developments in the West sector of San José, specifically in Escazú. For the next two quarters the inventory will show greater growth with the delivery of new properties in categories A +, A.

Demand Contraction

The gross absorption was 47,220 square meters, where more than half corresponds to class A and B properties. Particularly in properties that have just entered the market, reflecting an occupancy rate of 1.97%. Net absorption stood at -43,160 square meters, which means the disuse of more than 90,000 square meters during the last year.

This trend will continue throughout 2021, considering the intentions of migration and reduction of spaces. Consequence of the effects of the crisis experienced during 2020 and so far in 2021.

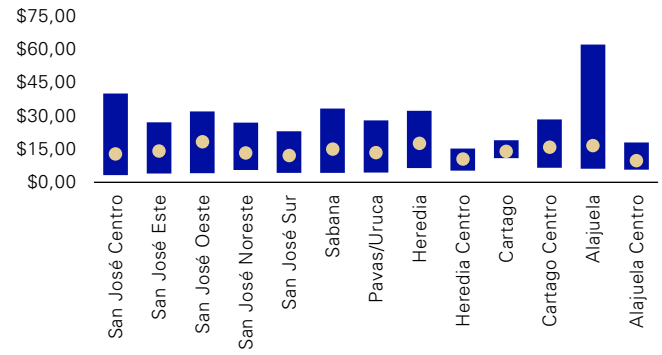
Prices in Relative Stability

The average listed rental price for the second quarter of this year was US$ 18.08 per square meter per month. The settlement price for this same period was USD$16.40 per square meter per month, after negotiations.

The relative stability in rental prices is due to new properties that entered the market with better specifications. The rental price ranges of class B and C categories are wide and intersect with higher categories. Element of great weight that has motivated users to migrate to better categories maintaining the prices they currently pay or slightly higher. This trend has been maintained for several years and is expected to continue throughout this year.

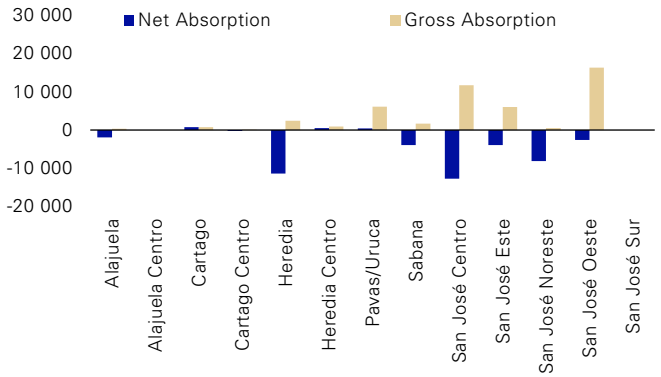
Starting Price Ranges by Submarket

AVERAGE RENT (USD/m²)



Submarket absorptions

NET AND GROSS (m²)



Slow Recovery

Despite this crisis, demand shows signs of recovery with expansion initiatives of already established companies and the arrival of new service operations in the country.

Once it is safe for the workforce to return to normalcy. The high migration that has been appreciated since the last three years, proposes to the owners to consider investing in improving the properties; those that show a greater degree of deterioration or otherwise consider changing the use of them.

Having biosecurity measures in the offices has been one of the permanent changes that the health crisis has brought. These elements are considered of high importance for current and new tenants.

An element that takes increasing importance in the expectations of new prospects, is the delivery of spaces with improvements that allow them to save time in the establishment of their operations. Models such as the turnkey or even the "Plug & Play". They are increasingly frequent in the needs of potential users who show interest in settling in the country.

Statistics by Submarket

Submarkets	Inventory (m²)	Construction (m²)	Availability (%)	Net Absorption	Gross Absorption	Average Rent (USD/m²)	Maintenance (USD/m²)
Alajuela	40,921	0	18.0%	-1,939	300	$14.71	$2.96
Alajuela Centro	690	0	66.3%	0	0	$10.70	-
Cartago	13,646	0	1.93%	752	752	$17.92	$2.65
Cartago Centro	19,341	0	23.8%	-227	350	$16.80	-
Heredia	532,775	45,057	19.2%	-11,409	2,424	$19.39	$3.54
Heredia Centro	10,350	0	26.0%	533	942	$10.00	-
Pavas/Uruca	157,758	0	23.9%	463	6,134	$15.92	$3.27
Sabana	214,608	0	13.4%	-3,922	1,711	$19.48	$3.30
San José Centro	451,690	2,361	29.7%	-12,749	11,733	$14.13	$2.72
San José Este	221,012	0	24.6%	-3,960	6,050	$17.08	$2.99
San José Noreste	169,853	4,490	17.4%	-8,080	467	$17.78	$3.60
San José Oeste	542,386	16,909	19.9%	-2,622	16,357	$20.53	$3.88
San José Sur	19,265	2,422	22.3%	0	0	$10.75	$2.60
Total	**2,394,295**	**71,239**	**21.5%**	**-43,160**	**47,220**	**$18.08**	**$3.53**

Statistics by Property Class

Property Class	Inventory (m²)	Construction (m²)	Availability (%)	Net Absorption	Gross Absorption	Average Rent (USD/m²)	Maintenance (USD/m²)
A+	248,226	0	15.3%	-1,631	5,757	$23.71	$4.55
A	982,404	59,678	17.9%	-9,290	16,525	$20.09	$3.50
B	703,965	1,878	19.7%	-24,415	11,970	$16.30	$2.84
C	459,700	9,683	35.1%	-7,824	12,968	$12.01	$1.96
Total	**2,394,295**	**71,239**	**21.5%**	**-43,160**	**47,220**	**$18.08**	**$3.53**

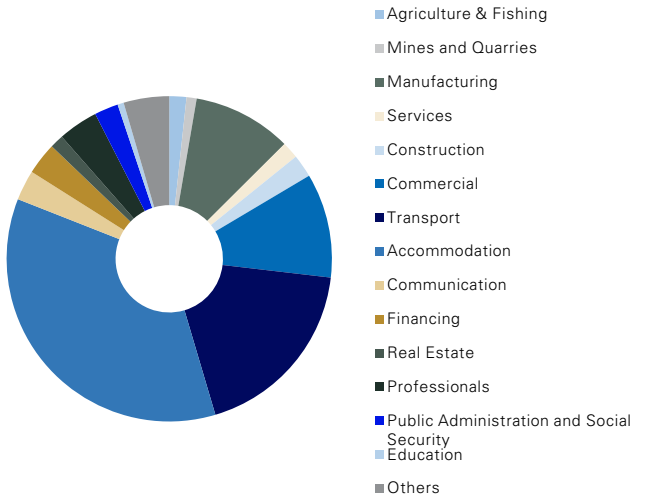
Stable Economy

The economic situation of the country and the effect of the pandemic have come to feed the intention of users. For establishing themselves in properties with wellness specifications and amenities that enhance the efficiency, safety and comfort of their workforce.

During the first half of 2021, general inflation, measured by the year-on-year variation of the Consumer Price Index (CPI), remains low, in June it stood at 1.9%. The country's production, measured by the trend cycle series of the Monthly Index of Economic Activity (IMAE), registered an increase in May 2021 with a year-on-year variation rate of 7.9% (-7.0% in May of the previous year). Although most industries registered growth in their production in year-on-year terms, in some cases it has not been enough to reach pre-pandemic levels.

Employment by Sector of Economic Activity

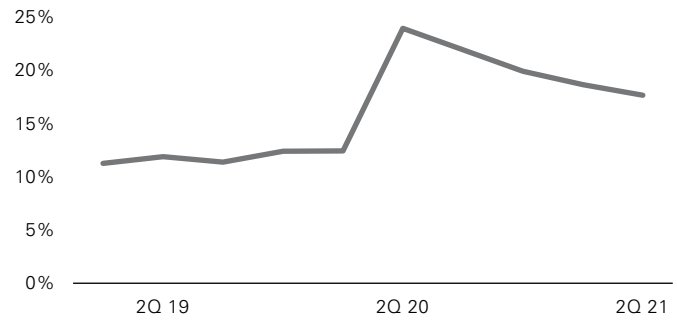
GREATER METROPOLITAN AREA, MAY 2021



Source: Department of Macroeconomic Statistics

Unemployment Rate

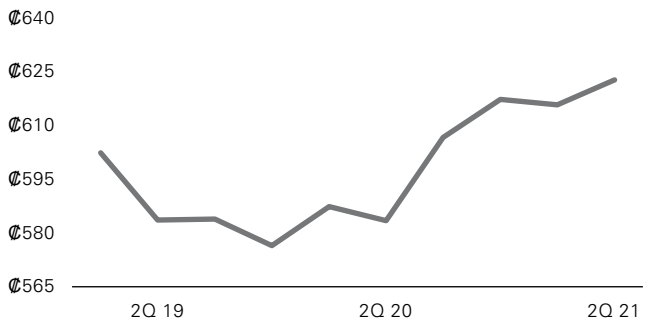
QUARTERLY INDICATOR



Source: National Institute of Statistics and Censuses (INEC).

Exchange Rate

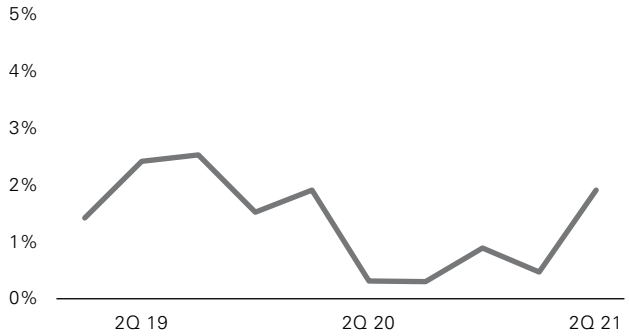
COLONS (CRC) PER US DOLLAR (USD)



*Source: Central Bank of Costa Rica

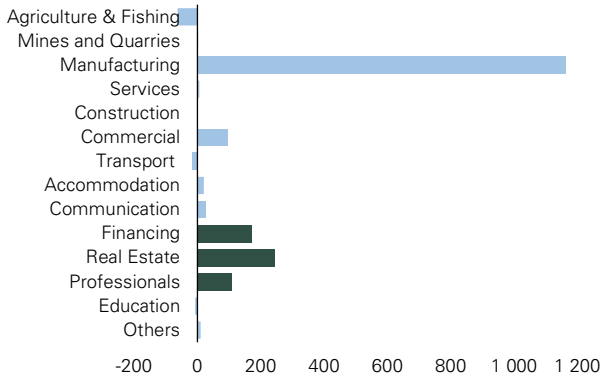
National Consumer Price Index (INPC)

YEAR-ON-YEAR CHANGE



*Source: National Institute of Statistics and Censuses (INEC).

Foreign Direct Investment



Source: Interinstitutional Group of Foreign Direct Investment (Central Bank of Costa Rica, Costa Rican Coalition of Development Initiatives, Foreign Trade Promoter, Ministry of Foreign Trade and Costa Rican Institute of Tourism).

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