



# Greater Metropolitan Area of Costa Rica Office Market

## New Trends Benefit Tenants

During the last three months, a trend of reducing business spaces is identified, as well as renegotiation of rental contracts. Product of the implementation of mixed work models from home and office.

Users seek greater efficiency and flexibility in their costs as in their real estate contracts. In addition to preferring to settle in already finished spaces under the "turnkey" and "plug & play" delivery models. Tenants choose the increase in rent as an operating expense through the contract to avoid getting involved in the processes of remodeling and adaptation of the properties.

Significant investments by owners to improve the appearance and efficiency of older properties, in order to keep them competitive. Reducing the delivery time of the spaces and the amenities they provide to the user are characteristics to be among the best competitors.

### Current Conditions

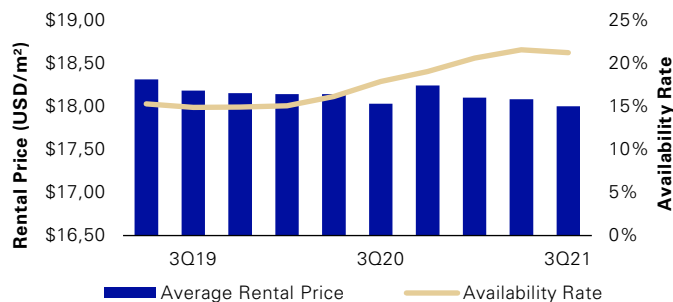
- The current situation between supply and demand in the office market has led to a much more favorable environment for tenants during the negotiation of leases.
- Increased competitiveness between the owners of the different business complexes within the GAM.
- Increase in availability due to the reduction of spaces and the exit of companies whose business was affected by the mobility restriction measures.

### Market Overview

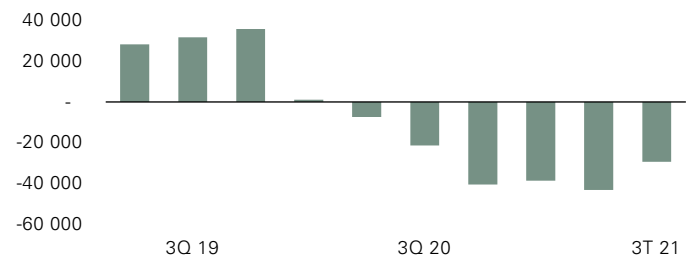
	Current Quarter	Previous Quarter	Previous Year	12 Month Projection
Total Inventory (m <sup>2</sup> )	2.40M	2.39M	2.29M	↑
Availability Rate	23.60%	24.02%	18.98%	↑
Quarterly Net Absorption (m <sup>2</sup> )	(29,334)	(43,160)	(21,427)	↓
Rental Price (USD/m <sup>2</sup> /month)	\$18.00	\$18.08	\$18.03	↓
Under Construction (m <sup>2</sup> )	78,400	71,239	139,253	↓

### Market Analysis

#### AVERAGE RENTAL PRICE AND AVAILABILITY RATE



#### NET AND GROSS ABSORPTION (m<sup>2</sup>)



### Continuous Growth

By September 2021, the office market inventory was established at 2,401,297 square meters of total leasable area, equivalent to a growth of 1.62% over the same period of 2020. Among the new revenues we can mention the projects of Torre Lex with 2,800 m<sup>2</sup> and Cien Calle Blancos Corporate Center with 4,490m<sup>2</sup>.

The quarterly growth of the offer was 0.3%, which corresponds to new class A developments in the West sector of San José, specifically in Escazú. For the next two quarters, inventory will show further growth with the delivery of new Class A properties.

The average market availability rate was set at 21.2%, excluding class C remains at 18.0%. Product of the migration and reduction of areas by the companies already installed. Including the delay in negotiating conditions of the new demand during the first nine months of the year. The highest levels of availability continue to predominate in categories B and C, as a result of the obsolescence shown by some buildings.

### Increased Migration and Reduction of Spaces

At the end of the third quarter, gross absorption was 86,560 square meters, reflecting an occupancy rate of 3.6%. The largest absorption corresponds to class A and B properties, particularly in properties that enter the market. The projects with the most delivery footage can be mentioned Zona Franca

América with 9,600 m<sup>2</sup> and Torre Mercedes with 5,714 m<sup>2</sup>. The net absorption was located at -29,334 square meters, which means the disuse of more than 114,000 square meters.

During the last year, mainly in class B properties, it confirms the effect of the teleworking model on the reduction of spaces and the growing migration of class B and C properties to class A. This trend will continue during the rest of 2021, considering the intentions of migration and reduction of spaces as well as the future processes of renegotiation and in process.

### High Price Range

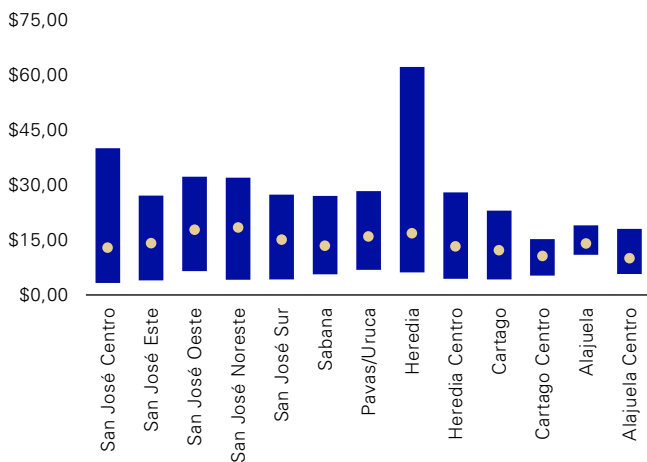
The average listed rental price for the third quarter of this year was USD\$ 18.00 per square meter per month. The closing price for this same period was US\$ 16.20 per square meter per month, after negotiations.

Today, there is a wide range of list prices considering the different types of delivery, either from new or second-generation spaces. This has led to more extensive and complex negotiation processes where the benefits are mostly for the tenant.

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.

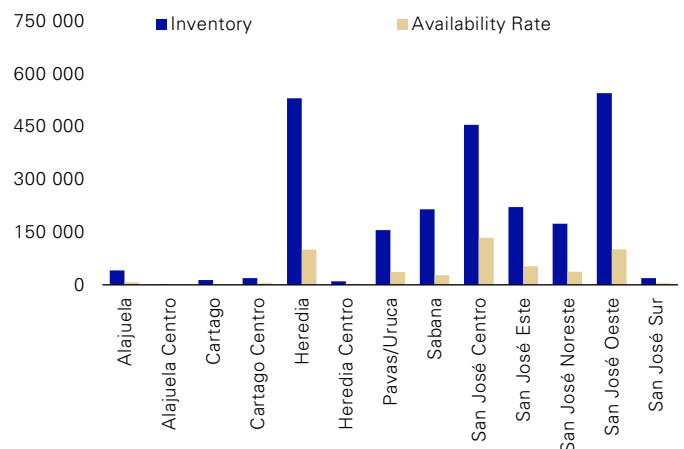
### Price Ranges by Submarket

AVERAGE RENT, MAXIMUM AND MINIMUM PRICES (USD/m<sup>2</sup>)



### Inventory & Availability

SUBMARKETS (m<sup>2</sup>)



### Unencouraging prognosis

The results at the end of the third quarter of 2021 reflect a significant deterioration in the office real estate market. The increase in the availability rate and the decrease in demand, place the market in the oversupply phase according to the real estate cycle.

During the last year, it has been possible to confirm a considerable delay in the closing of transactions, generated by the uncertainty experienced by users of this type of facility. 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.

The high migration that has been appreciated since the last three years, proposes to the owners to consider investing in

improving the properties that show the greatest degree of deterioration or otherwise consider changing the use of them. Despite this crisis, demand shows signs of recovery with expansion initiatives of already established companies.

The renegotiation of contracts will be another predominant element in the remainder of the year. Tenants look for the best conditions in aspects such as the rental price, delivery conditions and contractual clauses. Increasing the competitiveness of owners in their business strategies. In addition to the inventory in process, an important offer of second-generation spaces is projected. These come to compete in meeting current and future demand needs, putting significant pressure on rental prices.

### Statistics by Submarket

Submarkets	Inventory (m <sup>2</sup> )	Construction (m <sup>2</sup> )	Availability (%)	Net Absorption	Gross Absorption	Average Rent (USD/m <sup>2</sup> )	Maintenance (USD/m <sup>2</sup> )
Alajuela	40,921	0	18.0%	-1,906	1,220	\$14.73	\$2.99
Alajuela Centro	690	0	66.4%	0	0	\$10.63	-
Cartago	13,646	0	1.9%	752	752	\$17.92	\$2.65
Cartago Centro	19,341	0	24.6%	-362	490	\$16.56	-
Heredia	531,126	45,057	18.9%	528	16,717	\$19.42	\$3.54
Heredia Centro	10,350	0	25.2%	626	1,035	\$10.00	-
Pavas/Uruca	156,043	0	23.3%	663	6,821	\$15.69	\$3.28
Sabana	214,608	0	12.7%	-378	6,415	\$19.32	\$3.30
San José Centro	454,810	0	29.5%	-16,440	22,904	\$14.05	\$2.75
San José Este	221,012	11,583	24.1%	-2,601	9,078	\$16.84	\$2.99
San José Noreste	174,343	0	21.3%	-8,456	467	\$17.58	\$3.51
San José Oeste	545,142	19,338	18.6%	-1,760	20,661	\$20.53	\$3.90
San José Sur	19,265	2,422	22.4%	0	0	\$10.75	\$2.60
<b>Total</b>	<b>2,401,297</b>	<b>78,400</b>	<b>21.2%</b>	<b>-29,334</b>	<b>86,560</b>	<b>\$18.00</b>	<b>\$3.54</b>

### Analysis by Class

Property Class	Inventory (m <sup>2</sup> )	Construction (m <sup>2</sup> )	Availability (%)	Net Absorption	Gross Absorption	Average Rent (USD/m <sup>2</sup> )	Maintenance (USD/m <sup>2</sup> )
A+	248,226	0	13.9%	-2,093	6,593	\$23.52	\$4.53
A	987,926	68,721	18.0%	10,200	41,513	\$19.97	\$3.51
B	705,050	2,901	19.5%	-28,807	20,415	\$16.37	\$2.83
C	460,095	6,778	34.7%	-8,634	18,039	\$11.95	\$2.06
<b>Total</b>	<b>2,401,297</b>	<b>78,400</b>	<b>21.2%</b>	<b>-29,334</b>	<b>86,560</b>	<b>\$18.00</b>	<b>\$3.54</b>

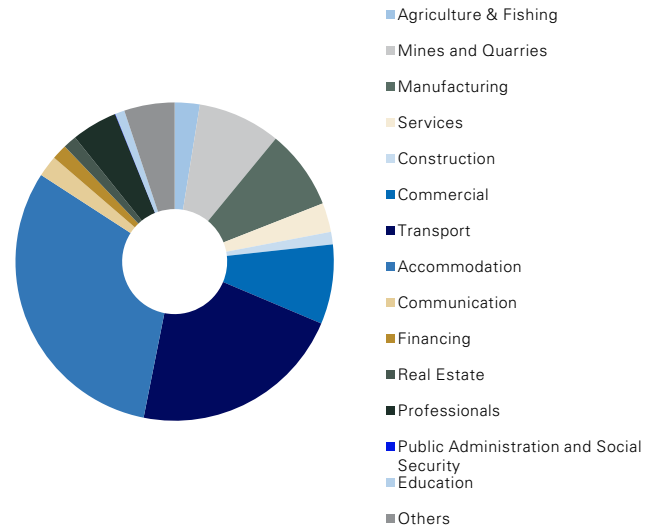
### Recovery of Economic Activity

The Central Bank of Costa Rica indicates, in the trend series cycle of the Monthly Index of Economic Activity (IMAE), a year-on-year rate of variation of 10.0% in July, while a year ago it was -7.2%. Since March of this year, the figures of variation rates have been positive and are increasing, showing a return of economic activity with levels seen before the pandemic. Consequently, the unemployment rate had a slight decrease by showing a rate of 16.4% in August 2021.

Economic indicators show encouraging figures compared to the previous year. In September 2021, headline inflation was 2.1%, which is measured by the year-on-year variation of the consumer price index (CPI) where the inflation target range is between 2% and 4%. foreign exchange risk hedging.

### Monthly Index of Economic Activity

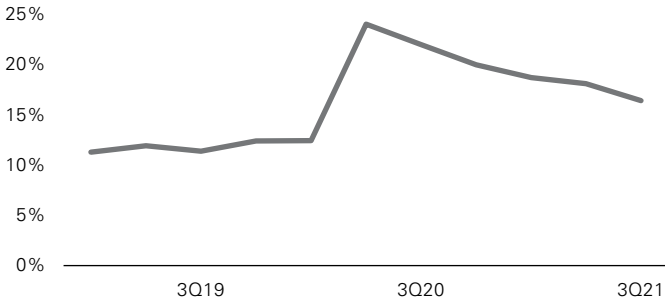
YEAR-ON-YEAR CHANGE, JULY 2021



Source: Department of Macroeconomic Statistics

### Unemployment Rate

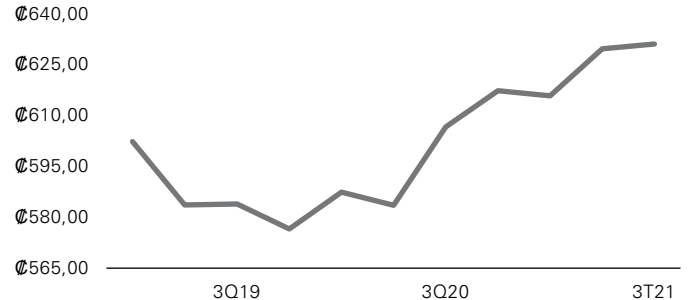
QUARTERLY INDICATOR



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

### Exchange Rate

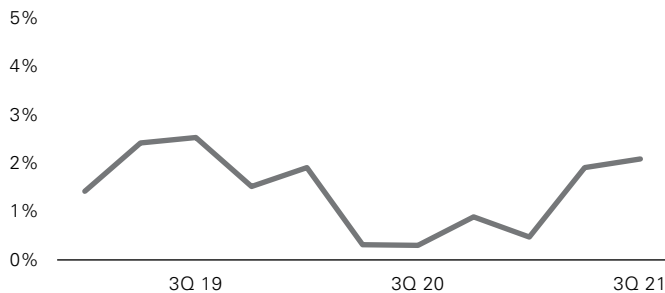
COLONS (CRC) PER US DOLLAR (USD)



\*Source: Central Bank of Costa Rica

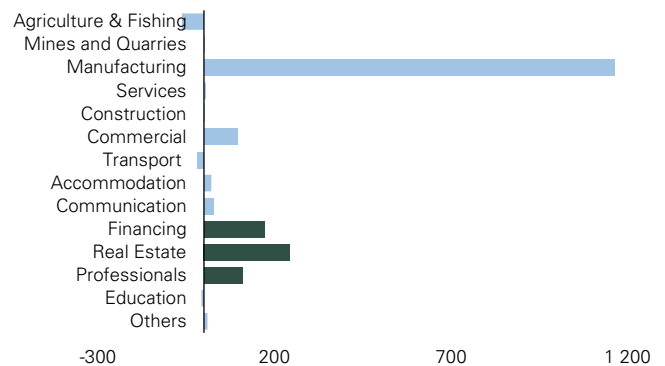
### National Consumer Price Index (INPC)

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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Newmark ha implementado una base de datos propia y la metodología de seguimiento ha sido revisada. Con esta expansión y refinamiento en nuestros datos, puede haber ajustes en las estadísticas históricas, incluyendo la disponibilidad, precios de renta, absorción y rentas efectivas. Nuestros reportes de mercado se encuentran disponibles en <https://nrmk.lat/reportes-de-mercado/>

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