RESEARCH 2 H 2020

Latin America Office Market

Adapting to Restrictions

Buenos Aires, Argentina

The office inventory in Buenos Aires, Argentina was recorded at around 2.51 million square meters. The Class A inventory in turn stands at 1.59 million square meters. The vacancy rate closed at 13.5% in the second half of the year. Net absorption in the fourth quarter of 2020 was negative 40,444 square meters for a total net absorption in 2020 of negative 17,766 square meters. the average asking rate recorded a slight decline during the year to $25,64 per square meter per month.

Rio de Janeiro, Brazil

The third quarter was the best fore this market in 2020. In contrast, the fourth quarter was not as favorable. As a result of the number of vacated spaces, the quarterly absorption was negative 20,000 square meters with a 36.2% vacancy rate. On the upside, the overall average asking rate remained stable at $15.11 USD (R$78.52) per square meter per month, while the CBD averaged $15.55 USD (R$80.83) per square meter per month.

Current Conditions

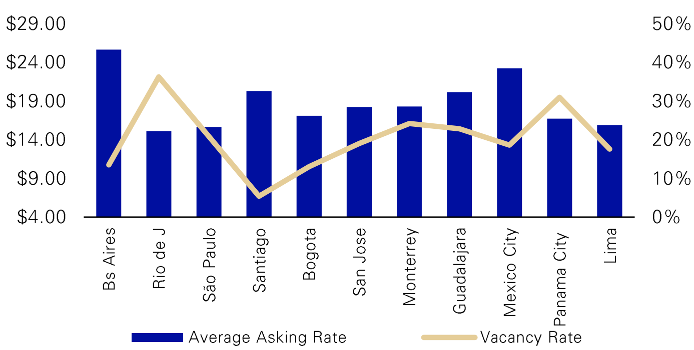
- The Class A inventory was recorded at nearly 28.0 million square meters in the second half of 2020.
- Construction activity stopped, mainly as a result of government regulations imposed across the region.
- The vacancy rate increased from 17.4% in the first half of the year to 19.8% by the end of 2020.

Market Summary

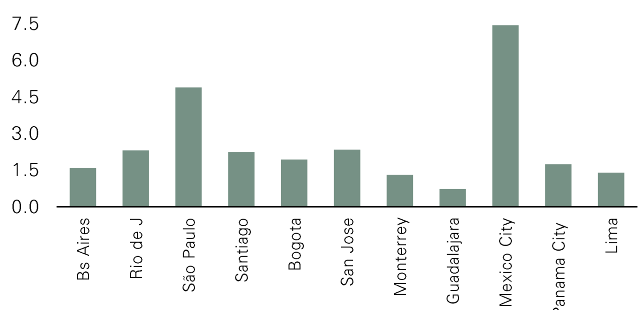
	Second Half of 2020	First Half of 2020	12-month forecast
Total inventory (m²)	27,95M	26,39M	↑
Vacancy Rate	19,8%	17,4%	→
2H Absorption (m²)	(462.931)	158.739	↑
Average Asking rate (USD/m²/month)	$18,63	$18,20	→
Under construction (m²)	2,82M	2,75M	↑

Market Analysis

AVERAGE LEASE RATE AND VACANCY RATE



TOTAL INVENTORY PER CITY (MILLION M²)



NEWMARK

Sao Paulo, Brazil

By the end of 2020, the Class A Office Market saw a reduction in occupancy levels. The number of vacated spaces outpaced take up in 9 of the 14 districts in the city based on the fourth quarter results. This drove net absorption to negative 5,000 square meters. On the upside, demand remained active for a gross absorption of 56,000 square meters. And a gross year-to-date absorption of 226,000 square meters. However, this was not enough to top the vacated space, and consequently, the net year-to-date absorption posted negative 46,000 square meters. The average asking rates in San Paulo, Alphaville and the CBD remained mainly unchanged from the third quarter at $15.65 USD (R$81.34) per square meter per month and at $17.43 USD (90.63) per square meter per month, respectively. This was mostly due to the number of new deliveries to the inventory and to an increase in the vacancy of high-end office spaces, pushing up the weighted average.

Santiago de Chile, Chile

By the end of the year, the overall scenario for the Office Market was dire as anticipated by the main players in the industry—landowners, investors and tenants. The vacancy rate of Class A and Class B office space in Santiago increased by 1.7% over the year-ago-period to 6.4%. In this vein, companies of all sizes are rethinking their long term workspace needs and strategy, by also optimizing their current space use and resources in the short term. Facing 2021, any improvements related to the dynamism of the market will mostly depend on finding a permanent solution to the health crisis. Additionally, better conditions are expected for the second half of the year with the start of the vaccination plan. Likewise, the office market will experience structural changes that will lead to new opportunities and challenges to both landlords and tenants.

San Jose, Costa Rica

The office market reached 2.34 million square meters of rentable space by then end of 2020, up 4.2%from 2019. The vacancy rate for both Class A and B space was recorded at 15.4% due to the relocation of several companies to higher class and more efficient buildings, as well as to delays in the negotiation of new deal conditions during the last 9 months of 2020. Gross absorption reached 113,400 square meters. However, net absorption was recorded at negative 40,450 square meters while the vacancy rate climbed to 4.8% equivalent to 150,000 square meters. Companies may need to adjust their space needs in 2021 by relocating to more modern and efficient buildings.

Bogota, Colombia

By the end of the second half of 2020, the office market acquired stability. Its inventory reached 1.9 million square meters. The vacancy rate was slightly up 0.9% over the third quarter of the year and it currently stands at 13.0%. This scenario was the result of vacated office spaces in order to meet the regulations applied by the government to cope with the sanitary crisis. A number of tenants decided to vacate their facilities. In addition, demand declined which opened the door to new practices and a more favorable market for tenants to meet their needs.

Monterrey, Mexico

This has been a memorable year for it has brought about many changes to the corporate atmosphere of Monterrey's Metro Area. The health contingency has paved the way for remote work. In this environment, the Class A and A+ office market posted record low absorption levels of 30,859 square meters, even below the absorption recorded in 2015 of just 40,201 square meters and a took a steep decline compared to the absorption recorded in 2019 of 86,926 square meters. The inventory of Monterrey's Metro Area comprises 1.31 million square meters in 149 buildings. The weighted average asking rate stands at $18.30 USD per square meter per month. The vacancy rate stands at 24.2%.

Mexico City, México

By the end of 2020, the office market in Mexico City continued to struggle and some indicators recorded historic lows. In the last quarter of 2020, the corporate market saw the highest vacancy rates since Newmark began monitoring this market in Mexico City. The 1.38 million square meters of vacant space translate into a record-high 18.6% vacancy rate of a 7.44 million-square-meter market of Class A and A+ inventory.

The high vacancy rates stem from businesses reduced ability to continue leasing space for their operations. Additionally, demand for Class A space has been deeply affected by the health crisis. The market activity registered the seventh consecutive fall in the fourth quarter of 2020 and saw its lowest point in two years. In this regard, the total market activity was recorded at 396,006 square meters, slightly over 50% of the total absorption recorded throughout 2019.

Guadalajara, Mexico

Despite the negative effect that the pandemic has exerted on several office markets, the corporate segment in Guadalajara has continued to expand its inventory with several projects that evolved from their planning stages and are now under construction. The inventory grew by more than 100,000 square meters from the end of 2019 through the end of 2020 for a 17.7% increase. Regardless of this considerable increase in the inventory, construction activity has not dramatically weakened with new developments breaking ground across the city, which will lead to a gradual growth in the supply of rentable space in this market.

Panama City , Panama

The office inventory in the city posted 1.74 million square meters of total rentable space, up 1.1% over 2019. The vacancy rate was recorded at 30.9% which confirms the excessive development of speculative supply, combined with significant delays in the delivery of new product and the negative impact of the health crisis.

Gross absorption was recorded at 10,400 square meters, whereas net absorption was negative 17,600 square meters. The vacancy rate climbed to 0.6%, equivalent to 28,000 square meters. The asking rate during the averaged $16.72 USD per square meter per month during the fourth quarter, while the effective rate averaged $15.27 USD per square meter per month after negotiations. This downward trend is justified due to the over supply and tenants' intention to occupy spaces in the long term.

Submarket Stats

	Total Inventory (m^2)	Under Construction (million m^2)	Vacancy Rate (%)	Absorption 2H2020 (thousand m^2)	Year-to-Date Absorption (miles de m^2)	Average Asking Rate (USD/m^2/month)
Buenos Aires	1,59	0,33	13,5%	(70,40)	(22,60)	$25,64
Rio de Janeiro	2,31	0,02	36,2%	0,80	(9,38)	$15,11
Sao Paulo	4,89	0,32	20,8%	(68,13)	(46,37)	$15,65
Santiago de Chile	2,23	0,11	5,4%	(30,51)	(39,03)	$20,30
Bogota	1,93	0,13	13,0%	0,16	33,55	$17,09
San Jose	2,34	0,10	19,0%	(40,45)	(37,72)	$18,24
Monterrey	1,31	0,32	24,2%	(1,65)	9,85	$18,30
Guadalajara	0,72	0,14	22,8%	(19,68)	(44,04)	$20,16
Mexico City	7,44	1,24	18,6%	(203,36)	(228,13)	$23,24
Panama City	1,74		31,0%	(4,92)	85,01	$16,72
Lima	1,40	0,07	17,6%	(24,77)	(5,32)	$15,90
Total LATAM	**27,95**	**2,82**	**19,8%**	**(462,93)**	**(304,19)**	**$18,63**

Economic Conditions

Argentina

Economic uncertainty has been constant throughout 2020. The vaccination Plan against COVID-19 and the economic regulations implemented by the government will be decisive in the short term. The unemployment rate increased to 11.7% in the third quarter of the year. The number of households below the poverty line reached 30.4%; equivalent to 40.9% of the population, 8.1% of which are in extreme poverty.

Chile

2020 ends as the most economically challenging year for Chile since the 2009 crisis. The sanitary indicators derived from the COVID-19 pandemic have remained stable during the last quarter of the year. This delicate balance—as evinced in Europe—has prevented economic players and the government from resuming activities under the new normal.

The Central Bank disclosed its GDP growth projections for the country though the last IPOM (Monetary Policy Report), ranging between negative 5.75% and negative 6.25% throughout the year. On a more positive note, the unemployment rate was down from 13.1% to 10.8%. This in turn could moderately drive a higher demand for office space.

Brazil

By the end of 2019, Brazil's economic outlook was optimistic. The social security reform had ben approved and the national accounts were heading in the right direction. Even though the inflation was above target, it remained under control. The GDP showed slight signs of recovery from 2017 through 2019 while the unemployment rate fluctuated progressively around 11.0%, the lowest in 4 years. Additionally, investments in the stock market recorded record highs.

COVID-19 forced Brazil to implement social distancing measures to contain the transmission of the virus. The pandemic negatively impacted the country's economic conditions due to the lockdown. This led to a significant decline in tax revenue, an increase in unemployment. Likewise, the crisis brought about exchange rate volatility, as well as the worst inflation rate in over the last 22 years.

The latest reports issued by the Federation of National industries show that the manufacturing industry posted growth in November and jobs were created. The ICU rates remained high in November at 79.9%, which reflects activity increase. Despite the ICU decreased by 0.2 percentage points, it still surpassed the 78.3% recorded in 2019. Most players from all industrial sectors remain confident in economic recovery, especially from the chemical and pharmaceutical, transportation and infrastructure industries.

U.S Dollar Exchange Rate in LATAM

Country	4Q20	3Q20	2Q20	1Q20
Argentina (ARS)	84,08	76,17	68,55	62,24
Brazil (BRL)	5,19	5,61	5,43	4,65
Chile (CLP)	709	784	819	825
Colombia (COP)	3.414	3.825	3.815	3.669
Costa Rica (CRC)	609	601	572	$573
Mexico (MXN)	19,87	22,09	23,11	20,73
Peru (PEN)	3,62	3,60	3,45	3,42

Colombia

The dynamics of the economy in Colombia showed a particular trend by the end of 2020. According to the National Administrative Department of Statistics (DANE) of Colombia, the GDP contracted by 6.8% in 2020, 3.6% in the fourth quarter alone. The best sectors for the economy were: the agricultural sector (2.8%), the finance and insurance sector (2.1%), real estate (1.9%) and public administration (1%). On the other had, the sectors that led to the contraction of the GDP were: trade, transportation, lodging and food services (-15.1%), construction (-27.7%), mining (-15.7%). Together, these sectors caused the GDP to plunge by negative 5.8 percentage points. Overall, the economy contracted by 3.6% in the last quarter of 2020, which translates into a 12.2 percentage points recovery over the contraction recorded in the second quarter of the year which was estimated at 15.8%

Mexico

Despite the current global economy, key indicators of the Mexican economy show a recovery during the last quarter of 2020 over the previous quarter. This was mainly driven by the "Buen Fin" (The Good Weekend equivalent to Black Friday) in the U.S) in November. This incentive led to favorable indicators such as a decline in the inflation rate and the strengthening of ecommerce which had a positive effect on the manufacturing, transportation and trade sectors.

Some projections for 2021 estimate that the Bank of Mexico will continue applying monetary policy measures such as the reduction of the reference interest rate. Additionally, the exchange rate will be favored by a weak dollar and a surplus in the current account of the balance of payments.

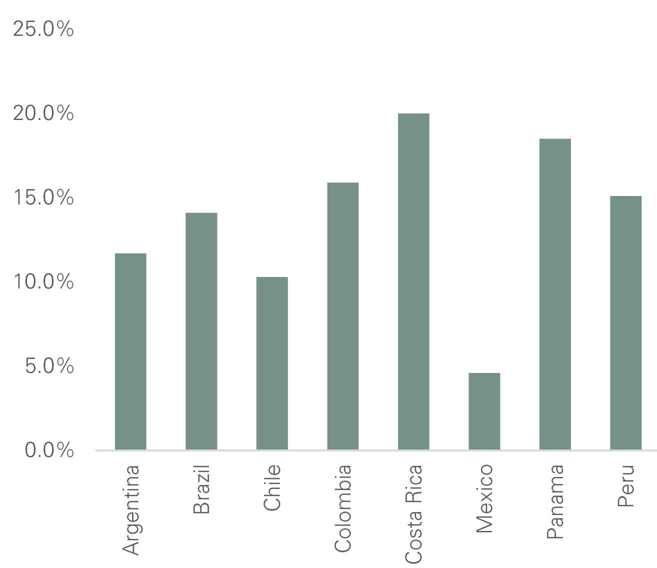
Peru

The Pandemic in Peru has been dire as this country is one of the countries with greater numbers of deaths worldwide. This situation, combined with the political turmoil generated by constant tensions between the executive and legislative branches of government has brought about some of the most complicated periods in the history of the country. Peru sworn in three different presidents in November 2020 after a coupe that led to an emergency transition of power in order to finally restore a democratic government. Presidential elections will be held in April once again and stability is expected to rule in a country that has shown excellent macroeconomic indicators over the last few decades.

Socioeconomic Outlook

Country	Population (million)	GDP per Capita (thousand US$)	City	Population (million)
Argentina	44,49	9,89	Buenos Aires	15,33
Brazil	209,47	8,80	Rio de Janeiro	12,98
			Sao Paulo	21,29
Chile	18,73	15,40	Santiago	6,54
Colombia	49,65	6,51	Bogota	9,97
Costa Rica	4,99	12,01	San Jose	1,18
Mexico	126,19	10,12	Monterrey	4,59
			Guadalajara	4,92
			Mexico City	21,15
Panama	4,18	16,24	Panama City	0,89
Peru	31,99	7,05	Lima	10,07
Total	**489,69**			**108,91**

Unemployment rate per country



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