RESEARCH 1H 2021

Latin America Office Market

Sluggish Vaccine Rollout Leads to Delayed Reactivation of the Office Sector

Across the region, a sluggish vaccination rollout has led to a gradual but slow return to the office. With the exception of Santiago, Bogota, and Buenos Aires, all markets analyzed by Newmark Research recorded vacancy rates higher than 20.0%. Trending practices such as the hybrid work model, built in spaces, and competitive asking rates (which may entice Class B office tenants to seek higher-quality space) will increase upon the eventual reactivation of the sector.

Buenos Aires, Argentina

The Buenos Aires office market stands at 2.61 million square meters of Class A space with a vacancy rate of 16.7%. No new deliveries were recorded during this period. Net absorption declined over the first quarter and registered 484.90 square meters in the second quarter. Asking rates declined over the first quarter and averaged $23.96 USD per square meter per month.

Current Conditions

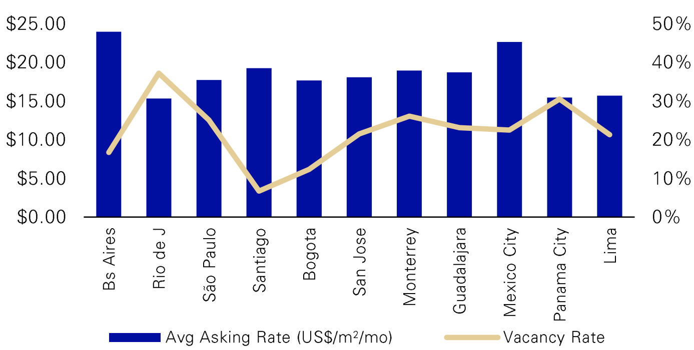
- Class A inventory was recorded at more than 28.0 million square meters after deliveries of just under half a million square meters.
- The vacancy rate was up 500 basis points over the year-ago period to 22.4%. This was due to new inventory and a slow return to the office for the corporate sector.

Market Summary

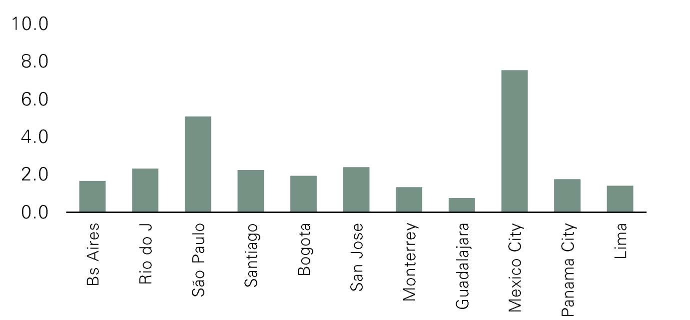
	Current Semester	Previous Semester	12-month forecast
Total inventory (m²)	28,39M	27,95M	↑
Vacancy Rate	22,4%	19,8%	→
1H Absorption (m²)	(537.659)	(462.931)	↑
Average Asking Rate (USD/m²/month)	$18,85	$18,63	→
Under construction (m²)	2,40M	2,82M	→

Market Analysis

AVERAGE LEASE RATE AND VACANCY RATE



TOTAL INVENTORY PER CITY (MILLION M²)



NEWMARK

Sao Paulo, Brazil

The Sao Paulo market recorded gross absorption of 70,800 square meters of Class A space during the second quarter of the year, the highest since the end of 2019. However, some tenants continued to leave their offices and the net absorption was recorded at negative 46,000 square meters. The vacated spaces and the new inventory pushed the vacancy rate upward from 22.9% to 25.1% during this period. Asking rates increased due to the high quality of the new space.

Rio de Janeiro, Brazil

Consistent with the recent trend, the vacancy rate increased during the second quarter of 2021 as a result of spaces that have gradually been vacated since the second half of 2020. Occupancy fell by 15,800 square meters, pushing the vacancy rate from 36.2% to 37.2%. Market activity maintained the pace seen in previous quarters and posted a gross absorption of 20,600 square meters, down from 22,000 square meters recorded during the first quarter. Most of the absorption was recorded in Barra da Tijuca, Porto Maravilha and Centro submarkets.

Santiago de Chile, Chile

The office vacancy rate increased for a 7th consecutive quarter since reaching its lowest point over the past few years in 2019. It was up 60 basis points over the previous quarter to 7.5% (Class A: 6.7%; Class B: 8.5%). Absorption was negative once again, with occupancy loss of approximately 24,000 square meters since the beginning of the pandemic. Construction activity increased slightly after the approval of new development permits for projects that could be added to the inventory within 24 months. The completion of new office buildings currently under construction, such as Territoria Apoquindo, are expected during the second half of the year.

Bogota, Colombia

During the first half of 2021, the office market in Bogota reached 1.9 million square meters, with the completion of Torre Atrio in Bogota's downtown adding 50,000 square meters to the inventory. The office market gained momentum during the second quarter of the year. The vacancy rate registered 10.3%, down 3 percentage points over the previous year and absorption registered 20,626 square meters. Major changes in market indicators are not expected during the second half of the year due to the uncertainty surrounding the pandemic.

San Jose, Costa Rica

Leasing activity in the San Jose office market trended downward during the first half of the year, leading to an increase in the vacancy rate to 21.5% and persistent oversupply. Nevertheless, demand has shown signs of recovery as some established companies have disclosed plans for expansion and new service operations in the country. Built in and remodeled spaces and turn-key or plug & play models are increasingly sought after by new prospects that are interested in setting up new businesses in the country.

Mexico City, Mexico

As of the end of the first half of the year, the office market in Mexico City was still impacted by the pandemic and recorded negative indicators once again, with vacancy rising to 22.5%. Nevertheless, the market is showing signs of recovery. The vaccination rollout is making progress, employment and life conditions are gradually returning to normal, and uncertainty has begun to dispel. A full and accelerated return to the office is expected by the year end.

Guadalajara, Mexico

The improvement in Guadalajara office market indicators seen in the previous reporting period turned out to be short-lived, and the absorption trended downward once again. As of the end of the first half of the year, office inventory reached nearly 750,000 square meters of rentable space—a 13.5% increase over the year ago period. This upward trend is expected to continue with more than 115,000 square meters under construction for delivery within the next two years.

Monterrey, Mexico

During the second quarter, the vacancy rate in the Monterrey Metro Area (ZMM) remained stable over the first quarter and was up 10 basis points over 2Q20. Most of the inventory is located in the Valle Oriente and Ricardo Margain-Goez Morin submarkets with 449,078 and 289,634 square meters, respectively. On the other hand, the submarkets with the lowest inventory were Santa Catarina and San Nicolas at 13,628 and 4,229 square meters, respectively. Construction activity has declined over the past year and the inventory remains stable. Vacancy is expected to remain stable due to recent market activity.

Panama City, Panama

After a year of uncertainty, investors have expressed interest in resuming plans to set up regional corporate operations in Panama. The market may soon see interest from multinational companies in the financial, pharmaceutical, and logistics sectors, in addition to regional corporations. Incentives aimed at foreign investors are the primary drivers behind this new investment. However, some tenants have reduced their occupied spaces due to recent remote work trends. While remote work does not imply a complete abandonment of office space, it may bring about hybrid workplace models that combine office and remote work. This may slow the market's recovery, as vacancy through the first half of 2021 was the second-highest in the region at 30.5%.

Lima, Peru

Continuing a trend recorded earlier in the year, tenants continued to vacate office spaces during the second quarter, mainly in the San Isidro and Miraflores submarkets. As a result, net absorption registered negative 33,566 square meters. The number of new transactions has remained low, leading to oversupply. In consequence, asking rates trended downward to $15.70 per square meter per month as of the second quarter. The second wave of the pandemic has cemented remote work models with a clear date for return to the office remaining uncertain. Accordingly, several companies have not renewed their lease agreement or have downsized their office space.

Stats per City

	Total Inventory (million m²)	Under Construction (million m²)	Vacancy Rate	1H Absorption (m²)	Average Asking Rate (USD/m²/month)
Buenos Aires	1,66	0,24	16,7%	(26.922)	$23,96
Rio do Janeiro	2,31	-	37,2%	(21.573)	$15,32
Sao Paulo	5,08	0,16	25,1%	(89.012)	$17,73
Santiago de Chile	2,24	0,12	6,7%	(32.690)	$19,26
Bogota	1,93	0,13	12,3%	20.626	$17,66
San Jose	2,39	0,07	21,5%	(81.708)	$18,08
Monterrey	1,33	0,32	26,1%	13.473	$18,95
Guadalajara	0,75	0,12	23,1%	4.052	$18,72
Mexico City	7,54	1,18	22,5%	(270.326)	$22,65
Panama City	1,75	-	30,5%	(20.013)	$15,45
Lima	1,40	0,07	21,3%	(33.566)	$15,70
Total LATAM	**28,39**	**2,40**	**22,4%**	**(537.659)**	**$18,85**

Economic Conditions

Argentina

The reactivation of all economic sectors will depend on the expedited rollout of vaccination campaigns. The GDP is expected to show a slight recovery to negative 3.5%, up from negative 9.9% at the end of 2020. The exchange rate against the U.S. dollar has continued to rise, and registered $101.5 as of the end of the second quarter of 2021. The country tightened currency control and expanded restrictions on U.S.-Peso exchange, both for companies and individuals. Additionally, the unemployment rate climbed to 11.6% during the second quarter of the year from 10.4% a year prior.

Chile

During May 2021, the Chilean economy recorded a record annual IMACEC (Spanish for Monthly Economic Activity Index) of 18.1%. While this indicator may have been influenced by the negative 15.3% figure recorded at May 2020, it stood at the optimistic projection for most analysts. Likewise, the unemployment rate has posted slight recovery to 11.0% in the RM region and to 10.0% nationwide. Note that these results were influenced by pandemic-related sanitary restrictions, and therefore, economic conditions are expected to improve together with health indicators derived from pandemic control.

U.S. Dollar Exchange Rate

Country	3Q20	4Q20	1Q21	2Q21
Argentina (ARS)	76,17	84,08	89,70	94,52
Brazil (BRL)	5,61	5,19	5,56	5,21
Chile (CLP)	784	709	726	721
Colombia (COP)	3.825	3.414	3.624	3.735
Costa Rica (CRC)	601	609	611	615
Mexico (MXN)	22,09	19,87	20,62	20,03
Peru (PEN)	3,60	3,62	3,68	3,81

Brazil

Contrary to expectations issued by economic analysts, Brazil's GDP increased by 1.2% during the first quarter of the year, similar to the end of 2019. Despite complications derived from the pandemic and cuts to relief programs, the country's economic performance was better than predicted. The country's GDP reached R $2,048.00 billion, up 1.0% from the year-ago period, the first increase after 4 consecutive drops. Manufacturing production, trade, and services are some factors that drove economic recovery together with higher demand for raw materials worldwide, which favored Brazilian exports. The Ministry of Economy expects the GDP to increase by 3.5% this year, but market projections indicate the GDP may grow by 3.96%. In their most recent meeting, the Central Bank of Brazil adjusted the SELIC (Basic Interest Rate) rate from 4.25% to 5.25%, which is expected to increase to 6.50% by the end of the year. The exchange rate reached R $5.00 but the Central Bank predicts an exchange rate of R $5.04 per USD by the end of the year.

Colombia

The second quarter of the year brought about recovery for the Colombian economy. The commercial sector was reactivated and the private sector is showing positive signs of recovery after months of uncertainty derived from the pandemic and the demonstrations of social unrest at the end of April.

Based on a report issued by the International Monetary Fund, Colombia's GDP is expected to increase by 5.0% for 2021. Likewise, the Peso has devalued 5.7% against the US dollar over the past few weeks, which has generated confidence among investors in capital markets.

Economic recovery in Colombia was boosted in the first half of the year as a result of the swift implementation of vaccination programs, and by higher consumption and investment driven by profits derived from private savings and higher foreign demand.

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Costa Rica

The economic situation in Costa Rica and the effects of the pandemic have driven tenant interest in facilities that meet health standards and feature amenities that maximize the efficiency, safety and comfort of their workforce.

During the first half of the year, general inflation (estimated through the year to year variations in the Consumer Price Index) remained low at 1.9% as of the end of June. The manufacturing industry increased from negative 7.0% in May 2020 to 7.9% in May 2021. Despite this production increase, the recovery still has not reached pre-pandemic levels.

Mexico

Economic indicators showed clear signs of recovery throughout the second quarter of the year. Foreign Direct Investment recorded a 15.0% increase over the past few months. Likewise, in order to stabilize the price index and as a result of inflationary strains, the Bank of Mexico has decided to increase interest rates by 25 basis points, to 4.25%. The interest rate is expected to reach 5.5% by the end of the year based on monetary policies and the goal to raise the country's economic growth indicators. The GDP is expected to grow between 5.0% and 7.0%.

Panama

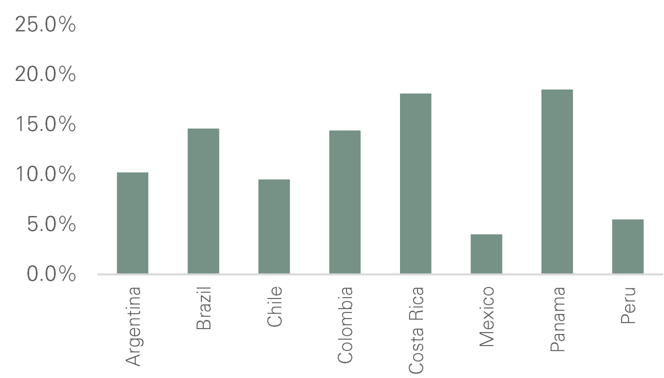
During 2020, the manufacturing industry is estimated to have declined by 11.0%. Nevertheless, several economic forecasters expect a positive rebound effect in 2021 once the economic sectors are reactivated and the vaccination campaign continues.

The country's economy is expected to increase by 5.5% within the next twelve months, according to the CEPAL. This estimate is based on the projected recovery of the global economy and markets, resulting in reactivation of trade flow at the Interoceanic Canal, which accounts for 90.0% of Panama's exports. Last year, the economy was impacted severely by plummeting exports in the Colon Free Trade Zone. During the first quarter of 2020, exports declined over the first quarter of 2019, nevertheless, major recovery of copper exports has been detected over the past six months.

Socioeconomic Outlook

Country	Population (million)	GDP per Capita (000s US$)	City	Population (million)
Argentina	44,49	9,89	Buenos Aires	15,33
Brazil	209,47	8,80	Río de Janeiro	12,98
			Sao Paulo	21,29
Chile	18,73	15,40	Santiago	6,54
Colombia	49,65	6,51	Bogotá	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



Peru

As of December 2020, Peru was demonstrating signs of economic recovery compared to other countries in the region. However, this recovery slowed as a consequence of the quarantine imposed in February 2021, as well as by the uncertainty derived from the elections and a second wave of the pandemic in April. Notwithstanding, the GDP still recorded a 3.8% increase in the first quarter of the year. In the first half of March, the government eased the mandatory lockdown and allowed consumers to reach businesses in high epidemiological alert regions. The trade, services and construction sectors also posted higher activity. However, expectations for future economic growth shifted downward due to electoral uncertainty.

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