

# Latin America Office Market

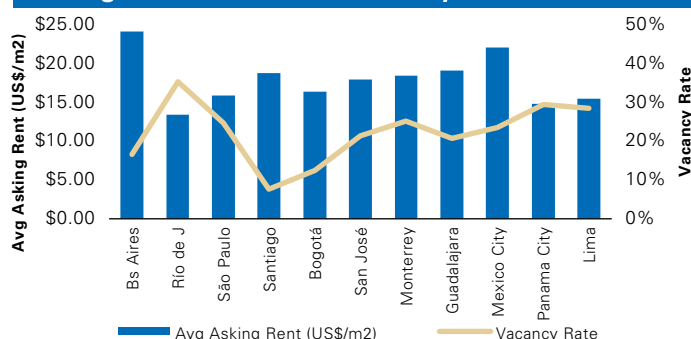
## Positive Signs Of Recovery

The office market in the region saw mixed results over the duration of 2021. Construction activity increased during the second half of the year from 2.5 to 3.0 million square meters while the vacancy rate was recorded at 22.8%. Only Santiago, Bogota and Buenos Aires posted vacancy rates under 20.0%. In contrast, Rio de Janeiro, Panama City and Lima posted vacancy rates over 30.0%. Nevertheless, absorption losses have decelerated in general. Some markets even recorded positive absorption while other markets that did experience negative absorption, saw fewer square feet returned to the market as compared to previous quarters.

### Buenos Aires, Argentina

With little market activity, Buenos Aires office market seems to be beset by uncertainty related to the direction of the new pandemic cycle and the country's economy. Net absorption during the second half of the year continued its upward trend despite the scarce number of transactions while annual absorption remained negative. Fewer spaces were vacated due to an uptick in leasing activity, but asking rates have continued to decline over the past two years.

### Average Lease Rate and Vacancy Rate



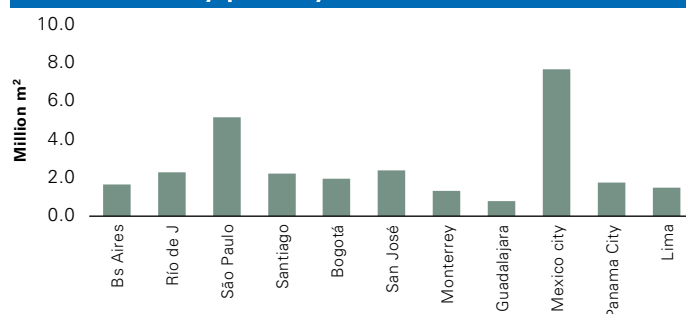
### Current Conditions

- 5 of the 11 analyzed markets showed inventory growth under 0.3% since the first half of the year.
- Construction activity increased by more than 450,000 square meters and reached 3.0 million square meters by year's end.
- Net absorption during the second half of the year improved considerably, however, it remained negative.
- Average asking rates trended downward across most markets, mainly due to exchange rate variations in the Brazilian markets.

### Market Summary

	Current Semester	Previous Semester	12-month forecast
Total Inventory (m²)	28,83M	28,39M	↑
Vacancy Rate	22,8%	22,4%	→
2H Absorption (m²)	(109.149)	(553.855)	↑
Average Asking Rate (USD/m²/month)	\$18,02	\$18,85	↓
Under Construction (m²)	2,95M	2,50M	→

### Total Inventory per City



### **Río de Janeiro, Brazil**

Fewer spaces were vacated during the fourth quarter of 2021, and lease activity remained high, leading to positive net absorption : 22,000 square meters for the second consecutive quarter. The vacancy rate at the end of the fourth quarter was 35.4%, slightly below the previous period. Rio de Janeiro has not been impacted by the surge in office revamps that resulted in returns, and all indications are that the worst is over. This puts continued pressure on asking rents, which have been dropping since 2017. Several buildings under construction have no set delivery date, and thus are not expected to worsen over-supply.

### **Sao Paulo, Brazil**

New leases in high-end buildings in São Paulo increased during the fourth quarter, totaling 168,000 square meters, the highest quarterly total of the year. Fewer office spaces were returned to the market during the fourth quarter, and the tenant evasion rate dropped from what it had been in late 2020/early 2021.

As a result, occupancy increased and net absorption during the quarter totaled 70,000 square meters. The fourth quarter saw the first substantial increase in occupied office space since the start of the pandemic. Following six-straight quarters of increasing vacancy, by the end of 2021, vacancy had dropped from 25.63% to 24.72%.

### **Santiago de Chile, Chile**

In contrast to the moderate optimism derived from increased leasing activity during the previous quarter, the office market experienced a substantial number of spaces vacated during the fourth quarter. The vacancy rate increased to 7.7%, up from 6.9% during the third quarter of 2021. At year-end, nearly all submarkets saw a decline in market activity over 2020. 2022 is expected to be a complex year considering the high number of spaces under construction, political uncertainty and the new trends associated with work spaces.

### **Bogota, Colombia**

After two quarters with negative activity, the Bogota market started to record positive levels of absorption during the second half of the year, exceeding the forecasts for 2021. The progress made with the vaccination campaigns and the reactivation of the economy has also exceeded expectations. Annual absorption was positive at 20,000 square meters. One of the main drivers for this dynamism has been the occupancy of spaces by call centers and BPOs.

### **San Jose, Costa Rica**

San Jose's office market has been negatively impacted as a result of the uncertainty derived from the health crisis. The high vacancy rate and declining demand have led to oversupply, and a considerable delay in negotiations has been reported. In the current tenant-favored market, tenants are interested in occupying spaces temporarily with early exit clauses, short to mid-term lease agreements, move-in-ready spaces and the Free Zone Trade Regime.

### **Mexico City, Mexico**

The office market in Mexico City ended the year with a slight recovery in net and gross absorption over the previous quarter, but forecasts remain conservative for the next year. Once again, inventory growth of 62,526 square meters drove the vacancy rate upward for the eighth consecutive quarter reaching 23.7% during the fourth quarter.

### **Guadalajara, Mexico**

During the last quarter of 2021, the office market in Guadalajara continued to post favorable signs of recovery. There were no new additions to the inventory, which led to the recovery of other indicators. The vacancy rate declined for the second consecutive quarter and was recorded at 20.7%. The market also posted positive net absorption across all submarkets, which has been uncommon under the current market conditions.

### **Monterrey, Mexico**

The vacancy rate for the Class A and A+ office market reached 25.2%, equivalent to 335,117 square meters of vacant space. Move-in-ready spaces are preferred by corporate tenants. During the year, the absorption of move-in-ready spaces was recorded at 25,046, equivalent to 73.3% of the gross absorption (34,186 square meters); the absorption of spaces in shell condition was recorded at 9,139 square meters, equivalent to 26.7%.

### **Panama City, Panama**

By the end of 2021, the office market in Panama City continued to be challenged with high vacancy rates, a decline in asking rates and the disincentivization of construction activity. During the second half of the year, the market saw an uptick in demand from multinationals seeking to take advantage of government incentives offered to foreign firms that establish operations in the country.

### Lima, Peru

In the second half of the year, net absorption of premium office space was recorded at negative 34,896 square meters for a yearly absorption of negative 89,052 square meters. New supply in addition to tenants continuing to vacate spaces across all submarkets has led to a 5.6-percentage-point increase in the vacancy rate over the previous quarter to 28.6%. The oversupply has also led to a downward trend in average asking rates, which recorded a 1.27% decline over the prior quarter to \$15.50 USD per square meter per month.

Stats per City						
	Total Inventory (million m <sup>2</sup> )	Under Construction (million m <sup>2</sup> )	Vacancy Rate	2H Absorption (m <sup>2</sup> )	Annual Absorption (m <sup>2</sup> )	Average Asking Rate (USD/m <sup>2</sup> /month)
Buenos Aires	1,66	0,24	16,6%	5.171	(21.751)	\$24,20
Rio de Janeiro	2,31	-	35,4%	46.305	24.732	\$13,42
Sao Paulo	5,17	0,23	24,7%	75.666	(13.346)	\$15,92
Santiago de Chile	2,24	0,21	7,7%	(20.879)	(53.569)	\$18,79
Bogota	1,93	0,16	12,5%	16.998	21.428	\$16,40
San Jose	2,39	0,14	21,4%	(58.966)	(140.674)	\$17,96
Monterrey	1,32	0,30	25,2%	19.820	32.753	\$18,52
Guadalajara	0,75	0,12	20,7%	12.754	16.806	\$19,17
Mexico City	7,54	1,48	23,6%	(127.674)	(398.000)	\$22,09
Panama City	1,75	-	29,6%	(22.297)	(42.310)	\$14,84
Lima	1,50	0,07	28,6%	(55.486)	(89.052)	\$15,50
<b>Total</b>	<b>28,83</b>	<b>2,95</b>	<b>22,8%</b>	<b>(109.129)</b>	<b>(662.984)</b>	<b>\$18,02</b>

## Economic Conditions

### Argentina

The year kicked off with a major recession during the first quarter due to the direct impact of the pandemic amid an already deteriorated economy. Nevertheless, several indicators showed signs of recovery by the end of the year. Household savings and purchasing power were impacted by increased volatility in the exchange rate, which was recorded at 107.8 USD per Argentinean Peso for an increase of 30.5% over pre-pandemic values. Inflation was recorded at 51.2% as per the CPI.

### Brazil

Brazil's economy showed signs of recovery in 2021, and government accounts improved. It is expected that the GDP will experience growth, and the service industry shows that recovery is underway. However, despite modest improvement, unemployment remains high, and close to 14 million (12.6%) Brazilians remain unemployed. Furthermore, inflation and the USD exchange are rising, the stock exchange rate is dropping, and an institutional crisis reveals the fragility of the current economic scenario. As a result, the Central Bank revised its GDP growth expectations from 4.7% to 4.4% in 2021, and from 2.1% to 1.0% in 2022.

### Chile

Based on results of the second round of presidential elections in the country, Gabriel Boric, candidate for the Frente Amplio party, was elected president of Chile. Caution pervaded across the markets as investors await economic policy decisions from the new administration. Likewise, the employment rate continues to reflect the incipient improvement of the economy after nearly two years amid a pandemic. Inflationary pressure is still a major concern for the Central Bank, which unanimously agreed to increase interest rates to 4.0%.

### Colombia

The reactivation of the economy was evident during the last quarter of 2021. Economic analysts have even revised their forecasts for the economy to reflect stronger growth. The primary reason for this revision is that the main indicators in the economy, such as the retail and industrial sectors, remain positive. The economic recovery and uptick in demand have been more accelerated than previously expected, and both the consumer confidence and business confidence indices have improved.

### U.S. Dollar Exchange Rate

Country	3Q 2020	4Q 2020	1Q 2021	2Q 2021	3Q 2021	4Q 2021
Argentina	76.17	84.08	89.70	94.52	104.0	107.8
Brazil	5.61	5.19	5.56	5.21	5.44	5.58
Chile	784	709	726	721	771	825
Colombia	3,825	3,414	3,624	3,735	3,834	4,000
Costa Rica	601	609	611	615	630	645
Mexico	22.09	19.87	20.62	20.03	20.33	20.89
Peru	3.60	3.62	3.68	3.81	4.13	3.99

## Costa Rica

According to the Central Bank of Costa Rica, in November 2021, production recorded an interannual variation rate of 9.8%. The economic recovery has continued with positive signs of growth since March 2021. General inflation was recorded at 3.3% by the end of December 2021 as per the CPI, within the goal of 2.0% to 4.0% for the year. This indicator had trended upward since the end of 2020. The unemployment rate declined to 14.4% in November of 2021 according to the INEC (National Institute of Statistics and Censuses). This indicator was down 6.9 percentage points over the year-ago period across the country.

## Mexico

Since the reopening of the economy, the domestic industry has become stagnant and far from the levels it reached before the pandemic. While the industrial sector is still operating, inflation has hit record highs, reaching 7.4% by the end of 2021. The creation of formal employment was high, recorded at an annual rate of 4.4%. However, salary increases remain below the inflation rate. Analysts expect economy growth to meet the forecasts of 3.2% during the second half of 2022.

## Panama

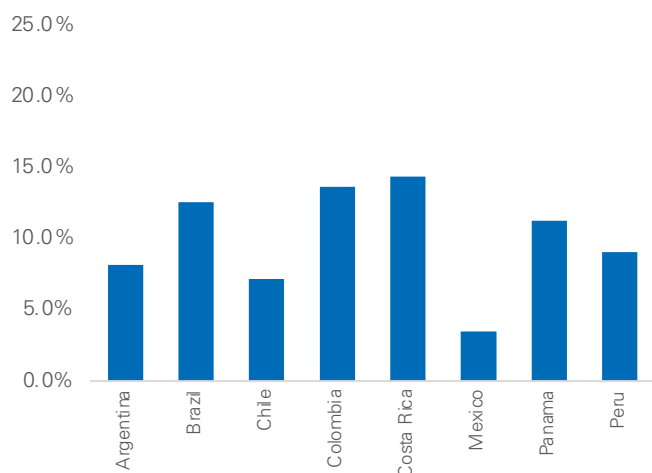
During the second half of 2021, Panama's GDP increased by 40.4% over the second half of 2020 due to the accelerated vaccination process and health authorities lifting economic restrictions. According to the INEC, transportation, communications, retail, government, and health services sectors saw positive activity throughout the second half of the 2021. Another crucial factor driving economic recovery has been the increase in Foreign Direct Investment, especially in fields like mining, financial services and telecommunications. This has also lowered the unemployment rates from 2020 levels.

## Peru

By the end of October, the interannual variation rate of Peru's GDP was recorded at 12.7%, and it is expected to expand by 3.0% in 2022 if the economic reactivation continues. The unemployment rate between September and November of 2021 reached 9.1%, down 4.2 percentage points from the rate recorded between May and July and 39.7 percentage points over the same period in 2020. This can be directly associated with the fact that more than 63.0% of the population has been vaccinated and a significant number of people have also been able to return to their work place. In contrast, the annual inflation rate reached 6.4%, the highest in over a decade and outside the goal range proposed by the Ministry of Economy.

## Unemployment Rate

### PER COUNTRY



## Socioeconomic Outlook

Country	Population (million)	GDP per Capita (000s US\$)	City	Population (million)
Argentina	44,49	9,89	Buenos Aires	15,33
Brazil	213,30	8,80	Rio de Janeiro	6,77
			Sao Paulo	12,40
Chile	18,73	15,40	Santiago	6,54
Colombia	49,65	6,51	Bogotá	9,97
Costa Rica	4,99	12,01	San José	1,18
			Monterrey	4,59
Mexico	126,19	10,12	Guadalajara	4,92
			Mexico City	21,15
Panama	4,18	16,24	Panama City	0,89
Peru	31,99	7,05	Lima	10,07

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