

# Latin America Office Market

## Vacancy Decreases As New Deliveries Slow Down

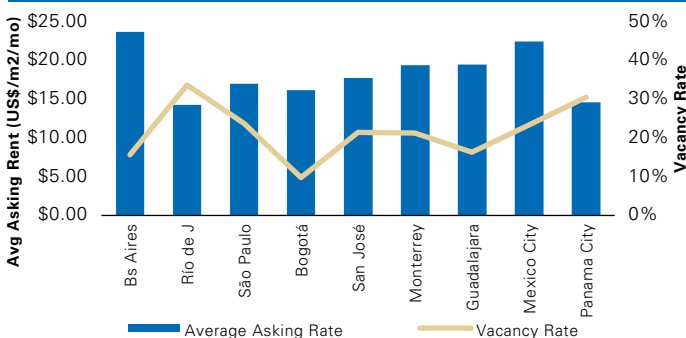
### Buenos Aires, Argentina

In the last half of the year, the market showed a more favorable outlook, with positive indicators that were favorable for tenants. Throughout the year, demand took the shape of specific operations that set the pace in the market. Thus, and driven by stability in prices, the fly-to-quality strengthened throughout 2022. This allowed companies to migrate to higher-end buildings. Additionally, sales transactions are expected to gain momentum, especially among companies with substantial liquidity in pesos, who seek to purchase as a strategy to protect their capital.

### Río de Janeiro, Brazil

The best indicators of the year were observed in the second half of 2022. There was growth in occupations; therefore, there was a reduction in the vacancy rate. Fewer vacant spaces and dynamic leasing activity resulted in higher net absorption, going from 13,000 m2 in the third quarter to 23,000 m2 by the end of the year. The accumulated absorption of the year totaled 41,400 m2, the best since 2019. The vacancy rate closed at 33.6% (versus 34.5% in the third quarter), the lowest since the closing of 2016 (27.4%).

### Average Lease Rate and Vacancy Rate



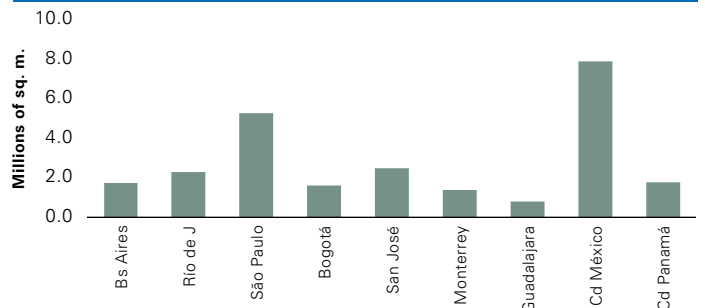
### Current Conditions

- There was a new positive shift in absorption during the second half, with a total of 300.000 m<sup>2</sup> as of the end of the year.
- Total inventory in the monitored markets of the region underwent a moderate increase in the second half of the year –only 180.500 m<sup>2</sup>– to reach a total of 25.17 million square meters.
- Construction volume decreased by 16.8% compared to the previous period, with a total of less than 2.0 million square meters reported under construction.

### Market Summary

	Current Semester	Previous Semester	12-month forecast
Total Inventory (m <sup>2</sup> )	25.17M	24.99M*	↑
Vacancy Rate	23,0%	23,7%	→
1H Absorption (m <sup>2</sup> )	300,934	95,380	↓
Average Asking Rate (USD/m <sup>2</sup> /month)	\$17.31	\$18.63	→
Under Construction (m <sup>2</sup> )	1.97M	2.30M	→

### Total Inventory per City



### **Sao Paulo, Brazil**

The year 2022 closed in a positive tone for the Class A corporate market. Vacant spaces continued decreasing, which altogether totaled a net absorption of 27,000 m<sup>2</sup>, while demand indicators slowed down compared to the closing of 2021. However, the results accumulated during the year represent the best since 2019, with a net absorption of 119,000 m<sup>2</sup> and a gross absorption of 330,500 m<sup>2</sup>. This year, the delivery of new inventory decreased considerably, reaching 85,000 m<sup>2</sup> versus the 243,000 m<sup>2</sup> in 2021, with a historical average of 250,000 m<sup>2</sup> (2007 – 2021). The vacancy rate remained virtually without variations.

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

A relevant portion of the new supply and properties currently under construction correspond to mixed use developments. An example of this trend are the Atmos Campus de Negocios project (61,090m<sup>2</sup> under construction and 253,100m<sup>2</sup> forecasted) and Aleste (with 17,471m<sup>2</sup> delivered in October, including 11,583m<sup>2</sup> for office space). It is worth noting there is a slight trend of recovering demand. Accumulated net absorption in the second half of 2022 was } 77,072m<sup>2</sup>. However, the high levels of vacant spaces and migration to more efficient buildings contribute to the current vacancy rate at 21.5%.

### **Bogota, Colombia**

In the second half of the year, the office market continued on a favorable track. It recorded positive absorptions and occupations of vacant spaces. Additionally, there was a clear increase in asking prices, mainly driven by the limited supply of A+ and A spaces, which was even more marked in the last six months of the year. It is worth noting there are no major office projects due to be finished in the short term. Thus, it is expected that the behavior observed in the latter half of 2022 will continue in 2023.

### **Mexico City, Mexico**

During this second half, the market showed positive figures versus the closing of H1 2022. Net absorption remained positive with 63,063 m<sup>2</sup>, and there was an increase of overall activity by nearly 50%. Regarding the vacancy rate, there was a 1.2% reduction compared to the previous half. The average lease price remains constant, not exceeding US\$22.00/m<sup>2</sup>. We can see this was the best period so far since the start of the health emergency. Stability in the office market is expected in the short term.

### **Guadalajara, Mexico**

The Guadalajara office market remains stable. At the closing of this semester, it showed positive figures both in terms of net and gross absorptions. Likewise, there was a decrease in vacancy rate, going from 19% to 16.4%. Stock remains static, no new projects entered the market. Actually, some projects under construction changed application from office to residential. Prices also continue stable, with only a -1% reduction versus the previous half.

### **Monterrey, Mexico**

During the second half of the year, the trend of recovery forecasted in early 2022 consolidated. This half, there was the most gross absorption since pre-pandemic years (43,084 m<sup>2</sup>), which pushed vacancy rates down from 26% to 22%. This contraction is attributable to the decrease in vacancies and a stop in the construction of new spaces. If these market conditions continue in 2023, there could be a slight increase in asking prices and vacancy below 20%.

### **Panama City, Panama**

Despite a mild recovery of demand, the office real estate market in Panama City still showed an increase in its vacancy rate as of the closing of the second half of 2022. This was mainly caused by vacant spaces and the reduction of corporate spaces. This index stood at 30.6%, with the Área Bancaria submarket showing the highest levels of vacancy. By contrast, the asking price was \$14.63 /m<sup>2</sup>/month. This price discourages the construction of new buildings and extends the periods of contract negotiation.

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> )	Average Asking Rate (USD/m <sup>2</sup> /month)
Buenos Aires	1.74	0.26	15.6%	29,853	\$23.70
Río de Janeiro	2.28	0.03	33.7%	36,551	\$14.27
Sao Paulo	5.26	0.25	23.8%	54,782	\$16.99
Bogota	1.60	0.07	9.8%	15,672	\$16.21
San Jose	2.47	0.09	21.5%	77,072	\$17.78
Monterrey	1.38	0.26	21.3%	43,084	\$19.41
Guadalajara	0.79	0.07	16.4%	19,996	\$19.47
Mexico City	7.87	0.93	23.4%	41,109	\$22.44
Panama City	1.78	-	30.6%	(17,185)	\$14.63
<b>Total</b>	<b>25.17</b>	<b>1.97</b>	<b>23.0%</b>	<b>300,934</b>	<b>\$17.31</b>

## Economic Conditions

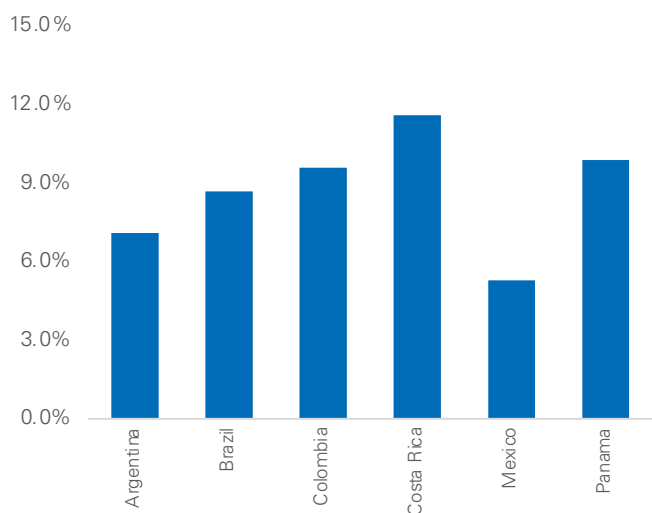
### Argentina

The second half of the year closed with an uneasy outlook pertaining to the economic and political conditions, especially considering the 2023 elections and the global inflationary pressures. Despite this, the country’s GDP grew more than expected for 2022, reaching 5.9% annual growth.

The year 2023 is expected to be a year of transition for the market. Being an electoral year, this will create uncertainty regarding the future. The inflationary pressures have translated into lower purchasing power and a slowdown of the economy overall, resulting in a population that seeks safe havens to weather these events. This combination of risk factors makes it difficult to provide an accurate short-term forecast of the country’s economy. Therefore, the market will likely enter a cautious wait-and-see period.

### Unemployment Rate

#### PER COUNTRY



## Brazil

Economic activity in Brazil continues expanding, albeit at a slower pace and in a less homogeneous fashion. This trend has led to adjustments in the country's GDP growth forecast, changing from 2.9% in 2022 to less than 1.0% in 2023. This is attributable to higher interest rates, smaller credits, limited investments in the private sector, concerns about government finances, and various international partners undergoing crises of their own. Weaker economic dynamics should result in a smaller labor market, less spending per household, and investors preferring to choose other markets other than Brazil. Fears of increasing costs enacted by the new federal government are already impacting the financial markets, with the national economy currently on alert.

## Colombia

As reported by the Organization for Economic Cooperation and Development (OECD), the Colombian economy will undergo an 8.1% growth for 2022. This is due to strong internal consumption, recovery in exports, and a belated effect of the expansive policies adopted shortly after the Covid-19 emergency started. By contrast, the forecast for 2023 is a decelerating economy, whereby GDP will expand less than 1%. After this reduction, the Colombian economy is forecasted to grow less than 3% annually.

Three economic factors weigh down on the country's economic outlook: growing inflation, interest rate hikes, and volatility in the US dollar exchange rate.

U.S. Dollar Exchange Rate						
Country	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22
Argentina	104	100	116	130	153	185
Brazil	5,44	5,58	5,08	4,96	5,26	5,21
Colombia	3.834	4.000	3.885	3.953	4.438	4.868
Costa Rica	630	645	667	692	636	602
Mexico	20,33	20,89	20,31	20,05	20,20	19,50

Source: Banco Nacional Argentina, Banco Central de Costa Rica, investing.com

## Costa Rica

Factors such as exchange rates, inflation, reactivation of the job market, and international indicators are the main drivers of economic recovery. In December 2022, headline inflation reached a yearly expansion of 7.9%, as measured by the Consumer Price Index (IPC in Spanish). National productivity reached a yearly variation rate of 3.2% in November 2022, as measured by the cyclical series of Economic Activity Monthly Index (IMAE in Spanish). The US dollar exchange rate (considering the sale reference price for December 31, 2022) was ₡601.99, which represents a considerable drop since July 2022. Versus the rate for the same month in 2021, this is a -6.7% variation. Finally, Gross Domestic Product (PIB in Spanish) growth forecasts are at 2.3%.

## Mexico

Banxico (Mexico's central bank) forecasts a GDP growth of 3.5% for 2023. This is due to an increase in public investment for the development of infrastructure, as well as investments in the private sector. Mexico is a country with major strategic advantages due to its geographic location, which allows it benefit from various trade agreements.

There is a positive growth outlook for the Mexican economy, despite the expected persistence of high inflation. Experts believe that the Banxico will continue raising interest rates to further cement the viability of these forecasts. Notwithstanding this, inflationary pressures will continue causing relevant impacts and clashes due to external factors

## Panama

According to the World Bank, the Panamanian economy displayed strengthened recovery trends throughout 2022, leading the region's economic growth with a GDP growth rate of 11.0%. The Authority of the Panama Canal, ports, railroad, airports, and projects to expand the road infrastructure and Line 3 of the Metro subway are the major drivers of this growth. Regarding foreign investment, there was also an 18.21% growth versus 2021. This trend is likely to continue due to the incentives the government offers through its various special tax schemes. Economic recovery is also reflected on a decrease in the total unemployment rate, which contracted from 11.3% to 9.9% as of the end of the year.

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