RESEARCH 1H 2023

Latin America Office Market

Vacancy Remains Stable, but Absorption Decreases

Buenos Aires, Argentina

As of the closing in the first half of the year, there is an observable slowdown in the number of transactions. This had a mild impact on the market indicators. During the second quarter, the net absorption was no longer positive, as it closed on a negative trend. Despite this, the vacancy remained stable at 16.8%. The positive indicator for the period was the area made vacant, which decreased by 45% compared to the previous period. The market remains on "stand by", waiting for the results of the elections due in October.

Río de Janeiro, Brazil

During the first half of 2023, the Rio de Janeiro market remains under recession, with a moderate increase in vacancy because the vacant spaces continue surpassing the new leases. Despite this, there was a noticeable improvement in gross absorption. Plus, the tenants are no longer vacating offices as was the case during previous periods. The net absorption recorded was -2,000 m², accumulating a total of -12,600 m² so far this year. The vacancy rate increased by 34.3%, and the lease rate was $15.75 USD/sqm/month. This represents an 11% increase versus the second half of 2022.

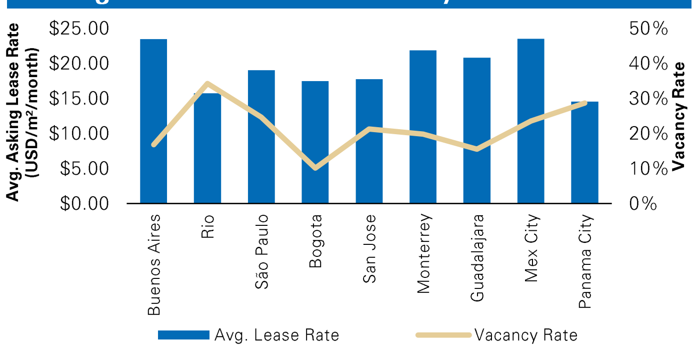
Current Conditions

- The six-month absorption decreased to 98,000 m², but the expectations are positive due to new investments in the manufacturing, trade, and services sectors of the region.
- The inventory grew slightly, at a rate of 1%, and new construction contracted by 13%, which helped to keep the vacancy rate at 23.1%.
- The delivery of new buildings and the appreciation of some currencies versus the US dollar caused an increase of 11% in the asking prices.

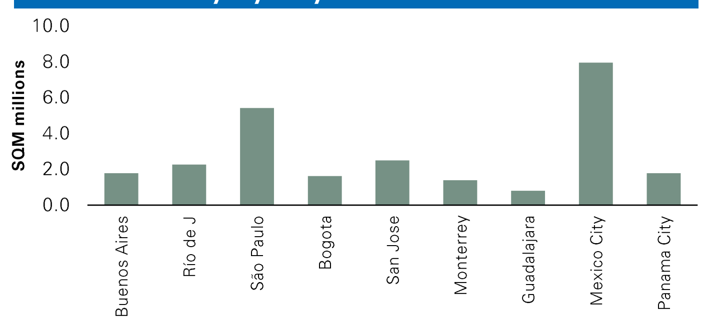
Market Summary

	Current Semester	Prior Semester	12-month forecast
Total Iventory (m²)	25,44M	25.17M	↑
Vacancy Rate	23,1%	23,0%	→
Semestral Net Absorption(m²)	98,656	300,934	↓
Avg. Asking Price (USD/m²/month)	$19,37	$17,31	→
Under Construction (m²)	1,71M	1.97M	→

Average Lease Rate and Vacancy Rate



Total Inventory by City



NEWMARK

Sao Paulo, Brazil

The market shows encouraging signs. Even though the tenants continue decreasing their occupied spaces, this trend has slowed down. Leasing activities remained at outstanding levels. The net absorption underwent a positive increase of 43,700 m^2 during this semester. This represents a positive change when compared against the negative results in the previous period. The accumulated net absorption was 33,000 m^2, a decrease compared to the previous half. Despite the high volume of new properties delivered during this semester, the vacancy rate still closed at 24.7% (vs. 23.8%). By contrast, there was a noticeable increase in the lease rate, going from $17 to $19USD/sqm/month due to the high volume of new offices incorporated and the limited recovery in the value of the Brazilian Real versus the US dollar.

San Jose, Costa Rica

The indicators for the first half showed positive signs, with a 1.16% increase in the inventory compared to the closing of 2022. Additionally, the constant absorption has caused a decrease in the vacancy rate, stopping at 21.3%. Nonetheless, the incorporation of new empty buildings, plus some vacancies, results in a negative absorption for -10,103 m^2. The market is recovering slowly after the pandemic. Developers still behave cautiously in terms of the construction of new buildings, adapting to the conditions prevailing in the current market.

Bogota, Colombia

The office market displays signs of balance and stability by the closing of the first half of the year. On the one hand, there was a decrease in occupation due to the adoption of hybrid working among the companies, which has resulted in the optimization of space. On the other, new companies have entered the Colombian market, especially in the communications and business support services sectors. Additionally, there was a decrease in the overall investment for business complexes. This trend is related only partially to the effects of the pandemic, as the uncertainty created by economic and political conditions in the country also caused relevant impacts. Despite this, there is a promising future, with nearly 650,000 m^2 of projects for the next seven years.

Mexico City, Mexico

As of the closing of the first half, the market remains stable, with new investments in buildings to make them more appealing. At the same time, some of these buildings are being converted into apartments or healthcare facilities. During this half, the inventory grew by 73,000 m^2, but there was a reduction of 38% in spaces under construction, which are currently at 792,000 m^2. Gross absorption reached 176,000 m^2. Yet, considering the vacancies and the entry of new empty projects to the market, there was a net negative absorption of -5,724 m^2. The vacancy rate remains above 23%, and the average lease price underwent an increase of 4.8% due to adjustments over the Mexican peso and US dollar exchange rate, among other factors.

Guadalajara, Mexico

During the first half, this market continued showing a solid recovery and positive results. Gross absorption reached 29,000 m^2, while net absorption was 15,000 m^2, despite some vacancies. The vacancy rate continues decreasing, reaching an outstanding 15.5% in this period, the best indicator at the national level. This decrease is mainly due to the occupation by companies in the services and technological sectors. Besides, the inventory increased by 10,000 m^2. Leasing prices increased by 7.1%, and the trend of converting offices to residences in projects under construction continues.

Monterrey, Mexico

The gross absorption for the first half was 32,000 m^2, still below the 43,000 m^2 recorded during a similar period in 2022. Nonetheless, it remains within the expected ranges. It is expected that, with the current dynamics, the vacancy rate for the year 2023 will reach levels below 20%. The total supply and asking prices remain stable due to the limited reactivation of projects under construction, plus the limits on licenses for new construction projects. With the arrival of foreign investment to the state and the nearshoring phenomenon, the market sustains expectations for an increase in demand in the short term.

Panama City, Panama

Since 2021, a search for more efficiency led to an increase in vacancies, keeping the office market in a state of recession. This still benefits the tenants in the agreement negotiations. The estimates suggest a gradual recovery based on the expansion of direct foreign investment in addition to greater demand by companies in the services and technology industries. As of June, the office inventory stood unchanged compared to 2022. The vacancy rate contracted to 28.67% due to insufficient new supply, new requirements, and corporate relocations, as well as the conversion of spaces to more flexible formats.

Stats by City

	Total Inventory (Millions m²)	Under Construction (Millions m²)	Vacancy Rate	Semestral Absorption (m²)	Precio de Renta Promedio (USD/m²/month)
Buenos Aires	1,78	0,27	16,8%	- 454	$23,50
Rio de Janeiro*	2,26	0,03	34,3%	- 12,619	$15.75
Sao Paulo	5,40	0,15	24,7%	32,987	$19.05
Bogota	1,62	0,08	10.1%	14.129	$17.50
San Jose	2,48	0,08	21,3%	- 20,905	$17,74
Mexico City	7,94	0,79	23,6%	- 5,724	$23.52
Guadalajara	0,80	0,04	15,5%	35,663	$20.85
Monterrey	1,38	0,26	19,8%	32,262	$21.87
Panama City	1,78	-	28,7%	23,317	$14,54
Total	**25,44**	**1,71**	**23,1%**	**98,656**	**$19,37**

*Rio de Janeiro had a reclasification of Class A buildings for this period.

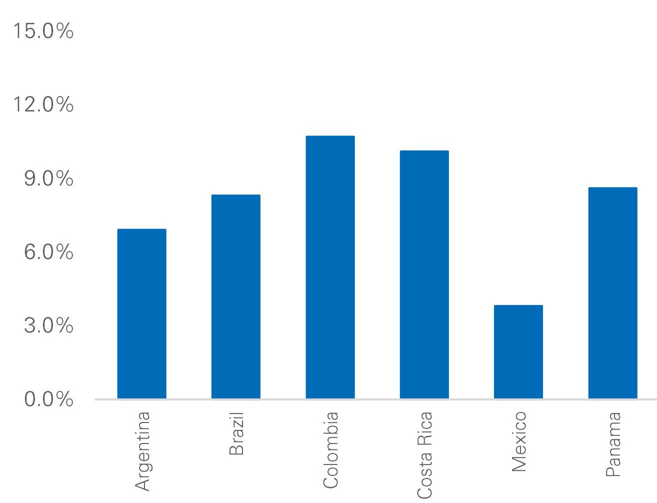
Economic Conditions

Argentina

The second quarter was also impacted by the uncertainty caused by this year's elections. Inflation continues to grow, with a monthly average of 7.3%. There are no reasons to expect a substantial decrease in inflation. The severity of drought, accelerating inflation, and growing restrictions on currency exchange entail unfavorable conditions for private consumption, investment, and foreign trade for the remainder of 2023. Despite such a complex situation, the unemployment rates have been stable since last year, even if the real income for informal workers is losing purchasing power due to inflation. By contrast, the public and private formal segments remain somewhat stable.

Unemployment Rate

BY COUNTRY



Brazil

During the first months of 2023, Brazil's gross domestic product increased by 1.9% after a brief decrease in 2022. This growth was greater than expected, although economic activity is expected to slow down in 2023. The greatest growth was mainly driven by agriculture, which increased by 21.6% after a record-breaking soy harvest. Other sectors continued steady, although the manufacturing and construction industries eroded again. Despite a global decrease in prices for raw materials, these are still considerably high, which keeps Brazilian soy and crude oil competitive. Deflation in raw materials and a better exchange rate helped reduce inflation to 5%. However, the interest rate is still high at 13.75%.

Colombia

For the first time in two years, the Economy Tracking Indicator displayed a negative result of 0.8% in April. However, employment data and expectations among business owners and consumers in the Fedesarrollo report suggest a more favorable outlook. Besides, the Colombian peso underwent a considerable appreciation, and the risk premiums decreased substantially. These events took place under a context of high uncertainty in the global economy and a reduction in international oil prices. It is forecasted that Colombia will grow by 1.2% in 2023, driven by growth in the public sector, private consumption of services, and exports. However, the slowdown among developed countries represents a challenge to the country and to domestic policies.

Costa Rica

The Costa Rican economy featured two contrasting characteristics: the special regime grew by 23.8%, while the manufacturing sector under the definitive regime dropped by 1.8%. Even though there was some progress, challenges remain. On the one hand, the unemployment rate decreased substantially, reaching 10.1%. This was mainly driven by expansion in productivity among the medical and service industries, which grew by 5.51%. In May, inflation decreased by 0.88%, a positive result. On the other, the exchange rate versus the US dollar improved to ¢549.48 in June, representing 20.6% versus the year 2022. While this accelerated appreciation is considered a positive result, it affects the country's competitiveness and balance of trade.

Mexico

The Mexican economy had a first half that was better than expected, growing 3.6% year-to-year, driven by services and trade. On the other hand, secondary or industrial activities grew by 2.5%, mainly due to the growth of direct foreign investment in the motor vehicle industry attracted by the nearshoring phenomenon. During this half, for the first time, Mexico surpassed China in its volume of exports to the United States. Further, the exchange rate remains appreciated versus the US dollar, so it still stands at 17.7 Mexican pesos per dollar during the first half of the year.

Panama

Since mid-2022, the economy of Panamá has shown sustained growth, largely boosted by foreign investment, which has increased in key industries, especially logistics, consumer products, and services. It is expected that this trend will continue because the country is still drawing the attention of international investors due to its strategic location and political and economic stability. By contrast, the construction industry has undergone a surge, due to growth in infrastructure and housing projects. The recovery is sustained by the constant implementation of investment plans for public and private projects. This is successfully fostering growth in the sector, which has a positive impact on the national economy.

U.S. Dollar Exchange Rate

Country	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23
Argentina	116	130	153	185	209	266
Brazil	5,08	4,96	5,26	5,21	5,13	4,82
Colombia	3.885	3.953	4.438	4.868	4,637	4,100
Costa Rica	667	692	636	602	543	549
Mexico	20,31	20,05	20,20	19,50	18,04	17,70

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

For more information:

Giovanni D'Agostino
President Mexico
Regional Managing Director
Latin America
giovanni.dagostino@nmrk.com

Juan Flores
Market Research
Director
Latin America
juan.flores@nmrk.com

Karina Longo
Gerente de Research.
Valuation. Data Analytics
Argentina
klongo@ngbacre.com.ar

Mariana Hanania
Pesquisa de
Mercado
Brazil
mariana.hanania@ngkf.com.br

Aurora Turriago
Marketing, Corporate
Comms. & Research Director
Colombia
aurora.turriago@nmrk.com

Danny Quirós
Research Manager
Central America
Panama
danny.quiros@nmrk.com

Mauricio Mondragón
Market Research
Manager
Mexico
mauricio.mondragon@nmrk.com

Karen Gutiérrez
Market Research Analyst
Mexico City
Mexico
karen.gutierrez@nmrk.com

Isabel Lomelí
Market Research Analyst
Mexico City
Mexico
isabel.lomeli@nmrk.com

Fernando Lara
Market Research Analyst
Mexico City
Mexico
fernando.lara@nmrk.com

Juan Millán
Market Research Analyst
Monterrey
Mexico
juan.millan@nmrk.com

Luis Moreno
Senior Market Research
Analyst Industrial- Monterrey
Mexico
luis.moreno@nmrk.com

Genaro López
Market Research Analyst
Tijuana
Mexico
genaro.lopez@nmrk.com

Joseline Saborio
Market Research
Assistant
Costa Rica
joseline.saborio@nmrk.com

nmrk.lat