RESEARCH 2S 2023

Latin America Office Market

Recovering, Absorption Grows Substantially

Buenos Aires, Argentina

During the last quarter of the year, the market stood on hold, waiting to observe the potential impacts derived from the new measures that the newly installed government intends to implement. This resulted in a reduced number of transactions. During the fourth quarter of 2023, the net absorption yielded positive figures after three consecutive periods recording negative results. Regardless, even though the last period resulted in a favorable net absorption, the closing by the end of the year showed a negative accumulated balance. This outcome is mainly due to the addition of two new buildings, both of which had a considerably low occupation, and added to a market 41.660 m².

Rio de Janeiro, Brazil

The second half showed limited activity in the leasing of premium offices, with a demand that decreased even more by the end of the quarter. The net absorption in the second half reached 31,700 m², surpassing the number from the previous half, a period when the market underwent a contraction. Gross absorption reached 66,000 m². The vacancy rate remained stable at 32.6%. The average monthly leasing price lowered to USD 15.26 per m².

Current Conditions

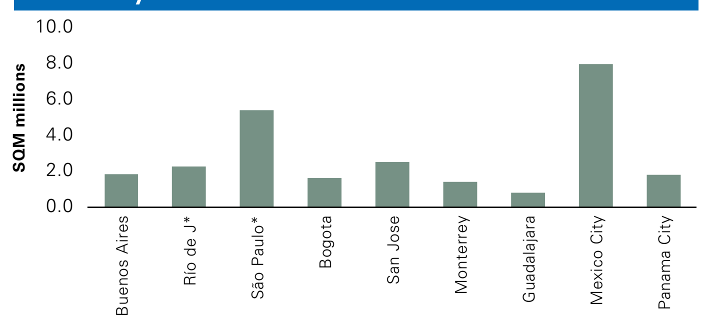
- Absorption in this region for this half increased to 362,000 m², driven by new investments in manufacturing, trade, and services. Most countries reported positive figures.
- The inventory grew by 1%, while construction shrunk by 6%. This pattern, along with the growing demand, led to a reduction in the vacancy rate of 2.5%.
- Prices showed a mild 1.2% growth, although recovery is expected through 2024 due to the decrease in vacant spaces.

Market Overview

	Current Semester	Previous Semester	12 Month Forecast
Total Inventory (m²)	25,67M	25.44M	→
Vacancy Rate	22.4%	23,1%	↓
Semester Net Absorption (m²)	362,786	98,656	↑
Avg. Asking Price (USD/m²/month)	$19,60	$19.37	↑
Under Construction (m²)	1,60M	1.71M	↓

Asking Price vs Vacancy Rate

Inventory



*Class A buildings

NEWMARK

Sao Paulo, Brazil

The high-end office market in Sao Paulo was active in 2023. The net absorption during the half reached 109 mil m², more than triple the figure from the previous half, totaling 142,000 m² during this year. The gross absorption during this half was 237,000 m² and 452,000 m² for the year, the greatest yearly volume on record (since 2007). The vacancy rate decreased from 24.1% to 23.3%. The monthly lease prices increased, averaging USD $ 19.63/m² per month for all the regions included in the Sao Paulo market.

San Jose, Costa Rica

By the end of 2023, despite changes in the work dynamics arising from the 2020 dynamics, some operations, particularly in the services sector, have shown some interest in leasing larger spaces. This is due to the acknowledgment that remote work entails substantial investments and impacts the performance of the workforce. Regarding the vacancy rate, this indicator stood at 20.8%, representing a slight decrease compared to the third quarter. This is attributed to the reduction in the amount of new supply entering the market.

Bogota, Colombia

As a result of the surging interest rates, the increase in costs of raw materials, and a slowdown of the construction sector in Colombia, there was a delay in the development of new buildings of Class A offices. Consequently, prices have undergone a material increase, reaching unprecedented levels, especially in the Central Business District (CBD). No major changes are expected in the inventory during 2024. The limited supply, especially in the CBD, is expected to persist. Therefore, prices will likely continue in an expansion trend.

Mexico City, Mexico

By the end of 2023, there have been positive results in all the market indicators. Office inventory Class A and A+ underwent a 0.5% increase versus the closing of the second half of 2023, with the addition of 42,466 m² during this last period, especially in the Insurgentes and Polanco submarkets. The vacancy rate remained stable, gravitating around 23%. The gross absorption by the end of this half reached 181,077 m², which represents a 2.6% increase compared to the closing of the first half of 2023. Vacancies by the end of the year reached 40.4% less than what was observed in 2022.

Guadalajara, Mexico

During the second half of 2023, the office market featured positive results in terms of gross absorption, stability in its vacancy rate, and an increase in overall leases. A total of 5,126 m² entered the inventory in the Plaza del Sol submarket. Additionally, over 89,045 m² remained under construction in the Zona Financiera, Plaza del Sol, and Vallarta submarkets. Despite some minor vacancies recorded in all the submarkets, which added to a grand total of over 17,000 m² vacant. The gross absorption remained constant, closing the year with more than 18,899 m².

Monterrey, Mexico

Foreign investment arriving in the state, along with the nearshoring phenomenon, has prompted the recovery of the office market, thereby leading to an increase in demand. The gross absorption recorded in the second half reached 13,350 m², finishing the year with a total absorption of 45,612 m². As a result, the vacancy rate underwent a decrease, standing at 18.5%. It is expected that the trend will continue steady throughout 2024. The total offer and the asking prices have remained stable. This reflects a moderate reactivation of projects under construction and a restrictive policy for the authorization of new buildings. This overview suggests that the market advances towards a balance, with expectations that it will strengthen as the local economy continues expanding and companies seek more spaces that fit the new work dynamics.

Panama City, Panama

The real estate market for offices in Panama City underwent an outstanding recovery throughout 2023. The second half was particularly active. This reactivation is attributed to various factors, including an improvement in business confidence and the expansion of foreign investment, which have provided vitality to the sector. Regarding the vacancy rate, this indicator dropped to 26.18%, marking the most notable reduction since the market entered a period of oversupply by the middle of 2018. This suggests there is a positive adjustment between supply and demand for office spaces.

Market Statistics

	Total Inventory (SQM millions)	Under Construction (SQM millions)	Vacancy Rate	Net Absorption (SQM)	Avg. Asking Price (USD/sqm/month)
Buenos Aires	1,82	0,20	18,3%	-1,607	$23,30
Rio de Janeiro	2,28	0,03	32,7%	31,751	$15.26
Sao Paulo	5,41	0,20	23,3%	109,299	$19.63
Bogota	1,62	0,08	9.7%	6,884	$19.60
San Jose	2,50	0,10	20,8%	64,722	$17,64
Mexico City	7,98	0,65	23,2%	26,849	$23.87
Guadalajara	0,80	0,09	15,8%	-3,278	$21.09
Monterrey	1,41	0,24	18,5%	13,350	$21.38
Panama City	1,81	-	26,2%	114,815	$14,59
Total	**25,67**	**1,60**	**22,4%**	**362,786**	**$19,60**

Economic Conditions

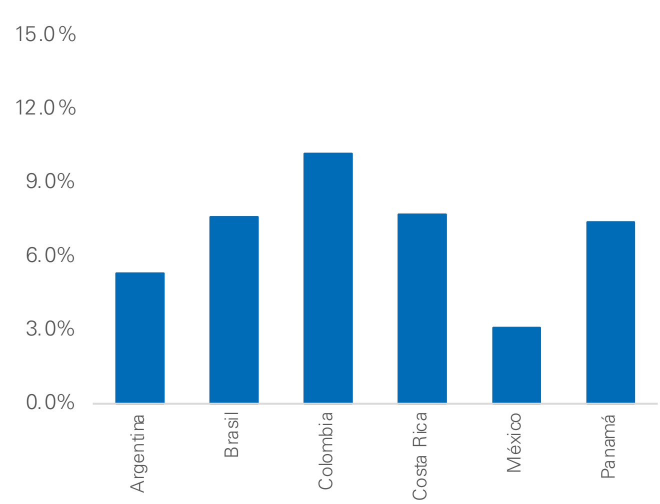
Argentina

The fourth quarter of 2023 concluded with the final step of the extensive electoral process. The recently installed government stated its intention to seek a fiscal balance by substantially reducing public expenses while also carrying out a substantial restructuring of the state.

As a consequence of the ambitious fiscal consolidation pursued by this administration, it is expected there will be a marked decrease in the amount of currency issued to support the Treasury. At the same time, it is forecasted that there will be an adjustment in currency exchange rates and fees during the first half of the year.

For 2024, the expectation is that there will be a considerable inflow of foreign currency brought about by exports due to the reactivation of the agricultural sector and an energy surplus forecasted for this year.

Unemployment Rate



Brazil

The last inflation report by the Central Bank (December 2023) showed a slight decrease in economic activity by the end of the year. However, it also revised its GDP growth forecast, going from 2.9% to 3.0% for the year. This is derived from a better performance in farming and ranching, which are expected to grow 15.5% for the year. Likewise, services, the largest contributor to the country's GDP, are due to grow by 2.5%, mainly driven by the sub-sectors of financial intermediaries and related services, along with real estate and leasing. It is expected that the manufacturing industry will undergo some contraction due to the poor performance of extractive industries, particularly pertaining to iron, other minerals and metals, and construction. The base interest rate has decreased, standing at 12.25% by the end of 2023 and 11.25% by the beginning of this year.

Colombia

Throughout 2023, the forecast was dominated by sustained inflation and an economic slowdown. Colombia, which was previously known as one of the Latin American countries and emerging economies showing a remarkable economic recovery after the pandemic, showed signs of slowing down during the second half. The slower growth was observed in some crucial sectors, such as industry, trade, and construction, which elicited concerns about potential economic stagnation. In terms of investment, there have been four quarters of continuous contraction as of October 2023. This marked a trend not seen since 2005, not considering the pandemic. The year 2024 seems like it will pose a substantial challenge, putting the resiliency of companies to the test as the final phase of a highly complex economic adjustment unfolds.

Exchange Rate vs US dollar

Country	2Q22	4Q22	2Q23	4Q23
Argentina	130	185	266	828
Brasil	4,96	5,21	4,82	4,84
Colombia	3.953	4.868	4,100	4,000
Costa Rica	692	602	549	516
México	20,05	19,50	17,70	17.19

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

Costa Rica

The Costa Rican economy closed 2023 with a 5% growth, spurred on by demand, both domestic and foreign. Inflation, which had previously peaked at 12% in August 2022, underwent a decrease, stabilizing near 3% as of the closing of the year. Likewise, the unemployment rate remained stable. The forecasts for 2024 are encouraging, with an expected economic growth of 4.3%. The government is implementing policies that seek to reduce the fiscal deficit and strengthen the country's competitiveness. It is believed that direct foreign investment and the tourism industry will continue driving growth. Fiscal sustainability, reducing unemployment, and improving infrastructure are the main challenges for Costa Rica.

Mexico

By the end of the second half of 2023, Mexico featured an economy with mixed signals. On the one hand, the GDP has undergone a 3.1% growth, driven by the manufacturing and exporting sectors, which highly leverage the proximity to the United States. Yet, inflation remains an issue, staying at 4.6%, above the goals set by the Bank of Mexico. This has led to a stiffening of the monetary policies. Unemployment has decreased slightly to 3.1%, but the recovery of employment rates comparable to pre-pandemic levels is still an elusive goal. Direct foreign investment continues to be stable, even though uncertainty in terms of domestic and foreign policies could impact confidence among investors.

Panama

Panama's economy closed the year 2023 with a positive overall performance, showing a GDP growth between 5% and 6%, which makes it the strongest in the region. The most outstanding sectors were trade, construction, transport, and communications. Nonetheless, some challenges persist, such as inflation, which continued near 4%, and an unemployment rate that, despite decreasing, remains above 7%. Inequality also represents a substantial issue. The forecasts for 2024 are optimistic. The International Monetary Fund (IMF) forecasts a 6% growth, while the Economic Committee for Latin America and the Caribbean (CEPAL) forecasts a 4.2% growth. To leverage these opportunities, it is essential to promote public investment in infrastructure and job creation, maximize productivity in the Panama Channel for international trade, and strengthen the tourism industry.

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