MARKETBEAT

South America

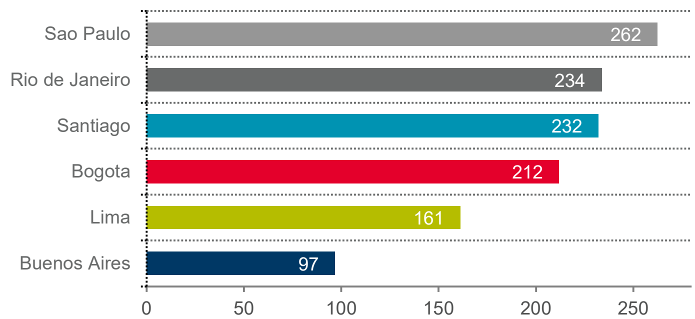
OFFICES H1 2019

CUSHMAN & WAKEFIELD

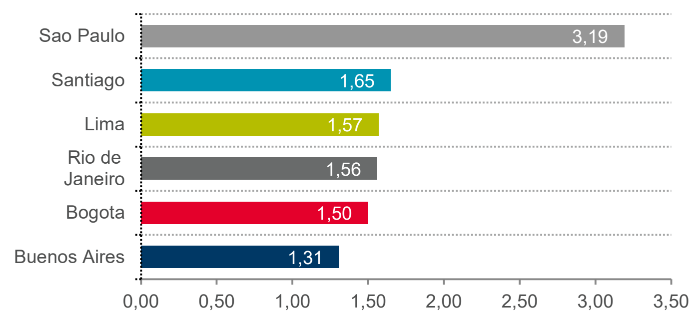
ECONOMIC INDICATORS

	Bogota	Buenos Aires	Lima	Rio de Janeiro	Santiago	Sao Paulo
GDP variation (National)	3.0%	-5.8%	2.6%	0.8%	1.6%	0.8%
Inflation index (National)	3.4%	57.3%	2.3%	3.8%	2.3%	3.8%
Unemployment rate (Local)	10.3%	11.1%	6.3%	12.6%	6.9%	13.5%

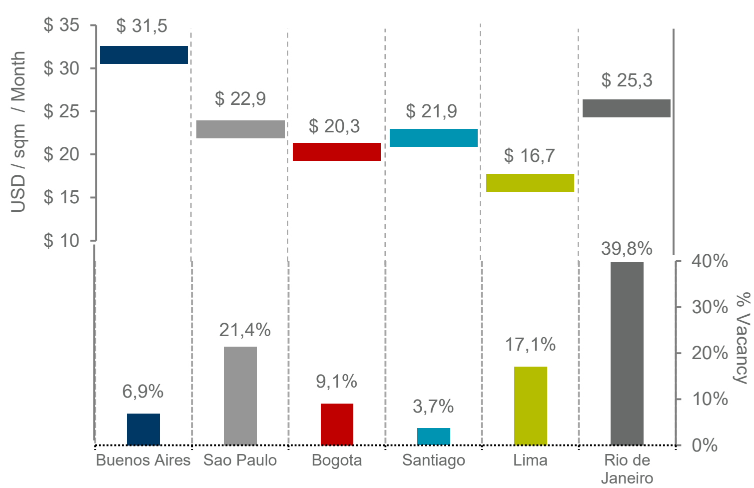
Inventory ratio (sqm)/1.000 inhabitants
H1 2019



Class A inventory (Mill. sqm)
H1 2019



Vacancy (%) vs. Asking Rent (USD/sqm/month) (*)
H1 2019



(*) The exchange rate corresponds to the last day of June.

Economy Outlook

The Colombian economy began 2019 with a growth of 3.0% over the same period of 2018 maintaining the ascending phase of the economic cycle and generating positive perspectives. Chile´s GDP registered a growth of 1.6%, compared to the same period in 2018, which shows a stagnation of economic activity; Peru shows a moderate GDP growth and a conservative look is expected into the end of the year. Compared to the region, the behavior of Colombia is the most positive but, on the other hand, economic activity in Argentina continued to decline during first half development. The GDP measurement shows a 5,8% drop compared to the same period last year. Brazilian biggest economic discussion is about the social security reform, which has relied on legislative efforts to get it approved as soon as possible counting on that to unlock economy. GDP grew by 0.8% when compared to last year, but first half of 2019 presented negative results, putting Brazil's economic scenario close to a technical recession.

On the international context, with the visit of Brazil's president to Argentina, several cooperation and trade agreements were signed. In addition, the economic ministers of both countries also reunited in pursuit of developing a common currency, the Peso Real, an important economic proposal that could benefit Brazil, Argentina and the rest of the region focusing on global development.

In general, it is expected that Peru's economy will maintain the expectations of a stable growth which will benefit the entire economic development. Chile's economy is being supported by the positive growth of exports even though, the uncertainty of the trade war between the United States and its main partners has intensified, which have resulted, among other effects, in a global appreciation of the dollar and a reduction in the majority of the prices of raw materials, including copper from Chile.

Market size

In order to measure the size of the office market in each of the cities, the ratio of square meters of offices per 1.000 inhabitants was calculated. From this analysis, it turned out that Buenos Aires has the lowest position with a ratio of 97, and Sao Paulo leads the ranking with 262.

The calculation of the number of office buildings in each city helps to measure and understand the number of investment in long-term assets that every country has and the conditions of the financial system, as this capital-intensive investments certainly depends on it.

Sao Paulo has the largest class A inventory and is one of the most important cities in South America, justified mainly by its population and geographic size, as well as its infrastructure, which is one of the best in the country. It is Brazil's main economic pole and attracts the headquarters of significant national and international companies. The beginning of economic recovery slowly increases the confidence in real estate developers over the local market outlook.

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Santiago´s prime inventory exceeds Lima, Rio de Janeiro, Bogota and Buenos Aires. It has brought Santiago's market in the spotlight, thus, offers very good conditions for long-term investment, as a result of the good accessibility to financing sources. In additional, the current stability is one of the main appealing characteristics to perform this type of investments. Moreover, Chile has a very solid savings system based on Pension Funds, which should be invested locally, so that provides greater impulse for the long-term demand assets. This solid savings system is also an entry barrier for foreign capital, which added to the fact that the return on investment in intensive capital is still quite low, this may limit the market growth, and encourage local investors to seek for similar investment conditions abroad.

Lima is currently positioned as one of the most important emerging office markets in South America, right after Santiago of Chile, a consolidated continental market. It doubled its office inventory in the last five years due to a consistent economic policy with relatively low financing rates, that facilitated long-term investment.

Bogota shows a similar development of Lima. The inventory of Class A offices showed a 57% growth in the last five years, and it also had a very good performance of the demand during 2018, boosted by an economic growth context.

Buenos Aires currently is under-supply, as a result of the lack of financing in long-term investments, particularly in a capital-intensive market such as offices, where financing is key for development.

Market Overview

In Buenos Aires, despite the complex economic scenario, the market maintains healthy indicators. The demand remains active along with the availability escalation that has been growing slowly but steadily for the last six months.

In Bogota, Class A office inventory continues to grow. Despite this, a very convenient vacancy rate remains still.

In Santiago, the late delivery of some buildings has caused the vacancy to fall to its historical minimum. No new inventory was registered for class A buildings in the past 12 months, which has significantly reduced the available area and, as a result, the number of transactions did too, leaving an absorption volume below the quarterly average. In Lima, the vacancy rate continues its downward trend. The available area decreased mainly due to the occupation of significant office space by coworking companies, where they rent entire building or took most of their available space.

In Sao Paulo, the market began to recover in the second quarter of 2019 with a decrease in the vacancy rate, closing out the quarter at the lowest value since 2015. Deliveries' pace should slow down for the next 5 years, which may press the vacancy down even more. On the other hand, CBD's prime regions have showed an increase of their asking rent.

Rio de Janeiro's corporative market is showing signs of improvement. The market has had high vacancy rates during the last few years, however, the flight to price movement is helping to decrease the vacancy rate slowly. Furthermore, there will be new occupations until the end of the year that could accelerate a bit more the recovery of Rio de Janeiro.

Key indicators

Bogota's average asking rent had slightly increased due to the entry of new premium buildings. In Santiago, we can also observe an increase but as a result of the recent appreciation of the Chilean currency against the American dollar and the low vacancy. In Lima, the asking rent decreased 3% compared to first quarter, and Buenos Aires maintains a market average without significant changes. However, in certain submarkets some Class A buildings asking rents boost the average rent of the zone.

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Compared to other countries in the region, Buenos Aires has the highest asking rent price, which is mainly preserved by the small size of the premium office inventory. Nonetheless, political and economic instability begins to impact on the rent level indicating the beginning of a downward trend.

In Sao Paulo, the asking rent has been registering an increase in the prime market of the city, which is attracting investors. On the other hand, at the end of 2018 the CBD class A maintained the third highest asking rent among South America markets, even though the values is still relatively low compared to the previous years.

Along with the general recovery of Brazil's economic outlook, it is expected that the vacancy rate will continue to decline while the asking rent price moves upwards, specially in the main submarkets, increasing the attractiveness of the market for landlords.

In Santiago, the asking rents continue to show certain inelasticity, indicating a downward trend of the vacancy. On this regard, a limited increase in asking rent is observed since there are other commercial conditions that are changing, such as shortening the months of grace, making financing more expensive and restricting exit flexibility.

Bogota presents a slight recovery on its asking rent since third quarter of 2018, increasing by 1.8% at the end of the second quarter of 2019, and now stands at the highest value since 2017Q1.

Lima shows the lowest asking rent in the region, and even though a slight increase is observed, the rent level reinforces its emerging market situation within the region, following the steps of Santiago towards a future consolidation.

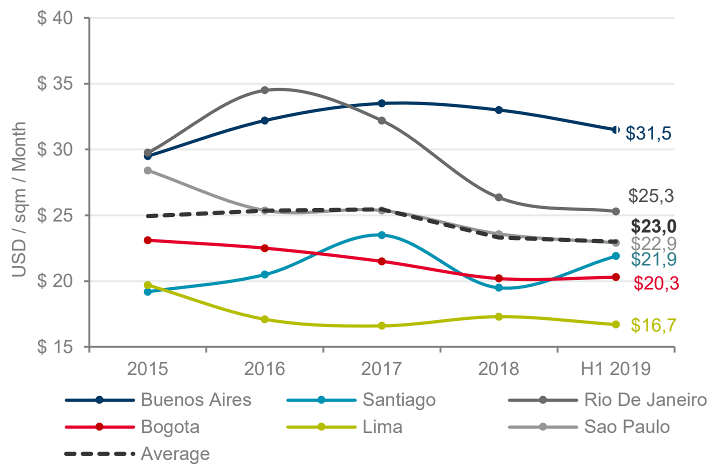
In a regional level, the vacancy analysis shows that Santiago presents the lowest vacancy rate, as a result of a five-year period with lack of production and large developments that are waiting under construction projects. Following Santiago, Buenos Aires maintains its vacancy rate with no significant changes as a result of a structurally small market.

Sao Paulo shows recovery sign and, even with its swings, the vacancy rate is heading towards healthy rate as those registered in 2015. Lima presents high vacancy with a downward trend searching for a market with more balanced indicators. However, Rio de Janeiro's market has been struggling the most with the vacancy rate, as a result of many government corruption scandals and consequently the Oil and Gas crisis.

Past, present and future

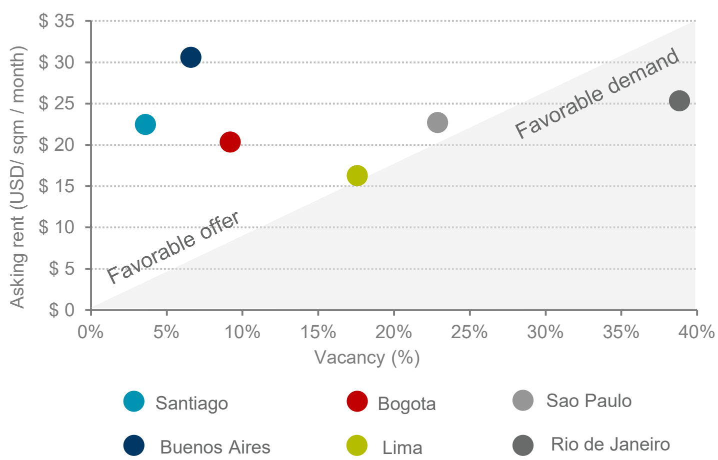
At this moment, in Bogota, there are 293,606 sqm under construction, from which 64% are estimated to be delivered in 2019. 92% of the under-construction area is located in the CBD. There are 523,874 sqm in project status, which will be delivered starting 2021. 86% of them are also located in the CBD. The second semester will stand out by the entrance of 11 class A buildings, adding 186,883 sqm to the inventory.

Asking rent evolution (USD/sqm/month) (*)



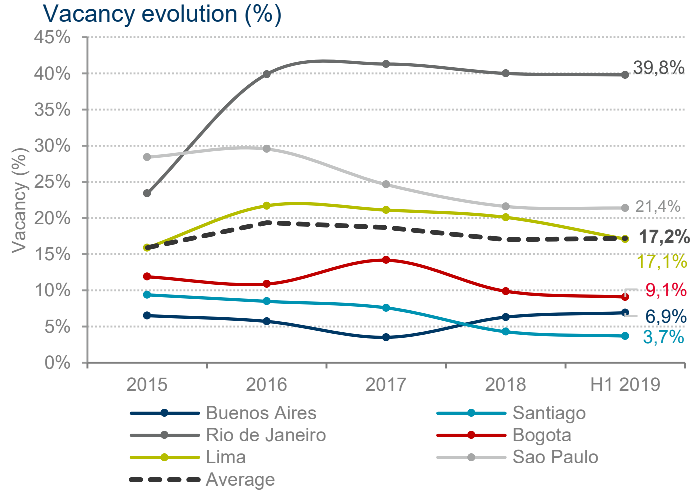
(*) The exchange rate corresponds to the last day of June.

Asking rent (USD/sqm/month) vs Vacancy (%) (*)
H1 2019



(*) The exchange rate corresponds to the last day of June.

Vacancy evolution (%)



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In Buenos Aires, 350.559 sq.m are under construction, which 58% is located in NON CBD area. Thus, 73% of this surface is expected to be delivered by 2020. 37% of projected surface is located in Catalinas and 24% in Nodo Panamericana-Gral.Paz, being there where the premium office will develop significantly.

Looking for a more balanced market in Lima, 56,320 sq.m of new office space is expected to be delivered by the end of 2019, 54% lower than the new inventory delivered in 2018. 83,937 sqm are currently under construction. 48% of this office space is in Santiago de Surco. Between the second half of 2019 and the end of 2021, the office market will receive 146,101 sqm of new office space, a data that represents a growth of 9.3% over the current total inventory of class A offices.

Additionally in Santiago, is expected in a short term, Vista 360 building adding 12,670 sqm to Nueva Las Condes submarket, which would take a healthier vacancy rate, bringing greater dynamism to the market Offices.

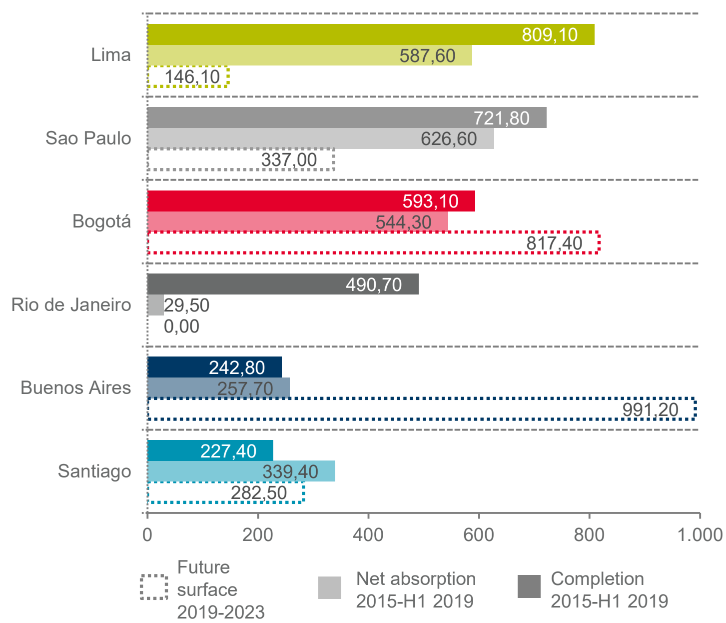
The last five years were the beginning of a period of great expansion for the Sao Paulo market, reaching the greatest production of new surface in the region. The increase in the volume of new deliveries and the investor's confidence is the result of the recovery in economic indicators. Our forecast foresees for the near future, bigger increases in the production volume impulse by the good behavior of the demand.

Rio de Janeiro will not receive any class A building until 2023, this is explained by the oversupply in recent years and the reduction of occupied area from several companies in the city.

On the other hand, Buenos Aires has been left behind not only by the unstable political and economic conditions of the past years, but also for the lack of financing to undertake long-term investments.

Although Buenos Aires still counts with the greatest volume of square meters under development and in project for the next five years, this validates the office market potential for developers. However, the greater amount projected is combined with the lower amount produced, given the investor's difficulties to carry on their projects in a market without financing.

Net Absorption vs. Completion: 2015 - H1 2019
New Inventory: 2019-2023 (,000 sqm.)



Market indicators H1 2019

SUBMARKET	CLASS A INVENTORY (SQM)	AVAILABLE SURFACE (SQM)	VACANCY RATIO	ASKING RENT(*) (USD/SQM/MONTH)	NET ABSORPTION (SQM)	UNDER CONSTRUCTION AND IN PROJECT (SQM) 2019 - 2023
Sao Paulo (**)	3,194,700	682,200	21.4%	22.9	5,000	377,089
Santiago	1,650,760	61,025	3.7%	21.9	7,360	282,508
Rio de Janeiro (**)	1,563,100	622,000	39.8%	25.3	7,000	-
Lima	1,576,432	269,331	17.1%	16.7	16,500	146,101
Bogota	1,504,590	137,333	9.1%	20.3	11,730	817,480
Buenos Aires	1,312,125	90,178	6.9%	31.5	9,065	991,254
CLASS A TOTAL	**10,801,707**	**1,862,067**	**17.2%**	**23.0**	**73,775**	**2,614,432**

(*) The exchange rate corresponds to the last day of June.
(**) The information includes only CBD market.

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