MARKETBEAT

SOUTH AMERICA

Office H2 2019

CUSHMAN & WAKEFIELD

	GDP* Var (%)	Unemployment Rate (%)	Inflation Index (%)
Argentina	-1.1	10.3	53.8
Brazil	1.1	11.8	4.3
Chile	1.1	7.0	3.0
Colombia	3.3	9.5	3.8
Peru	2.2	6.1	1.9

*2019

ECONOMIC OUTLOOK

In the last quarter of the year the macroeconomic indicators in Peru showed positive results: GDP continued with positive growth, but lower than the estimated projection at the beginning of the year (above 3%) . The cumulative annual variation of the inflation indicator was 1.9% at Metropolitan area of Lima, ranking within the estimated target range. It is important to indicate that the Peruvian economy is one of the few within the Latin-American region with favorable expectations in its main indicators for the next two years, which maintains attractiveness for future investments. Furthermore the Colombian economy consolidates its ascending phase in the economic cycle, growing in 2019 3.3%, with one of the best performances in the Latin American region. Inflation remains controlled and it closed the year with a 3.8% variation.

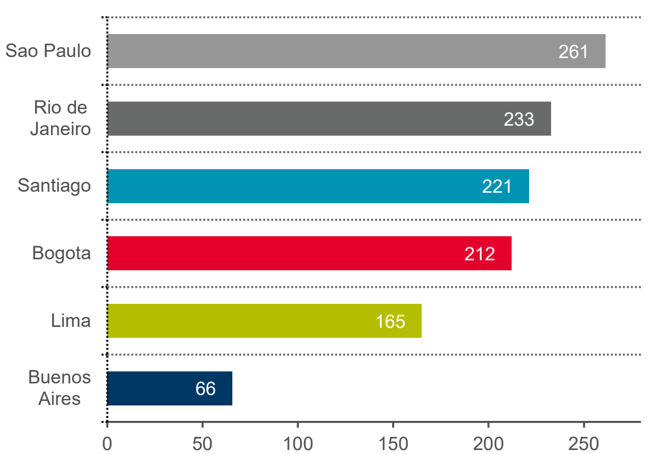
In Argentina, 2019 was a year marked by the dynamic of a new president´s elections. In this new era, it is expected that the new government prioritize GDP growth, a figure that closed at -1,1% at the end of 2019. The price of the dollar marked the economy pulse during the entire year and the exchange restriction was reinstalled limiting the purchase of dollars to companies and individuals.

On the other side, the fourth quarter of the year in Chile has been characterized by social demands that have led to the discussion of important internal changes, translated into lower commercial activity, with a growth projection of 0.5 - 1.5% for the year 2020, and a 2,5 - 3.5% for year 2021. The expected investment for 2020 is projected to be reduced by 4%. However, the negative impacts on investment are offset by the continuing large mining investment projects already started, the increase in public investment, and the expansionary monetary policy.

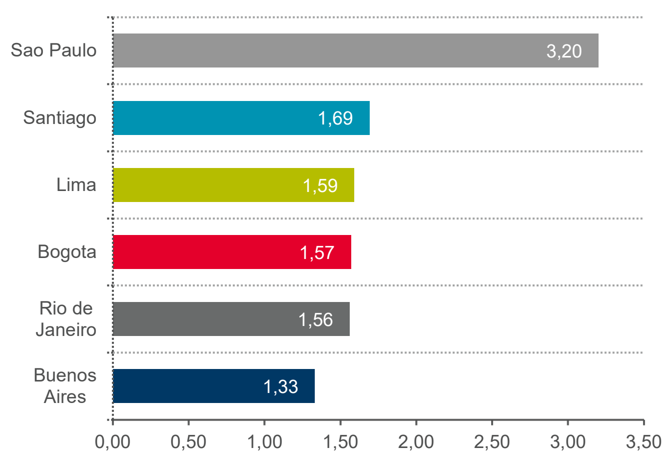
Brazil, the biggest economy in the region, improved after an unpromising first half of 2019. 2019 GDP growth was 1.1% almost due to the unstable global environment that caused an outflow of foreign capital to more stable economies. In turn, the CPI increased in line with the monetary policy that cut the interest rate to 4,5% at the end of 2019. This growth in inflation reflects the consumer´s appetite. On the other hand, in 2019, the devaluation of the Brazilian Real was 4%.

In general, the world GDP growth expected for 2019 is the lowest since 2009, in the middle of the trade war between the two biggest economies, USA and China. Although South American countries were resilient and presented improves in some of their economic indicators.

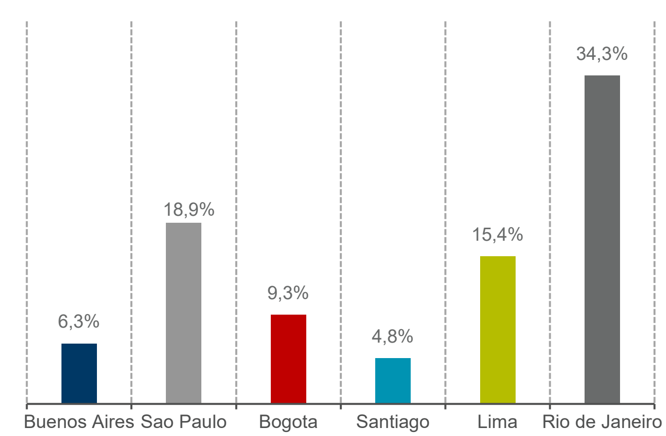
Inventory ratio (sq.m)/1.000 inhabitants - H2 2019



Class A inventory (Mi. sq.m) - H2 2019



Vacancy (%) - H2 2019



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MARKET SIZE

The office square meters ratio per 1.000 inhabitants allow us to measure the Office Market Size in each of the cities. At the end of the year São Paulo continues leading the ranking with 261, followed by Rio de Janeiro (233) and Santiago (221).

In Brazil, São Paulo's A and A+ office market inventory registered a 1.1% positive variation. The result was not as significant as in previous years, due to the low construction activity and the completion delay of two projects scheduled for the end of 2019 and which will be delivered in 2020, instead. Furthermore, Rio de Janeiro's A and A+ office market did not receive new inventory in 2019 and has no deliveries forecasted for 2020, mainly due to the economic uncertainties of the city and investors distrust.

Lima is currently positioned as one of the most important emerging office markets in South America, 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. For its part, Bogota showed a similar development as Lima. The inventory of Class A offices showed a 57% growth in the last five years, and it also had a very good demand performance during 2019, boosted by an economic growth context.

Among the analyzed cities, we can highlight Santiago's market, which has a larger inventory than Lima, Rio de Janeiro, Bogotá and Buenos Aires. Besides, it offers good conditions for long-term investments as a result of good accessibility to financing sources. This is largely due to the country's current stability, one of the main attractiveness features for carrying out this type of investments.

On the other hand, Buenos Aires currently is under-supply, as a result of limited financing for long-term investments. Particularly in a capital-intensive market such as offices, financing is key for their development. With the new buildings added to the inventory, it was evidenced that when investors develop the type of product that prime companies are looking for, the results are positive and the buildings are preleased during the construction process.

MARKET OVERVIEW

Optimism was the 2019's buzz word in Brazil. São Paulo registered a 3.4p.p. drop in the vacancy rate (YoY) and closed the year with the lowest value since 2013 (18.6%), while Rio de Janeiro's vacancy rate decreased by 6.6p.p (YoY), reaching 33.9%. In Bogota, during the last quarter of the year vacancy increased; going from 7.6% in the previous quarter to 9.3%; partially driven by the entrance of new prime buildings to the inventory while in Lima, this indicator, is going through a progressive adjustment process and Class A office vacancy rate declined again closing the period in 15.4%. in recent quarters this indicator has shown a downward trend, which responds to stable absorption levels and the decrease in the amount of new leasable area delivered.

Regarding Buenos Aires, vacancy remained stable with a 6.3% figure, the same as the previous year. It is observed that all along the entire year this indicator remained higher in the NON CBD in contrast to the CBD but, in Santiago, despite pessimism in the economic scenario, added to the national situation, vacancy rate maintains healthy records in the last quarter, due to the release of surface, throughout the year, of the Costanera Center Complex, with 36,000 sq.m (Providencia Submarket) and the Vista Building 360 of 12,672 sq.m (New Las Condes).

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Office H2 2019

Producción 2014-2018

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SUPPLY AND DEMAND

After a strong 2018, which recorded the highest net absorption of the last 5 years (200,943 sq.m), São Paulo registered less than expressive results in 2019 (101,886 sq.m). On the other hand, Rio de Janeiro's market had, in 2019, the highest net absorption since 2013, with a total of 102.369 sq.m absorbed by the end of the year.

Regarding Santiago, even with a high space availability, allowing companies to place operations in contiguous spaces, demand in the fourth quarter of the year showed more spaces released than leased, reaching a net absorption of 4,388 sq.m. Meanwhile in Lima, with a greater figure, net absorption reached a total of 105,209 sq.m in 2019, same as the result of 2018.

Bogota registered an increase in the available area of premium office spaces by +25% versus the previous quarter, partially explained by the entrance of two buildings to the inventory, which are still under commercialization: Plaza Claro T3 and Buro25 T3. On the other side, in Buenos Aires, the submarkets with the greatest yearly absorption were those with deliveries of new buildings, wich were entirely occupied by coworking companies. 2019 culminated with the entry of the Odeon Tower into Microcentro, a new opening in a great submarket located in the traditional financial district, which still lacks of Class A buildings with large availability.

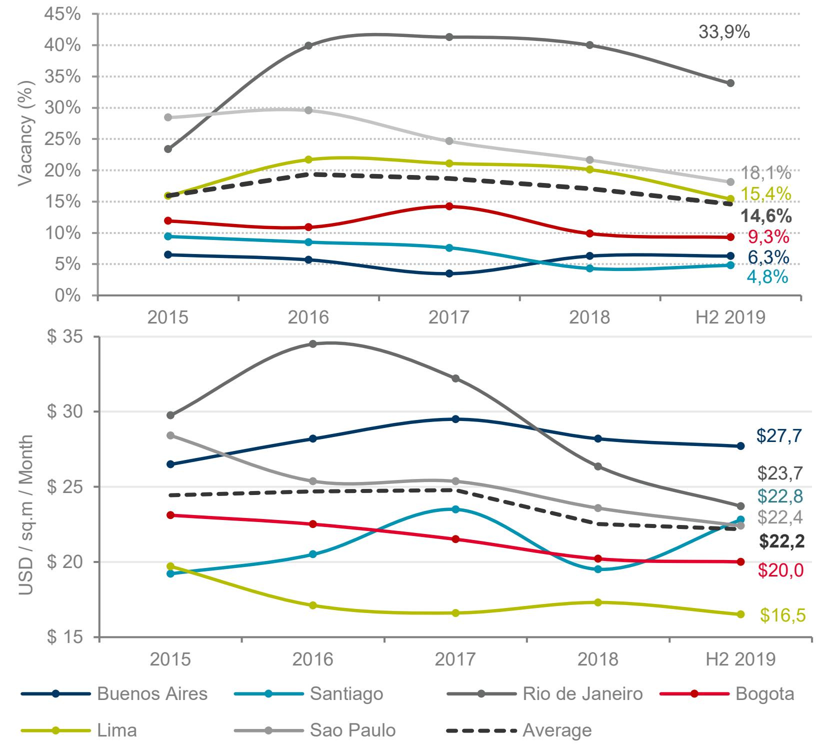
PRICING

Buenos Aires had a 5.5% drop in the average asking rent compared to the end of 2018 but, taking into consideration the increase of the dollar value during the entire 2019, the variation was of 54%. On the other hand, the CBD has an average asking rent 3.2% higher than the NON CBD. Catalinas-Plaza Roma is the submarket with the highest rental price. Bogota´s average rental price recovered $1.06 USD compared to 2018, given the good economic context and the entrance of high specifications building to the market.

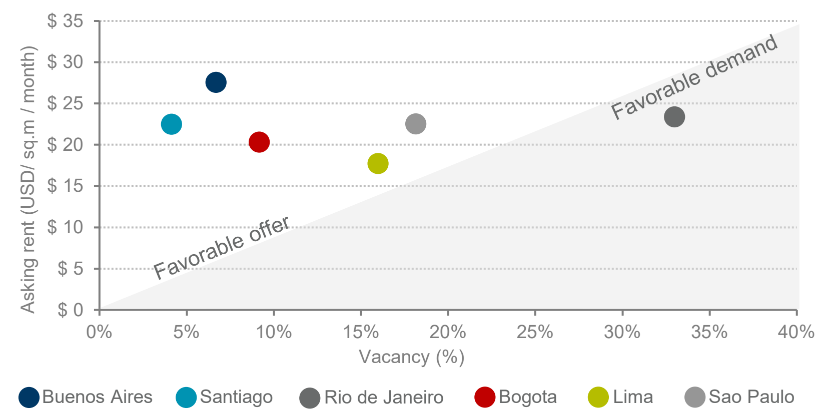
On the other hand, in Santiago prices reached 22.8 USD/sq.m in average due to the high prices registered by the Costanera Center Complex, being the building with the highest vacancy rate of the submarkets under study. In Lima the average asking rent remained stable and reached $16.5 per sq.m which does not indicate a significant change. San Isidro Empresarial is the submarket that maintains the highest asking rent with $19.8 per sq.m, since it has the lowest vacancy rate and a strategic and attractive location for local and foreign companies.

Meanwhile in São Paulo, as a result of large leases in important buildings at high asking prices, the concentration of available area is now located in regions where the asking rent is not too high.This indicator did not recover from the sharp drop in 2018 and instead suffered a marginal variation ($ 22.39; - $ 0.02 YoY). Furthermore, average asking rents in Rio de Janeiro's decreased 0.27% at the end of the year compared to the previous quarter, reaching $ 23.71. In a period of 12 months, this retraction was 6.81%, once ended 2018 with $25.45. (Note: The exchange rate variation for the period was not considered, the exchange rate considered was $1.00 = R$ 4.40).

Vacancy Rate (%) and Asking Rent evolution (USD/sq.m/month) (*)



Asking rent (USD/sq.m/month) vs Vacancy (%) (*) - H2 2019



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

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PAST, PRESENT AND FUTURE

Buenos Aires is the city with more future expected surface in the region. Currently 67% of the under construction surface and 53% of the projects are located in the NON CBD. Even though the projected surface is a figure that has not varied in a relevant way during the year, the new office production of 2019 reached a total of 48,900 sq.m with a positive reception in a small market that still remains sub-offered. However, expectations are set in the new deliveries expected for 2020.

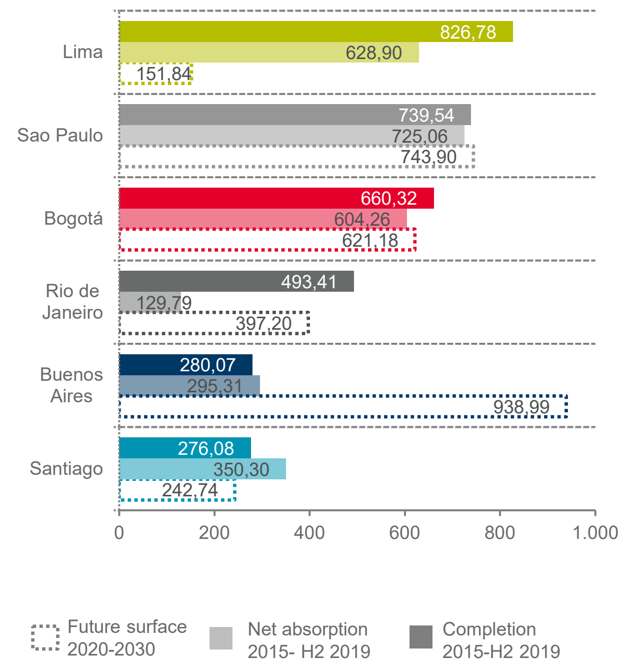
In the last quarter of the year two buildings started operating in Bogota in the Salitre submarket: Buró 25 T3 and Plaza Claro T3. Together they added 38,149 sq.m of GLA to the inventory. At this time, there are nine projects under construction totaling 197,308 sq.m and all are planned to be delivered during 2020; among them: Sequoya, Atrio Noth Tower, Colina and FIC 92-11 business complexes. At the end of 2019, the city has 423,874 sq.m of projects not yet initiated, from which 50% are located in the Salitre submarket.

Santiago's perspectives are expected to stabilize once the social problems are solved, therefore the investment will get back on track and the absorption of available area will increase. By 2020 it is expected that the remaining surface of the Costanera Center, the Nueva Córdova building and the Vespucio 345 Building will be released, adding 74,171 sq.m of surface to the Providencia, Nueva Las Condes and El Golf submarkets, respectively.

By the end of 2020, 97,250 sq.m of leasable area in Lima is projected to be delivered, this would mean twice as much new inventory as delivered during 2019 (35,613 sq.m). For the next quarters, the submarkets that will have the greatest amount of new surface will be San Isidro Financiero (44,947 sq.m) and San Isidro Empresarial (22,639 sq.m). At this moment, 144,772 sq.m are under construction and 151,842 sq.m are expected to be delivered between 2020 and 2022 which would mean an increase of 9.1% over the current inventory.

Additionally, in Brazil, despite the resumption of confidence, São Paulo's low construction in previous years impacted the result of the new inventory in 2019. The year registered the lowest volume of new inventory in the entire historical series, delivering only two class A and A + buildings (32,560 sq.m) - there were two buildings with delivery dates scheduled for December, but they didn't have their "habite-se certificate" issued in time. On the other hand, these two buildings will boost deliveries in 2020 and should total 142,292 sq.m of class A and A + buildings in the CBD region. Meanwhile, Rio de Janeiro didn't receive new inventory in 2019 and new projects have been postponed or canceled due to Rio´s economic crises and high supplies of available space. Therefore, there are no new inventories to be delivered for the next three years.

Net Absorption vs. Completion: 2015 – H2 2019
New Inventory: 2020-2030 (,000 sq.m.)



Market indicators H2 2019

SUBMARKET	CLASS A INVENTORY (SQ.M)	AVAILABLE SURFACE (SQ.M)	VACANCY RATIO	ASKING RENT(*) (USD/SQ.M/MONTH)	NET ABSORPTION H2 (SQ.M)	UNDER CONSTRUCTION AND IN PROJECT (SQ.M) 2020 - 2030
Sao Paulo (**)	3,162,114	587,118	18.60%	22.4	68,667	743,895
Santiago	1,691,931	80,314	4.70%	22.8	10,883	242,743
Rio de Janeiro (**)	1,556,934	527,052	33.90%	23.7	96,641	397,194
Lima	1,595,548	243,901	15.40%	16.5	42,447	151,842
Bogota	1,571,739	145,839	9.30%	20.0	59,864	621,182
Buenos Aires	1,339,386	83,954	6.30%	30.5	42,654	938,993
CLASS A TOTAL	**10,917,652**	**1,668,178**	**15.30%**	**22.6**	**321,156**	**2,442,902**

(*) The exchange rate is taken from the last day of December 2019.
(**) The information includes only CBD market.