



LATIN AMERICA 2Q17 INDUSTRIAL MARKET

ABSORPTION DOUBLES AMID ECONOMIC UNCERTAINTY

Latin America's economy and overall business climate faced several challenges during the first half of 2017. Some countries have adopted preventive measures to counteract external factors, while others have experienced economic turmoil resulting from internal rather than external factors. For a few countries, economic and political stability have translated into more prosperous real estate markets.

Buenos Aires, Argentina

The industrial market in Buenos Aires showed some signs of recovery from the first quarter, when no absorption was recorded, as absorption during the second quarter reached 151,771 square feet. The vacancy rate fell from 9.1% in the first quarter to 8.3% in the second quarter, while average asking rates increased from \$7.80/SF to \$8.03/SF. The inventory added deliveries of 269,097 square feet, and it currently stands at nearly 21.2 million square feet.

Rio de Janeiro, Brazil

Rio de Janeiro's industrial market continues to struggle, as absorption plunged again during the second quarter to negative 253,068 square feet. Construction activity stalled at 1.5 million square feet, and inventory remained unchanged at 18.2 million square feet. Consequently, the vacancy rate soared from 25.0% in the first quarter to 26.4% in the second quarter, while average asking rent dropped from \$8.05/SF to \$7.16/SF.

Sao Paulo, Brazil

Sao Paulo is South America's largest market for industrial space, with an inventory that currently stands at nearly 81.8 million square feet of Class A space. The city took great strides toward recovery in the second quarter, as net absorption increased to 1.5 million square feet from negative 207,954 square feet in the first quarter. Nevertheless, Sao Paulo's vacancy rate remains the second highest in Latin America at 30.3%.

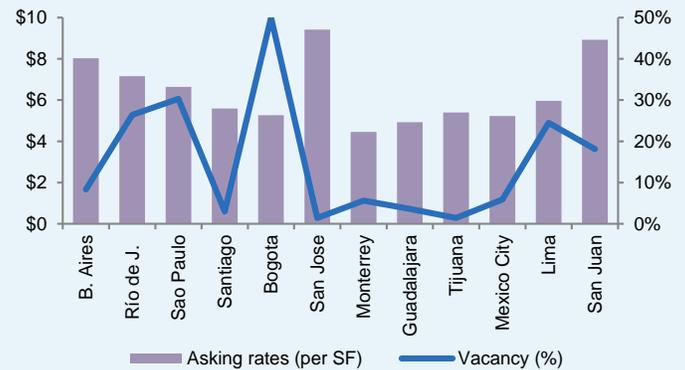
Santiago, Chile

The industrial market in Santiago recorded deliveries of 322,917 square feet in the second quarter, bringing the inventory of Class A space to 23,327,825 square feet. The vacancy rate stands at 3.0%, down from 4.7% in the first quarter, while asking rates average \$5.59/SF, up from \$5.02/SF in the first quarter. Absorption soared from 241,650 square feet in the first quarter to 722,608 square feet in the second quarter.

Latin America Overview

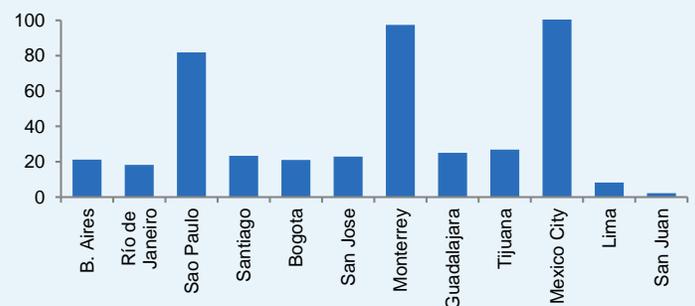
- The industrial market regained momentum in the second quarter.
- Absorption increased more than 89% in the second quarter.
- Year-to-date absorption rose to 11.3 million square feet.
- Average asking rates were up slightly in the first quarter.
- 450.9 million square feet of Class A space

Asking Rate vs. Vacancy Rate



Inventory per City

Square feet (millions)



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	450.9 M	40.3 M*	-	↑
Vacancy Rate	13.0%	12.8%	-	↑
Quarterly Net Absorption	7.5 M	3.9 M	-	↑
Average Asking Rent	\$6.49	\$6.54	-	↔
Under Construction	18.6 M	25.2 M	-	↔
Deliveries	10.6 M	-	-	↑



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Bogota, Colombia (First Quarter Data)

The industrial market in Bogota posted an inventory of 20.9 million square feet with an average asking rate of \$5.57/SF. However, this market also recorded a vacancy rate of 53.4%, the highest on the continent. Absorption increased to 305,835 square feet during the first quarter.

San José, Costa Rica

The city's inventory of industrial Class A space, which currently stands at 22.8 million square feet, will likely grow in the short term, as nearly 1.0 million square feet is currently under construction. With new deliveries of 416,253 square feet, the vacancy rate rose a notch from 1.3% in the first quarter to 1.4% in the second quarter, while the average asking rate stood at \$9.42/SF, the highest asking rent for Class A industrial space in Latin America. Net absorption dropped to 214,234 square feet, for a year-to-date absorption of 783,106 square feet.

Monterrey, Mexico

Monterrey's inventory is among the largest in Latin America, with 97.3 million square feet of Class A space. Construction activity remains strong, with 5.8 million square feet currently under construction. The city recorded solid absorption during the second quarter with 753,473 square feet. The vacancy rate increased from 4.7% in the first quarter to 5.6% in the second quarter. The average asking rate stands at \$4.46/SF.

Mexico City, Mexico

The Mexico City industrial market recorded the highest absorption in Latin America during the second quarter, with 3.2 million square feet.

The city also had the region's largest Class A inventory at 102.9 million square feet, with a 5.9% vacancy rate and an average asking rate of \$5.96/SF.

Guadalajara, Mexico

Guadalajara's industrial market posted a current inventory of 25.0 million square feet with a 3.6% vacancy rate, up from 2.8% in the first quarter. The market will add 2.0 million square feet of new Class A space in the short term. Average asking rates stood at \$4.93/SF.

Tijuana, Mexico

An emerging market in high demand, Tijuana posted 231,127 square feet of absorption in the second quarter, up from 167,792 square feet in the first quarter for a year-to-date absorption of 398,919 square feet. Tijuana's vacancy rate ended the second quarter at only 1.4%, while the average asking rate declined to \$5.40/SF.

Lima, Peru

The industrial market in Lima saw deliveries of 274,479 square feet in the second quarter. Its asking rate dropped to \$5.96/SF from \$6.02/SF in the first quarter. Absorption increased to 405,433 square feet, while the vacancy rate dropped from 27.0% in the prior quarter to 24.5%, still one of the highest in the region.

San Juan, Puerto Rico

San Juan's Class A industrial inventory remained unchanged, and there is no record of construction activity. Absorption increased from negative 27,405 square feet in the first quarter to 64,000 square feet. Average asking rates remained at \$8.92/SF, second only to San Jose's.

Market Summary

City	Total Inventory (SF)	Under Construction (SF)	Total Vacancy (SF)	Total Vacancy Rate	Qtr. Absorption (SF)	YTD Absorption (SF)	Total Asking Rent (Rate/SF)
Buenos Aires	21,183,355	957,987	1,751,082	8.3%	151,771	151,771	\$8.03
Rio de Janeiro	18,241,743	1,517,914	4,819,050	26.4%	-253,068	-1,698,488	\$7.16
Sao Paulo	81,797,340	455,679	24,821,102	30.3%	1,448,977	1,241,023	\$6.64
Santiago	23,327,825	1,528,097	690,111	3.0%	722,608	722,608	\$5.59
Bogota	20,968,863	-	11,193,692	53.4%	-	-	\$5.57
San Jose	22,858,100	1,062,149	327,750	1.4%	214,234	783,106	\$9.42
Monterrey	97,359,476	5,812,506	5,452,131	5.6%	753,473	2,260,419	\$4.46
Guadalajara	25,079,887	1,722,224	904,168	3.6%	538,195	1,022,571	\$4.93
Tijuana	26,877,805	2,195,717	382,118	1.4%	231,127	398,919	\$5.40
Mexico City	102,930,192	2,394,796	6,061,981	5.9%	3,282,473	5,745,565	\$5.83
Lima	8,202,350	987,373	2,009,576	24.5%	405,433	636,319	\$5.96
San Juan	2,150,003	0	350,000	18.1%	64,000	36,595	\$8.92
Latin America	450,976,938	18,634,442	58,762,760	13.0%	7,559,222	11,300,407	\$6.49



LATIN AMERICA 2Q17 INDUSTRIAL MARKET

ECONOMIC CONDITIONS

After stalling for nearly two years, Latin American's economy began to grow again in the first months of 2017, expanding by 0.8%. However, the overall performance in the region remains weak, as some economies continued to struggle during the quarter.

Argentina

Argentina's economy has started to rebound due to several factors. The GDP expanded for the first time after three quarters of drops and continued deceleration. The monthly indicator for economic activity increased by 3.3% in May, as the consumer confidence index rose from 42.0 to 42.2 in June. However, exports dropped 2.6% at the end of the second quarter after posting a 0.8% increase in May.

Brazil

Brazil's economic growth was dampened by the country's political unrest, which has been fueled by scandals over official corruption. This political uncertainty has negatively impacted the consumer and business confidence index. On a positive note, industrial production saw a slight expansion of 0.8% from April to May, while the unemployment rate increased from 12.0% in the first quarter to 13.7% in the second quarter.

Chile

Chile's economy is expected to grow modestly throughout the year, as its mining sector is still trying to recover from the Escondida mining strike, while business confidence remains low, falling from 44.9 points in May to 43.2 points in June. Additionally, consumer prices dropped 0.4% in June following a meager 0.1% increase in May.

Colombia

Stronger government consumption and higher commodity prices are driving economic recovery in Colombia, although actual growth is not expected until 2018. Consumer prices grew 0.10% in June from 0.47% in May. Additionally, although exports increased by a staggering 37.9% in the first quarter, the trend continued in the second quarter, as the volume of exports rose again by 6.8% over the year-ago period. GDP is still expected to grow 2.0% in 2017, although public spending may decrease in the upcoming months, which would pose a risk to GDP toward the end of the year.

Costa Rica

Costa Rica's economy is expected to continue growing, supported by growth in private consumption and fixed investment. The economy saw a 3.9% (annual) increase in the second quarter according to the IMAE (Spanish acronym for Index of Economic Activity). Consumer prices ticked up 0.08% in June, following a 0.22% increase in May and a 0.15% increase in April. In addition, the currency stabilized at the end of the quarter following May's depreciation.

Latin America's Population and GDP

Country	City	Country population	City population	GDP per capita
Argentina	Buenos Aires	43,835,942	15,000,000	17.6
Brazil	Rio de Janeiro	209,643,134	6,320,000	11.7
Brazil	Sao Paulo		11,320,000	11.7
Chile	Santiago	18,126,540	6,600,000	20.5
Colombia	Bogota	48,747,632	9,400,000	3.0
Costa Rica	San Jose	4,859,169	13,730,000	11.2
Mexico	Monterrey	128,658,621	4,900,000	19.9
Mexico	Guadalajara		4,434,878	15.1
Mexico	Mexico City		20,116,842	16.1
Peru	Lima	31,760,131	9,600,000	9.7
Puerto Rico	San Juan	3,620,897	493,250	28.5
Total		499,848,598	104,823,577	14.2

Sources:

Argentina: Clarin; --Brazil: Investing.com, GE; Chile: Chilean Statistics Institute; Colombia: DANE; Costa Rica: La República; Mexico: INEGI; Peru: INEI; Puerto Rico: Bureau of Labor and Statistics; Dominican Republic: Trading Economics

Exchange Rate vs. U.S. Dollar

Country	3Q16	4Q16	1Q17	2Q17
Argentina	\$16.00	\$15.75	\$15.80	\$16.15
Brazil (Real)	\$3.24	\$3.35	\$3.26	\$3.31
Chile	\$661.69	\$672.69	\$674.97	\$665.23
Colombia	\$2,916.00	\$3,061.00	\$2,907.46	\$2,996.20
Costa Rica	\$552.18	\$547.38	\$549.29	\$571.44
Mexico	\$18.68	\$19.82	\$19.30	\$18.30
Peru (Sol)	\$3.38	\$3.39	\$3.28	\$3.26
Puerto Rico	\$1.00	\$1.00	\$1.00	\$1.00

Source: Investing.com



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2Q17 INDUSTRIAL MARKET

Mexico

The first half of the year turned out better than expected for Mexico's economy with an average exchange rate of \$18.30, which reached the rate of \$18.00 pesos during the last few weeks of the second quarter.

The exports sector resumed the momentum recorded over the last few years, as the volume increased in May, mainly driven by the manufacturing sector. The trend continued in June. In addition, domestic consumption exceeded expectations, driven by the stability of the labor market and remittances from abroad supported family spending.

Note that the relative stability in oil prices ranging between \$42 and \$55 dollars per WTI barrel has given investors hope that public spending is still under control and that the public debt will not exceed 50.0% of GDP.

Peru

Peru's economy has improved over the first quarter, when severe floods damaged the country's infrastructure.

The strong performance from the external sector over the last few years has allowed the government to accumulate international monetary reserves. After several months of deficit in the balance of trade, the second quarter of the year saw a surplus of \$246 million.0 in May, far above the \$66.0 million surplus recorded in April. In addition, the confidence indicator was recorded at 53.1 points in June, below May's 54.2 points.

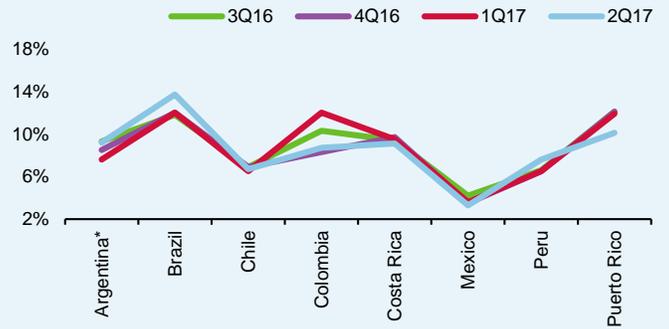
Puerto Rico

Puerto Rico's economy will likely remain in recession for years to come as a result of fiscal imbalances and plummeting government spending, consumption and investment.

PREPA, the state-owned utility company, filed for bankruptcy in late June after being unable to restructure its \$8.9 billion debt.

Sources: Focus Economics, the International Monetary Fund and BBVA research: Chile Economic Outlook 4Q2016

Latin America Unemployment Rate



Sources: Argentina--Clarín; Brazil--Investing.com; GE; Chile--Chilean Statistics Institute; Colombia-DANE; Costa Rica--La Republica; Mexico--INEGI; Peru--INEI; Puerto Rico--Bureau of Labor and Statistics; Dominican Republic--Trading Economics

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