



LATIN AMERICA 2Q17 OFFICE MARKET

QUARTERLY ABSORPTION DROPS SLIGHTLY

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

During the second quarter of 2017, construction activity in Buenos Aires intensified from 4.0 million square feet in the first quarter to 5.0 million square feet, bringing the total inventory of Class A and Class A+ space to 13.2 million square feet. By contrast, quarterly absorption plummeted from 204,589 square feet in the prior quarter to 68,512 square feet in the second quarter for a year-to-date absorption of 273,091 square feet. The vacancy rate dropped slightly to 6.4%, while the asking rent ticked up from \$30.12/SF in the first quarter to \$30.12/SF in the second quarter..

Rio de Janeiro, Brazil

During the second quarter, Brazil's economy lost some of the ground it had recovered in the first quarter of the year. Nevertheless, Rio's Class A and Class A+ office market continued with strong construction activity in the second quarter. The delivery of 324,101 square feet during the quarter brought the total inventory to 23.8 million square feet. The growth in Rio's inventory led to a new increase in the vacancy rate, from 35.1% in the first quarter to a region-high 35.7% in the second quarter. Quarterly absorption increased from negative 338,270 square feet in the first quarter to 42,990 in the second quarter, bringing a year-to-date absorption to negative 295,280 square feet. The average asking rent dropped from \$36.89/SF to \$34.54/SF to remain the highest in the region.

Sao Paulo, Brazil

Although Sao Paulo's office market saw absorption levels drop from 1.5 million square feet in the first quarter to 785,439 in the second quarter, the city recorded its third consecutive quarter of positive absorption. Likewise, average asking rates dropped to \$34.54/SF in the second quarter, second only to Rio de Janeiro's. With an inventory of 42.8 million square feet, Sao Paulo's vacancy rate ended the second quarter at 19.6%, down from 21.3% in the first quarter.

Santiago, Chile

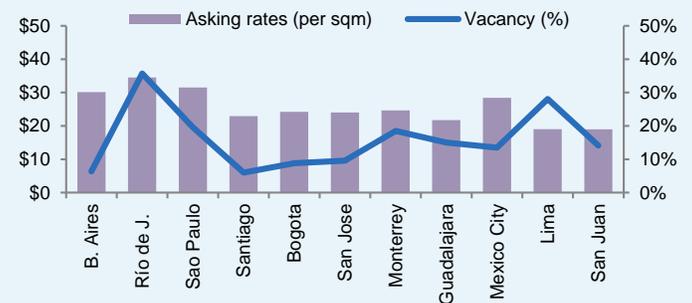
The Class A and Class A+ inventory in Santiago remained unchanged during the second quarter, pushing the vacancy rate downward to 6.0%. In addition, absorption dropped to 363,379 square feet for a region-high year-to-date absorption of 2.3 million square feet. With an inventory of 22.8 million square feet, the asking rate stands at \$22.95/SF..

Note: The inventory of the City of Monterrey, Mexico was adjusted from 1.1 M/SF to 852,171 square feet due to building reclassification

Current Conditions

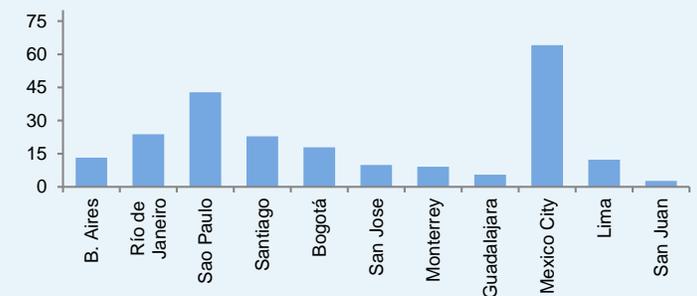
- The region's economic uncertainty remains.
- Absorption dropped by more than 800,000 square feet in the second quarter..
- Year-to-date absorption totaled 6.8 million square feet.
- Average asking rates dropped slightly to \$25.47/SF.
- The vacancy rate dropped to 16.4%.

Asking Rent vs. Vacancy



Inventory

Square feet (millions)



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory*	224.7M	224.8 M	-	↑
Vacancy Rate	16.4%	16.7%	18.1 %	↔
Quarterly Net Absorption	3.1 M	3.9 M	2.8 M	↑
Average Asking Rent	\$25.47	\$25.83	\$22.99	↔
Under Construction	36.7 M	36.4 M	43.4 M	↔
Deliveries*	--	-5.2 M	-	↔



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Bogota, Colombia (First Quarter Data)

The absorption of Class A and Class A+ office space in Bogota totaled 190,198 square feet in the first quarter, a substantial decrease from the 405,799 square feet of absorption tallied in the fourth quarter of 2016. The office market in Bogota posted 17.9 million square feet of inventory at average asking rates of \$24.21/SF, down from \$24.36/SF in fourth-quarter 2016. The inventory saw deliveries of Class A and Class A+ space for 1.6 million square feet from the prior quarter, and the vacancy rate dropped slightly to 8.8%.

San José, Costa Rica

During the second quarter, San Jose's inventory increased by nearly 140,000 square feet of Class A and Class A+ space to 9.9 million square feet. Currently, San Jose has more than 775,000 square feet under construction. The city also recorded increased absorption, from negative 18,191 square feet to more than 385,000 square feet. Asking rates averaged \$24.02/SF at the end of the second quarter, while the vacancy rate stood at 9.6%.

Monterrey, Mexico

A number of buildings were reclassified as Class B buildings during the second quarter, which reduced the Class A and Class A+ office inventory to 9.1 million square feet. Nevertheless, construction activity remains strong, with 2.4 million feet under construction. The vacancy rate stood at 18.5%, while absorption reached 59,524 square feet for the second quarter and 365,736 square feet for the first half of the year.

Guadalajara, Mexico

The office market in Guadalajara saw its inventory increase over the second quarter, from 4.8 million square feet to 5.6 million square feet of Class A and Class A+ space. However, construction activity fell from 2.1 million square feet to 1.6 million square feet, while absorption fell to 188,368 square feet during the second quarter for a year-to-date absorption of more than 425,000 square feet.

The asking rate was estimated at \$21.74/SF, while the vacancy rate increased from 12.0% in the prior quarter to 15.0% in the second quarter.

Mexico City, Mexico

Mexico City remains the largest market in the region, with a total inventory of 64.1 million square feet. Another 20.1 million square feet of new Class A and Class A+ space is currently under construction. Absorption plunged from 1.2 million square feet in the first quarter to 826,807 square feet in the second quarter for a year-to-date absorption of 2.1 million square feet, second only to Sao Paulo's.

Asking rent increased slightly by \$0.10/SF to \$24.74/SF, as the vacancy rate fell by just 0.2 percentage points to 13.5%.

Lima, Peru

Although Peru's economy has remained solid over the last few quarters, demand for Class A space fell for the second consecutive quarter to 151,879 square feet. Construction activity declined once again from 1.7 million square feet in the prior quarter to 1.2 million square feet in the first quarter, as the inventory currently stands at 12.3 million square feet with a vacancy rate of 26.3%, among the highest on the continent. The average asking rent was recorded at \$19.23/SF.

San Juan, Puerto Rico

Puerto Rico's current office inventory remains unchanged at 2.7 million square feet and is not expected to increase in the short term, as there are no new projects planned for the short term. Asking rates fell to \$19.00/SF. The city recorded absorption of 37,792 square feet in the second quarter.

Market Summary

City	Total Inventory (SF)	Under Construction (SF)	Total Vacancy	Total Vacancy Rate	Qtr. Absorption (SF)	YTD Absorption (SF)	Total Asking Rent (Rate/SF)
Buenos Aires	13,233,537	5,053,081	853,459	6.4%	68,512	273,091	\$30.12
Rio de Janeiro	23,822,531	1,033,334	8,510,279	35.7%	42,990	-295,280	\$34.54
Sao Paulo	42,818,961	2,350,674	8,413,042	19.6%	785,439	2,332,156	\$31.54
Santiago	22,896,193	1,935,920	1,369,771	6.0%	363,379	743,484	\$22.95
Bogota	17,953,001	1,442,363	1,579,064	8.8%	190,198	190,198	\$24.21
San Jose	9,901,378	797,583	953,229	9.6%	387,177	368,986	\$24.02
Monterrey	9,172,683	2,432,620	1,699,598	18.5%	59,524	365,736	\$24.67
Guadalajara	5,597,228	1,614,585	839,584	15.0%	188,368	425,174	\$21.74
Mexico City	64,183,919	20,190,751	8,666,597	13.5%	826,807	2,108,433	\$28.41
Lima	12,397,763	1,191,381	3,483,769	28.1%	151,879	316,566	\$19.01
San Juan	2,700,000	0	382,000	14.1%	37,792	-5,264	\$19.00
Total	224,677,195	38,042,292	36,750,393	16.4%	3,102,066	6,823,281	\$25.47



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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 Stats Overview

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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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.

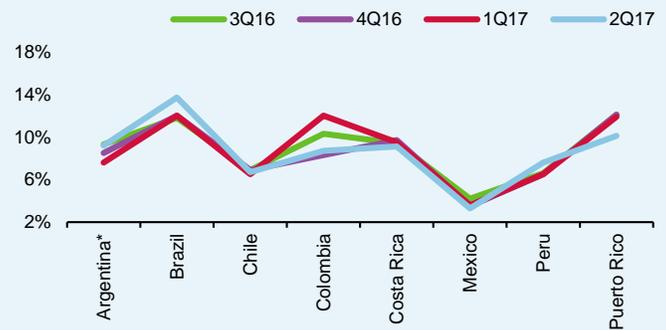
Puerto Rico

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: FocusEconomics, the International Monetary Fund and BBVA research: Chile Economic Outlook 2Q17

Latin America Stats Overview



Sources: Argentina--Clarín; 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

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