RESEARCH **2H 2019**

Newmark Knight Frank

LATIN AMERICA INDUSTRIAL MARKET

GOOD CLOSING OF THE YEAR LEAD BY MEXICO CITY

BUENOS AIRES, ARGENTINA

Increase vacancy

The industrial real estate market of Buenos Aires is the largest in Argentina with approximately 2.33 million total sq. m of surveyed class A space and more than 4,800 hectares distributed in 150 industrial parks, which represents more than 50% of the entire country. Class A inventory remained the same as the previous quarter, holding at 2.33MM sq. m. Vacancy increased and closed at 12.7% for 4Q19. The average rental value dropped to an average of 6.30/sq. m/month. In general, the market predicted that 2019 would have greater uncertainty due to the electoral scenario, but this prediction was exceeded by the cumulative inflation rate close to 55% and a devaluation of 60%, which further restricted the number of operations. During the second half of 2018 and 2019, most of the industrial market values remained stable. However, all the situations mentioned previously slowed down the sale and purchase operations to a great extent.

SAO PAULO & RIO DO JANEIRO, BRAZIL

Stability and positive absorption

The industrial market is expecting infrastructure investments and economic recovery, such as the development of politic and economic events, and the long awaited reforms. Dependent on the commerce, this market is mainly supported by initiatives focused on the growth of e-commerce and commercial activities.

Sao Paulo reported a slight decrease in the vacancy rate compared to the previous quarter and closed at 19.9%. Vacancy in Rio do Janeiro stood stable at 29.1%. Both markets showed positive absorptions, but Sao Paulo is responsible for the largest portion with 123,000 sqm. The average asking rent in Sao Paulo remained stable in BRL 18.6/sqm/mo. In Rio de Janeiro, rents suffered a slight reduction of 0.7% compared with the first quarter and reported BRL 19.50/sqm/mo.

BOGOTA, COLOMBIA

Limited search

Vacancy in warehouses is in gray tones in Bogota due to the sinking of the POT. This leads to investments and entrepreneurs searching in sectors where the industries are operating for their expansions or in some cases to look for new properties on a radar very close to their work plants. In this last quarter, the variations in the city of Bogotá reflect that the sectors with the greatest movement were Toberin, Puente Aranda and Montevideo as the points of greatest search by customers in the industrial area.

CURRENT CONDITIONS

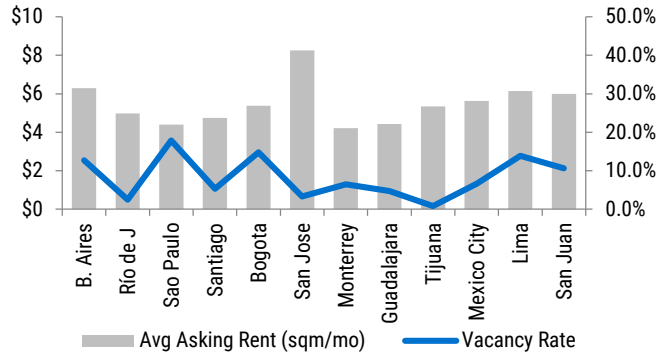
The Class A inventory in the region grew by 1.57 million sq. m, of which just over half correspond to Mexico City.

Year to date absorption was 2.63 million sq. m, more than 80% of what was reported in 2018.

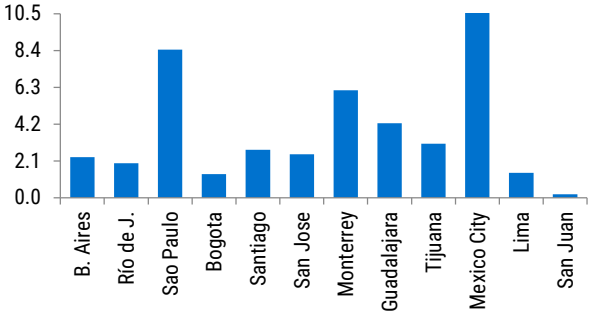
The average rental price reduced in most markets in the region with the exception of Mexico.

MARKET ANALYSIS

Asking Rent and Vacancy Rate



Total Inventory per City (sq. m., in millions)



MARKET SUMMARY

	Current Quarter	Prior Quarter	12-Month Forecast
Total Inventory (sq. m.)	45.68 M	44.11 M	↑
Vacancy Rate	9.6%	10.0%	↑
Biannual Absorption (sq. m.)	1.12 M	0.61 M	↓
Avrg Asking Rent (sq. m./mo)	$5.42	$5.58	↓
Under Construction (sq. m.)	3.10 M	2.42 M	↓
Deliveries (sq. m.)	1.57 M	0.39 M	↓

SANTIAGO DE CHILE, CHILE

Low activity

The last quarter of the year was influenced by the social outbreak that occurred in October. The exchange rate continues to trade at record levels near CLP 800, putting pressure on the import sector. In regards to consumption, it points to a significant slowdown. With all this, GDP growth in 2019 is estimated to reach 1.2%, the worst record in 10 years. The industrial market ended the 2019 year with heavy influence by the social outbreak. The current situation involved drastic operational adjustments due to logistical and security problems, and developers adapted their offer to meet the immediate needs of customers. During 2H2019, production was only 40,000 sq. m, the lowest level every six months since the beginning of 2017. Absorption also had its lowest level since the significant reduction in the market in early 2015. The 27,000 sq. m in 2H19 represents a great fall compared to the semester average of 146 thousand sq. m of the last 5 years. Despite the decrease in semi-annual demand levels, the market also managed to decrease its vacancy rate from 6% at the end of 2018 to 5.2% today.

SAN JOSE, COSTA RICA

BTS on the rise

The industrial market remained stable and most of the product has kept growing under a Build to Suit strategy. There have been increases in rates that are mainly due to the incursion of new projects and the freeing up of old industrial spaces that had become obsolete in the face of new competition. Another reason is the renewal of regulatory plans that have come to limit the use of certain sectors for the industry. Industrial activity continues with greater demand in sectors such as Coyol de Alajuela, La Lima de Cartago, and other foci in central areas, and emerging sectors outside the Greater Metropolitan Area.

MONTERREY, MEXICO

More than 6.0 MM sq. m. of inventory

The vacancy rate registered a decrease from 8.1% to 6.5%. The demand that was presented in the last quarter of the year registered a gross absorption of just over 187 thousand sq. m in Class A buildings. In addition, there was a cumulative gross absorption of more than 660 thousand sq. m, exceeding the accumulated in 2018 of 505 thousand sq. m. The new offer that was registered during 2019 was just over 400 thousand sq. m, so the Class A industrial inventory registered a total of 6.1 million sq. m at the end of 4Q19.

GUADALAJARA, MEXICO **

Excellent expectations

The Guadalajara market shows a positive dynamic with growth of nearly 50,000 sq. m in the last period of the year. Therefore, class A inventory ended the year with more than 4.2 million sq. m and a healthy vacancy rate of 4.7%. A sign of the positive next year is the volume under construction, which exceeded 300,000 sq. m. The average rental price rose slightly to US $ 4.43/sq. m/month and the accumulated absorption for the year added up to just over 180,000 sq. m, one of the best in the region.

MEXICO CITY, MEXICO

Lower risk in the sector

The industrial market at the end of 4Q 2019 frames favorable conditions. This is reflected through a vacancy rate of 6.6% and shows a more attractive activity for investment with less risky conditions than other markets. Class A industrial inventory added 937,000 sq. m to 10.6 million sq. m in the third quarter, reaching a total of 11.2 million sq. m. The ships under construction increased by presenting a volume of 583,000 sq. m above the 519,000 sq. m of the previous year. The vacancy rate in this market increased slightly from 6.2% in 2018 to 6.6% in 2019.

The submarket with the largest available area is Cuautitlán with 271,000 sq. m, followed by Tepotzotlán with 175,500 sq. m. Rent prices show an upward trend with an average heat of US $ 5.63/sq. m/month. The increase in rental prices responds not only to the increase in the demand for industrial warehouses, but also because the characteristics of the parks are increasingly specific and specialized.

LIMA, PERU

Vacancy and price reduction

Lima's class A inventory grew by 48,000 sq. m and added 1.43 million sq. m at the end of the year. No new project began construction, so this indicator was reduced to 172,000 sq. m. The accumulated absorption of the year added up to around 134,000 sq. m, with which the vacancy rate fell to 13.9%. The average rental price closed in the year at US $ 6.15/sq. m/month, which represented a reduction of about 4.0% for the last period.

SAN JUAN, PUERTO RICO*

Slight price increase

Prices have increased slightly after Hurricane Maria, due to the creation of companies and government agencies that helped during the recovery process. Although many continue to provide service, their presence has decreased, so vacancy has increased in office spaces, mainly Class B and flexible spaces. Prices are expected to remain stable, particularly for Class A offices.

* The information of these markets corresponds to the first semester of 2019.

** Adjustments were made to the classification of the information for Guadalajara for this semester.

MARKET STATISTICS

City	Total Inventory (sq. m.)	Under Construction (sq. m.)	Vacancy Rate	Biannual Absorption (sq. m.)	YTD Absorption (sq. m.)	Average Asking Rent (USD/sq. m./mo)
Buenos Aires	2,325,100	125,000	12.7%	(22,200)	(6,200)	$6.30
Rio de Janeiro	1,926,798	222,971	27.5%	56,028	120,619	$4.97
Sao Paulo	8,468,197	570,157	17.9%	166,993	422,878	$4.40
Santiago de Chile	2,737,319	298,545	5.3%	(9,890)	149,756	$4.00
Bogota	1,349,088	298,545	14.8%	26,695	97,318	$5.38
San Jose	2,489,200	79,720	3.3%	78,801	118,826	$8.25
Monterrey	6,148,144	466,953	6.5%	290,386	411,745	$4.22
Guadalajara	4,254,970	310,000	4.7%	86,170	183,692	$4.43
Tijuana	3,098,061	175,433	0.8%	146,540	296,953	$5.34
Mexico City	11,205,910	583,132	6.6%	278,269	698,213	$5.63
Lima	1,430,362	172,053	13.9%	17,840	133,398	$6.15
San Juan*	199,742	-	10.6%	456	1,291	$6.00
Latin America	**45,682,891**	**3,107,620**	**9.6%**	**1,119,088**	**2,628,489**	**$5.42**

ECONOMIC CONDITIONS

ARGENTINA

An uncertain year

Political and economic uncertainty has been constant throughout 2019, which ended with an accumulated inflation of about 55.0% and a devaluation of 60.0%. The economic measures taken by the outgoing government, as well as the transition of the government were carried out in an orderly manner and the caution of the incoming government would tend to mitigate any difficulties in making decisions. It was a year with a lot of review and exhaustive detailed analysis of each of the businesses. The volume for reports and consultancy orders increased significantly, but fewer operations were closed with respect to the number of processes carried out. Price levels that were published or at a loss were very different from the closing prices for the market: for the primary sales transactions that took place during 2019, the closing values were between 30.0% and 40.0% lower than the requested value.

BRAZIL

A mixed year

The Brazilian economic scenario in 2019 was marked by positive and negative record indicators. From Ibovespa that reached 117,000 unprecedented points, the dollar that reached a maximum of R $4.26, to the Selic, which ended the year at 4.5%, the lowest in history. The Previdência Reform took place in November and the generated savings were R $800 billion. The expectation now revolves around other priority reforms, such as fiscal, administrative, and labor reforms. Development projections have gone through revisions since the beginning of the year and it is estimated that in December it reached 1.12%. The fall in interest rates and the expectation of economic recovery resulted in a 96-point country risk, the lowest since 2010. Positive indicators led to an increase in the confidence index for investors and entrepreneurs in general, especially those tied to the real estate sector.

CHILE

Consequences of social outbreak

The last quarter of the year was completely influenced by the social outbreak in October. The last two months were characterized by uncertainty in the short and mid-term, reflecting the new political landscape and, above all, the damage to public and private infrastructure of primary cities. As a result, the economic expectations for 2020 were drastically adjusted downwards due to the impact on the country's productive capacity. Unemployment is expected to increase significantly, although preliminary data would indicate that this increase would not reach double-digit levels. The GDP growth for 2019 is estimated to reach 1.2%, the worst on record for the last 10 years

COLOMBIA

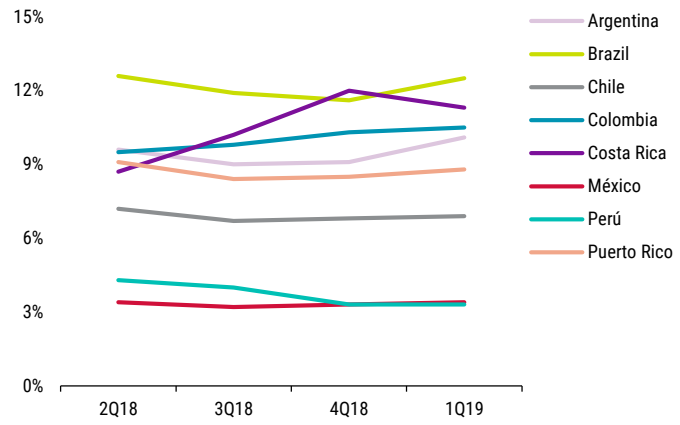
Stability within a difficult context

2019 was not an easy year for the world's economies in general. Despite the complicated panorama of the region, the Colombian economy has shown several signs of stability. The first has to do with the growth of Foreign Direct Investment (FDI), an index that has shown an increase of over 25%, which has allowed for considerable improvement in tax collection, including the Venezuelan migration that gave a boost to GDP growth, bringing it above 3%. By 2020, the Central Bank expects that the acceleration of investments derived from the completion of infrastructure projects already planned will support the growth of the economy throughout the year.

EXCHANGE RATE

Country	1Q19	2Q19	3Q19	4Q19
Argentina (ARS)	$39.93	$43.69	$53.63	$56.79
Brazil (BRL)	$3.77	$3.86	$4.04	$4.03
Chile (CLP)	$664	$699	$718	$766
Colombia (COP)	$3,124	$3,190	$3,395	$3,401
Costa Rica (CRC)	$604.9	$575.7	$574.1	$571.0
Mexico (MXN)	$19.27	$19.32	$19.64	$19.24
Peru (PEN)	$3.32	$3.28	$3.35	$3.35

UNEMPLOYMENT RATE PER COUNTRY



COSTA RICA

Meeting goals

Year-on-year inflation until October 2019 was recorded at 2.1%; this places the rate within the range of the inflation target for the year 2019, which is 2.0% to 4.0%, according to information from the Central Bank of Costa Rica. The Basic Passive Rate for colones fell and stands at 5.7%, while the Effective Rate in dollars is recorded at 2.3%. The dollar exchange rate grew in 4T2019 and registered a variation from ₡577.90 to ₡581.10. In general, the economy maintains a higher level of financial planning due to the new tax law that began to take effect on July 1, 2019.

MEXICO

2020 has better expectations

Despite the lack of growth of the economy in the fourth quarter of 2019, a more favorable scenario for 2020 is expected. According to the projections from the Center for Modeling and Economic Forecasting of the UNAM(CEMPE), the country's Gross Domestic Product could hold a 1.3% growth and 1.6% growth for jobs. Although these are figures that remain below the expected average (2.4%), they show a positive scenario compared to 2019 and they are hopeful over the mid-term. Despite the economic, political and social uncertainty experienced in the country, the exchange rate has remained stable throughout the year, standing at $ 18.84 pesos per dollar for the fourth quarter of 2019. This comes because of the high interest rate and its wide differential with respect to the Federal Reserve rate. The improvements in economic forecasts are due to the ratification of the T-MEC after its modifications were signed by Mexico, the United States and Canada.

LATIN AMERICA'S POPULATION AND GDP

Country	Population (millions)	GDP per capita	City	Population (millions)
Argentina	44.08	14.3	Buenos Aires	15.33
Brazil	207.68	10.3	Rio do Janeiro	12.98
			Sao Paulo	21.29
Chile	18.39	13.7	Santiago	6.54
Colombia	49.29	6.2	Bogota	9.97
Costa Rica	4.97	12.0	San Jose	1.18
Mexico	123.52	8.0	Monterrey	4.59
			Guadalajara	4.92
			Mexico City	21.15
Peru	31.83	6.5	Lima	10.07
Puerto Rico	3.36	29.7	San Juan	2.46
Total	**483.12**			**110.48**

PERU

Political stability and improved expectations

The International Monetary Fund (IMF) recently declared that the Peruvian economy, although it reduced its sustained growth from about 5.0% to 2.5% in the last year, "continues to be one of the best performing economies in the region". This entity was optimistic with an estimate of growth by 2020 of 3.2% and 3.7% by 2021. The strength of international reserves that amount to about 25.0% of GDP, the control of public debt, is also highlighted along with a low inflation rate of only 2.2%. One of the reasons attributed to this economic slowdown was the strong tensions between the Executive Branch and the Legislative Branch. After its dissolution at the end of last year and the resulting congressional elections in the end of January -which caused a significant fragmentation of the country-favorable conditions are expected for the construction of reforms that facilitate investment and increase certainty in at the local level.

PUERTO RICO*

Seeking attraction

Currently, the Puerto Rico real estate market is at its best time to invest. After a period of recession of 13 years, prices remain attractive for companies seeking to expand their presence and for companies seeking to open new businesses on the Island. Similarly, foreign investors continue to invest in Puerto Rico and many are taking advantage of the decrees of law 20/22 offered by the government. Law 20 promotes the export of services with incentives that include 100% exemption on earnings, a 4% rate for personal income generated by these activities, and a 100% exemption on property taxes for the first five years of operation. On the other hand, Law 22 offers a 100% exemption on interest, dividends and long-term capital gains in exchange for a 183-day stay on the Island. In the past 5 years there has been an increase in funds private investment (REIT) that have come to settle in Puerto Rico to invest and reduce their contribution.

* The information on these markets corresponds to the first half of 201

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Newmark Knight Frank has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Knight Frank Research Reports are available at www.ngkf.com.mx/en/localmarketreports.html