

SOUTH AMERICA

Office H2 2020

	GDP Var (%)	Unemployment Rate (%)	Inflation Index (%)
Argentina	-10.2	11.7	36.1
Brazil	7.7*	14.3**	4.5
Chile	2.4	10.3	3.1
Colombia	-8.7*	13.4***	1.6
Perú	-9.4*	13.0	1.9

ECONOMIC OUTLOOK

The COVID-19 pandemic has significantly changed the global economic landscape. It has disturbed each country since March and each government has taken different measures in order to counteract the socioeconomic and health impacts caused by this emergency. Access the most recent information per country regarding COVID [here](#).

The Peruvian economy was not immune to the outbreak, despite having a GDP variation of up to -39% during the first months, it has progressively recovered due to the implementation of economic reactivation phases. Regarding the unemployment rate, the restart of most labor-intensive activities, and the flexibility of immobilization restrictions; translated in an increase in the employed population, which resulted in 13.0% at the end of December. It is expected for this indicator to return to pre-pandemic levels in the upcoming months and close in 2021 around 8.5%. The inflation rate remained within the target range, with a year-on-year variation of 1.97%.

As for Colombia, during H2 and as a result of the restrictions caused by the pandemic, the GDP decreased 8,7% during the third quarter. The unemployment level had a slight improvement versus October, reaching 13.4% in December according to DANE. Regarding inflation, it is fully controlled by the Central Bank and closed the year at its lowest level, 1.6%. At the same time, the reference interest rate has been lowered to historical levels, and the peso appreciated its value at the end of the year reaching 3,400 pesos per 1 USD, driven by the economic reactivation projections, the political context in the United States and the vaccination plan.

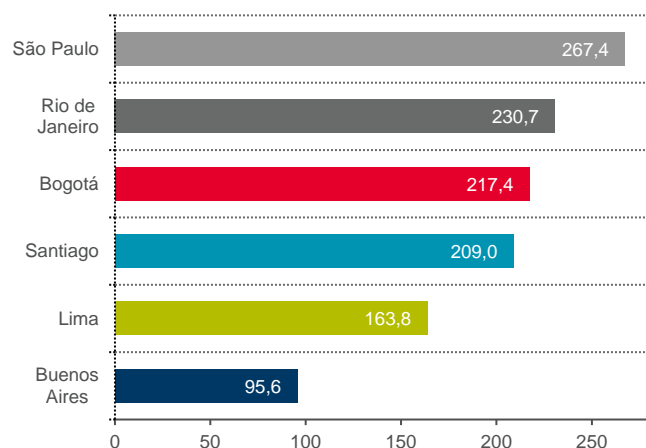
In Chile, according to national indicators, the mining production index has registered an increase of 1.9% annually. Economic activity for 2021 is expected to grow between 5.5 and 6.5% and, for 2022, it is expected that it will return to the levels registered in September 2019 (depending on the progress of the vaccination process in 2021).

For Argentina, in the third quarter of 2020, the national GDP contracted 10.2% compared to the same period of the previous year, and the unemployment rate increased by 11.7% compared to the same period. The labor market was one of the most affected due to restrictions on activity and mobility. Inflation rate in December was 36.1% (accumulated 12 months), a value contained when compared to 2019 levels. The slowdown was mainly caused to the fall in economic activity, the lack of salary negotiations and price control in services.

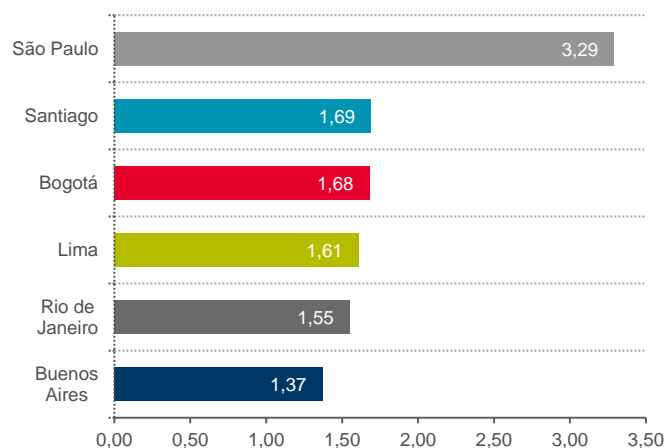
After suffering a sharp contraction in the first half of 2020, Brazilian economy presented signs of recovery in the second half of the year, with the GDP growing 7.71% (QoQ) in third quarter and an expectation of 2.33% growth in the fourth quarter. In addition, Consumer Confidence Index closed the year 35.9% higher than the lowest level in April. Furthermore, the Brazilian government worked with an expansionary policy to smooth the pandemic impacts. As a result, there was an increase in public expenditure, such as emergency aid, in order to stabilize economy in short term. However, this expansionary policy will have a high cost in the long run, especially in a country that already had a high tax debt.

* Q3 2020
 ** October 2020
 *** Dec 2020
 Sources: LCA and National Statistics Institute per country

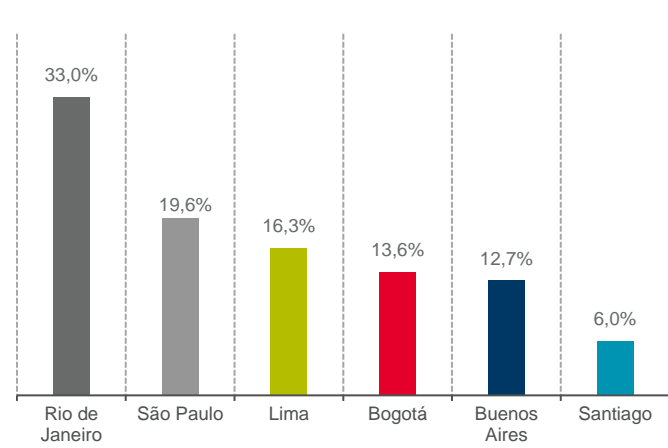
Inventory ratio (sq.m)/1.000 inhabitants – H2 2020



Class A inventory (Mi. sq.m) – H2 2020



Vacancy (%) – H2 2020





MARKET SIZE

The ratio that measures the number of office square meters 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 287.4, followed by Rio de Janeiro (230.7) and Bogotá (217.4).

Although the economic crises resurged in Brazil, the construction activity haven't been affected by the pandemic environment. São Paulo's prime office market overcome the new completions of 2019 and delivered more than 130 thousand sq.m. Furthermore, it is expected for 2021 more than 215 thousand sq.m only for class A and A+. In turn, Rio de Janeiro's market did not register new deliveries in 2020 and don't have a pipeline for 2021, mainly due to uncertainties about its business environment. On the other hand, Bogotá has positioned itself as the third city with the highest ratio, just below Brazil (São Paulo, Rio de Janeiro), due to the amount of new buildings that entered the office market in the last twelve months. This city, together with Lima are two of the most important emerging office markets in South America. Santiago's market, which has a larger inventory than Lima, Rio de Janeiro, Bogotá and Buenos Aires, offers good conditions for long-term investments due to the country's current stability.

On the other side, Buenos Aires is still under-supply. Nevertheless, whenever new buildings enter the market, the results are positive, as they are easily released during the construction process.

MARKET OVERVIEW

Santiago's market is closing the year with lesser dynamism, mainly because of two key factors: lower leasing demand and the space reduction of companies that have started working from home (WFH). Vacancy has reached to 6.03%, showing an increase of 29% compared to the previous half, also the largest available area is concentrated in the submarket of Providencia (32,965 sqm).

On the other side, in Bogotá, most of the economic activities in the country reactivated and several companies reopened their offices following the biosafety protocols. Most of them continue with a flexible work scheme. During the second half, some buildings that were under construction entered the market. This event had a significant effect on the vacancy rate, as they entered merely occupied, pushing the indicator up to 13.6%.

For Buenos Aires, this was a year that also ended with a more active demand in a market that was mostly affected by the restrictions of the pandemic during great part of the year. Vacancy rate closed at 12.7%. The rising vacancy contributed to an extension in the negotiation margin and flexibility in the closing price, this added to the spaces with better delivery conditions that do not imply important investments to be occupied, were the key points for the transactions of the year.

Accordingly to the behavior that the market has shown in recent months, Lima's vacancy rate closed the year in 16.3% with a year-on-year increase of 5.3% and a 3.8% increase compared to the third quarter. At the beginning of the year, the expectation was that this indicator would had a downward trend; however, the current circumstances have changed this scenario, and along the second half of the year this indicator has been slowly increasing, mainly due to the increase in available space and the pause of companies in making the decision to occupy new spaces.

In terms of new completions related to Brazil, São Paulo's CBD class A market was confident by delivering 134,149 sq.m in 2020 – four times higher than the last year. Of this total, 60% was delivered in the middle of the pandemic situation - second half of 2020. However, due to a decreased in the occupancy, the vacancy rate raised up 1 p.p. (YoY) and reached 19.60%. In Rio de Janeiro's market, the occupations recorded in Centro and Porto's region in the last quarter, helped the city closed the year with a vacancy rate of 33.0%, representing a decrease of 0.85 p.p. (YoY).

SOUTH AMERICA

Office H2 2020



SUPPLY AND DEMAND

In Bogotá, the city's inventory grew by 7% (YoY), reaching 1.68 million sq.m. On the other hand, a positive net absorption of 21,123 sq.m was registered on Q4, driven by a significant occupied surface in the new buildings that entered the market. Buenos Aires' second half absorption was -18,721 sqm but the year ended with a positive behavior reaching a total of 9,024 sqm. In large part due to the entry of buildings 200 Della Paolera and Centro Empresarial Libertador, therefore, the demand concentrated in the NON-CBD represents 62.9% of the total.

During the last quarter, Lima's net absorption closed at -8,600 sq.m, a total of -25,312 sq.m for the second half of the year. These negative figures show a higher vacated space compared to occupation, because of adaptation process that companies are going through about the use of effective office spaces. In addition, we must consider that occupations were 32.2% lower than those registered in the same period in 2019. Santiago's net absorption reached a total of -23,119 sq.m in the second half of the year, with the "El Golf" submarket being with the largest exit of 13,135 sq.m. Annually, net absorption accumulated a total of -22,085 sq.m, being the lowest value registered in the last 10 years, showing that the pandemic has slowed down the operational expansion of several companies and has affected the renegotiation of contracts as many tenants have chosen to move to other submarkets.

Despite the uncertain economic environment in Brazil, São Paulo's CBD class A office was resilient on its occupations. The net absorption remained positive in the last two quarters of the year, totaling 18 thousand sq.m together and 76 thousand sq.m in 2020. New completions with some pre-leases contributes for most for that. In Rio de Janeiro, the second half kept with positive absorption (6 thousand sq.m) and close the year with 13 thousand sq.m in total. However, due to postponement of important occupations this result represents a dropped of 87% (YoY).

PRICING

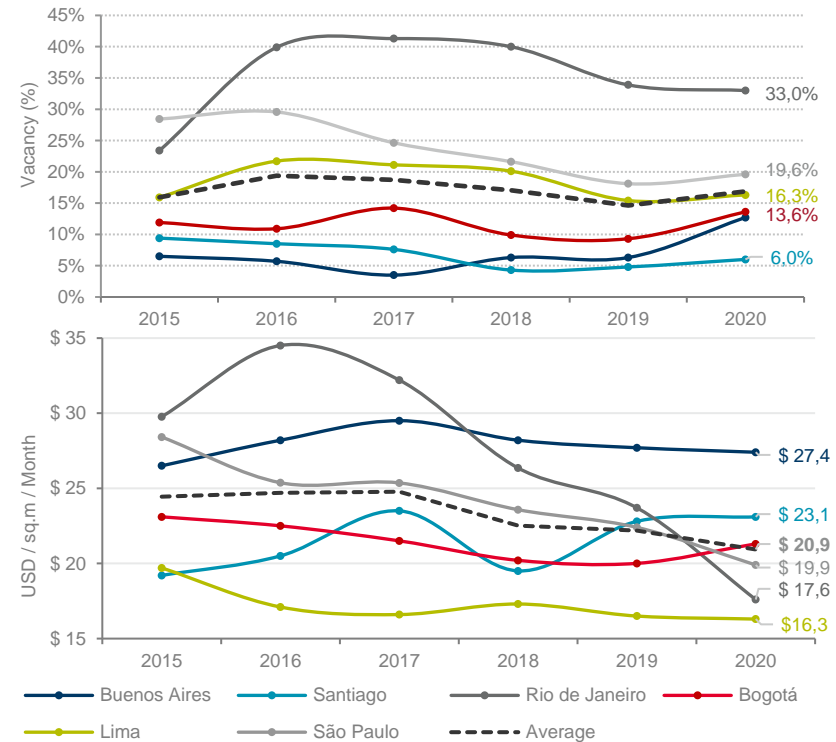
In Santiago, the total asking rent increased by 9.3% compared to the first half of the year, reaching 23.1 USD/sq.m, due to the strengthen of national currency in this last period and the variations of the consumer price index that have affected the risen in the price of the UF (Unidad de Fomento).

On the other hand, despite the current scenario, Lima's average asking rent resulted in 16.3 USD/sq.m and it has not shown any significant changes compared to the previous half. This behavior is supported by landlords' strategies to manage negotiations with tenants, in order to offer better contractual conditions that could be beneficial for both parties and do not harm the value of the property in the long term, considering that the agreements are for extended periods of time.

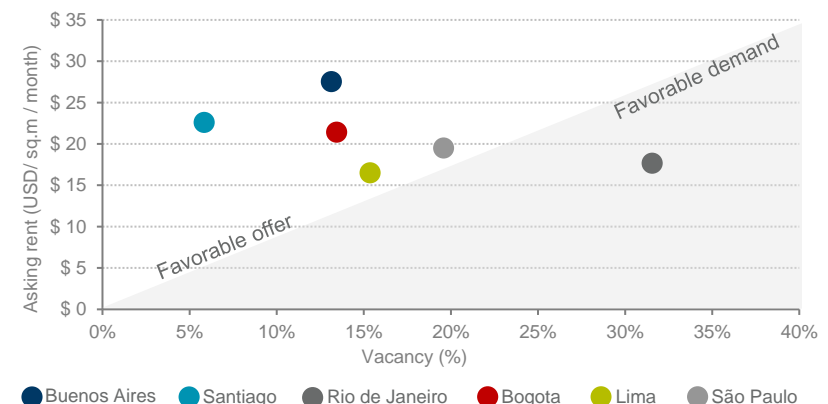
Also, for Buenos Aires, the average asking rent price for class A offices was 27.4 USD/sq.m, a figure that did not reflect changes compared to the end of 2019. The increase in vacancy throughout the year occurred in premium buildings that maintained the average price in most of the submarkets. As for Bogota, given the entry of a considerable area into the inventory at an elevated asking rent and the prices of recently vacated spaces, the average asking rent of the available spaces rose up to 21.3 USD/sq.m, increasing by 22% versus H1. The submarkets that most contributed to this rise in price compared to Q3 - were Centro, Calle 100 and Nogal - Andino.

The positive perspective is improving for owners and landlords in São Paulo office market. The asking price has been rising for four consecutive months and closed out the year at 19.9 USD/sq.m – a 16% variation in local currency and -8% in USD (YoY). This is the highest value since 2016, held mainly by new completions with higher asking rents. On the other hand, the asking rent in Rio is favorable for tenants within an environment of high vacancy and zero deliveries in the city. Rio's market closed out 2020 at 17.6 USD/sq.m, a dropped of 4% in local currency and 23% in USD (YoY).

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



Asking rent (USD/sq.m/month) vs Vacancy (%) (*) – H2 2020



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

PAST, PRESENT AND FUTURE

Buenos Aires current under construction area will increase the inventory of class A offices by 14%. It is expected that by 2021 more than 70% of that total surface will be delivered, although there could be delays due to the COVID-19 protocols that have had to be implemented in the construction industry - the project/proposed area is 622,095 sq.m. Expectations are placed on the submarkets where there would be the highest growth: Zona Dot (+ 96.8%), Catalinas-Plaza Roma (+ 74.7%) and Corredor Panamericana (+ 47.7%).

In Santiago, the pandemic has also delayed all the projects that were expected for the year. Because of this, 74,171 sq.m that had been planned for 2020 will be added to the new projects that will be delivered in 2021, making a total of 116,189 sqm.

In Bogotá, there are 145,945 sq.m under construction, 52% of this surface located in the Calle 100 submarket, primarily on the project Americas Towers. There are also areas under construction in Salitre (26%), Nogal Andino (8%) and Chicó (13%). These projects are expected to be delivered between 2021 and 2022. There are 655,712 sq.m of proposed projects still with no construction license, and in the Salitre submarket is found 32% of this area.

Currently, Lima has 88,120 sq.m under construction and there are more than 75,000 sq.m in projects, most of them are located in San Isidro Empresarial and Miraflores. It should be noted that, in this scenario of increasing availability and occupiers' slow decision-making, developers prefer to maintain a conservative profile and start new projects as the market starts to show signs of recovery.

The expectation of 2021, is the new inventory for São Paulo's CBD class A should increase by 61% (YoY). That new figures are around 97.3% above of the last 5 years average (109,462 sq.m). In addition to that, by 2022-2023 is expected new completions over 212 thousand sq.m for the city. Rio de Janeiro is still without new completions scheduled for the next 3 years, which will help the last Olympic city to achieve a good level in its vacancy rate throughout the years.

Market indicators H2 2020

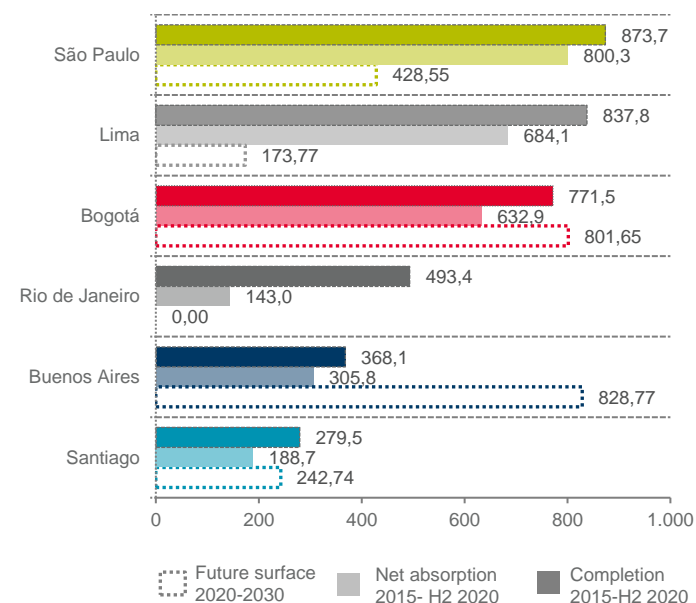
SUBMARKET	CLASS A INVENTORY (SQ.M)	AVAILABLE SURFACE (SQ.M)	VACANCY RATE	ASKING RENT(*) (USD/SQ.M/MONTH)	NET ABSORPTION YTD (SQ.M)	UNDER CONSTRUCTION AND IN PROJECT (SQ.M) 2020 - 2030
São Paulo (**)	3,296,263	646,061	19.6%	19.9	75,967	428,548
Santiago	1,698,088	102,381	6.0%	23.1	-22,085	242,743
Rio de Janeiro (**)	1,556,934	513,856	33.0%	17.6	13,196	-
Lima	1,613,004	262,546	16.3%	16.3	-8,393	173,777
Bogotá	1,682,873	228,356	13.6%	21.3	28,617	801,657
Buenos Aires (***)	1,370,493	173,518	12.7%	27.4	9,024	828,777
CLASS A TOTAL	11,217,655	1,926,718	17.2%	19,8	96,326	2,475,502

(*) The exchange rate is taken from the last day of December 2020.

(**) The information includes only CBD market Class AA+.

(***) Compared to the previous half, Buenos Aires made an inventory adjustment

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



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