

SOUTH AMERICA

Office H1 2020

	GDP* Var (%)	Unemployment Rate (%)	Inflation Index (%)
Argentina	-5.4	10.4	43.4**
Brazil	-1.5	12.9**	1.9**
Chile	0.4	8.2	2.8
Colombia	1,1	21.4**	2.9**
Peru**	-32.7	13.1	1.4

* Q1 2020
 **May 2020
 Sources: LCA and National Statistics Institute per country

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](#).

Although in recent years, Peru has been one of the strongest economies in the region, the impact on GDP (-32.7%, May 2020), reflects other social problems that still need to be solved. The suspension of the economic activities and the increase in unemployment (13.1%) generated a significant drop in the income of families and in the companies cash flow, which limited the ability to fulfill financial obligations. With the activation of the four phases plan to begin economic activities by the Government, the progressive recovery of the economy is expected, which will mitigate the negative impact by the end of 2020.

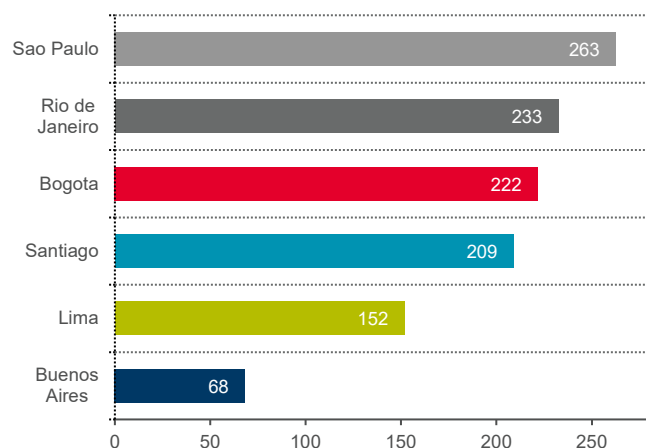
The Colombian economy grew by 1.1% in the first quarter of 2020. For the second trimester, the forecasted PIB drop is about 15.5%. The level of employment had been improving since December 2019, however in May it closed at 21.4% due to the sanitary emergency. Inflation remains under control registering 2.9% for the last 12 months. Given that the Colombian economy was in a good moment when it was impacted by the pandemic, it is expected that in the second half of the year the negative effects of it will be reversed to some extent.

In Chile, national economic activity has increased by 0.36%. As for inflation, it reached 2.8%. In the mining sector, the metal mining indicator fell to 0.8%, as a result of a 1.4% drop in copper extraction and processing. Finally, investment contracted to 16% due to uncertainty and lack of liquidity; a reactivation is expected for the years 2021 - 2022.

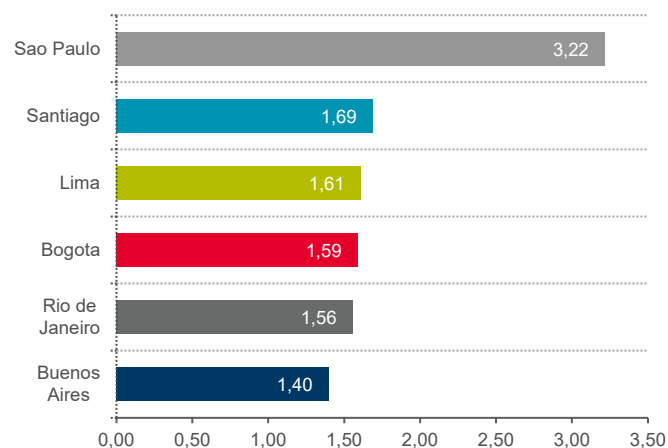
For Argentina, the first quarter of 2020, national GDP contracted 5.4% YoY. The unemployment rate was 10.4%, meaning a 0.3% higher compared to the same period of the previous year. These indicators have not yet reflected the impact of the pandemic but, an unfavorable effect over the most vulnerable sectors is expected. May's inflation rate was 43.4% (YTD), a figure that diminished 13.9 percentage points compared to the previous year.

The Brazilian economic indicators fell sharply due to the COVID-19 pandemic since March. The country's GDP contracted 1.5% in the first quarter of the year (QoQ) while the unemployment rate registered an increase, reaching 12.9% in May. In turn, the inflation rate remained stable (1.9%), but below the target from the Brazilian Central Bank, indicating a slowdown in consumption. In addition, the Consumer Confidence Index registered the worst historical performance in April (59.3 basis points) but recovered 20% in June.

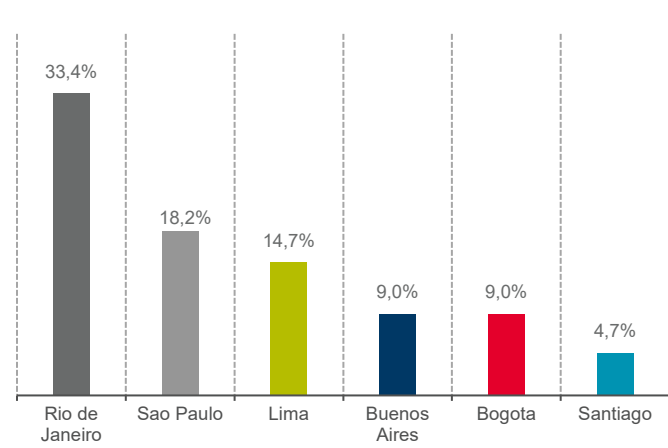
Inventory ratio (sq.m)/1.000 inhabitants - H1 2020



Class A inventory (Mi. sq.m) - H1 2020



Vacancy (%) - H1 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 beginning of the year São Paulo continues leading the ranking with 263, followed by Rio de Janeiro (233) and Bogotá (222).

In Brazil, São Paulo's office market continues to step up the construction activity with a positive variation of 1.8% (compared to Dec/19). In addition, by the end of the year it is expected to register a positive variation of 4.2% (Jun/20 - Dec/20). On the other hand, despite a good performance in Rio de Janeiro's office market, the city did not receive new inventories in 2020 and there are no deliveries expected in the upcoming years.

On the other hand, Bogotá has positioned itself as the third city with the highest ratio, just below Brazil, due to the amount of new buildings that entered the office market in the last twelve months. This city, together with Lima are one 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

The uncertainty in Santiago's market and the market's general slowdown in activity, have affected the businesses cash flow, stopping decision-making regarding investment. This in turn, translates into the low amount of square meters occupied during this quarter. Within this period, it was observed a moderate trend that could be more important in the future: the subletting of unused office space generated by the increase of home-office employees. This provides a solution to increase the liquidity of all businesses, even the essential ones that have been impacted by the implementation of this modality.

In Buenos Aires, the first half of 2020 was affected, almost entirely, by circulation restrictions and temporary closing of most offices. It is still premature to see the market's reaction regarding the crisis. Vacancy closed at 9.0% meaning a 15.3% increase in comparison to the previous quarter.

Lima's vacancy rate for Class A offices had no significant change, closing at 14.7%. In addition, the available leasable area decreased by just 1% compared to the first quarter of the year.

In Bogotá, a slight decrease in the average asking rent (-3%) was reflected compared to the previous quarter, as well as a moderate increase in the available surface and the vacancy (+1.3%). The entrance of new buildings into the market was restricted by the situation; however, one building was delivered in the Chico submarket (+10.000 sqm).

In Brazil, São Paulo's CBD market has remained stable, even in times of uncertainty. In the first half of the year, the city received 55.5k sqm of new inventory (70% over the total volume delivered in 2019). Even with new deliveries, the vacancy rate dropped by 2.3p.p. (YoY), reaching 18.18% in June/2020, below 2019 figure, an important indicator of the market continued good performance that has been observed in recent months. In turn, Rio de Janeiro's CBD class A market is showing signs of recovery with the first drop in its vacancy rate since 2016Q2, reaching 33.39% on June/20 (-6,67p.p. YoY). In addition, about 80k sqm have been pre-leased and will be occupied in medium and long term, which will even further reduce availability in the city.

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SUPPLY AND DEMAND

During the first half of the year, Lima has shown a net absorption of 16,919 sqm, and although it remained a positive figure, the result was 73% lower compared to the results on H1 2019. The health and safety measures taken by the government due to the current scenario, forced companies to pause any decision-making regarding offices occupation and started an adaptation process according to the circumstances.

Santiago's first half presented a net absorption of 1,034 sqm, nevertheless in the second quarter there were more square meters left vacant than occupied (-4,170 sqm). 83% of this area corresponded to Las Condes market. The total occupied area was 2,779 sqm, from which 1,236 sqm corresponded to a pharma company located in the Costanera Center building.

In Bogota, the first half of the year concluded with a vacancy that decreased from 9.3% in H2-2019 to 9% in H1-2020. The YTD Net Absorption was positive of +22,722 sqm, even though in the second quarter the figure was negative. The vacancy is still controlled despite the circumstances and the increase of the inventory during H1 of 20,230 sqm.

Buenos Aires' first half absorption reached a total of 24,678 sqm. Demand remained paused and expectant for the future political and economic measures.

Even with the slowdown of the economic activity in the country due to the pandemic, São Paulo and Rio de Janeiro presented positive results in net absorption. São Paulo registered, in the first half of the year, a positive net absorption of 58.6k sqm (76.2% above the same period of previous year), while Rio de Janeiro registered a positive net absorption of 7.3k sqm (26.9% above compared to H12019).

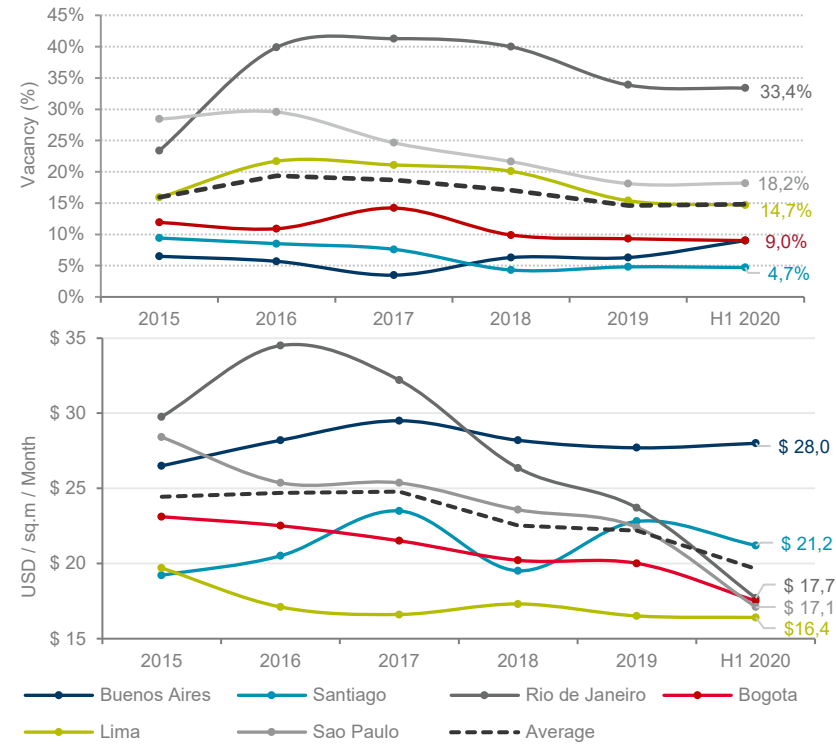
PRICING

Bueno Aires asking rent in this period was 28.0 USD/sqm, a figure that has remained stable since the beginning of the year and that has still not reflected any impact regarding the worldwide pandemic situation. The CBD had an 8.3% higher average asking rent price than the NON-CBD. For Santiago, prices remained at 21.2 USD/sqm as a result of a large available area located in one of the most valuable buildings which concentrates approximately 41% of the Class A offices availability of the city. For Lima, before the beginning of the pandemic, the expectation was a progressive upward trend for the asking rent as a consequence of the natural dynamics of the market and the decrease in the vacancy rate; however, the current scenario has resulted in the average asking rent remaining stable in \$16.4 per sqm comparing the first quarter with the second one.

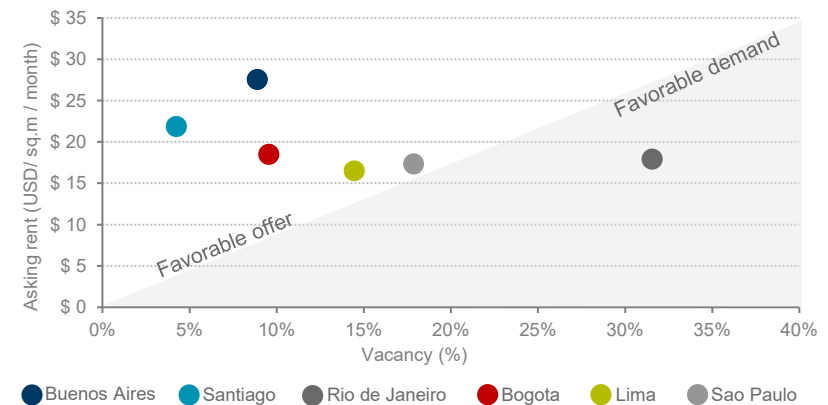
On the other hand, Bogotá's asking rent decreased 3% in local currency compared to the previous quarter and 1% YoY. This fact reflects the expected demand decrease for office space under the quarantine. Some owners improved the price conditions of their properties or negotiated a special price during the current months. Regarding the asking rent in USD, the local currency has depreciated the first semester, which explains a lower price in dollars.

Because of the delivery of new inventory in prime regions and the scenario becoming better for owners, São Paulo has been showing constant increases in the asking rent, registering in June/20 an increase of + 3.5% (YoY) in local currency. However, the Brazilian currency depreciated throughout the year, resulting in a negative impact on the USD asking rent, which reached 17.1 USD/sqm (-31% when compared to December 2019). On the other hand, Rio de Janeiro registered a negative variation of -3.5% (YoY) in the asking price in local currency, linked to the impact of the exchange rate, closed the first half of the year at 17.7 USD/sqm (-34% compared to H2 2019).

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



Asking rent (USD/sq.m/month) vs Vacancy (%) (*) – H1 2020



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

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Office H1 2020

PAST, PRESENT AND FUTURE

Currently, in Lima there are 76,547 sqm of Class A office space under construction with delivery dates until the end of 2021. 68,000 sqm of projects are in evaluation stage, mainly located in San Isidro Empresarial, Miraflores and Santiago de Surco submarkets. It is important to maintain a conservative profile regarding these figures, in the current scenario; even if the construction activities are being taken up progressively, and the fact of this sector's inclusion in the first phase of the economy's reactivation.

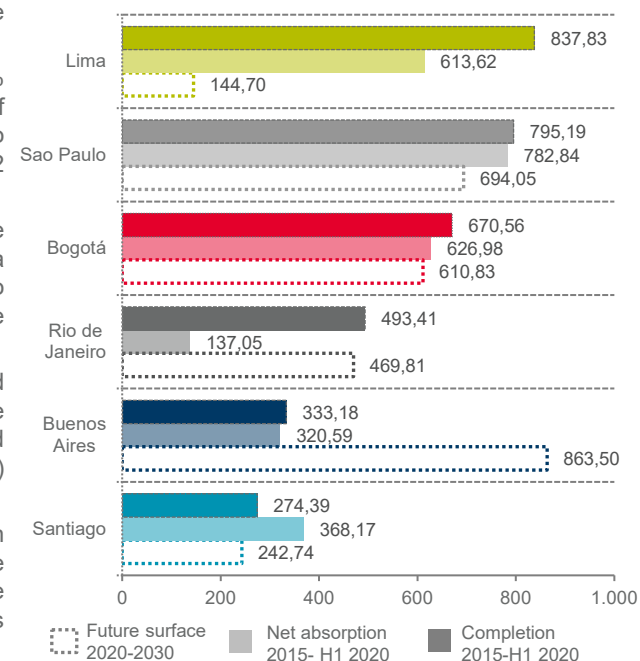
In Bogotá, there are currently 215,000 sqm under construction represented in nine projects; 36% of this area is in Calle 100 and 30% in the Centro Submarket. So far this year, only two Class A projects have been delivered (+20,000 sqm). On the second semester of the year, important projects will be delivered into the market such as Torre Atrio, Sequoya, two Connecta Towers and Aeropuerto Business Hub, which will add 115,000 sqm to the market at the end of the year. In project / proposed are registered 543,212 sqm. 42% of this surface is located in the Salitre submarket and 16% in the the Noroccidente submarket (Non CBD).

For Santiago's city, a new availability of 74,171 sqm is projected for this year corresponding to the remaining surface of the Costanera Center (44,064 sqm), Nueva Córdova (21,264 sqm) and Vespucio 345 (8,843 sqm) buildings, this would indicate a surface increase in Providencia (+41.8%), Nueva Las Condes (+5.6%) and El Golf (1.2%) submarkets. All of this is subject to possible delays, as a result of the little progress in sites, first with the social crisis, which directly impacted the workers due to the interruption of public transportation and then with the pandemic and the quarantines established by the health authority.

In Buenos Aires, the current under construction surface would increase by 15.9% the Class A inventory. The 100,000 sqm expected for this year may suffer delays caused by the industry inactivity which, at the end of second quarter, continues unauthorized by the government. On the other hand, the projected surface remains steady in 645,695 sqm. The reactivation of these buildings would imply large growths in Nodo Panamericana-Gral. Paz (+138.3%), Libertador GBA (+78.2%) and Catalinas-Plaza Roma (+68.9%) submarkets.

São Paulo's CBD class A market received 55.5 k sqm in the first half of the year. The Riverview building, which was under renovation in the Chucru Zaidan region, was responsible for 43.7k sqm of this new inventory. In addition, 92.5 k sqm of class A buildings are expected until the end of the year. Highlight for Birmann 32, with 50.7k sqm in the Faria Lima region and the highest asking rent in the city. Meanwhile, Rio de Janeiro didn't receive new inventory in 2020 and new projects have been postponed or canceled due to Rio's economic crises and excess of available space. Therefore, there are no new inventories to be delivered for the next three years.

Net Absorption vs. Completion: 2015 – H1 2020
New Inventory: 2020-2030 (,000 sq.m.)



Market indicators H1 2020

SUBMARKET	CLASS A INVENTORY (SQ.M)	AVAILABLE SURFACE (SQ.M)	VACANCY RATIO	ASKING RENT(*) (USD/SQ.M/MONTH)	NET ABSORPTION YTD (SQ.M)	UNDER CONSTRUCTION AND IN PROJECT (SQ.M) 2020 - 2030
Sao Paulo (**)	3,217,593	584,824	18.2%	17.1	58,534	694,052
Santiago	1,698,088	79,280	4.7%	21.2	1,034	242,743
Rio de Janeiro (**)	1,556,934	519,786	33.4%	17.7	7,266	469,808
Lima	1,613,004	237,227	14.7%	16.4	16,919	144,777
Bogota	1,591,969	143,347	9.0%	17.5	22,722	610,897
Buenos Aires	1,405,211	127,059	9.0%	28.0	24,678	863,500
CLASS A TOTAL	11,082,799	1,612,243	14,5%	19,7	131,153	2,162,209

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

(**) The information includes only CBD market.

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