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WTC PRIME OFFICE INDEX LATAM 2020/21



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Commissioned by the World Trade Centers Association, Latin Trade publishes the WTC Prime Office Index Latam 2020/21, measuring the recent and expected performance of sales and leases of premium office space in Latin America.



As with many economic activities around the world, the SARS-CoV-2 (the strain of coronavirus that causes Covid-19) has brought about substantial changes in the real estate sector, including of course the object of this report - the Latin American Class A Office Space market.

While the economic effects of the pandemic are making a short-term impact on vacancy, terms and price rates of office rentals and sales, other resulting changes from the pandemic, such as working from home, will probably have a structural impact.

The ability to react quickly to new realities in the short and long term is more crucial than ever, since, far from decreasing or disappearing, the premium office real estate market will become stronger along with the post-Covid-19 business ecosystem.

Given the aforementioned context, new tools to measure recent and future market performance become increasingly relevant, and that is what the WTC Prime Office Index Latam 2020/21 intends to contribute.

For this first edition, with data from the fourth-quarter of 2020, the WTC Prime Office Index Latam 2020/21 shows that despite the unfavorable performance of the Class A office space market during the October-December period, a recovery is expected compared to the previous quarter, mainly in rentals.

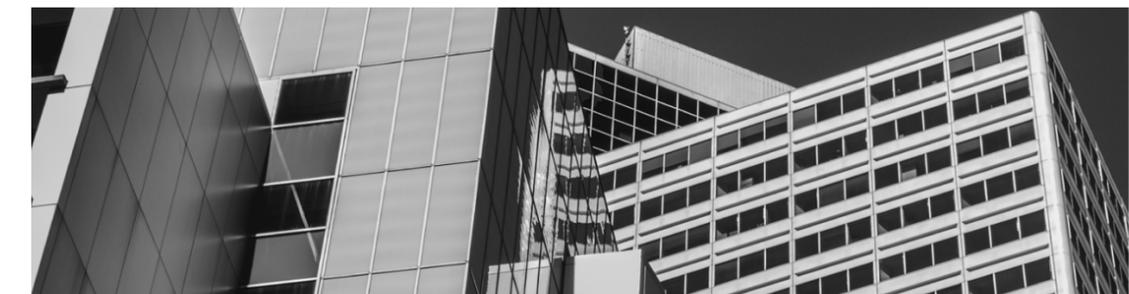
Amid great uncertainty in controlling the pandemic, the WTC Prime Office Index Latam 2020/21 shows that 2021 will be more stable than 2020. Experts believe that 2021 will be the breaking point for markets to reach pre-Covid-19 levels by 2022.

WTC PRIME OFFICE INDEX LATAM 2020/21

The WTC Prime Office Index Latam 2020/21 fluctuates between -100 and 100, respectively showing completely negative or optimistic perceptions/expectations of the market. The index was built by consulting the opinion of experts from 17 cities across the region: Buenos Aires (Argentina); Santa Cruz de la Sierra (Bolivia); Curitiba and São Paulo (Brazil); Santiago de Chile (Chile); Barranquilla, Bogotá and Cali (Colombia); San Salvador (El Salvador); León, Mexico City, Monterrey and Nuevo Laredo (Mexico); Panama City (Panama); Montevideo and Colonia del Sacramento (Uruguay) and Valencia (Venezuela).

For the fourth quarter of 2020, the WTC Prime Office Index Latam 2020/21 saw a value of -42, as a result of a negative balance in the performance of Class A office sales and rentals during the July-September period, along with a relatively improved outlook, albeit still pessimistic, of the expected performance for both market segments during the October-December 2020 period.

WTC Premium Office Index - Rents and Sales	
June-September performance compared with the previous quarter	-53.0
October-December 2020 outlook compared with the previous quarter	-32.0
WTC PRIME OFFICE INDEX - LATAM 4T 2020	-42.0

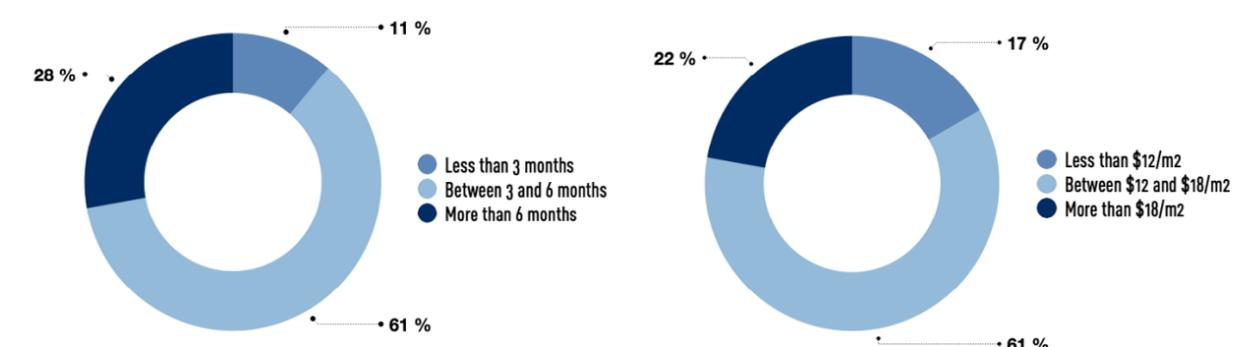


RENTS PERFORMED BETTER THAN SALES

The balance of answers that measures the performance of rents during the July-September quarter was -36%, compared with -70% for sales. Experts consulted by Latin Trade said that rents were affected during the period by i) an increase in the time it takes to rent an office, ii) unfavorable local economic conditions and iii) a drop in rent prices. Vacancy rates rose in most of the markets in the study.

The time to rent a Class A office was mainly between three and six months, but almost a third of respondents reported times of more than six months. The average rent price was between \$12 and \$18 per square meter for the July-September period, compared with the previous quarter.

TIME TAKEN TO RENT JULY-SEPTEMBER 2020 **AVERAGE RENT PRICE (M2 PER MONTH) JULY/SEPT. 2020**

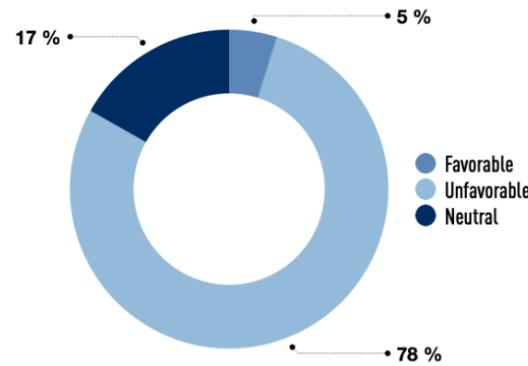


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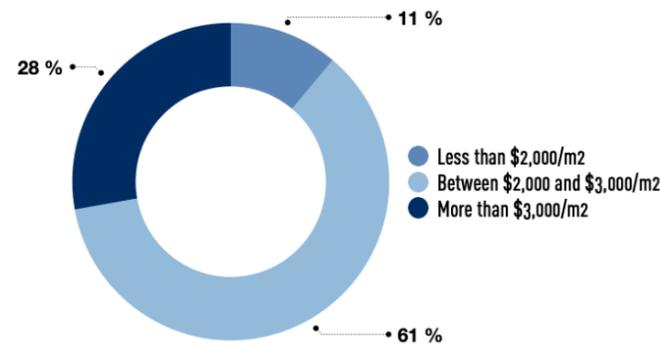
The negative behavior of Class A office sales during the third quarter of 2020, compared to the second quarter, was mainly explained by the rough period for local economies, still impacted by the effects of the pandemic. In any case, the increase in time to close a sale and the decrease in sales prices also had a highly unfavorable effect

More than three-quarters of respondents consider that the economic situation of their city was unfavorable for sales of Class A offices in July-September compared to April-June 2020. Sales prices fell during the period, mostly in the range of \$2,000 to \$3,000 per square meter.

ECONOMIC CONDITIONS FOR SALES JULY-SEPT. 2020



AVERAGE SALE PRICE JULY-SEPT. 2020

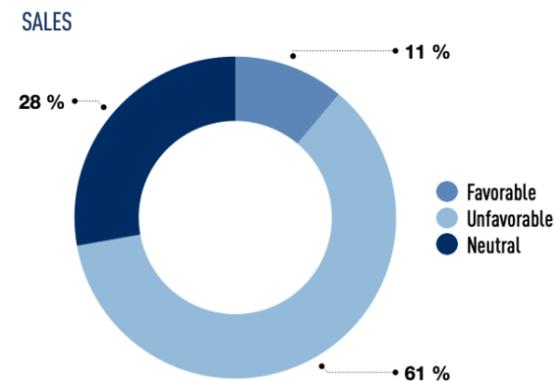
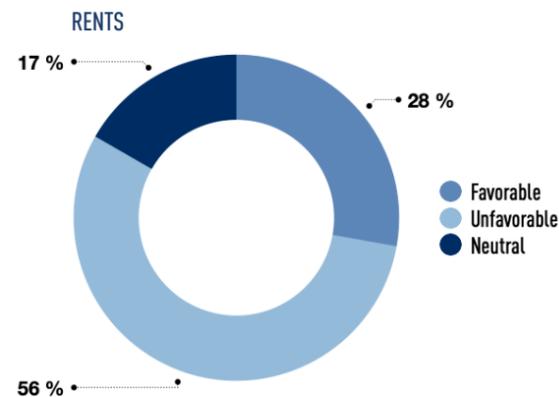


NEGATIVE EXPECTATIONS FOR 4Q2020, BUT IMPROVING

Respondents in the WTC PRIME OFFICE INDEX - LATAM Q4 2020 saw a more favorable behavior of the premium office market in October-December 2020 compared to the previous quarter. Experts are somewhat more optimistic about rentals than sales. Local economy performance will be the factor with the greatest negative weight in the behavior of both segments during the period. Vacancy times for rentals are expected to increase and it will take even longer to close a sale. The index shows a balance of expectations regarding the behavior of rentals and sales of -26% and -37%, respectively, during the last quarter of 2020.

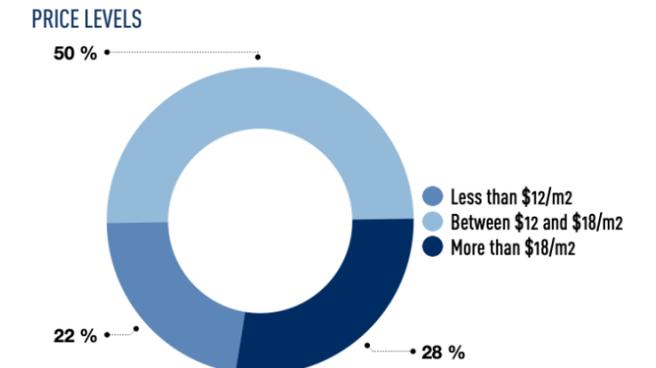
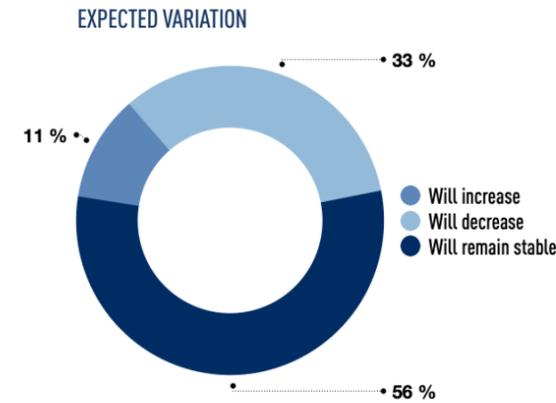


LOCAL ECONOMIC CONDITIONS OCTOBER-DECEMBER 2020

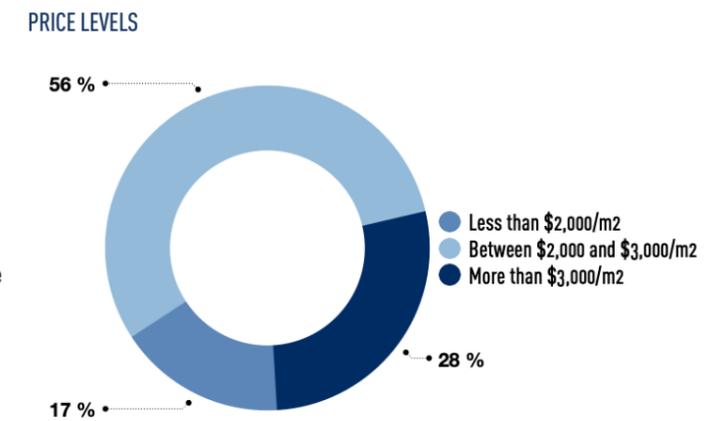
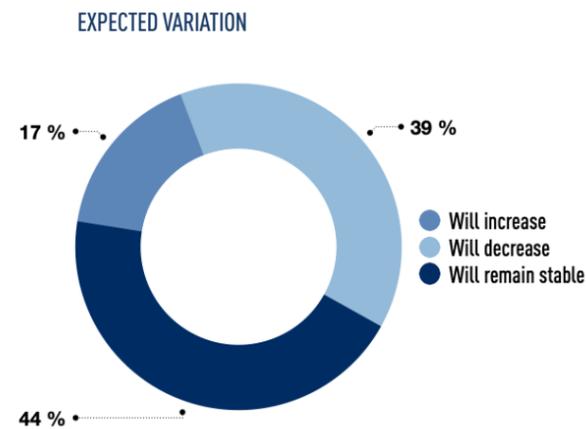


Most experts anticipate stable premium office rental and sales prices during the fourth quarter of the year compared to July-September 2020.

RENT EXPECTATIONS OCTOBER-DECEMBER 2020

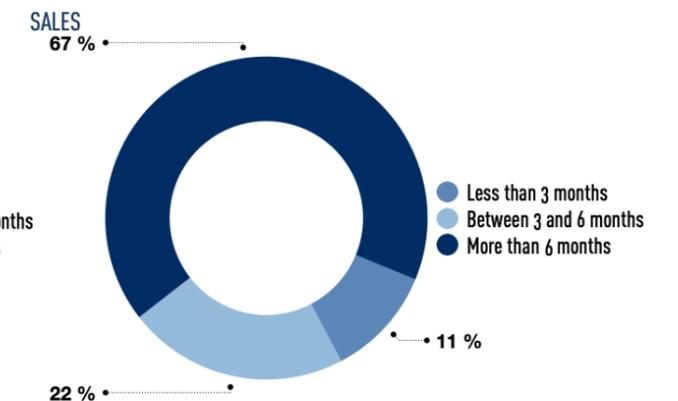
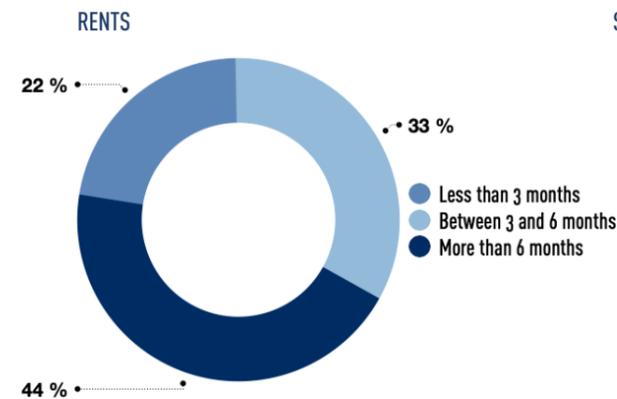


SALES EXPECTATIONS OCTOBER-DECEMBER 2020



Renting and selling an office are expected to take more than six months during October-December compared to the third quarter of the year.

AVERAGE WAITING TIME IN OCTOBER-DECEMBER 2020 FOR...



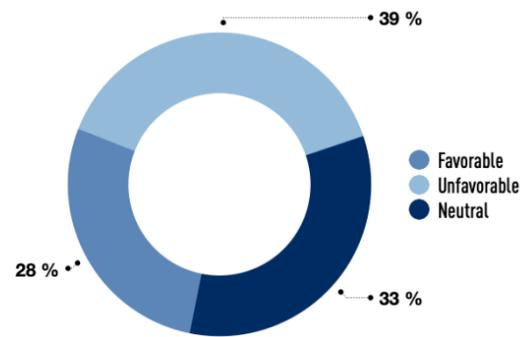
WTC PRIME OFFICE INDEX - LATAM 2021: THE YEAR OF TRANSITION

The WTC PRIME OFFICE INDEX - LATAM evaluated experts' expectations in the premium office real estate sector for 2021. The conclusion: next year will be a period of stability compared to a volatile 2020, and will become the basis for the recovery of the sector possibly by the end of 2021, and to be consolidated from 2022.

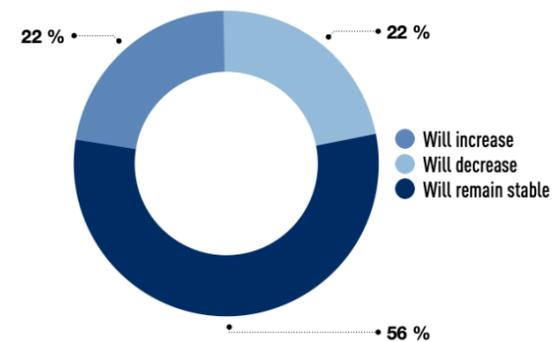
Contrary to what was registered in the third quarter of 2020 and the expectations for the fourth quarter of the same year, experts are more optimistic about sales than they are for rents for 2021. The sales expectations index was positive, measuring 1.85, while that of rentals remained negative at 1.39

Although with less negative weight than the previous year, the economy will continue to be the main factor affecting rents in 2020. However, stability is expected in rental prices and in the time it takes to finalize a lease.

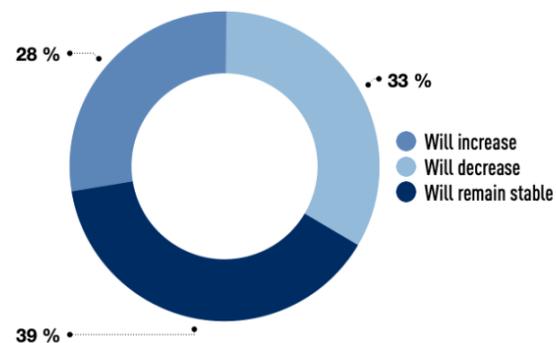
ECONOMIC CONDITIONS TO RENT OFFICES IN YOUR CITY WILL BE



THE AVERAGE PRICE OF RENTS WILL



THE AVERAGE TIME TO RENT AN OFFICE WILL



Specifically, most of the experts consulted by Latin Trade in the largest cities (with a population of over 5 million inhabitants), such as Mexico City, São Paulo, Buenos Aires, Bogotá and Santiago, expect rental prices of between \$12/m2 and \$18/m2 per month in 2021, similar to prices in 2020. However, some experts see rental prices rising next year in the Buenos Aires market.

On the other hand, in intermediate-size markets (with a population of between 2 and 5 million inhabitants) such as Panama City, monthly rents will mostly be below \$12/m2 in 2021, a stable figure compared with 2020.

Finally, in the smallest cities (with a population of less than 2 million inhabitants) stability is also expected, but the price of rents will maintain greater dispersion. Most will be at levels above \$18/m2 per month, but the proportion of small cities with rents between \$12 and \$18/ m2 per month is equally important. In markets of this category, as is the case of Montevideo and San Salvador, the supply of Class A offices is scarcer, and therefore rental prices tend to be higher.

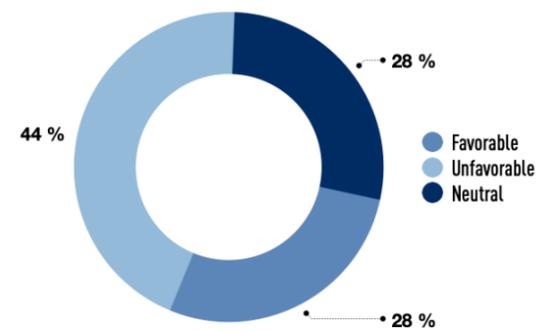
EXPECTED PRICE RANGES OF CLASS A OFFICE RENTALS IN 2020 ACCORDING TO MARKET SIZE

City population (millions)	Monthly price per square meter		
	More than US\$18	Between US\$12 y US\$18	Less than US\$12
More than 5 million	17%	83%	
Between 2 and 5 million		33%	66%
Less than 2 million	44%	33%	22%

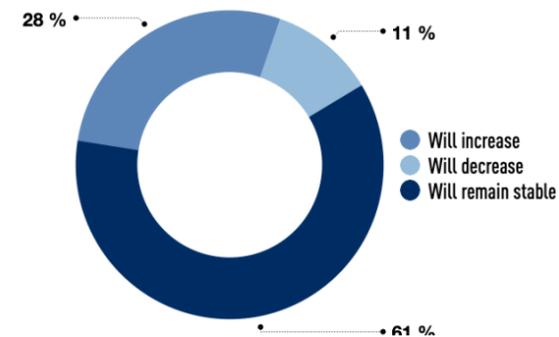
Percentage of answers for each city category.



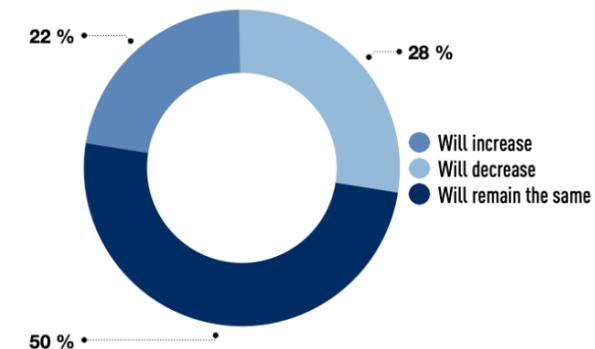
ECONOMIC CONDITIONS FOR OFFICE SALES IN YOUR CITY WILL BE.



AVERAGE SALES PRICE



AVERAGE SALES TIME



In terms of sales expectations of Class A offices in 2021, the WTC PRIME OFFICE INDEX - LATAM suggests that an unfavorable economic situation will be the main factor affecting sales, despite the fact that a recovery of GDP is projected in the vast majority of countries in the report. However, these negative expectations are accompanied by a positive balance of expectations in terms of stability in sales prices and time taken to close a deal

Regardless of the size of the market in the cities consulted by Latin Trade, the sale prices of Class A offices will remain around \$2,000 to \$3,000 per square meter in 2021, with no major variation compared to 2020. This price level will be more common in medium markets, such as Cali and Curitiba, and in larger cities, such as Bogotá and Santiago de Chile.

However, in cities in the group of large real estate markets, such as Mexico City and Buenos Aires, and others in smaller markets, such as Monterrey and León, buying premium offices in 2021 will continue to be more expensive, with expected price levels above \$3,000/m2.

That said, in most small markets, selling prices between \$2,000 and \$3,000/m2 will dominate, and even in cities like Valencia (Venezuela) buying Class A properties below \$2,000/m2 will still be possible.

Likewise, the transitory excess of supply in cities with intermediate populations such as Panama City will make it possible for the majority of the purchase and sale prices of premium offices to be under \$2,000/m2, according to the experts consulted.

EXPECTED PRICE RANGES OF CLASS A OFFICE SALES IN 2020 ACCORDING TO MARKET SIZE

City population (millions)	Sale price per square meter		
	More than US\$ 3.000	Between US\$2.000 y US\$ 3.000	Less than a US \$ 2.000
More than 5 million	50%	50%	
Between 2 and 5 million		67%	33%
Less than 2 million	33%	56%	11%

Percentage of answers for each city category.



FLEXIBILITY AND INNOVATION TO OVERCOME CHALLENGES



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A YEAR OF OPPORTUNITIES FOR BUYERS

What happens in relation to the COVID-19 pandemic will continue to be the most relevant factor affecting the premium office market in 2021, while the increase in work from home will continue to be the main structural factor.

In relation to the pandemic, the announcements made in the last weeks of November 2020 on the effectiveness of the vaccine against the virus and its apparent availability in the following months have fueled optimism for a better 2021 and, without a doubt, will contribute to improve business climate. However, there are still risks that outbreaks of coronavirus will force temporary closures of economic activities that distort the pace of local GDP recovery. These risks increase to the extent that, for example, the availability of the vaccine for Latin America and the Caribbean lags behind current expectations.

Ultimately, the business climate for the office market will be determined by factors specific to each country/city in terms of their political and socio-economic situations, the supply of new office space, and the rate at which that space is leased or bought.

For example, the experts consulted by Latin Trade to build the WTC PRIME OFFICE INDEX - LATAM expect an increase in supply of Class A offices in cities such as Lima, Monterrey, Mexico City and, to a lesser extent, Bogotá and São Paulo for 2021-23, where there will be pressure against rentals in terms of prices and vacancy rates.

In Santiago de Chile and, by extension, in all of Chile, the market will be aware of the developments of the constituent process that, although mostly supported by the electorate, creates uncertainty regarding its final effects in markets such as real estate. In Argentina, macroeconomic problems have the potential to create uncertainty and deterioration in the business climate.

In this scenario, office owners (landlords) will have to maintain some of the business strategies applied during the worst of the pandemic, based on two keywords: flexibility and innovation.

Flexibility to adapt to market changes such as coworking, or to new negative economic effects generated by outbreaks of the pandemic on tenants. Thus, owners may have to implement strategies such as signing or renegotiating contracts with shorter terms and/or possibly at lower prices on a temporary basis.

Innovation will be necessary to increase the attractiveness of the office space, through strategies such as the delivery of partial or total endowment (plug and play), conditioning in response to post-COVID-19 needs, such as air purification and touch-free technologies (that make manual contact of lights, bathroom areas, etc., unnecessary). Last but not least, homeowners should consider options to better control the rising trend in subleasing.

While the WTC PRIME OFFICE INDEX - LATAM offers an average perspective for the region, it is well known that the particularities of the real estate market make it necessary for the analysis of its behavior and projections to be carried out not only at a city level, but also of each neighborhood/locality within a city itself. Thus, there are aspects to take into account that will be specific to each locality, and that could benefit specific market segments during 2021.

One of these aspects is, for example, the level of interest rates and the stable or even decreasing price of premium offices in some locations, which will generate significant

opportunities for buyers who intelligently take advantage of the temporary oversupply and cheaper costs of finance through mortgages.

Another opportunity lies in government policies (at the national and local level) that will most likely continue to be implemented during 2021 to boost economies and favor sectors such as construction and real estate. In some countries, like Panama and Colombia to mention just a couple, investments in infrastructure will increase notably, possibly bringing positive linkages for the office market.

In sum, it is important that owners and real estate agents closely follow the incentives to buy that the market will offer in 2021.





THE OFFICE WILL NOT DISAPPEAR

Undoubtedly, the office market saw structural changes due to the effects of COVID-19, particularly the skyrocketing increase in work from home (WFH). But it is also clear that the office will not simply disappear in the post-pandemic world, rather, it will become part of a new business ecosystem in which it will coexist with WFH and other modalities such as coworking.

Recent surveys, research, and trends confirm the importance of maintaining office spaces. For example, a recent study by Cushman & Wakefield (C&W) shows that the office is necessary for relationships and inspiration; reinforces corporate culture; creates productive environments; has spaces and locations designed for specific purposes; and (although today it is the least common reason) the office provides management with a space for centralized command and control of the company.

Spontaneous meetings in the office and face-to-face conversations are essential for creativity and innovation; office spaces are necessary to receive clients and to hold employee training and meetings.

The optimal mix of office and working from home in the new ecosystem in which they coexist has yet to be defined. According to W&C, the average employee in the U.S. prefers to work remotely a maximum of 2.5 days a week. Other studies indicate that in the U.S. and Europe, WFH could grow from 5-6% of the total before the pandemic, to 10-11% post-COVID-19. Meanwhile, the proportion of “agile workers” (those who do remote work part of the time) would increase from 32-36% to 50%.

Although more studies are lacking for Latin America and the Caribbean (LAC), a survey by Jones Lang LaSalle (JLL) for the first half of 2020 showed that only 5% of employees wanted to WFH permanently, while 65% wanted flexibility between working from home and the office.

Ultimately, the right office-WFH mix will depend on company culture, employee personality, job function, and team dynamics. Ultimately, the goal is to increase, or at least maintain, productivity.

WFH can help productivity, for example, by saving commuting times in particularly congested LAC cities. However, being away from the office can also affect motivation and productivity.

According to WFH, 55% of those who telecommute in the U.S. are satisfied, but a (high) 36% consider that they are not taking advantage or learning as much. A survey carried out in Brazil in July-August showed that after an increase in WFH, 27% of employees increased their productivity, 41% maintained it, and but still 22% were less productive.

Experts consulted by Latin Trade said that productivity in WFH may fall post-COVID-19, once shops, restaurants and bars fully reopen, since there is a high probability that these will become distractions for a culture such as that of Latin America, which is very inclined to social interaction and recreation.

On the other hand, experts also hope that when economies grow steadily, employment will increase and, with it, demand for office space. The latter will also be pressured by the possible “de densification,” that is, a reversal in the recent trend of increasing the number of workers per square meter, assuming that some social distancing rules remain post-COVID-19.

In summary, WFH is possibly here to stay, but, towards the medium and long term, it is very likely that it will tend to lose relevance, and in no case will it replace the office.