LT LATIN TRADE

WTCA

PRIME OFFICE *INDEX* LATAM DECEMBER 2023

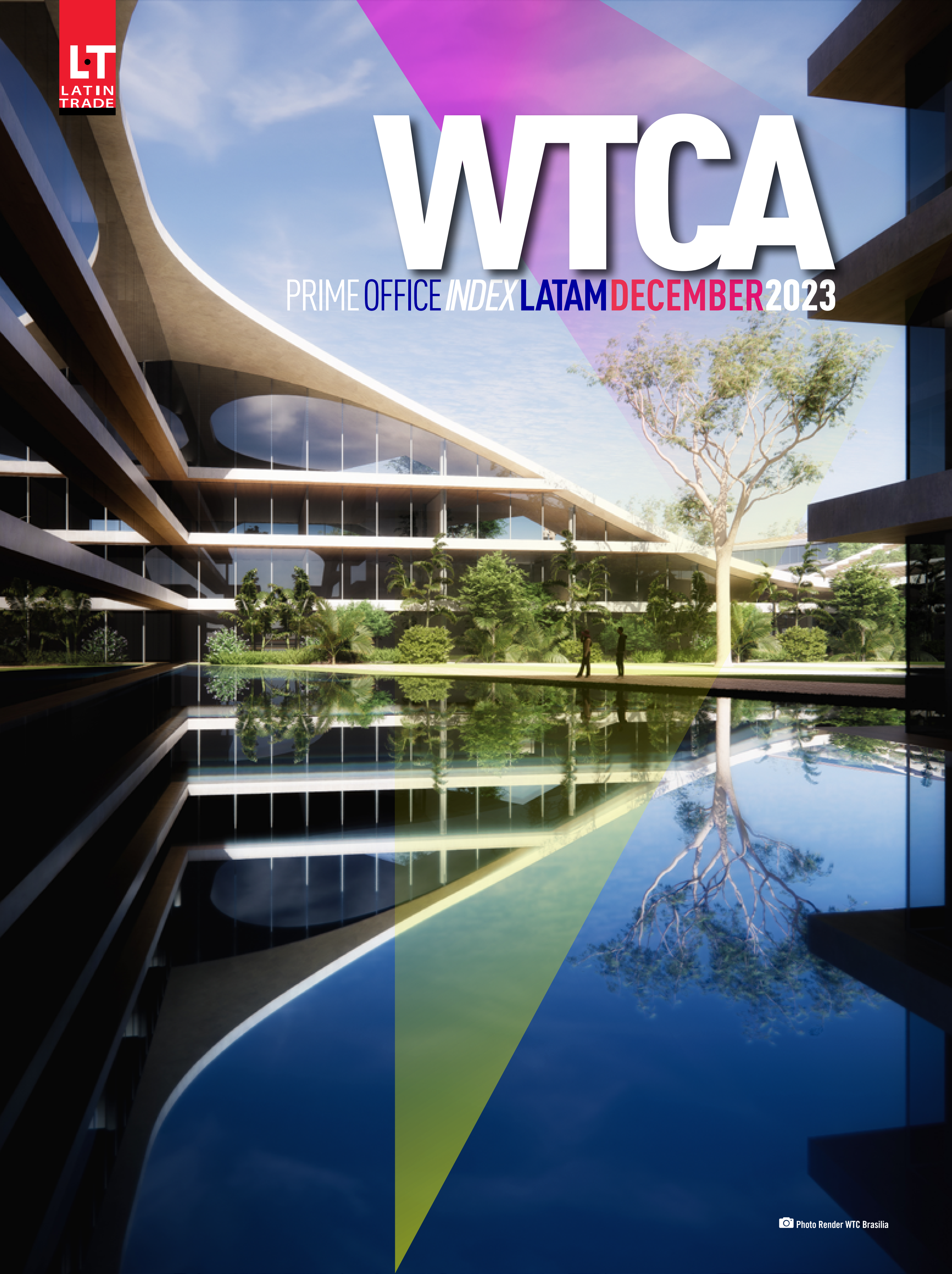

Photo Render WTC Brasilia

THE YEAR AHEAD

The commercial real estate industry in 2024 will undergo a significant transformation marked by new ways of thinking, building, and operating. This evolution is driven by several key trends, including high interest rates, slower economic growth, and the enduring prevalence of hybrid work arrangements.

High interest rates are one of the primary factors impacting the commercial real estate market. Central banks worldwide are tightening monetary policies to combat inflation, leading to increased borrowing costs. Developers and investors are adjusting their strategies to account for these higher financing expenses. To mitigate the effects, industry players are exploring alternative financing options, such as joint ventures, crowdfunding, and mezzanine financing. Additionally, optimizing property portfolios by divesting underperforming assets and pursuing value-added opportunities is becoming essential to enhance returns.

Slower economic growth is prompting a shift in mindset within the industry. Traditionally, rapid economic expansion fueled demand for various types of commercial properties. However, the current economic landscape has necessitated more adaptive strategies. Developers are now conducting in-depth market research and focusing on demand-driven projects. The diversification of portfolios to include properties catering to essential services and resilient industries like healthcare facilities, logistics centers, and data centers is gaining prominence.

Hybrid work arrangements, a lasting consequence of the COVID-19 pandemic, are reshaping the demand for commercial real estate. Employees increasingly split their time between the office and remote workspaces, leading to a surge in demand for flexible office spaces. Developers are adapting by redesigning office spaces to accommodate hybrid workers' needs. This includes incorporating advanced technology, creating collaborative work environments, and offering flexible lease terms to provide tenants with the flexibility they require.

Sustainability and Environmental, Social, and Governance (ESG) initiatives continue to gain momentum in commercial real estate. Sustainable building practices, energy-efficient technologies, and responsible development are now central to property valuation and investment decisions. Investors and tenants are actively seeking eco-friendly certifications like LEED or WELL for their properties. In response, developers are integrating sustainable design principles, improving energy efficiency, and reducing carbon footprints to attract environmentally conscious clients.

Technology integration and data analytics are fundamental to the industry's evolution. Smart building systems, IoT devices, and data analytics tools are becoming standard features of commercial properties. These technologies provide valuable insights into property performance, enhance security, and improve tenant experiences. Property management software, predictive maintenance solutions, and tenant engagement platforms are now essential tools for efficient operations and increased tenant satisfaction.

In summary, the commercial real estate sector is entering a new era in 2024, characterized by innovative strategies and adaptations. The challenges of high interest rates, slower economic growth, and the continued prevalence of hybrid work arrangements are driving industry players to be more creative and agile in their approaches. By embracing alternative financing, data-driven decision-making, sustainability practices, and technology integration, real estate professionals can successfully navigate the changing landscape and capitalize on the opportunities presented by these dynamic trends.

Robin van Puyenbroeck
Executive Director
World Trade Centers Association

2024

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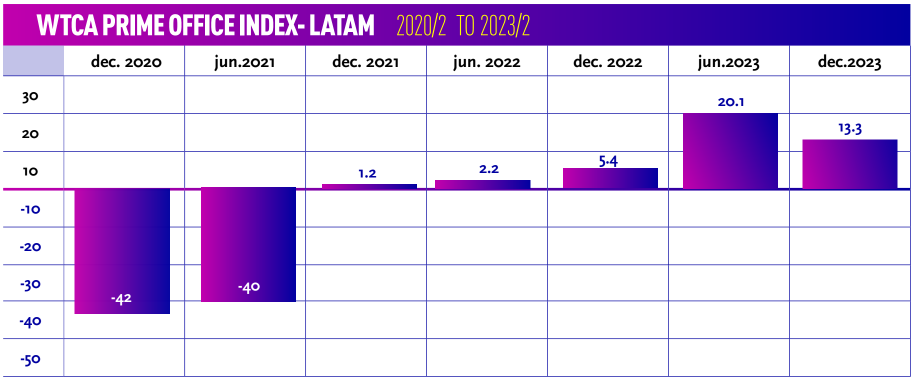
WTCA PRIME OFFICE INDEX-LATAM DECEMBER 2023

LATIN TRADE & THE WORLD TRADE CENTERS ASSOCIATION are teaming up once again to offer a report on the current situation of leasing and sales of premium office space in Latin America during the second half of 2023, as well as the outlook for the first half of 2024. For this, the seventh edition of the survey is used, which is conducted every six months to experts in the field, and in this version, a total of 18 people from the region were surveyed.

The report, as on previous occasions, is divided into four parts: the current leasing situation, the current sales situation, the outlook for the first half of 2024 for leasing and the outlook, also for the first half of 2024, for sales.

The **WTCA PRIME OFFICE INDEX** is compiled from the experts' responses. The graph shows the behavior of the indicator in the seven editions of the survey. Although in the first two measurements the negative result is significant, due to the impact of the Covid-19 pandemic, from then on there has been a significant improvement. The index had been in positive territory since the end of the pandemic, with a very strong rebound in the first semester of 2023, but for the current measurement of December 2023, although the index is positive, its level is lower than that of the previous semester



SOURCE: LATIN TRADE BASED ON SURVEY DATA

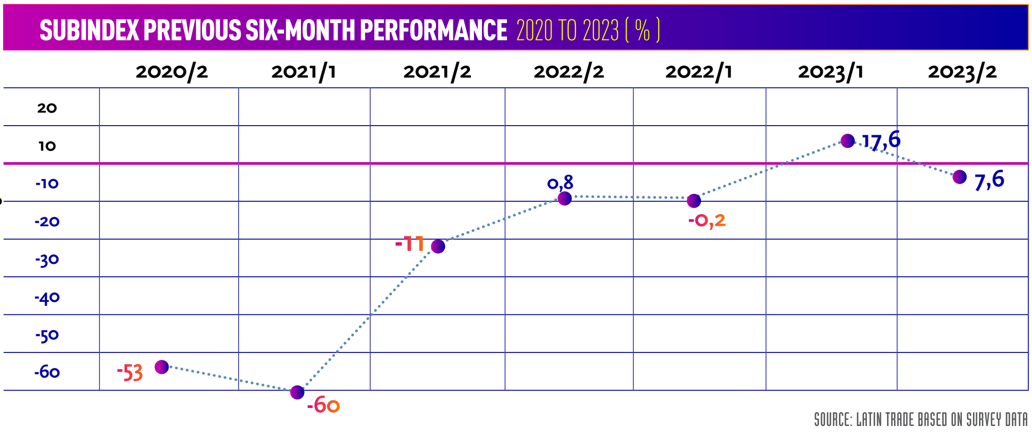
METHODOLOGY

WTCA PRIME OFFICE INDEX - LATAM *is an indicator that fluctuates between -100 and 100. Negative (positive) values denote a balance between past realities and negative (positive) future perceptions about the Premium Office market in Latin America. For the construction of the index, experts were consulted in 18 cities in the region: San Salvador (El Salvador), Mexico City, Guadalajara, Nuevo Laredo, San Miguel de Allende, Monterrey (Mexico); Santiago de Chile (Chile); Buenos Aires (Argentina); Panama City (Panama); Curitiba, Sao Paulo (Brazil); Montevideo (Uruguay); Bogota, Medellin and Cali (Colombia); Santo Domingo (Dominican Republic), Lima (Peru) and Asuncion (Paraguay).*

This document analyzes this behavior, based on the sub-indices that make up the index, as well as the perceptions of the 18 experts consulted.

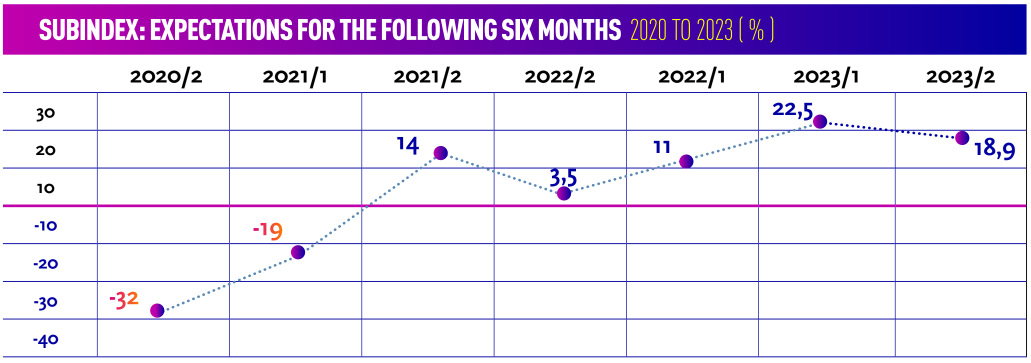
THE WTCA PRIME OFFICE INDEX is composed of two indicators or sub-indexes: one related to the performance of the semester that is ending and the other to the performance of the semester that is beginning. The sub-index showing the performance is shown in the following graph. Here are the results that, based on the answers of the interviewees, were presented in the second half of the year for the leasing and sales market. Thus, this sub-index is 7.6, which drops 10 points in relation to the measurement of the first half of the year 2023.

The other sub-index of the **WTCA PRIME OFFICE INDEX** is the expectations sub-index, and is composed of the expected results, by the experts interviewed for the next six months, in both leasing and sales of premium offices in the region. For the first half of 2024, expectations place the result at 18.9. This indicates that, as in the behavioral sub-index, expectations also show a decline compared to what the experts stated in the previous survey. In other words, respondents' optimism about what will happen in the first half of the year has fallen by 3.6 percentage points.



SOURCE: LATIN TRADE BASED ON SURVEY DATA

Below is a table with information on performance indicators and expectations from the first survey conducted in December 2020 to the most recent survey conducted in December 2023.



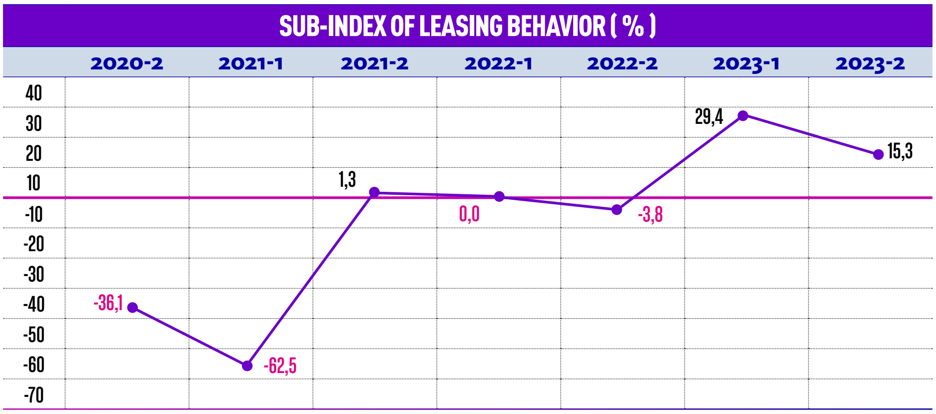
SOURCE: LATIN TRADE BASED ON SURVEY DATA

WTCA PRIME OFFICE INDEX- LATAM DEC. 2020 TO DEC 2023	DEC.20	JUN.21	DEC.21	JUN.22	DEC.22	JUN.23	DEC.23
Indicator for the previous semester	-53%	-60	-11%	0,8%	0,2%	17,8%	7,6%
Indicator expectations for the following six months	-32%	-19%	14%	3,5%	11%	22,5%	18,9%
WTCA PRIME OFFICE INDEX - LATAM	**-42%**	**-40%**	**1,2%**	**2,2%**	**5,4%**	**20,1%**	**13,3%**

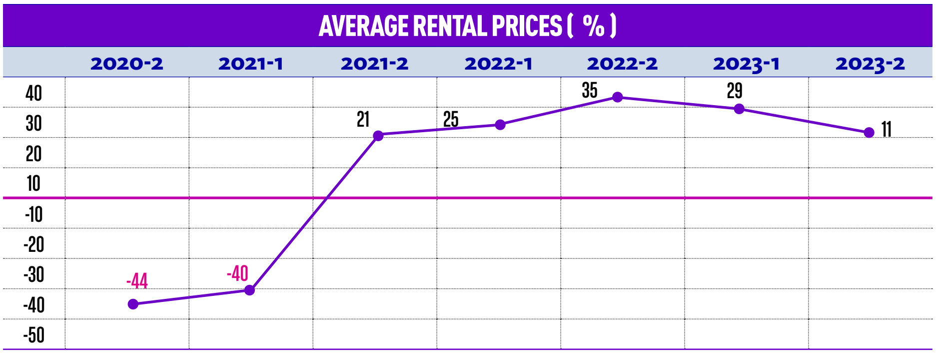
As can be seen, both in the performance indicator for the second half of 2023 and in the expectations indicator for the first half of 2024, in general there is moderate optimism. However, when comparing with the survey conducted in the first half of last year, specifically against what was expected at that time for the following semester, we find that the sub-index was 22.5, well above what actually occurred. The behavior sub-index of the 2023-2 survey for the same period is 7.6, i.e. results much lower than those predicted by the experts consulted one semester ago.

LEASE MARKET PERFORMANCE FOR 2S-2023

The rental behavior sub-index is calculated based on the answers to four questions: average rental prices, vacancy rate, average time it took to lease real estate and the economic situation for leasing. For each of these variables, the respective balance is obtained and the sub-index is prepared on the basis of these. The balance is the difference between the percentage of positive responses to a specific question, minus the negative responses to it. In this case, the sub-index obtained is 15.3, which shows a result that is only almost half of what was presented in the previous semester (29.4). This drop (when compared to the previous measurement) has to do, among other factors, with the increase in the number of cities for which it was indicated that the average time it took to lease real estate increased, while in the previous survey, it was mentioned that the times had decreased. This is exemplified by the case of Curitiba. But it is also explained by the fact that in cities where leasing times had previously decreased, they have now remained stable, as in the case of Buenos Aires, San Salvador, Medellin and Mexico City.

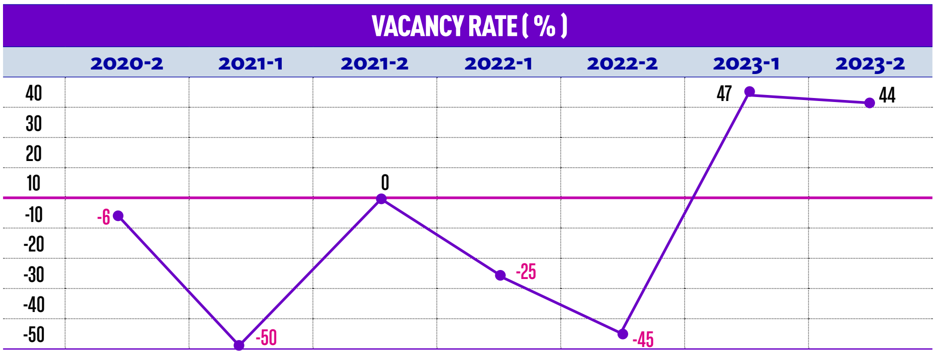


When disaggregating the questions, it is observed that for the second half of last year, 28% of the experts indicated that prices have increased, compared to 17% who consider that prices have decreased. This indicates, as can be seen in the graph, that the balance stood at 11%. However, here we begin to see a trend around falling rental prices in the most recent semesters, going from 35% in 2022-2 to 29% in 2023-1 and reaching, 11% in 2023-2.



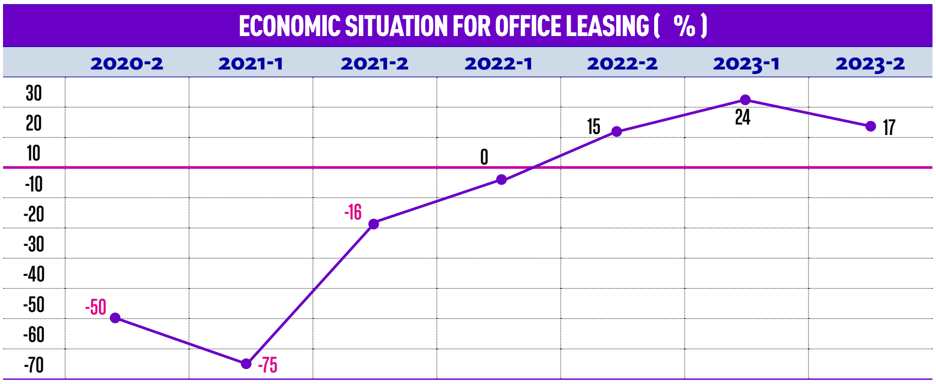
The average price level of rents per square meter is above $18 for 50% of the experts, followed by the range between $12 and $18 for 44% and, finally, prices below $18 for only 6%.

Regarding vacancy for the second half of 2023, 56% of respondents indicated that it decreased, while only 11% said it increased. As can be seen in the graph, there is a close relationship between the results of the previous period and the results of this survey.



The time it takes to rent office space does present somewhat worrisome results, with only 11% stating that it decreased, while 22% say it increased. This balance therefore stands at -11% and helps to explain the drop in the leasing behavior sub-index for the second half of the year.

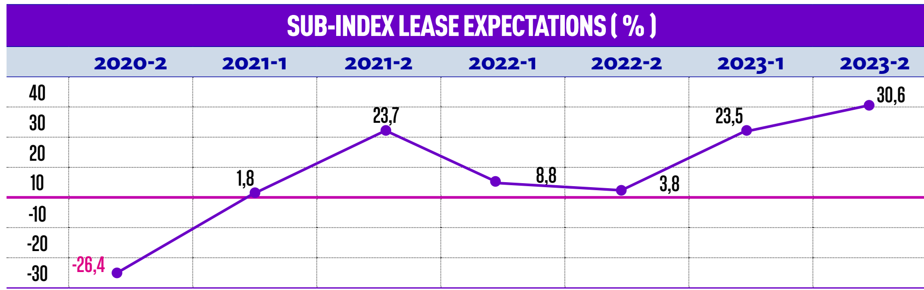
The economic situation for office leasing indicates that 39% of experts see a positive scenario, compared to 22% who see it as negative. In other words, the balance is 17%, a lower result than in the last measurement, which was 24%. This is partly because in cities such as Santiago, went from having a neutral to a negative view.



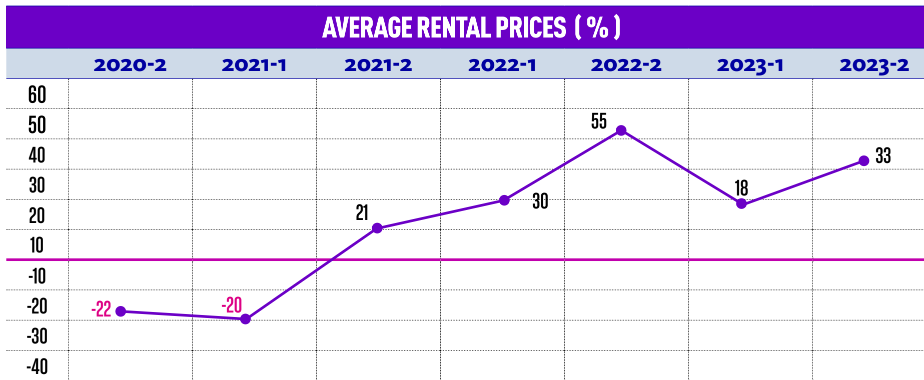
SOURCE: LATIN TRADE BASED ON SURVEY DATA

LEASE MARKET EXPECTATIONS FOR 1S-2024

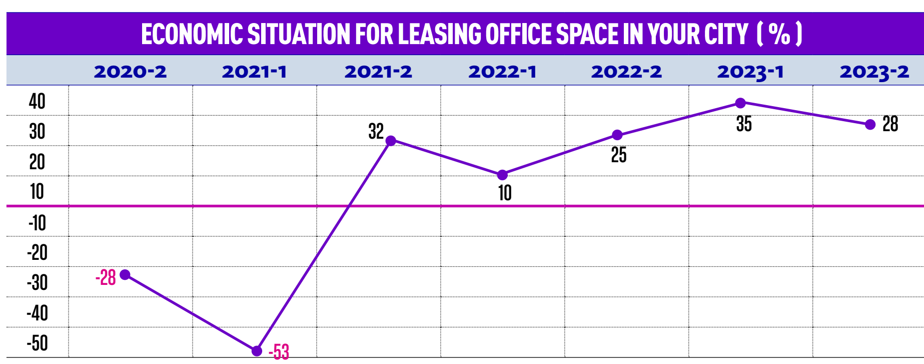
The expected behavior for the first half of 2024 is measured based on the following four variables: expected average prices, expected average vacancy level, average time it will take to lease an office and the expected economic situation for office leasing. Based on these variables, the sub-index of leasing expectations is calculated, which in this measurement is 30.6, the highest of all the surveys conducted so far. According to the experts, the reasons have to do, among others, with the fact that new projects will not enter in large numbers (which raises prices) and with the fact that there are positive expectations in some countries in the face of new governments.



Expectations for average rental prices in the first half of 2024 show that 39% of respondents are confident that they will rise, which contrasts with 6% who believe that they will fall. The balance is therefore 33%, which indicates a very significant recovery compared to the fall in the previous measurement. This is explained by the cases of cities where in the previous survey stability was expected and in the current survey an increase was predicted, such as Buenos Aires and Cali.



The average vacancy level shows that for 56% of the experts it will go down and only 6% think it will go up. This implies that 39% anticipate that they will remain stable. On the other hand, the average time it will take to lease an office will decrease for 17%, while 6% believe it will increase. 78% believe that there will be stability.

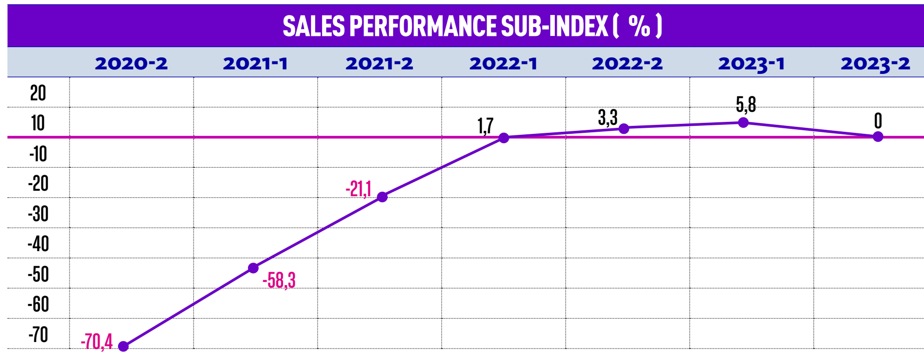


The economic situation for rents, according to the experts, will be favorable for 44%. On the other hand, 17% see a difficult outlook. As a result, the balance for the first half of 2024 is 28%, which, although positive, is significantly lower than the expectations of the previous measurement, which showed a balance of 35%. This is explained by cities such as Santiago, which see an unfavorable situation coming in contrast to the good expectations predicted in the previous survey.

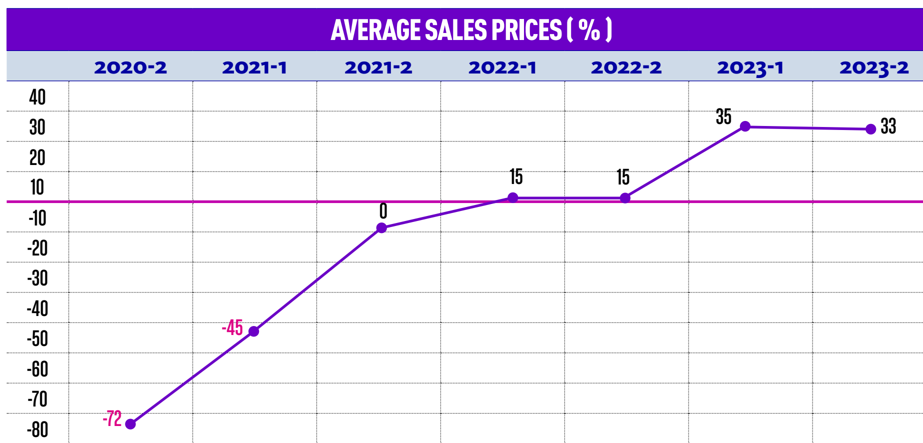
SOURCE: LATIN TRADE BASED ON SURVEY DATA

SALES MARKET PERFORMANCE 2S-2023

The sales performance sub-index is comprised of three variables: sales prices, average time taken to sell, and the economic situation for office sales. From this information it is found that the sub-index is 0 for the second half of 2023. This is because, as will be seen in detail, while average sales prices had a balance of 33%, the average time taken to sell and the economic situation had balances of -22% and -11%, respectively. This, according to some experts, since the office market has been more dynamic in leasing than in sales, which is related to the fact that, given the high interest rates for the purchase of real estate, more demand has been generated in the used office market.

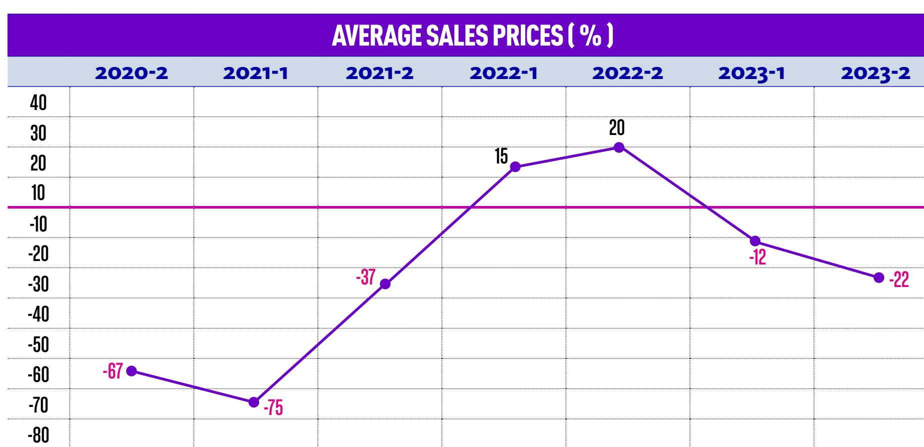


Average premium office sales prices for the second half of the year show a balance of 33%, explained by 39% of respondents stating that prices went up and 6% indicating that they went down. On the other hand, 56% observed price stability. This balance of 33% is 2 percentage points lower than in the first half of the year and is the second highest of all the measurements taken so far.

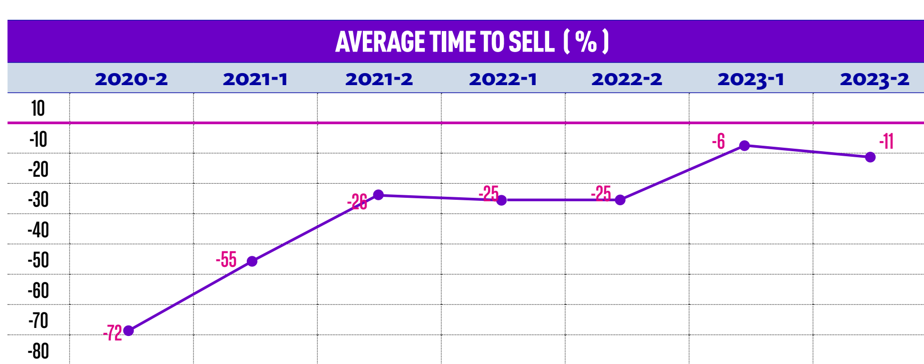


Average sales prices for the six-month period have been overwhelmingly (for 65% of respondents) between $2,000 and $3,000, which contrasts with 6% who found prices below $2,000. Above $3,000 dollars is a percentage of 29%.

According to the survey results, premium office sales times have a negative balance of -22%, explained by the fact that while 6% of the experts indicated that they decreased, 28% stated that they increased. In contrast with previous periods, there is a downward trend in this balance, meaning that more and more people are seeing an increase in the waiting time to sell offices. Cities such as Guadalajara, Curitiba or Panama are examples that in the previous semester had decreased or at least remained stable in terms of sales times but are currently on the rise.



As in the previous graph, the economic situation for sales also presents a negative balance of -11%, since while 22% of the experts think that it is favorable, 33% affirm that it is unfavorable. This balance, when observed in the graph, shows that for all the years since the survey has been carried out, it is negative, although the current levels are much less negative than those of the second half of the year 2022. Experts indicate that the sales market is still stagnant due to the low supply of new units and in some cases due to the economic uncertainty of the countries.



SOURCE: LATIN TRADE BASED ON SURVEY DATA

SALES MARKET EXPECTATIONS FOR 1S-2024

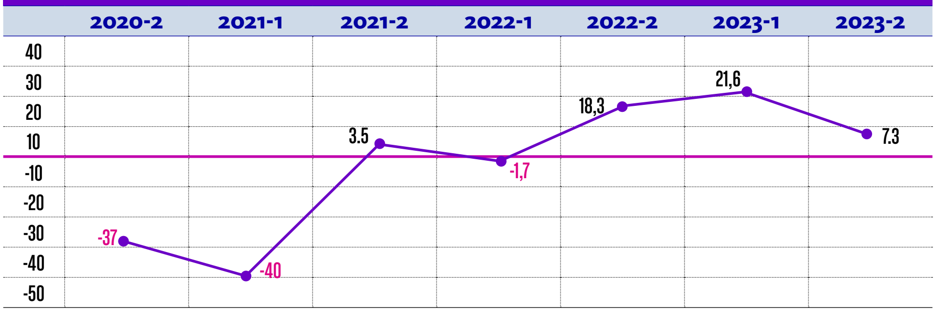
Sales expectations are made up of the variables of expected average sales prices, expected average time to sell an office and the expected economic situation for office sales. This sub-index for the first half of the year 2024 is 7.3, that is, about 14.3 percentage points lower than that found in the previous survey, in which this sub-index was 21.6. For some of the experts, this is explained by the difficult outlook for some countries in the region.

Expectations for premium office sales prices for the first half of 2024 indicate that they will rise for 44% of the experts who participated in the survey, compared to 6% who believe they will fall. This gives a balance of 39%. The graph shows that, for some years now, in the first half of each year there has been a drop in the balance and a recovery in the second half of the year. In this case, for example, in Guadalajara it was thought in the previous survey that prices would fall in the following semester, but now the perception is of an increase, and in Buenos Aires and Cali the perception has shifted from one of neutrality to one of price increases.

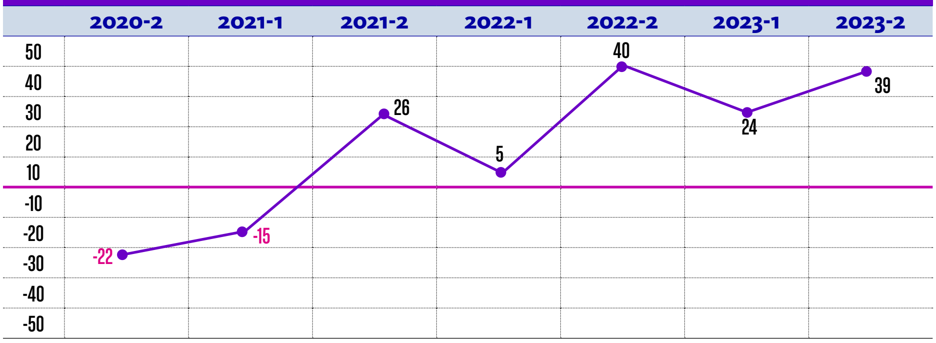
The sales price forecast indicates that 56% of respondents expect it to be between US$2,000 and US$3,000 per square meter, while 44% believe it will be above US$3,000 per square meter. No expert believes that prices will be below US$2,000 per square meter. On the other hand, 67% of the experts believe that the selling time of a premium office will be stable, while 11% believe that it will decrease and 22% think that this time frame will increase. This leads to a negative balance of -11% and, as can be seen in the graph, breaks the upward trend that had been occurring. In other words, the perception that it will take longer to rent is increasing.

The expected economic situation for office sales shows that 18% of those surveyed anticipate a favorable situation and 24% believe that an unfavorable situation will arise, with 59% thinking that it will be stable. Therefore, the expected balance for the first half of 2024 is -6% and changes the positive trend that had been presented in previous surveys, for example, because in cities such as Medellin an unfavorable situation is expected, in contrast to the neutrality that was anticipated in the measurement of the first half of the year.

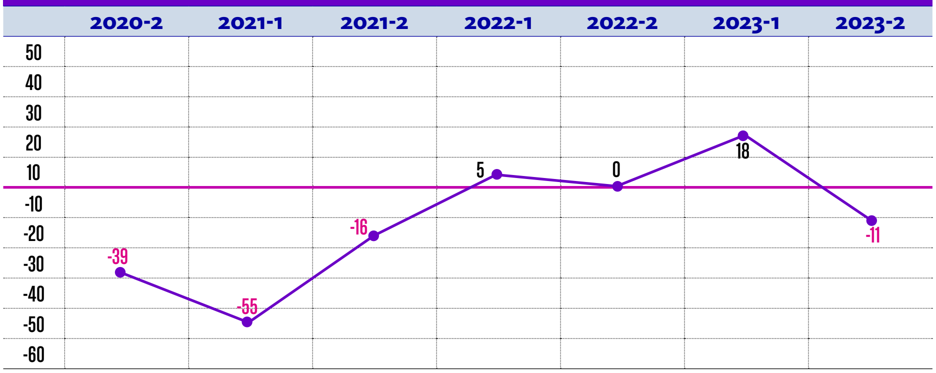
SALES EXPECTATIONS SUB-INDEX (%)



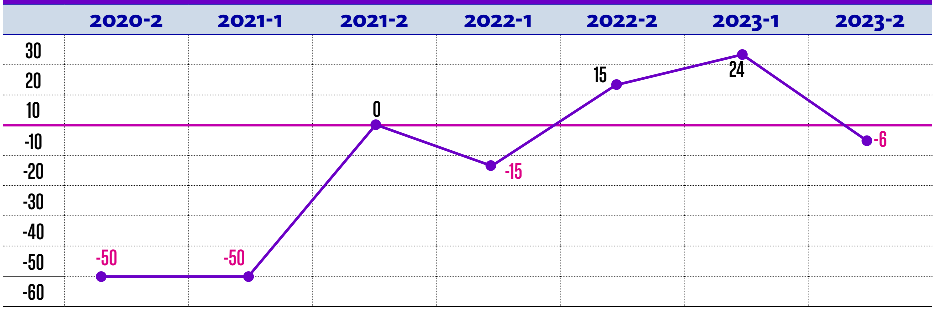
AVERAGE SALES PRICES (%)



AVERAGE TIME TO SELL AN OFFICE (%)



ECONOMIC SITUATION FOR THE SALE OF OFFICE SPACE IN YOUR CITY (%)



SOURCE: LATIN TRADE BASED ON SURVEY DATA

2024 YEAR OF EXPECTATIONS

After the work-at-home experiment that brought on the pandemic, companies seem to have adapted to a dominant formula of 4-1, four days in the office, one day at home. Some companies maintain the 3-2, with three days in the office and two days at home, and in this mode, companies prefer that the days at home are neither Monday nor Friday, because of the need to generate a dynamic at the beginning of the week and to assess the results at the end of the week.

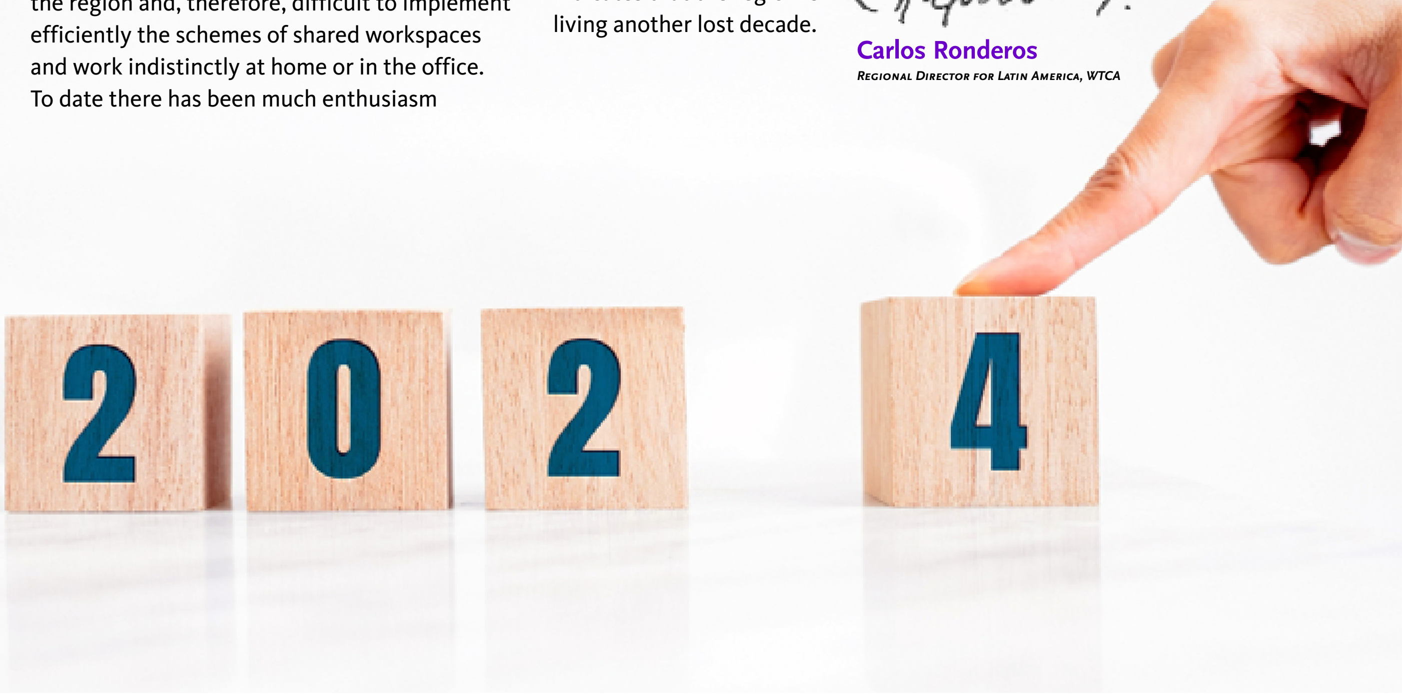
These formulas have had an impact on the office market both in demand and in the configuration of workspaces, since the position occupied by one employee one day may well be occupied by a colleague on another day of the week. These arrangements appear to be simple with the existence of systems that allow each employee to have their documentation in the cloud and access it from home or from any workstation. It is necessarily linked to paperless business management. The question that arises is how this scheme works in the Latin American environment.

The formality, the attachment to paper and the backwardness in the legislation of the digital reality makes this detachment to paper, signature and stamp difficult in the countries of the region and, therefore, difficult to implement efficiently the schemes of shared workspaces and work indistinctly at home or in the office. To date there has been much enthusiasm for working at home and large companies in countries south of the Rio Bravo have embraced these schemes as have the more advanced countries, but in the face of technological and legal limitations the efficiency of these systems has begun to be questioned with some companies demanding more presence in the office, which is likely to result in greater demand for offices in 2024.

There are two other determining factors. On the one hand, the size of the state in some of our economies has been growing and, in a sector in which working at home is restricted, such as the public sector, this means more demand for workspaces, so it would not be strange for the state to be the big driver in the office market. On the other hand, the growing existence of startups, ventures and SMEs that, although they require limited spaces, are an increasingly significant number and therefore can also boost the office real estate market.

These are all trends that we will see in 2024, a year of economic uncertainty due to the large number of elections and new governments, and because everything indicates that the region is living another lost decade.

Carlos Ronderos
Regional Director for Latin America, WTCA



INFLATION AND DEVALUATION

THE COVID-19 pandemic has had two lasting economic impacts in the vast majority of countries, particularly in the economies of the Latin American region. On the one hand, it has unleashed an inflationary process that has proven to be resilient in many Latin American countries. On the other hand, the region's currencies have lost value against the dollar. This edition of the WTCA Index includes this special module to see how these dynamics have affected the real prices of premium offices in Latin America. To this end, 17 experts from 11 Latin American countries belonging to the World Trade Centers Association (WTCA) were surveyed.

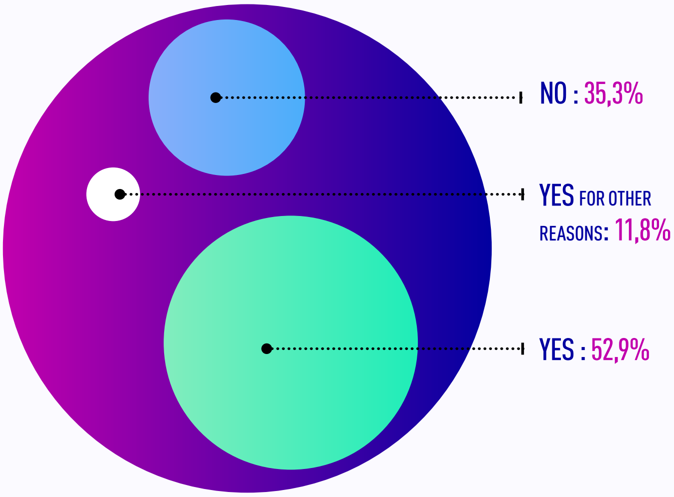
Initially, each of the experts was asked whether they considered that the inflationary process has detracted from the value of Class A offices in their cities. In response, 52.9% said yes and 35.3% said no. Another 11.8% mentioned various causes for the reduction in value. Another 11.8% alluded to various causes for the reduction in value. For those who responded that the value has decreased, it stands out that the inflationary process has indeed been detrimental to the value, but there are also causes such as the change of habits and the low growth of this specific segment of construction that have also impacted the value of premium offices in the region.


Foto WTC Ciudad de Mexico

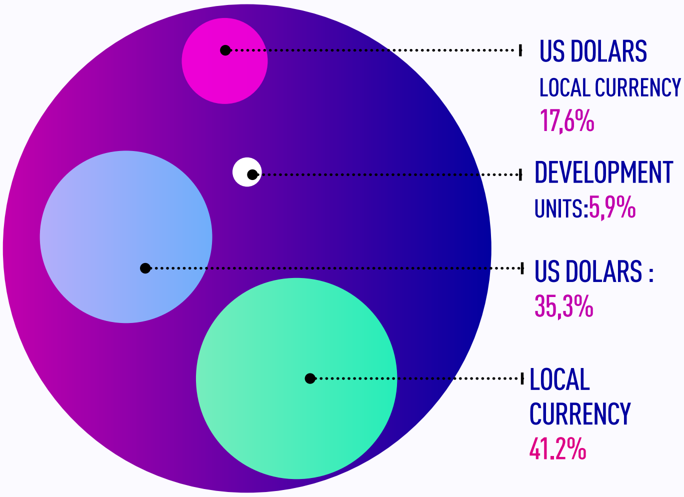
Regarding whether the prime office market in the respective country is valued in U.S. dollars or in local currency, 41.2% state that transactions are in local currency, while 35.3% state that they are in U.S. dollars. In turn, 17.6% respond that they are either in local currency or in dollars and 5.9% in Unidades de Fomento, an inflation-adjustable unit of account used in Chile.

For those markets in which the local currency is used to value prime offices, 57.1% of the experts maintain that the devaluation of this currency has no impact on prime office leasing or sales prices, while 42.9% categorically maintain that it does have an impact on both leasing and sales.

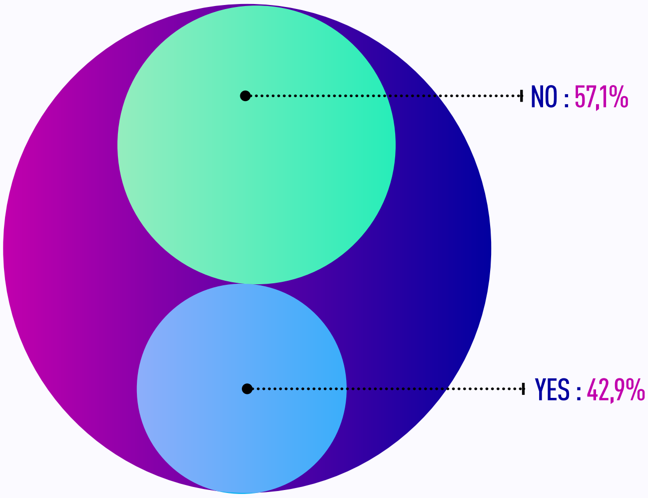
DO YOU THINK THE INFLATIONARY PROCESS HAS DETRACTED FROM THE VALUE OF CLASS A OFFICES IN YOUR CITY?



IS THE PRIME OFFICE MARKET IN YOUR COUNTRY PRICED IN U.S. DOLLARS OR IN LOCAL CURRENCY?



IF TRANSACTIONS ARE MADE IN LOCAL CURRENCY, DOES THE DEVALUATION OF THIS CURRENCY HAVE AN IMPACT ON PRIME OFFICE LEASE OR SALE PRICES?



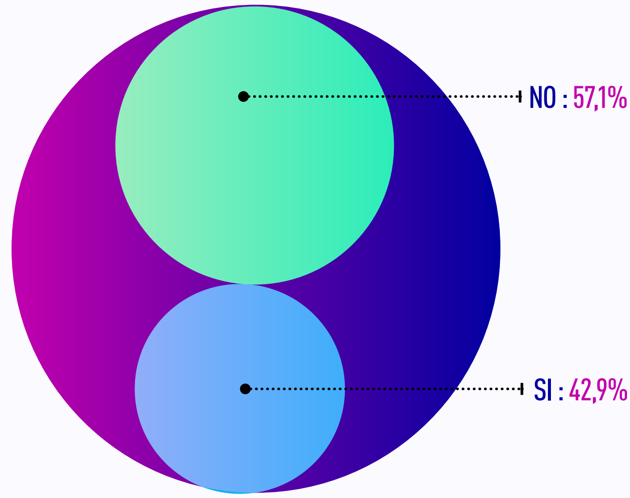
SOURCE: LATIN TRADE BASED ON SURVEY DATA

As for inflation, 64.7% of those who responded to the survey consider that lease prices do adjust with inflation, compared to 35.3% who did not respond to this query. In the cases in which they are adjusted, in general the percentage is tied to the Consumer Price Index of each country, so it is not usually higher than this.

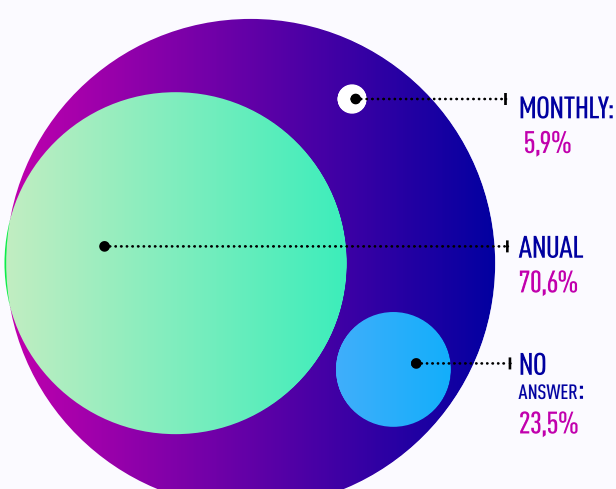
When asked about the frequency with which prices are readjusted, 70.6% stated that they are adjusted annually, 5.9% do it monthly and 23.5% did not answer. For the 5.9% that adjust prices every month, the reason is that prices are tied to the Unidades de Fomento and therefore are constantly readjusted according to inflation.

When asked about their perception of whether inflation expectations cause delays in the sale or lease of prime office space in the respective city, 47.1% say that this is not the case, compared to 35.5% who say that it does. 17.6% of those consulted stated that it is due to other reasons.

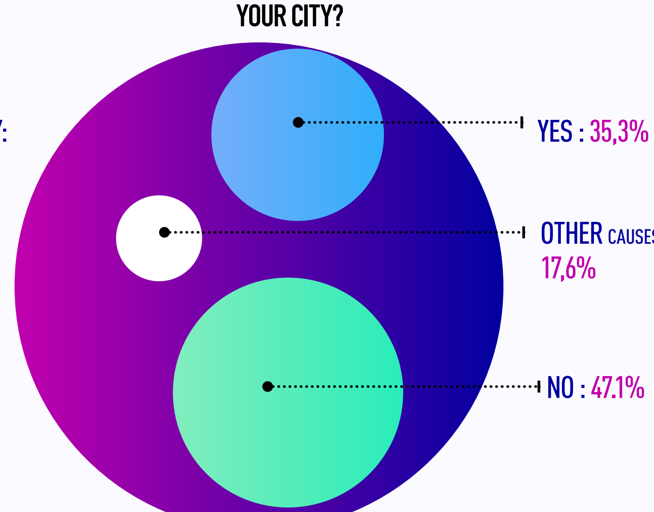
ARE LEASE PRICES ADJUSTED FOR INFLATION?



HOW OFTEN ARE PRICES ADJUSTED?



DO YOU FEEL THAT INFLATION EXPECTATIONS ARE CAUSING DELAYS IN THE SALE OR LEASE OF PRIME OFFICE SPACE IN YOUR CITY?



SOURCE: LATIN TRADE BASED ON SURVEY DATA

WTC BRASILIA – : INNOVATION AND DESIGN AT ITS BEST

U Nestled within the heart of Brasília Technological Park (Biotic), Brazil's latest real estate development in the federal capital, will be housed one of the pioneering World Trade Centers in the country. An investment fund oversees the development of WTC buildings in five Brazilian cities: Brasília, Curitiba, Joinville, Porto Alegre, and Sinop. WTC Brasília stands out for its innovative, modern, and interactive structure, encompassing an impressive 130,000 square meters. With a planned budget of R$728 million (over $100 million), this investment complex, commencing development in January 2024, will include residential, hotel, convention center, and corporate areas. The commitment of WTC Brasília is to foster economic renewal, generate job opportunities, and integrate the Federal District into the global business network.

Situated within Biotic—an area spanning 121,540.9 hectares between DF-003, the National Park, and Granja do Torto—this project aligns with Brasília's Master Plan, marking the first real estate development on public land in the capital. Operating as a public-private partnership, it aims to establish an innovative hub, offering expansible land to accommodate diverse companies and research centers. The University of the Federal District (UnDF) will also find a home in the technology park, featuring multipurpose laboratories for high-tech research development, in collaboration with prominent national and global research centers.

The WTC Brasília complex will comprise five buildings, each serving a distinct purpose: offices, residential spaces, shops, a convention center, and a hotel boasting 200 rooms, operated by a globally recognized brand. All spaces within the project will be available for rent, already drawing the attention of potential tenants due to its groundbreaking architecture and unique appeal. Daniella Abreu, President of WTC Brasília, expresses high expectations for the project. "Brasília is one of the most promising real estate markets in Brazil, and we anticipate a significant return on our investment," she shared with Latin Trade.

Photos WTC Brasilia