



CB RICHARD ELLIS
GLOBAL RESEARCH AND CONSULTING

SPECIAL REPORT

The Outlook for Latin America's Commercial Real Estate Markets

CBRE

August 2011

INTRODUCTION

Latin America has emerged as an important destination for both corporate occupiers who want to diversify their global footprints, and investors looking to geographically diversify their real estate portfolios. The growth in investment opportunities continues to evolve at a rapid pace given the land reform and privatization efforts underway over the past three decades. The 1980s saw many debt-ridden countries across Latin America transition from a military-state government structure toward a democracy with market-based reforms. More recently, the region is making significant progress in structural reforms, including the push for free markets and flexible exchange rates, and the broad elimination of many forms of capital controls. Regional economic cooperation is also pervasive with membership rising across a number of free-trade zones.

In this CBRE Global Research and Consulting report, we provide a general overview of both economic and commercial real estate market conditions in Latin America. First, we look at the prospects for Latin America's economic growth regionally. This is followed by an economic overview of seven key countries: Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico and Panama. A brief update of investment-market conditions and real estate capital market trends follow. Leveraging CBRE's proprietary data collection across the region, the report concludes with a comprehensive review of property-market fundamentals across the office and, in some instances, industrial sectors, for each of the seven Latin American countries. Our goal is to provide an objective assessment of the region as well as insight into opportunities for both investors and corporate occupiers.

REGIONAL AND NATIONAL ECONOMIC OVERVIEWS

Latin America emerged from the global financial crisis relatively unscathed. The regional economy contracted by 1.9% in 2009, rebounding strongly in 2010 to 6.1%. The recovery in the global economy over the past two

years has reignited demand for goods produced in the region, including commodities, fuel and manufactured goods. Latin America has benefited from elevated commodity prices globally and strong capital inflows. China's strong appetite for both commodities and foreign direct investment has been a key engine of growth across the region. Real activity continues to expand briskly, leading to healthy job creation and stronger domestic consumption. The generally buoyant conditions have led to mounting inflation conditions across much of Latin America, with the exception of Mexico. Rising inflation in both South and Central America has led to several rounds of monetary tightening by the local central banks. Over the past several months, central banks in Brazil, Chile and Colombia have raised their benchmark policy rates to stave off a further acceleration in inflationary pressures. Mexico is the only market where spare capacity and slow growth has kept price increases at bay.

Figure 1: GDP Forecast Highlights

	2007	2008	2009	2010	Forecast					
					2011	2012	2013	2014	2015	2016-41
Latin America	5.6	4.2	-1.9	6.1	4.7	4.7	4.6	4.9	4.4	4.2
United States	1.9	0.0	-2.6	2.9	2.7	2.9	2.8	3.3	3.1	2.7
Eurozone	2.8	0.3	-4.1	1.7	1.9	1.6	1.7	1.9	2.0	1.7
Asia	7.0	3.6	1.6	7.3	5.2	6.4	6.1	6.2	6.2	5.3
World*	4.1	1.8	-1.9	4.1	3.5	4.0	4.0	4.2	4.1	3.7

*204 countries included in World aggregate

Source: Global Insight, July 2011 Interim Forecasts

Enacting public policy in the region continues to prove challenging, as authorities manage the two headwinds of rising prices and appreciating currencies resulting from strong capital inflows. As a result, our baseline forecast calls for some moderation in growth in Latin America in 2011 and beyond. Forecast highlights are presented in Figure 1. Following growth of over 6% in 2010, economic growth should moderate to 4.7% in both 2011 and 2012. In the longer term, we expect growth in Latin America to average 4.2% per year.

Despite inflation risks and more subdued growth, Latin America will continue to offer investors and corporate occupiers significant locational advantages. This includes a relatively young population, with 60% of Latin America's 500 million people under the age of 30. This "demographic bonus" underpins our longer-term growth projections.

Solid economic growth has also fueled a large and growing middle class, providing a relatively affluent domestic consumer base. The region is expected to also continue reforms, resulting in more open, deregulated, transparent and privatized markets. The advent of increasingly flexible exchange rates will also spur greater capital mobility and confidence. In contrast to the U.S. and several European countries, fiscal balance sheets in Latin America are relatively healthy, as much of the policies in recent years have been aimed at reducing fiscal deficits and debt to more sustainable levels. The banking system is also relatively well-capitalized, with a large number of countries across the broader region enjoying current account surpluses.

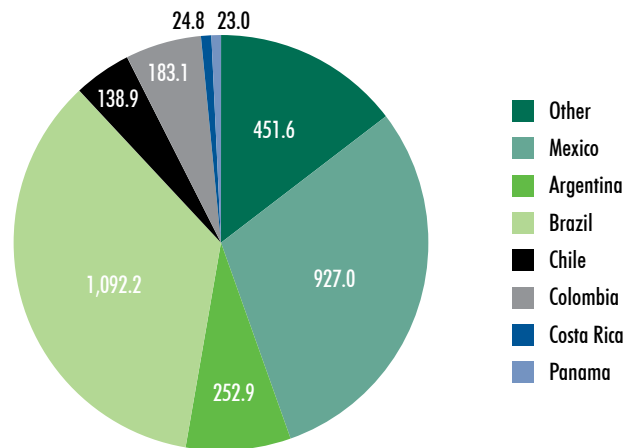
Solid monetary and fiscal policies implemented during the past two decades have been successful in raising investor and occupier confidence in Latin America. Foreign bond investors, in particular, now appear to view Mexico and Brazil as less risky than certain developed markets in Europe and North America. This is reflected in the relative cost of credit-default insurance. Currently, the cost of insuring U.S. Treasuries, long viewed as the ultimate "risk-free" investment, is above that of Brazil. The downgrade of U.S. sovereign debt has only reinforced investor confidence in the larger Latin American economies.

Economic conditions and opportunities, however, vary from country to country. Here is a snapshot of local performance and outlooks for seven of the largest economies in the region.

Figure 2: GDP Forecast Highlights by Country

	Forecast									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016-41
Argentina	8.7	6.8	0.9	9.2	5.9	5.3	5.3	5.1	5.0	4.3
Brazil	6.1	5.2	-0.6	7.5	4.4	5.5	5.2	5.8	4.7	4.5
Chile	4.9	3.2	-1.5	5.1	5.8	4.6	4.8	4.9	5.1	4.9
Colombia	6.9	3.5	1.5	4.3	5.0	4.7	4.3	4.4	4.6	4.4
Costa Rica	7.9	2.7	-1.3	4.2	3.7	3.9	4.2	4.0	3.9	3.6
Mexico	3.3	1.5	-6.1	5.5	4.6	3.6	3.4	3.7	4.1	3.6
Panama	12.1	10.1	3.2	7.5	7.2	7.4	7.0	6.3	5.1	4.0
Latin America	5.6	4.2	-1.9	6.1	4.7	4.7	4.6	4.9	4.4	4.2

Real GDP in Latin America: 2010 (\$ Millions)



Source: Global Insight, July 2011 Interim Forecasts

Argentina

Economic growth should moderate this year and in 2012 as inflation continues to escalate. The economy is currently expanding at an 8% rate, sustained by agrarian exports. Soy bean crop volume has been strong. Unlike the majority of countries in Latin America, Argentina is running a fiscal deficit, with limited access to foreign financial markets. However, the country's foreign debt represents only about 26% of its GDP—a fraction of the share of some troubled European economies. In the longer term, the outlook for Argentina depends on the overall expansion in the global economy, the trajectory of commodity prices and economic growth across its

closest trading partners (most notably Brazil and China). Following a 9.2% growth rate in 2010, economic expansion should moderate to a more sustainable 5.9% in 2011 and 5.3% in 2012 and 2013. Demand for manufactured goods, oil/gas, and soybean and corn are the main drivers of economic growth in Argentina. Rising wages and inflationary pressures, however, are eroding the competitiveness of the country. Risks of labor unrest are rampant as powerful trade unions negotiate further salary hikes. Growth in Argentina should lag that of some of the other economies in Latin America over the near term, as there is still no clear evidence that the government is willing to embark on much needed fiscal reforms.

Brazil

Brazil is the largest economy in Latin America and the 10th-largest in the world. It has also evolved as the world's largest manufacturer of jets, as well as the biggest producer and exporter of sugar cane-based ethanol. Rapid growth in both investment and domestic consumption risk an overheating economy and accelerating inflation. Policy-makers are working hard to engineer a soft landing this year. We do expect the Brazilian economy to downshift from 2010 when it grew by a stellar 7.5%—among the strongest rates in the region. Slower growth in both China and the U.S. this year should also help contain growth. We expect real GDP to advance at a 4.4% clip this year and average 4.5% to 5.0% in the longer term. With the election completed, there is an expectation that policy-makers will focus more seriously on spending cuts. In the medium term, planned infrastructure spending for global sporting events such as the FIFA 2014 World Cup and the 2016 Summer Olympics, however, will maintain Brazil's economic momentum. Moreover, flexible exchange rates, a diversified industrial base and sound economic policy should continue to attract foreign direct capital. According to UNCTAD, FDI flows to Latin America and the Caribbean increased by 13% in 2010, led by Brazil. Many of the investments going to Brazil originated in Asia and were directed at extractive industries. In terms

of absolute volume, Brazil was the fifth top destination for FDI fund flows in 2010, following the U.S., China, Hong Kong and Belgium. Such flows have increased the value of Brazil's currency, raising concerns about the competitiveness of imports in the longer term. Local Brazilian manufacturing firms have been impacted by the elevated value of the local currency, the real. The government has recently stepped in by providing some tax relief.

Figure 3: FDI Inflows (\$ Millions)

	2009	2010
Brazil	25,949	48,438
Mexico	15,334	18,679
Chile	12,875	15,095
Colombia	7,137	6,760

Source: UNCTAD World Investment Report 2011

Chile

Chile is the world's largest producer of copper, accounting for a 35% market share. Chile benefits from very solid macroeconomic fundamentals in light of the devastating earthquake of February 2010. Despite the damages inflicted by the recession, the economy was able to grow 5.1%, led by very strong infrastructure investments made in the aftermath of the earthquake and strong demand for Chile's copper exports. Significant reconstruction activity is still in process, as the government is funding the replacement of old infrastructure and spurring the construction boom. New construction activity and still-solid demand for copper globally will drive economic growth even higher in 2011, bucking the downshifting trend rippling across other parts of Latin America. Over the longer term, Chile's economy is expected to expand at a 4.9% annual average rate—the strongest pace throughout the region.

Colombia

Colombia is one of the few markets in Latin America that was able to buck the recession in 2009. Economic

growth continues to accelerate as both consumption and investment expand. Energy exports are a big driver of growth. Market-oriented public policies have also successfully attracted capital inflows, especially those targeted to the coal and oil sectors. Recovery seen in 2010 is continuing in 2011. We expect economic growth to accelerate this year to a 5.0% pace. The IMF also most recently approved a two-year, US\$6.2 billion flexible line of credit. Strong credit growth has added to the strength of domestic demand. Like many other countries across Latin America, Colombia is facing higher inflation as a result of elevated food and energy prices. Colombia is also contending with pressures from its internal conflicts. President Juan Manuel Santo, who took office one year ago, has pledged to rein in further activities of the FARC and ELN guerilla groups, risk factors in the outlook for Colombia. Notwithstanding such risks, economic growth in the longer term should expand at a 4.4% annual average, in line with the broader region.

Costa Rica

Economic growth is expected to decelerate this year as the decline in tourism—a main driver of growth—continues, failing to recover to pre-recession levels. Sluggish global growth has cut into tourism trends across the region, especially in Costa Rica. Real GDP should average only 3.7% this year and remain flat in the near term. Moderate growth in mining, construction and manufacturing should underpin economic expansion this year. Membership in CAFTA, the regional free-trade zone, should provide more export opportunities, especially for Costa Rica's agricultural, manufacturing and commodity exports. Government authorities are making efforts to diversify trade and investment through expansion of free-trade arrangements with Singapore and China, in particular. Inflation is also becoming an issue in Costa Rica, as it has across much of Latin America. Our expectation of tighter monetary policy down the road has tempered our longer-term GDP forecast to an annual average of 3.6%—among the lowest in the region. Costa Rica is also among the

few Latin American economies that is running a fiscal deficit.

Mexico

Mexico, the second-largest economy in Latin America and the 11th-largest in the world, is growing at the weakest pace across the whole region. With fortunes largely tied to the U.S., it was hurt by the sharp downturn in the U.S. economy. Roughly 80% of Mexico's exports are destined to the U.S. Real GDP contracted by 6.1% in 2009, as industrial production and remittances from Mexicans working in the U.S. fell off significantly. Despite a synchronized business cycle with the U.S., Mexico benefits from plentiful natural resources, a young and abundant labor force, and proximity to its northern neighbor. Such characteristics should help drive economic growth going forward. After growing 4.6% this year, real GDP should average 3.6% per year over the longer term. There are some near-term risks facing Mexico. These include escalating drug-related violence and the need for massive structural reforms. Economic potential is being constrained by the uncertainty that such violence engenders, as well as by the deterioration in business and consumer confidence.

Panama

Prudent fiscal policies and relatively pristine government balance sheets helped Panama avert a recession in 2009. Boasting one of the highest GDP-per-capita levels in the region, Panama's economy is expected to continue its upward trajectory. Real GDP advanced at a strong 7.5% rate in 2010 and should downshift moderately to a still-healthy 7.2% in 2011 through 2012, largely underpinned by investments in the Panama Canal. Also, Canal traffic has returned to pre-recession levels. A substantive amount of government revenue is derived from transit fees from the use of the Canal. Panama is among the smallest countries in Latin America, but benefits from its strategic location in relation to global trade. Over the longer term, the economy should expand 4.0% per year, in line with the regional average.

INVESTMENT MARKET CONDITIONS

Strong investor appetite and general optimism about prospects for Latin America continue to drive commercial real estate transaction volume higher. According to Real Capital Analytics (RCA), sales transaction volume across Latin America rose to US\$8.4 billion in 2010 and US\$4.7 billion for the year to date through May 2011. Brazil continues to dominate investment activity in the region, accounting for 75% of transaction activity so far this year. Brazil is followed by Chile, which accounts for 11% of sales. Transaction volume reflects the size of each economy, transparency, stage of structural reforms and openness to trade. Brazil continues to dominate investment activity as the largest economy in Latin America and the 10th-largest globally. This year, in particular, Brazil was a stand-out with a 400% growth in transaction volume. This propelled Brazil to rank among the top 10 global investment markets for the first time. The country has also emerged as the second-largest investment market in the Americas.

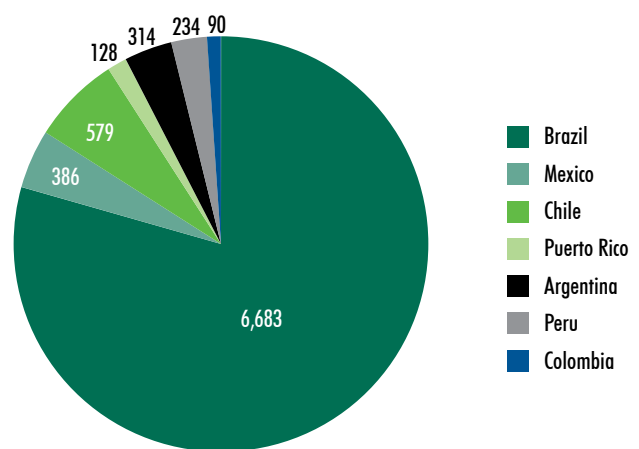
Robust cross-border activity and strong local demand have driven up pricing for the best assets. According to the Q2 2011 RICS Americas Property Survey, the outlook for Brazilian property in terms of rent dynamics is positive. Investment market activity is still hot but easing somewhat, as capital markets value expectations have moderated from a stellar 53% in 2010 to 23% more recently.

Traditionally, cross-border investment flows have targeted the office sector. Office continues to account for the bulk of transactions, but industrial is a close second. Among the top transactions so far this year is a US\$1.3 billion portfolio sale of industrial assets across Brazil totaling roughly 10.8 million square feet. The expansion of both domestic and multi-national firms in Brazil has increased demand for not only higher-end office space, but also better-quality industrial warehouse/distribution space.

Figure 4: Latin America Investment Sales Activity (\$ Millions)

	2007	2008	2009	2010	2011
Brazil	5,793	6,297	1,907	6,683	3,535
Mexico	3,326	2,416	478	386	217
Chile	764	885	1,835	579	533
Puerto Rico	365	463	0	128	0
Argentina	511	555	216	314	234
Peru	560	416	80	234	155
Colombia	0	100	88	90	53
Latin America	11,318	11,133	4,604	8,415	4,726

2010 Transaction Volume (\$ Millions)

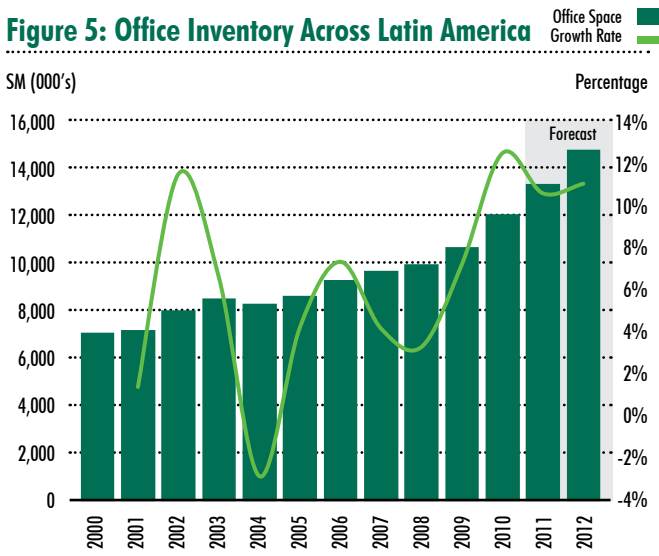


Source: Real Capital Analytics, May 2011

PROPERTY MARKET FUNDAMENTALS

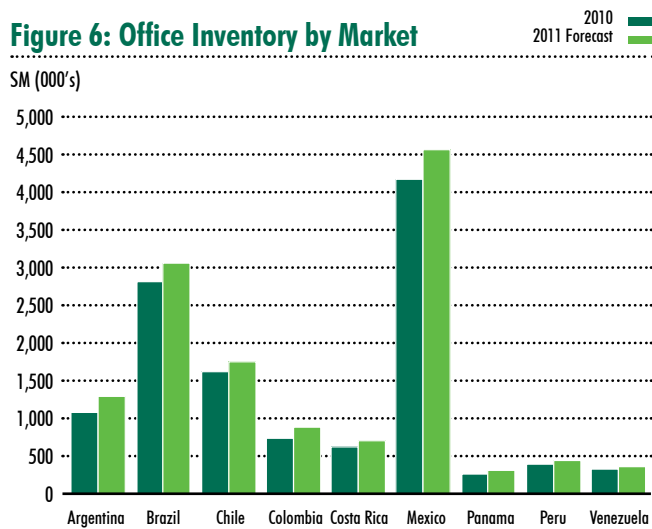
Almost all sectors of Latin America's commercial real estate market are growing. Healthy consumer spending is driving economic activity across the region's shopping malls. Strong household formation is buoying the region's housing sector, as well as office, industrial and hotel development. With few exceptions, favorable economic fundamentals, strong population growth and capital inflows across the region continue to drive transaction activity higher. The relative economic stability and growth opportunities in the region have attracted both commercial real estate investors and occupiers. In

Figure 5: Office Inventory Across Latin America



Source: CBRE Research

Figure 6: Office Inventory by Market



Source: CBRE Research

this section, we focus on office and industrial market conditions across Latin America.

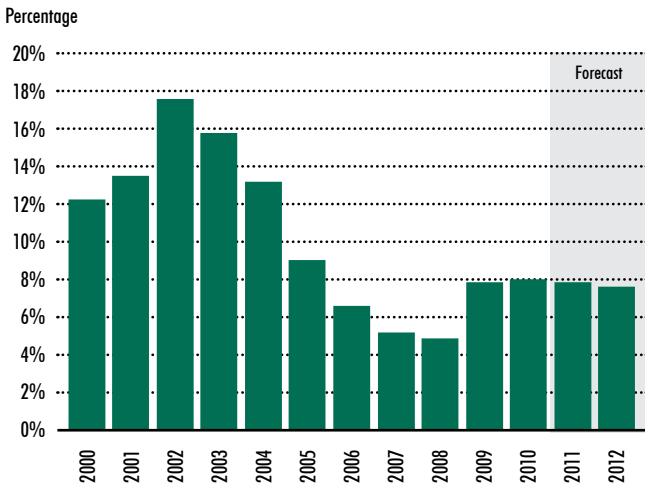
Strong economic conditions and the continued inflow of capital have increased demand for office and industrial space across the major markets in Latin America. As reflected in Figure 5, total office inventory has grown an average of 6% per year over the past 10 years. In 2010, office inventory rose by a stronger 12% and is expected to grow by another 10% per year over the next two years to satisfy demand by investors and corporate occupiers. Although Brazil and Mexico contain almost

60% of the region's inventory, other countries such as Argentina and Peru have also grown at a fast pace, accounting for 40% and 24%, respectively. Their strong growth over the last few quarters reflects the dynamic real estate markets of some of the smaller countries in the region. Office inventory in Colombia has also grown, expanding by more than 25% in the past two years. Over 2.7 million square meters (sq. m.) is expected to be added to the region's inventory over the next two years.

Despite heightened construction volumes, leasing activity across the region has continued to increase. Leasing volume continues to outpace the current levels of construction, shrinking the amount of vacant space. Vacancy rates are expected to decline over the coming quarters, and this trend has been quite apparent since earlier last year. We expect Class A/A+ office vacancy rates in Latin America to decrease to 7.8% by year-end 2011 and fall further to an estimated 7.5% by the end of 2012. (Please refer to Figure 7.) There are some notable variations across the broader region. Brazil and Chile, among the strongest regional economies, report the lowest vacancy rates, averaging between 3% to 5% as of Q2 2011. In Peru, Class A/A+ office vacancy rates fell to a record-low 1.5% during Q2, down from 4.0% last year, as leasing activity outpaced new completions. In contrast, Argentina, Mexico and Colombia reported the highest vacancy rates of the region, which ranged between 10% and 13%.

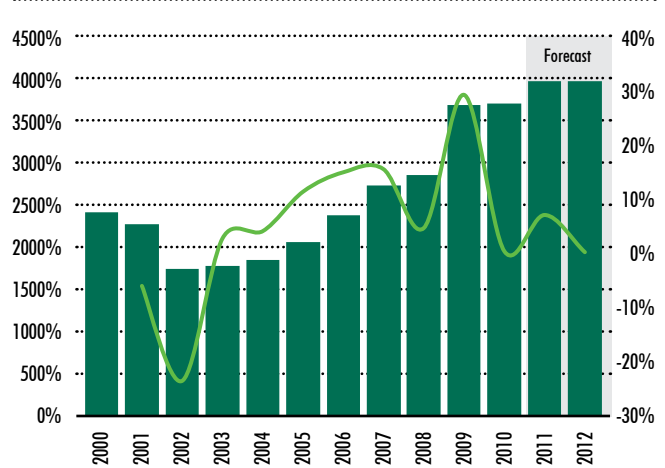
The scarcity of available space in some countries continues to push pricing upward. Price pressures should continue through the balance of this year as new supply has yet to satisfy demand. Such imbalances between demand and supply of prime office space will render the region's office markets among the most expensive in the world. Average asking rents continued to edge upward during 2011, rising 7% over year-earlier levels. Nominal rents now average nearly US\$40.00 per sq. m. per month. Average asking rents have risen significantly since the all-time historic low of US\$17.40 per sq. m. per month reached in 2002. We

Figure 7: Regional Office Vacancy Rate Trends



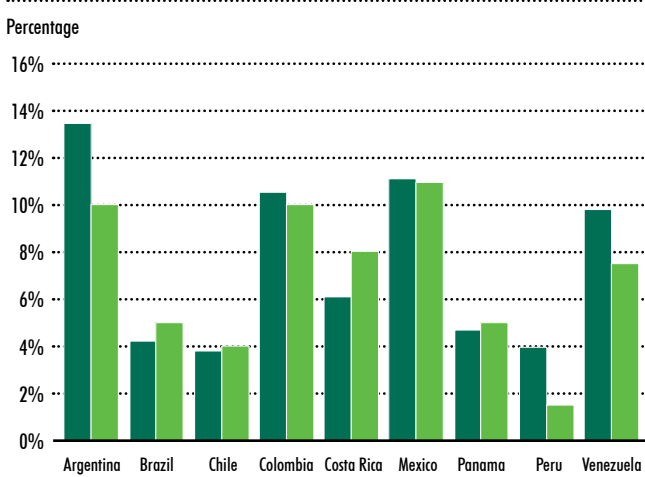
Source: CBRE Research

Figure 9: Office Market Rents and Growth Rates



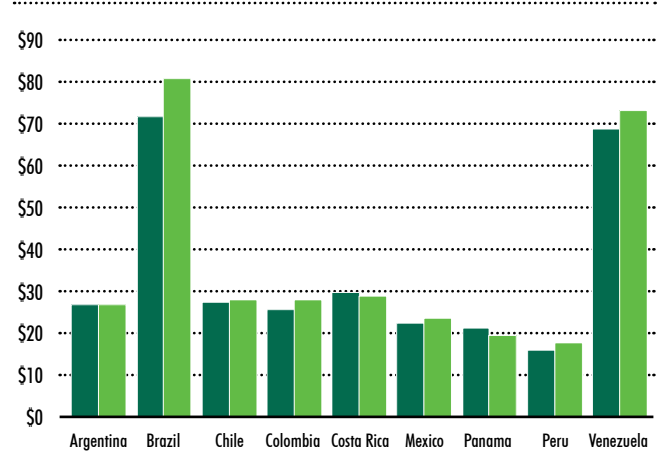
Source: CBRE Research

Figure 8: Office Vacancy Rates by Market



Source: CBRE Research

Figure 10: Office Market Rents by Region



Source: CBRE Research

expect continued upward pressure on rents given the growth of the regional market and the demand/supply imbalance. Significant rent differentials exist among countries, though, with Brazilian cities among the most expensive office markets in the world.

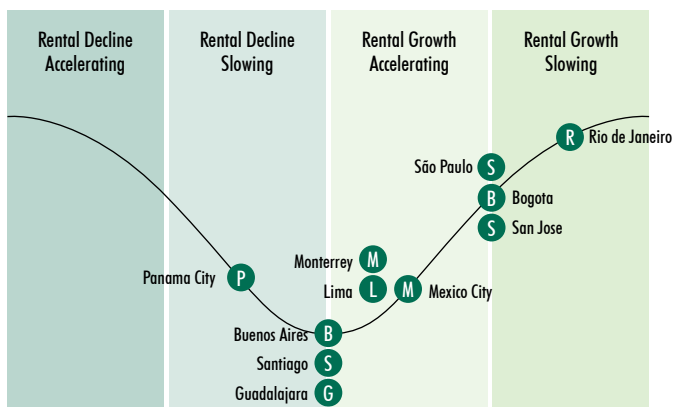
Tightening market conditions have placed additional pressure on pricing and rents during the first half of 2011. In Rio de Janeiro, average asking rents rose almost 8%, driven by strong rental growth in the city's numerous submarkets. In Buenos Aires and Santiago,

rental values have remained stable, only slightly lower than the average at year-end 2010.

Regional trends may mask variations. Figure 11 traces the office rental cycle across key markets in Latin America. Below, we also provide brief property sector updates across seven of Latin America's most critical and dynamic markets.

Argentina

While Argentina's economy grew about 8% during the first half of 2011, concerns regarding inflationary

Figure 11: Trends in Office Rents by Market

Markets do not necessarily move along the curve in the same direction or at the same speed. The rental cycle is intended to display the trend in net effective rents.

Source: CBRE Research

pressures, and the political and economic future of the country, persist. Both investors and corporate occupiers should be cautious with regard to general market and real estate trends across Argentina. While it is true that prime office space is being absorbed, transaction and leasing activity is occurring at a much slower pace than in previous years. Companies are taking more time to analyze risk factors, discuss available options, obtain approvals from headquarters and finally sign a contract.

Increased caution on the part of both corporate occupiers and investors has led to some stabilization in pricing. In some cases, landlords are actually lowering rents in order to induce finalization of lease negotiations. In Argentina's top markets, availability of office supply is relatively high, given the high level of completions seen in 2009 and 2010. Weak absorption activity and slow rent growth is not encouraging developers to bring additional product to the market.

The vacancy rate for Class A /A+ office space grew only slightly in Q2 2011, but it is still below year-earlier levels. It is taking longer to complete transactions at a time when new space is being added to the market. Rent growth has slowed materially. Rents for Class A/A+ properties did not change from last quarter,

averaging an asking price of US\$26.95 per sq. m. per month, and are only slightly above year-earlier levels.

Brazil

The Brazilian economy continued to expand in 2011, growing 4.2% during Q1 2011. Rising foreign investment is propelling the Brazilian economy forward. The unemployment rate remains low. The exploration of Brazil's pre-salt layer oil reserves is also a positive economic factor for the region.

São Paulo's office market remains tight, with strong demand leading to a decline in the amount of available space, although momentum has slackened somewhat in 2011. The amount of vacant space increased by only 0.4% during Q2, much of this a result of the addition of new supply in the Marginal submarket. Much of the new leasing has been centered on trophy buildings, with net absorption increasing 42% during Q2. Despite improving demand-side fundamentals, vacancy rates for prime office product increased to 5%, up from 4% during the Q1 2011. The uptick in vacancy rates is directly a function of new office completions coming online. At the end of Q2 2011 the total amount of new Class A office space was 64,600 sq. m. New Class A product accounted for 70% of the year-to-date deliveries, allowing companies to continue to upgrade into prime office space. Developers are bringing increasing amounts of high-quality office space to the market in order to attract multi-national corporate occupiers. Despite the heavy volume of new-construction completions, Class A office space is still relatively scarce. The new supply, however, has alleviated the upward pressure on rents. As a result, rents have not changed materially over the past couple of quarters.

The Rio de Janeiro office market recovered well during Q2 2011. Many businesses remain in expansion mode given strong domestic demand. Currently, the overall vacancy rate is 3.0%, only 0.8 basis points (bps) higher than the historical low recorded in Q4 2010. Class A vacancy rose to 6.7%, rising 160 bps over the previous

quarter. Robust demand for space has spurred new construction. During Q2 2011, Rio de Janeiro saw a 23% increase in the volume of new supply, much of it Class A space. The demand for higher-quality premier space has been noted by local developers. During 2010, 89% of all space added to the city's inventory was considered Class A. In 2011, new Class A deliveries account for 100% of all new completions, year to date.

Despite mounting fears of another global crisis in the wake of the U.S. sovereign rating downgrade, 2011 will go down as one of the best years in terms of industrial absorption levels across Brazil. We expect Brazil's industrial markets to continue expanding in 2012 as well. Strong domestic demand is supporting leasing activity among Brazil's top industrial occupiers. National net industrial absorption has improved, totaling 191,000 sq. m. during Q2 2011, outpacing the year-end 2010 levels. Despite strong demand, industrial vacancy rates increased 0.7 bps to 6.4% during Q2, given the large amount of new space coming online. In contrast to Brazil's office market, industrial supply exceeds demand by a gap of 24%. The better-quality industrial product continues to attract the majority of industrial tenants. As a result, Class A industrial vacancy rates fell 190 bps to 4.8% during Q2, marking the lowest industrial vacancy rates recorded for Brazil.

Chile

Economic growth in Chile is expected to advance at a rate of 5.8% in 2011—stronger than 2010. The dynamic pace of growth has driven the unemployment rate downward to only 7%, but inflationary pressures have surfaced. Chile's office market reflects these positive market fundamentals. Both industrial and office vacancy rates continue to trend downward. Office vacancy fell to 2.6% this year compared to 3.4% earlier in 2011. In contrast to other Latin American office markets, there have been no widespread new supply deliveries of prime office space in Chile. Despite the lack of availability of Class A buildings in the market, rents

have stabilized. There is a larger volume of new space coming online in 2012. In this market environment, listing prices are almost the same as closing prices, with a lack of new supply rendering negotiations relatively inflexible.

Net absorption declined during Q2, as there is not much available space to lease. For 2011, we expect only 32,000 sq. m. of net office absorption in Chile, driving down the already-low vacancy rates by year's end.

Colombia

Bogotá has emerged as one of Latin America's most dynamic commercial real estate markets. New construction has been adding over 100,000 sq. m. each year, driving up office vacancy rates to double digits by year-end 2010. Favorable market conditions are expected to drive down vacancy rates to 7% by year-end 2011. Supply continues to grow, but at a more moderate pace compared to last year. Class A office inventory should grow 6% by year's end. Rents will decrease initially in 2011, but should stabilize as the large volume of new space is absorbed through the balance of this year. The Calle 100 and Santa Barbara submarkets have emerged as the most popular locations for Class A/A+ buildings and tenants, due to their accessibility, local services and amenities.

Costa Rica

Office rents in Costa Rica have remained stable over the last year, with only small increases in 2011. Average rents range from a low of US\$14.85 to a high of US\$22.00. Rents should increase going forward given that there is very little new construction in the pipeline. The largest project, a 50,000-sq.-m. office building, has just started. We expect new-construction activity during 2011 and 2012, especially in the form of office buildings and medical manufacturing space. The Santa Ana and Heredia submarkets have emerged as the most popular for Class A product, and Escazu for Class AAA, due to the locations' accessibility, local services and amenities.

Mexico

The outlook for the Mexican economy is tied closely to that of the U.S., in contrast to other markets across Latin America. The moderate recovery in the U.S. has supported Mexico's exports. The commercial real estate markets continue to benefit, in turn, from the expansion of domestic manufacturing. Mexico City's office market continues to grow and has evolved into an increasingly mature and attractive market for many global and domestic investors. Mixed-use development has gained increasing traction. Local developers have focused on building integrated mixed-use projects with recreational, commercial, office, residential and cultural spaces within the same project. The Class A/A+ office inventory saw the addition of 124,551 sq. m. of new office space, which pushed the vacancy rate upward to 11.9% during Q2 2011. Average asking rents for Class A/A+ space were quoted as US\$24.30 per sq. m. per month.

Panama

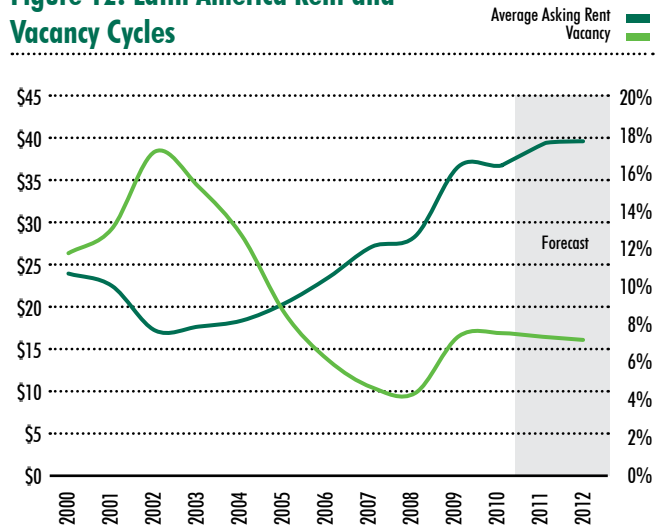
Panama City's office market continues to expand, driven by a few large projects in the Banking Area and Costa del Este submarkets. Such new product will be a catalyst for the market, attracting corporate occupiers and investors who have a preference for new and modern office space. The vacancy rate for Class A office product decreased slightly to 4.2% in the first half of 2011, down 50 bps as compared to the same period in 2010. The Banking Area and San Francisco submarkets are the most attractive to investors, with roughly 52,000 sq. m. of new office space currently under construction.

THE OUTLOOK FOR LATIN AMERICA'S COMMERCIAL REAL ESTATE MARKETS

The Latin American commercial real estate market will continue to attract both domestic and global occupiers and investors. With its large and growing population, natural resources, increasing affluence and solid economic performance, the Latin American real estate market has evolved as not only an alternative location for corporate occupiers but also an alternative

provocative investment destination. The lack of available prime space will continue to increase rents and drive down vacancy. As presented in Figure 12, average asking rents on a regional level have continued to rise as the availability of office space has shrunk. Our expectation is that this trend will only magnify over the next couple of years. As Latin America's real estate markets mature, rising rents will result in the development of new and better product. Even though we expect roughly 2.7 million sq. m. of new office space to come online across Latin America's major markets, vacancy rates will level out at 7.6% over the next two years and rents should stabilize at an average US\$40.00 per sq. m. per month as much of the space is absorbed.

Figure 12: Latin America Rent and Vacancy Cycles



Source: CBRE Research

The commercial real estate markets—the office sector in particular—reflect the different economic dynamics present in each of the key markets. Net absorption of office space will continue to be supported not only by multi-national firms but also by domestic sources of demand. New buildings will continue to benefit from a flight to quality, which will only intensify in coming years. The only market that should suffer from increased vacancy is Mexico. Rent growth has slowed in this market, and large contiguous blocks of space are available for cost-conscious occupiers. The combination of huge

amounts of supply and economic weakness has left Mexican office landlords unable to raise rent levels. This is in contrast with the key Brazilian submarkets, which will continue to experience rising rents going forward, offering property investors great potential for net operating income growth.

For cross-border real estate investors, recent market volatility may have raised concerns that key markets in

Latin America, Brazil and Mexico could see a repeat of the episode of massive currency depreciations witnessed in the aftermath of the 2008 crisis. Given improvements in reserve currency positions, we do not believe that Brazil and Mexico are as vulnerable this time around to a disorderly sell-off in their currencies. The slowdown in economic growth, however, should only arrest further appreciation in their local currencies.

This report's cover page features an image of Rio de Janeiro, Brazil.

CB RICHARD ELLIS GLOBAL RESEARCH AND CONSULTING

Global Research and Consulting is an integrated community of preeminent researchers and consultants who provide real estate market research, econometric forecasting, and corporate and public sector strategies to investors and occupiers around the world.

FOR MORE INFORMATION ABOUT THIS REGIONAL SPECIAL REPORT, PLEASE CONTACT:

Asieh Mansour, Ph.D.
 Head of Research, Americas and
 Senior Managing Director, Global Research
 +415 772 0258
 asieh.mansour@cbre.com
 Follow Asieh on Twitter: [@AsiehMansourCRE](#)

Victor Lopez-Beltran
 Director, Latin America Research,
 Global Research
 +52 55 5284 3293
 victor.lopez@cbre.com

FOR MORE INFORMATION REGARDING GLOBAL RESEARCH ACTIVITY, PLEASE CONTACT:

Nick Axford, Ph.D.
 Head of Research, Asia Pacific and
 Senior Managing Director, Global Research
 +852 2820 8198
 nick.axford@cbre.com.hk

Peter Damesick, Ph.D.
 EMEA Chief Economist and
 Senior Managing Director, Global Research
 +44 20 7182 3163
 peter.damesick@cbre.com

Asieh Mansour, Ph.D.
 Head of Research, Americas and
 Senior Managing Director, Global Research
 +415 772 0258
 asieh.mansour@cbre.com
 Follow Asieh on Twitter: [@AsiehMansourCRE](#)

Raymond Torto, Ph.D., CRE®
 Global Chief Economist and
 Executive Managing Director, Global Research
 +617 912 5225
 raymond.torto@cbre.com