MONTHLY REPORT

ECONVIEWS
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August 2021
Issue #206

Is there a way to **turnaround** the economy?

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Special Analysis on **Construction** and **Real Estate**

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THE MONTH AT A GLANCE

RECENT DEVELOPMENTS

- In the developed world, inflationary pressures appear to be dissipating. The US monthly inflation decelerated from 0.9 to 0.5%, while the Eurozone's went from 0.3 to -0.1%. However, fear of the Delta variant shook markets in the last days, rocking the S&P 500 2%, though it has already recovered.
- After the Central Bank increased the regulations in the BCS market by disabling FX operations from brokerage accounts, the SENEBI or "free" BCS shot above ARS 180. This measure was taken to stop the bleeding of USD 200 million from the international reserves in the first days of August.
- The Government rolled out a battery of measures to boost consumption ahead of the elections. The "Ahora 12" credit program was extended to 24 and 30 month installments at a maximum 40% nominal rate, below expected inflation. An ARS 150 billion credit line for independent workers (*monotributistas*) is also part of the package.
- Government workers' wage increase was bumped up to 40%, validating the new benchmark unions have been pushing (some are going for 45%).
- A steady inflow of Sinopharm shots and deals with Pfizer and Moderna raise hopes that the worst of the pandemic is over. 60% of the population has received a first dose and 25% are fully vaccinated. Cases and deaths fall.

FIGURE OF THE MONTH

After an austere first semester, the BCRA's assistance to the Treasury shot up to ARS

200bn

in the first 8 days of August. We expect emission hit ARS 1.4 trillion in 2021 (3.3 in % of GDP).

TO BE ALERT

INDEC reports that between June and July, wholesale prices rose

2.2%

the least since May 2020, with wholesale food prices growing 2.3% m/m, the lowest in 10 months

WHAT'S COMING NEXT?

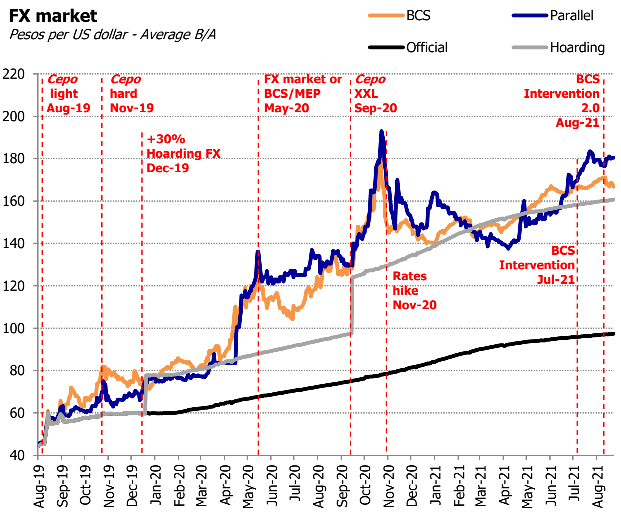
- The Federal Reserve's Jackson Hole Symposium on August 26th-28th should help outline the entity's plans for the post-pandemic years. Tapering could begin in Q4-2021, but for now a rate hike will be held off until 2023. The latest CPI data supports this view.
- Brazil's Paulo Guedes to propose a 10% cut in Mercosur's tariffs on external goods. Guedes had originally motioned a 20% cut, but a more moderate stance allows Brazil to near positions with Argentina. Political turmoil has taken the Real back to 5.39 BRN per dollar, tilting the bilateral RER against our country.
- The midterm primaries will take place on September 12th, providing a clear picture of what to expect in the definitive elections on November 14th. The Government will try to capitalize on vaccines and the normalization of activity. Eroded real wages (20% below 2017) and the latest scandals could get in the way of its Lower House majority, while its hold on the Senate appears more secure.
- The USD 1.8 billion maturity with the IMF on September 30th will be cancelled with part of the 4.3 billion extraordinary SDR allocation. We believe the Government could reach a deal with the Fund in Q1-2022. Congress's required approval shouldn't pose an obstacle.

SUMMARY OF MAIN INDICATORS

	Last	Previous		Last	Previous
Economic activity			**Financial data**		
Economic activity (MoM s.a.)	2.5%	-2.0%	Inflation (monthly)	3.0%	3.2%
Consumer confidence (MoM)	9.3%	-2.3%	FX spread (21day avg.)	74.5%	73.1%
Industrial activity (MoM s.a.)	10.5%	-5.6%	Country risk (bps 21day avg.)	1,584	1,593
International accounts			**External data**		
Current Account (USD BN)	0.69	-1.23	Soybean price (per ton, 21day av	512.27	519.302
CB Reserves (USD BN 21day avg.)	42.52	42.73	Brazilian activity (MoM s.a.)	1.1%	-0.6%
Primary balance (ARS BN)	-98.57	-153.20	Financial Conditions Index	35.2	39.9

Source: Econviews base on multiple sources - Based on working days only

GRAPH OF THE MONTH:



Source: Econviews based on Reuters

RECENT ECONOMIC DEVELOPMENTS

JUL 22nd	JUL 24th	AUG 2nd	AUG 3rd	AUG 6th	AUG 12th	AUG 24th
Econviews Monthly #205: The economy and the elections + special analysis on lithium in Argentina.	**Candidates for midterms are written-in**: the ruling coalition goes with a single list, primaries in the opposition	**IMF approves extraordinary USD 650 billion allocation of SDRs**, Argentina to receive USD 4.3 billion on August 23rd	**Jujuy** becomes first province to **mandate shots for government workers** and a vaccine passport for public transport	**Fernandez meets US NSA's Jake Sullivan.** Authorities are confident in securing Biden's support for an IMF deal.	**Central Bank tightens control of the Blue Chip Swap** by disabling FX operations from brokerage house accounts	**Econviews Monthly #206**

POLITICS

An unexpected political scandal is unfolding around the celebration of the First Lady's birthday party at the presidential residence last year, during a period of strict lockdown. At 73%, the Government's negative image is the highest since Alberto Fernandez took office before the scandal hit, although it is still too soon to tell how it will impact on the elections. Authorities hope to count with some tailwind from vaccinations and reopening in the run-up to the September 12th primaries. While no "outsider" candidates have taken hold for now, polls show a general discontent. A recent election in Salta province had lower turnout (64%) and a 12% blank vote, nearly four times 2019's 3.1% figure.

PANDEMIC

Around 70% of population at risk (60 years old or more) has received the two shots. With Delta outbreaks in the City of BA and Córdoba province and community circulation expected in the next weeks, authorities are focusing on second dose coverage for the rest of the population, especially teenagers. Deals with Moderna and Pfizer for 20 million vaccines have been signed for this purpose. Average new cases have dropped to 7k, while deaths number 200, their lowest records since late March and early April, respectively. Mobility is at its highest since the pandemic began, only 10% under normal levels, and will probably increase in coming months as the Government plans to authorize large events.

ECONOMIC ACTIVITY

In June economic activity rebounded 2.5% monthly (without seasonality), offsetting the decrease in May, which had been 2%. Even though the first half of the year was marked by ups and downs, it accumulated a rise of 9.7% against the same period of 2020. The second semester the activity will improve slightly with more stability, although the arrival of the Delta variant is a risk that could impact the recovery. Even considering this risk, we expect GDP to close the year with a 7.4% rise (a little higher than our previous forecast, of 7%). If the activity remained at the current level, it would still be 6.8% higher than last year, which means that we expect some more growth, but nothing spectacular.

INFLATION

In line with our predictions, monthly inflation hit 3% in July and is proving difficult to bring below that threshold. Restaurants and hotels led the index with a 4.8% m/m rise, followed by health (3.8%). Adjustments in pre-paid healthcare will keep the latter above average in August. A silver lining was that core inflation decelerated 0.5 points to 3.1%, its lowest record since September. Also, INDEC reported that wholesale prices rose 2.2% m/m in July, below 3% for the first time since May 2020. This could translate into a slowdown in goods' variation in August. Regulated prices grew only 1.4% m/m. In y/y terms, headline CPI rose to 51.8%. We hold our December estimate at 49%, with upside risks.

MONETARY SECTOR

Once again, the BCRA added new restrictions to the operations in the exchange rate market. This time, it limited the possibility of making operations with accounts opened in brokerage houses. The result of this measure was an increase in the parallel rate, which now stands at ARS 182 and in the free version of the BCS (ARS 178). The tenseness of the exchange rate markets also shows in the Central Bank's purchases. While between January and July the daily average was USD 51 million, in August that number is well below USD 20 million. Another factor that could add tension is the expansion of the monetary base. In August (until the 18th) it has grown ARS 210 billion, boosted by the transfers to the Treasury.

FISCAL ACCOUNTS

The primary deficit in July was AR$ 99 billion, leaving the accumulated deficit in the first semester of 2021 at 0.7% of GDP. Nevertheless, without extraordinary revenues such as the "solidarity contribution" of the great fortunes and the extra-push of export duties due to the upward cycle of commodity prices, the primary deficit would increase up to 1.7% of GDP. We expect expenditures to accelerate even more in the last quarter of the year, ending 2021 with a primary deficit at 3.5% of GDP. The Treasury had some difficulties to roll-over the maturities of August. It has one more chance, next week, to hit the 115% rate of roll-over (now in the 106% level) needed to limit the pressure of more monetary financing from the CB.

I. Is there a way to turnaround the economy?

Inflation, the exchange rate, and economic activity are moving in election mode. The government is using all its firepower to keep the main economic variables under control. Inflation, which had reached 4.8% in March is now hovering at around 3%, the official exchange rate continues to crawl at only 1.2% per month, much lower than inflation, while economic activity is slowly picking up pace as evidenced from the recent published figures. So far so good, but the flipside of these outcomes is the build-up of imbalances that will be costly to unwind.

Let´s start with the exchange rate, where the slow pace of depreciation is leading to a gradual, though persistent, real appreciation of the currency. **How worrisome is the situation?** If we look at a long series and we believe that Argentina is in "normal times", the currency could be close to its long-term equilibrium, much better than in 2015 and 2017, when grossly overvalued currencies ended up in steep devaluations. In addition, the country is running trade and current account surpluses, so in most cases there wouldn't be any obvious reason to expect a devaluation.

However, these are not normal times. Actual international reserves stand at only 6.2 billion dollars, well below the forty billion that the economy needs to function normally. The country risk remains at astronomical levels and there is no access to the capital markets, foreign direct investment is non-existent and capital outflows continue to be the name of the game. Every dollar that comes in through the trade surplus quickly gets out through the financial account, which in practice means that the Central Bank cannot accumulate international reserves. **Even in 2021, a good year in which soybean prices skyrocketed, reserves are likely to increase by less than two billion dollars.**

Net and Liquid International Reserves

In billion USD

Gross reserves	**46.3**
Reserve requirements in USD	11.2
Swap with China	20.0
Treasury SDRs position	5.0
BIS & Repos	3.8
Net reserves	**6.3**
Gold	3.5
Liquid net reserves	**2.7**

Source: Own estimates based on BCRA and IMF

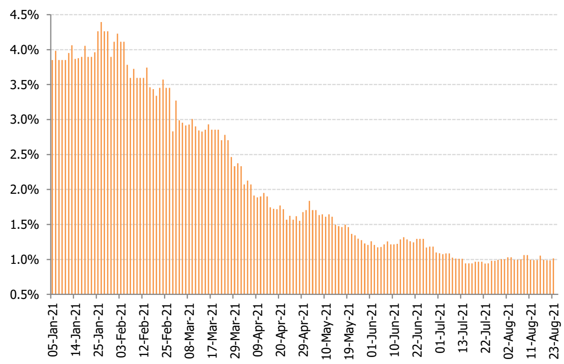
Up to Aug-23

Capital outflows have not receded. There are no indications that investors are ready to increase their holding of Argentine assets. In the meantime, retail savers continue to buy dollars and put them under the mattress as they are worried about inflation and a potential devaluation. The bottom line is that there is a deficit in the financial account.

The obvious implication is that these are "non-normal" times in which the Central Bank is forced to impose draconian foreign exchange controls to avoid a fully-fledged run on reserves driven by capital outflows. **In these**

Rate of depreciation

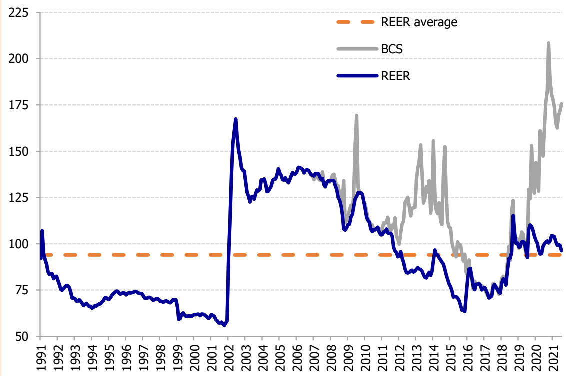
Accum. 30 days - Official exchange rate, Com. "A" 3500



Source: Econviews based on BCRA

Real effective exchange rate

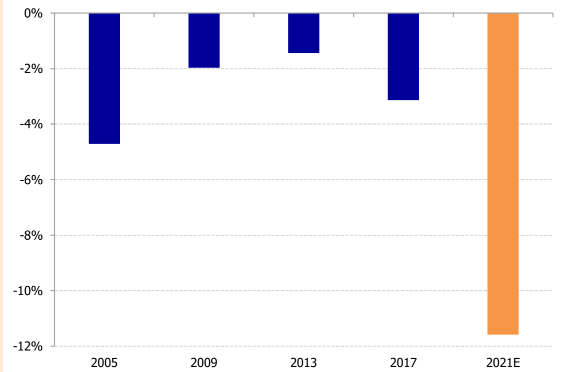
At Jul-21 prices



Sources: Econviews based on Reuters and Central Bank

RER

Variation y/y of the electoral month of every year



Source: Econviews based on BCRA

circumstances, the equilibrium exchange rate is not the one that assures a small surplus in the current account, but instead the one that allows the Central Bank to accumulate reserves.

The problem is that the government is not willing or ready to accept a higher exchange rate, namely because it might trigger a new round of inflation and increase poverty. However, with the current official exchange and the existence of a large spread that currently exceeds 80% an increase in international reserves appears to be an impossible task. Unfortunately, the size of the spread will remain large and there is no easy way out, but the current situation is unsustainable.

The government is thinking about the elections, and its biggest concern is to avoid a further depreciation of the parallel exchange rates. It seems that it is ready to use all its firepower to keep it under control. It will mean that the Central Bank will have to sacrifice part of the reserves that it gained in the first half of the year, but it is willing to pay the cost.

The second challenge is inflation. The government is succeeding in bring it down from a peak of 4.8% in March to the 3.0 % range in coming months, mainly by significantly slowing down the rate of depreciation of the official exchange rate and putting a lid on regulated prices. The strategy could work until the elections, though at the cost of increasing imbalances in relative prices that would need to be adjusted in the post-election period. The obvious conclusion is that inflation will make a comeback after November 16th, and it is difficult to rule out periods of steep adjustments in some prices that could move the monthly inflation rate to levels not seen since the depreciations that took place during the Macri administration.

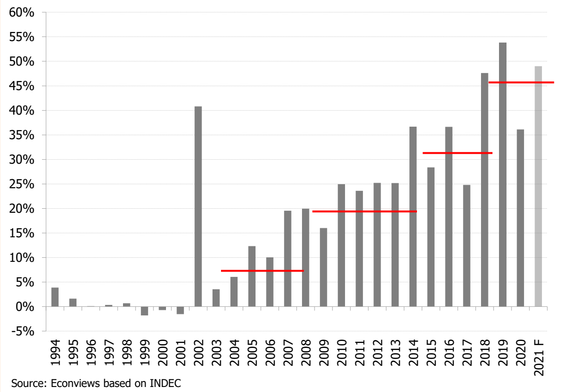
The third challenge is economic activity. **Since early 2020 it has been moving at the tune of the evolution of the pandemic and the lockdowns.** Argentina imposed early on lockdowns that were stricter than in other in countries, and the consequence was a more severe drop in GDP between March and August of last year than in most economies. As the lockdowns were relaxed the economy rebounded, especially during the summer, until the country had to confront the second wave of the pandemic.

It seems that the situation has improved, and once again economic activity is on the rise, mainly driven by higher mobility and people trying to go back to a normal life. In addition, the government is stimulating the economy by increasing government expenditures (namely increases in social subsidies, pensions, and spending in infrastructure), and wage increases that intend to raise the purchasing power of workers.

It seems that in the short run the plan is working, though it faces two risks. First, the concerns about a third wave of the pandemic associated with the delta variant that could trigger a new round of lockdowns that affects economic activity. Second, the lack of access to financial markets that forces the Treasury to rely on the Central Bank, could mean that money supply will go up and in turn raises the risk of higher inflation.

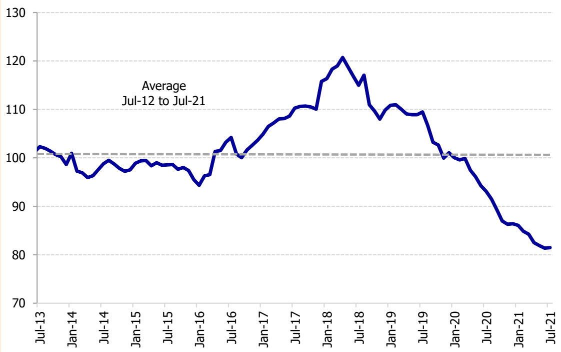
In summary, the government has a strategy for macro-management until the elections that relies on stimulating the economy, keeping the exchange rates under control, and bringing down inflation to the 3.0% range. It is likely to deepen some imbalances along the way, namely in

Inflation
Annual variations - End of period



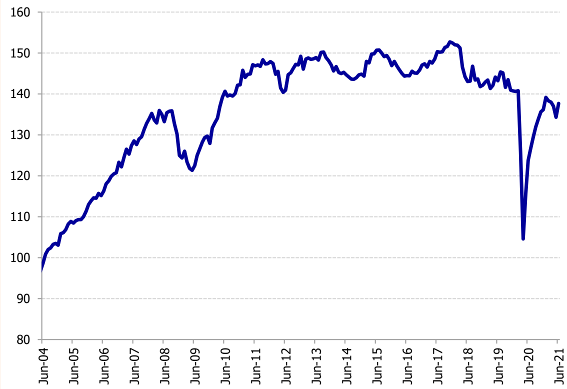
Source: Econviews based on INDEC

Ratio between prices of services and prices of goods
Indices, in levels

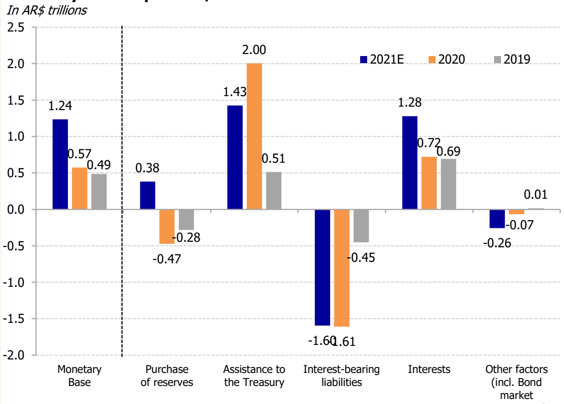


Source: Econviews based on INDEC and DGEyC BA

Economic Activity
INDEC -EMAE, seasonally adjusted series 2004=100



Monetary Base expansion/contraction factors
In AR$ trillions



Source: Econviews based on BCRA

relative prices, but these issues will have to be dealt with will have to dealt with after the elections. Some of them might be relatively easy to fix (i.e. some regulated prices), others extremely difficult (the exchange rate). The fiscal deficit lies somewhere in between, because the deficit is not out of control and the reduction will be easier if the economy and tax revenues recover and the additional expenses related to the pandemic disappear. The main message though, is that macro-management in 2022 isn't going to be easy.

Debt: an unhappy anniversary

A year ago, Minister Guzman was celebrating an agreement with the bondholders to restructure the sovereign debt and put an end to the latest default, which this time lasted just a few months. A year later, there seems to be little to celebrate and much to worry about Argentina´s debt and the ability to raise money in the markets to finance investment and rollover debt.

Argentine country risk
Spread, in %

Source: Econviews based on JP Morgan

The main objective of a debt restructuring is to ensure the sustainability of the debt to regain access to the markets in due time. No country fully pays back its debt, it namely rolls over the principal that comes due by issuing new debt. In a successful debt restructuring the new bonds have much better financial conditions (namely lower spreads, long maturities and even the ability to issue in the domestic currency). None of these conditions are met today. What happened?

The main problem was that the government put the cart before the horse. A critical part of any debt restructuring is to design a macroeconomic program that that ensures fiscal solvency, shows the country's ability to generate foreign exchange to the payments on the external, and that foster growth to lower the burden of debt as measured by ratio of debt to GDP. In the end these components ensure the sustainability of debt and allows the country to experience a reduction the credit spreads and to regain access to the markets.

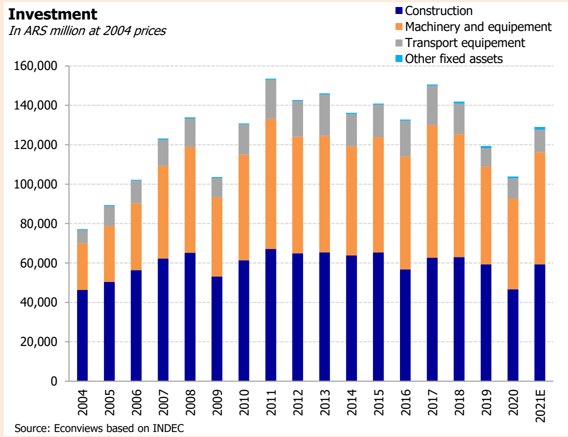
Argentina did not follow the logical steps; it negotiated a debt deal that postponed payments and reduced interest payments but failed to put in place a macro program. Most countries do it within the framework of an IMF agreement, that typically is used to increase credibility.

The chance to reverse many of these problems is after the elections, when most analysts expect that Argentina will reach an agreement with the IMF. It seems that both Argentina and the IMF have the intention and the incentives to reach a deal; it waits to be seen whether the program will be strong enough to put in place a consistent macro-framework, to address the key imbalances, to change expectations, and to improve the business climate to restore stability and growth. If this objective is not achieved, it will be another lost opportunity that will taint the credibility of Argentina and of the Fund.

II. Construction and Real Estate in Argentina

Construction and real estate sectors are at a juncture. While building costs in Argentina are cheap compared both with history and relevant peer countries, the macro situation is far from ideal to think in a booming market. Property prices for offices and premium apartments have been constantly falling, threatening the fundamentals of the business. At the same time, rental prices for households are going up, in part due to new regulations which were intended to help tenants, that ended up reducing the supply of apartments for lease. All these trends, coupled with the novelty that Covid-19 brought to the world of workplaces has changed the way we analyze the construction and real estate markets.

Construction is, undoubtedly, one of the most important sectors in the Argentine economy. It represents around 9% of total GDP. And in terms of fixed investment, accounts for nearly half of it**.**

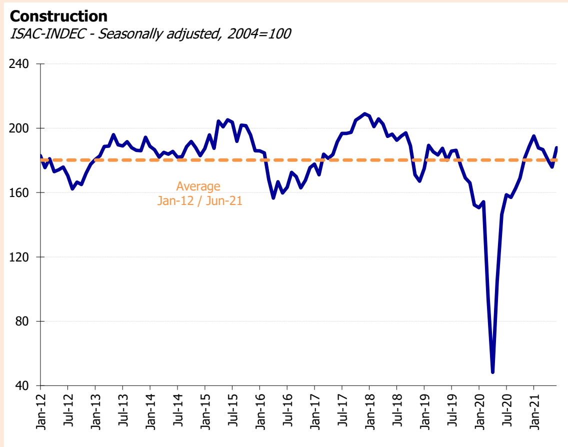


Source: Econviews based on INDEC

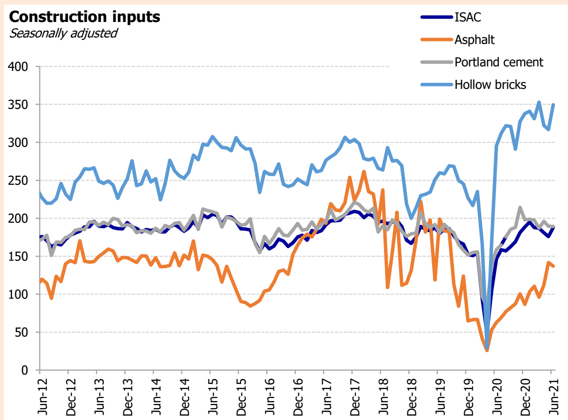
Construction activity carries a great spillover effect: it demands products from all sorts of industries, professional services and both high and low-skilled labor. As one of the main clients of the manufacturing sector, its evolution indirectly affects millions of jobs across the economy.

Another key factor is employment. In 2019 some 1.72 million people worked directly in the Construction sector, of which 962 thousand were salaried employees and the remaining were contractors. But behind these numbers hides an uncomfortable truth: **informality in the sector is rampant, as more than 55% of wage employees were unregistered ones** -and therefore are not included in the pension system. And the hours worked by informal employees in Construction represented 12.7% of all hours worked by informal employees in the economy. **And yet, due to its more flexible nature, informal employment quickly recovered after the pandemic, while in 1Q-2021 registered employment was still 7.6% below its levels of 1Q-2020.**

Construction activity peaked in late 2017 and early 2018, but then it broke into a crisis, which deepened with the pandemic. And yet, it managed to not only recover from its historic drop of April 2020 -in the context of a very strict lockdown-, but also it has since reached higher than pre-pandemic levels. In fact, **the Construction Index (ISAC)**, which starts in 2012, **in June stood 4% above its historic average**.



The ISAC Construction Index is built on a weighted average of inputs sold by leading companies, measured in units. **Hollow bricks and Portland cement, closely linked to private works**, explain 28.1% of the index, and the performance of the general index is therefore greatly explained by them: since February 2020, demand for hollow bricks has grown 48.6% and 21.5% for cement. **Asphalt,** while weighing just 2.56% on the index, **is a very good predictor of public works:** since Feb-20, its demand has soared 105.2%.

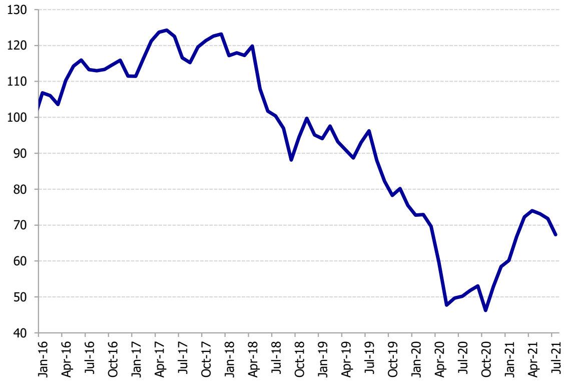


Source: Econviews based on INDEC

The pandemic has brought about far-reaching implications for the Construction and the Real Estate sectors, not only in Argentina -and particularly Buenos Aires city- but also around the world. Remote work has led to a sudden emptying of office buildings; many companies have started to rethink their real estate assets and move from previous office hotspots to smaller facilities in other areas of cities and workers have increased their interest to move to suburbs, with lower costs and more space. What were once booming city-centres are facing a difficult panorama, and authorities must deal with it.

In this report we aim to analyze the current situation of the Construction sector and its prospects ahead. We also look into the real estate sector both in Buenos Aires city and the rest of the country. Finally, we provide some insight into what we think will be the future of office hotspots.

Exchange rate and cost of materials for construction
Cost of materials/parallel dollar, Dec-15=100

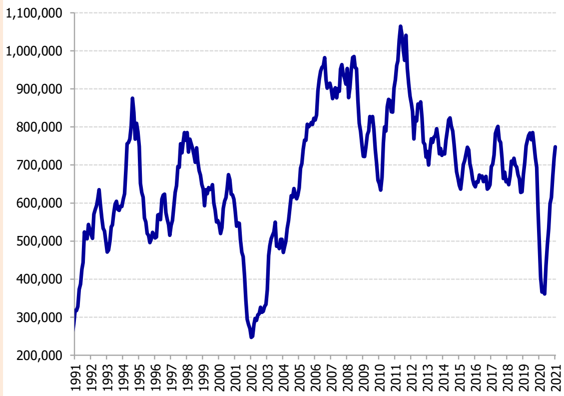


Source: Econviews based on INDEC

Construction: a story of ups and downs

The construction sector was already in crisis before Covid-19 broke into our lives. The 2016 recession affected especially public works, as the government sought to reduce capital spending. But with the impulse of electoral spending, in 2017 it almost recovered from the fall and its momentum lasted until early 2018. But then the FX tensions of 2018 deeply affected the sector and the ISAC ended the year with double digit falls. And though the devaluation meant an opportunity for investment for those who held dollars, the economic contraction of 2019 also took a hit on the sector.

Permits for new private works
In square meter, 3mm average

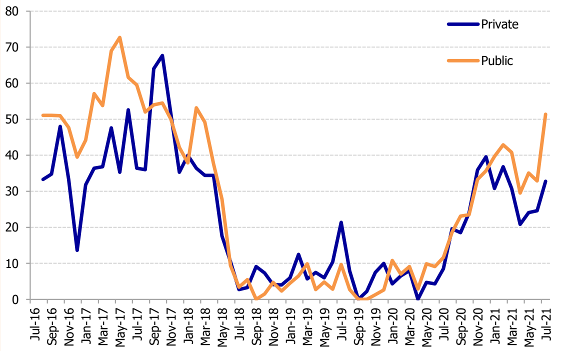


Source: Econviews based on INDEC

The strict quarantine of March and April 2020 affected the entire economy, but construction was especially hit, as nearly all works were put on hold. As a result, the ISAC index sank 76.2% YoY in April, the sharpest drop on record. But the situation dramatically changed for the better during the last quarter of the year. As activity was paralysed, construction costs remained subdued for a large part of the year. **As the FX spread soared in October, construction costs measured in "market" dollars sank and provided an investment opportunity for families who had saved during the quarantine months.** And Construction gained momentum: by December, the ISAC was growing at interannual rate of 27.4%.

Nevertheless, the second wave finally came and brought another round of mobility restrictions that limited the comeback that emerged after the first reopening. The ISAC showed negative figures four months in a row, a 10% fall from January to May of 2021. But in the beginning of the winter, with a percentage of vaccinated people good enough for a strong re-reopening, the activity emerged and gained almost 7%. Certainly, a new drop in the construction costs contributed to curb the negative trend, paired with a recomposition of stocks.

Expectations: "How do you think will construction evolve the next 3 months?"
In % of the positive answers



Source: Econviews based on INDEC

What can we expect in the coming months? We now know that the government's intention is to cap the Blue-chip-swap and the official FX market. But we expect that in the Argentine summer, an exchange rate market correction will occur, and expectations are moving that way. The level of permits for new private works is close to the peak of the 2017 and 2019 elections. **So, there is some movement out there, despite the uncertainty**. In the next few months we also expect a boost from small public works, as the fiscal accounts are showing and increase in capex, which in any case remains in historically low levels without major big ticket projects.

Owners or Tenants, to be or not to be

Becoming a homeowner is not an easy task in Argentina. Mortgages are not very widespread or accessible, and prices are expressed in US dollars, so what happens in the exchange market also affects real estate operations. In this way, every new restriction to buy dollars or strong depreciation of the exchange rate contribute to making it harder to acquire a property.

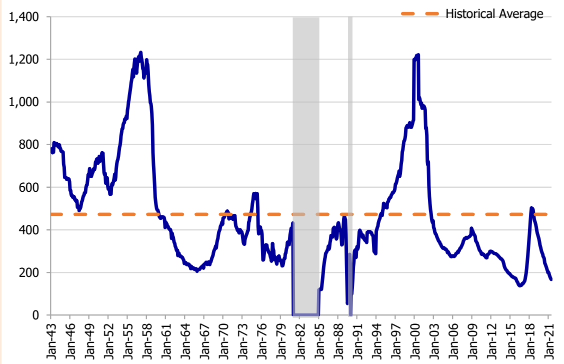
But this was not like that in the past. After 30 years of irregular performance, in the decade of 1990 mortgages destined for housing have increased in a considerable way boosted by those ones nominated in foreign currency, reaching 3.7% of GDP in 2000. After the 2001 crisis, the number of mortgages has decreased significantly and only experienced a brief period of growth between 2017 and 2018. In this time the star adjusted by inflation credits called UVAs. This was a good idea at that moment when inflation was not as high as now and expectations were anchored but after the exchange rate depreciation that started in April 2018 things got complicated. As inflation was rising, salaries did it in a lesser way, so the weight of the fee to pay as percentage of income became higher for households. Nowadays mortgages only represent 7.6% of total credit (in May 2018 they were 12.2%) and in 2020 they were just 0.9% of GDP. In this aspect, Argentina is a clear underperformer compared with other countries of the region. In 2018, mortgages were 26% of GDP in Chile and Panamá, 17% in Costa Rica, 10% in Mexico, and 9% in Brasil.

Despite the fall in prices during the last two years, the market does not seem to be as dynamic considering the number of transactions. Currently, apartments in BA price around USD 2,500-3000 per square meter. This is about USD 400 cheaper than two years ago, but affordability is more than 50% below that period. The explanation is the value of salaries in dollars, which are at a third of their peak in November 2017, although during the last months they've increased due to the appreciation of the exchange rate. In July, on one average salary you could buy 0.2 square meters of an apartment in BA and in the Metropolitan area, 0.3 in Rosario and 0.4 in Cordoba. For houses, this number is slightly more favourable: 0.3 in BA, 0.6 in the Metropolitan Area and Rosario, and 0.8 in Cordoba.

This difficult situation in the property market is also seen in how many days pass from the publication of an apartment till the time it is sold. In BA, an owner looking to sell must wait around 271 days. This value is above the historical average of 259 (2013 - 2021) and much more if we take the average of 2017 and 2018 which is 235.

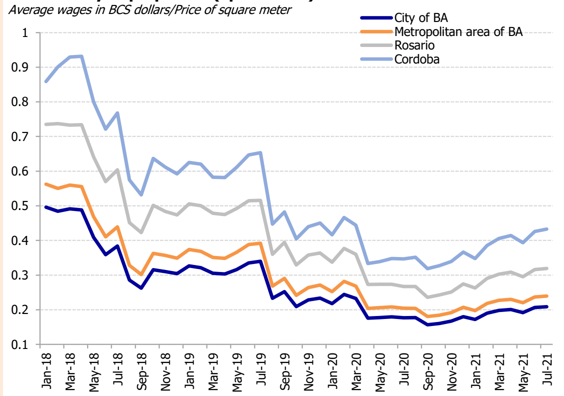
This situation led us to the question if Argentina is too expensive, despite the decline in prices. Compared with other cities of Latin America, Buenos Aires is only cheaper than Santiago de Chile (USD 3584 / m2 in March 2021) and Montevideo (USD 2878 / m2) and more expensive than cities like Rio de Janeiro, San Pablo, or Mexico City. On the other hand, Rosario and Cordoba appear like ones of the cheapest cities only above Bogotá (USD 1318 / m2) and Quito (USD 1250 / m2).

Mortgages for housing
In billion ARS of June-21



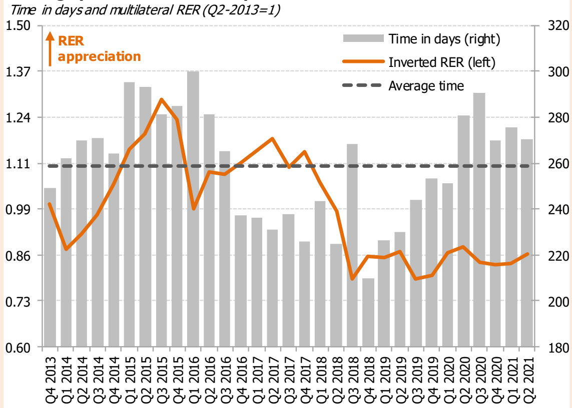
Note: for shaded areas there is no available data
Source: Econviews based on BCRA

Affordability of properties (apartments)
Average wages in BCS dollars/Price of square meter



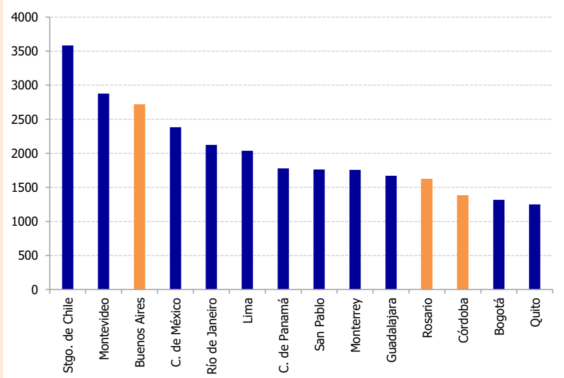
Source: Econviews based on UDeSA

Average publication time of apartments for sale
Time in days and multilateral RER (Q2-2013=1)



Source: Econviews based on GCBA

Price per square meter (m²)
In USD - Apartments



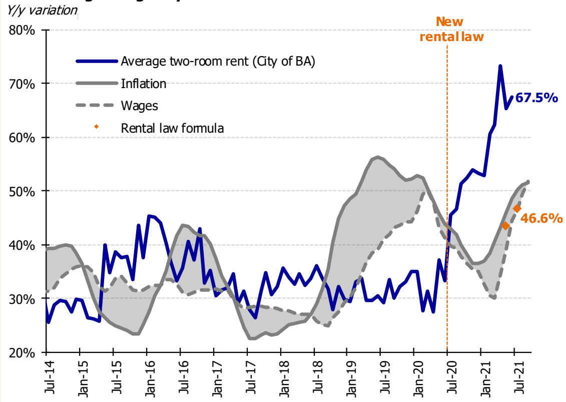
Source: Econviews based on RIAL UTDT - Zonaprop

Although prices could stabilize or keep decreasing, we expect a real depreciation of the exchange rate for 2022 in the context of a program with the IMF, so affordability should continue moving south. **In this context, people looking to buy may choose to keep on renting. One of the problems with the real estate market is that the lack of liquidity means that price corrections take time.** Properties in Buenos Aires have fallen 14% since their last peak in early 2019, while equity prices are 60% down in the same period and 75% since the onset of the crisis in 2018.

The new rental law, one year later

In July 2020, the new rental law came into effect. Contracts were extended from two to three years and must be registered with AFIP. Rents are now indexed to inflation and wages (50-50), with annual adjustments. This last point has been the most controversial: **while the official index shows a 46.6% rise one year after the law came into effect, actual rents surveyed by the City of BA shot up nearly 70% y/y.** Fixed contracts and a freeze on increases during the first months of the pandemic has led owners to set higher starting prices. A shrinking market, as many landlords choose to opt out (the number of properties up for sale in went from 90,000 pre-pandemic to 116,700 in July 2021), isn't helping. In real terms, rents are actually 6% below their average level for the last decade, but this is of little comfort given that wages are 11% down against that same period. In fact, some opposition lawmakers are asking to overturn the bill they pushed for last year.

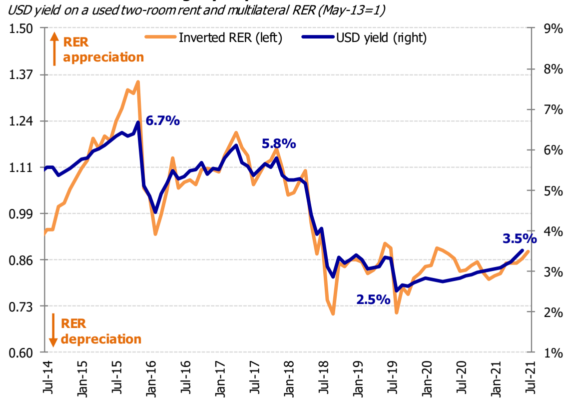
Rents are growing way above the new law's formula
Y/y variation



Source: Econviews based on GCBA, INDEC, and Min. of Labor

For those landlords still in the game, dollar yields on rents are picking up again, at least on paper. A combination of a cheaper square meter in USD and the spike in rents brought the **average yield on renting a used property in Buenos Aires city from a minimum of 2.5% in August 2019 to 3.5% last month**, although still a far cry from 2017's 5.7% figure or late 2015's 6.7% peak. Covid induced trends such as relocation from downtown to the suburbs and new hubs popping up in previously residential areas mean that returns on investments vary greatly from zone to zone (we'll expand on this in the next section). **As we've seen with purchases, though, dollar yields on rents tend to correspond neatly with RER appreciation**, which real wages also move in check with.

Yields on rents have slightly improved
USD yield on a used two-room rent and multilateral RER (May-13=1)



Source: Econviews based on GCBA and INECO-UADE

A long farewell to the office?

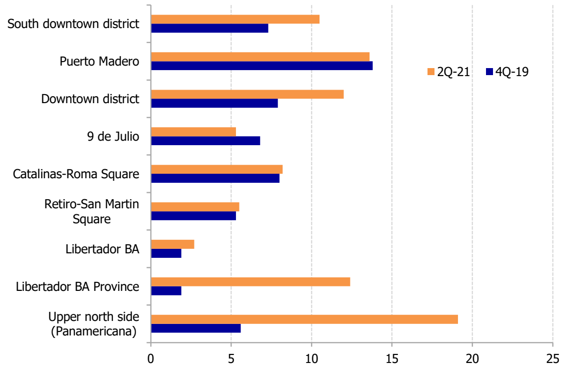
When Covid-19 emerged in March 2020, governments around the world was forced to impose strict lockdowns, and then home-working was the new normal. To survive the crisis, companies everywhere embarked on a gigantic experiment and city workers swapped suits for jogging trousers and city-center flats for the suburbs. A year and a half later, as vaccination rates rise the next chapter of the home-working experiment is relative unknown. The speed of the defrosting of mobility restrictions and its scope has become a matter of hot debate among chief executives, and between them and their staff. The strategies that emerge out of these debates will shape the future of office work and, therefore, the real estate industry around it.

One thing is common across all industries and countries: the heterogeneous priors between employers and employees about the back-to-office saga. Even though the universal anti-remote-work mindset of yesteryear is gone, there is still some companies that expect all workers to be back at their desks relative soon than later. Others, however, are doing away with offices altogether, such as the tech firms, that will surely blend remote and office work, shrinking the physical space that they need. Most businesses fall somewhere in the middle. For the employees, evidence suggests that they would like to work from home at least a couple days a week. According to a survey made in the US, 42% of remote workers said they would search for a new job if they were asked to return to the office full-time. Only 20% agree with rarely or never work from home.

Putting aside the wishes of employers and employees, the reality is that in the US and the UK, both countries with a high percentage of full vaccinated people, the mobility in workplaces are still between 30/40% below the pre-pandemic level. If we look the economic recovery that the GDP figures in each country show, some hybrid model work office is speeding up. The leasing activity in the US is still 44% below pre-pandemic levels.

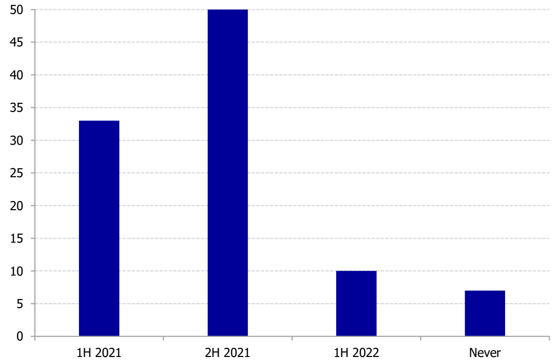
The data from BA is telling a different story. The mobility is above the pre-pandemic level and the vacancy rate is much heterogeneous. In some districts the percentage of empty offices are back to pre-pandemic levels, such as the north downtown district (Catalinas-Rom Square and Retiro-San Martin Square) or Puerto Madero, but downtown (main district or the south corner) and the north side (Libertador and Panamericana) remain pretty high.

Vacancy rate BA and BA Province
As % of the total



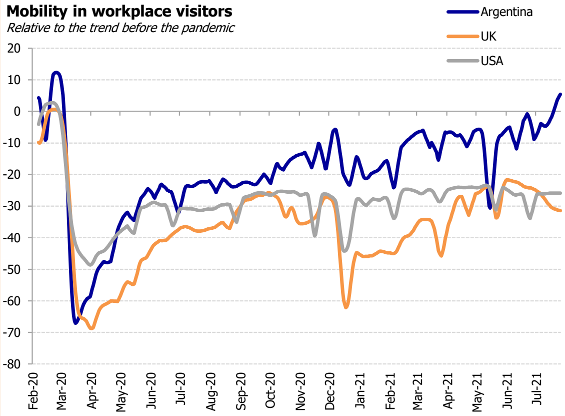
Source: Econviews based on Cushman & Wakefield

"When will most employees return to office?"
In % of responses



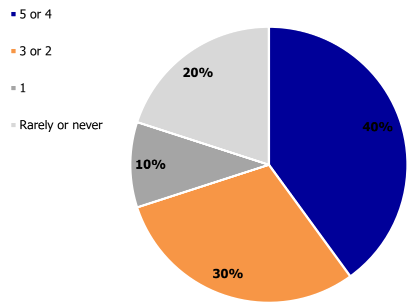
Memo Ítems: The questionnaire was performed in Q1-2021, in the US
Source: Econviews based on The Economist

Mobility in workplace visitors
Relative to the trend before the pandemic



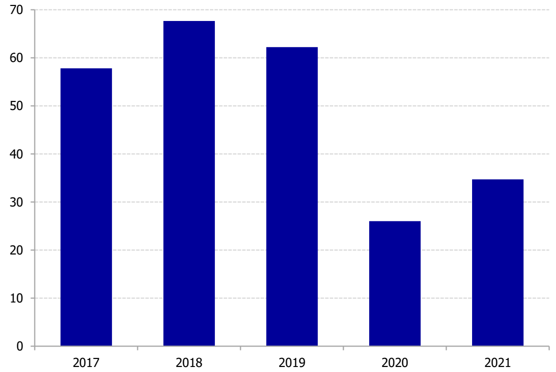
Source: Econviews based on Google Mobility Trends

"How often would you like to work from home?"
In % of responses



Memo Ítems: The questionnaire was performed in Q2-2021, in the US
Source: Econviews based on The Economist

Leasing activity in the US
In million of s.f. Q2 of each year



Source: Econviews based on JLL Research

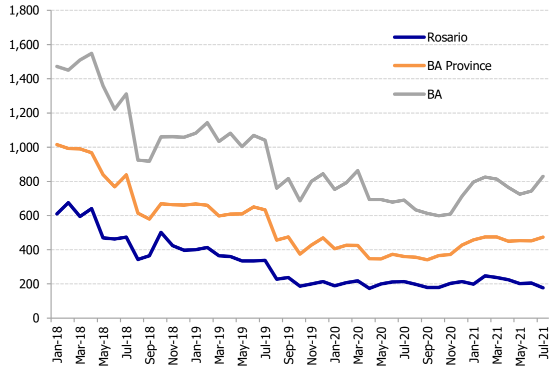
The one thing is common between US, UK and BA is that we are not seeing any move in the prices. Why? Office bulls rest their case on two pillars. One is the transitory nature of the pandemic-induced disruptions. Offices have been part of the commercial property victims of lockdowns, as well as restaurants and shops. Even as rent collections plummeted elsewhere, most corporate tenants have continued to pay on time and debt delinquencies remain a rarity. Furthermore, developers report rises in viewings and lettings, and investors have already pledged billions of dollars to new projects.

The other leg of the bulls' argument involves optimist predictions about the future of work. "Workers have missed water coolers so much that most are bound to flock back". The need to divide the workspace from the personal space and rising appetite for brainstorming pods after a year of dreary Zoom calls, should keep demand for office space constant. And even if it does not, unwanted space can always be salvaged by, for instance, converting it into industrial-chic lofts or logistics centers.

It is too early to tell if offices have avoided the pain that months of social distancing have caused in other industries. Government will help, lenient banks and central-bank largesse may have postponed delinquencies and distressed sales. Corporate tenants are locked into long-term leases which have yet to expire and may not be renewed. Transaction prices are a poor gauge of the market's health: because buyers and sellers cannot agree on terms there have been few sales. In some countries new covid-19 variants may prompt restrictions, delaying a full reopening.

But beware: even small drops in long-run occupancy rates will have a big effect on rents and prices. The IMF reckons a rise in vacancy rates of five percentage points in all commercial property would cause valuations to fall by 15% over five years.

Office rent prices in main cities of Argentina
In parallel US$ per month



Source: Econviews based on San Andrés University

Base Scenario

	2019	2020	2021 F	2022 F	2023 F
Inflation (eop)	53.8%	36.1%	49.0%	48.0%	35.0%
Exchange rate ARS/USD (eop)	59.90	84.15	106.94	171.14	225.92
Real exchange rate ARS/USD (eop, Dec-01=100)	150.8	158.3	140.8	158.4	160.5
Paralell exchange rate ARS/USD (eop)	74.6	140.3	192.5	239.6	316.3
Spread with official exchange rate (eop)	24.6%	66.8%	80.0%	40.0%	40.0%
Gross reserves (USD billion, eop)	44.8	39.4	40.9	45.9	48.9
Policy rate (eop)	55.0%	38.0%	40.0%	40.0%	33.0%
GDP (YoY)	-2.0%	-9.9%	7.4%	2.5%	3.0%
Private consumption (YoY)	-7.3%	-13.8%	8.0%	4.5%	5.0%
Primary surplus (% GDP)	-0.4%	-6.5%	-3.5%	-2.0%	-1.5%
EMBI Argentina (spread in bps, eop)	1744	1350	1350	850	750
Public net debt (% GDP)	43.6%	53.3%	44.9%	45.4%	46.6%
Soybean price in USD per ton (annual average)	327	350	500	480	480
Exports of goods (USD billion)	65.1	54.9	74.8	79.6	84.0
Imports of goods (USD billion)	49.1	42.4	61.2	66.2	71.5
Trade balance (USD billion)	16.0	12.5	13.6	13.4	12.5
Current account (% GDP)	-0.8%	0.9%	0.5%	0.0%	-0.2%

Source: EconViews

(+54 11) 5252-1035
Carlos Pellegrini 1149
Buenos Aires
www.econviews.com
www.facebook.com/econviews
Twitter: @econviews

Miguel A. Kiguel
Director
mkiguel@econviews.com

Andrés Borenstein
Chief Economist
aborenstein@econviews.com

Víctor Ruilova
Senior Economist
vruilova@econviews.com

Isaías Marini
Economist
imarini@econviews.com

Alejandro Giacoia
Economist
agiacoia@econviews.com

Rafael Aguilar
Analyst
raguilar@econviews.com