LOGAN

INVESTMENT REPORT

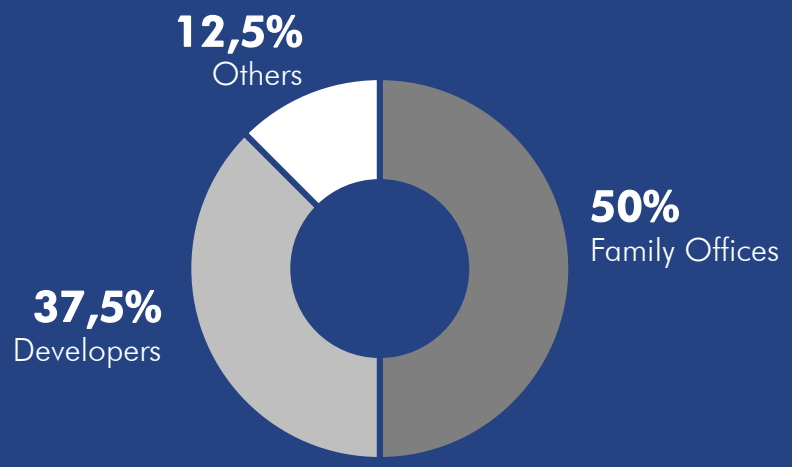
Guatemala – 2024

ADIG ASOCIACIÓN DE DESARROLLADORES INMOBILIARIOS GUATEMALA

METHODOLOGY

This report was compiled from surveys conducted in 2024 by LOGAN and ADIG, targeting major developers, family offices and other key players in the real estate market. It should be noted some values in the results may be outliers and depart from core trends, but these have been retained to accurately reflect the perceptions of respondents.

DISTRIBUTION OF RESPONDANTS:



Others: Include real estate brokers and consultants

TABLE OF CONTENTS

- Net Cap Rates
- Net Cap Rates by subsector, 2024
- Net Cap Rates Driving Factors
- Internal Return Rate (IRR)
- Internal Return Rate (IRR) by Subsector, 2024
- Internal Return Rate (IRR) Driving Factors
- Internal Return Rate (IRR) on Development
- Internal Return Rate (IRR) on Development by Subsector, 2024
- Market Rent Growth
- Market Rent Growth by Subsector
- Financial Indicators
- Most Attraactive Sector to Invest In

NET CAP RATES

In the Retail sector, respondents noted it has the lowest capitalization rate, which shows a solid knowledge of this asset type in the country and its good performance in the first projects. This segment has attracted a lot of interest from investors due to its potential, although the stabilization of these assets remains a challenge. On the other hand, the Office sector has the highest capitalization rate probably due to the high vacancy rate in the market, which creates uncertainty. Nevertheless, with reconversion of spaces and the "Flight to Quality" model it is possible this rate will stabilize in the future.

Sector	2023	2024	2023	2024	Forecast 2025
Office	10.0% / 9.0%	10.5% / 8.5%	9.5%	9.3%	→
Retail	12.0% / 8.0%	11.0% / 7.5%	10.0%	9.0%	→
Industrial	9.0% / 7.0%	10.0% / 8.0%	8.6%	8.7%	↘

NET CAP RATES BY SUB-SECTOR, 2024

Office	Office	8.5% – 9.3% – 10.5% (Avg. 9.3%)
Retail	Regional Shopping Center	7.5% – 8.8% – 10.0%
	Neighborhood Shopping Center (Convenience)	8.0% – 8.4% – 8.8%
	Standalone	8.0% – 9.5% – 11.0% (Avg. 9.0%)
Industrial	Logistics	8.0% – 8.7% – 10.0%
	Manufacturing	8.0% – 8.6% – 10.0% (Prom. 8.7%)

NET CAP RATES – DRIVING FACTORS

Real Estate Market

Factor	Description
• **Rents Growth**	The expected rate growth of rental income in a special market.[1]
• **Vacancy Change**	What is the current availability of space in the market for rent? This indicates the status of development cycle.
• **Inventory Change**	Change in market inventory: What buildings have been delivered and what has been demolished?[2]

Investor Market

• **Investment Equity**	What is the amount of equity available in the market and how accessible is it to be invested?[3]
• **Debt**	How much debt is available and how competitive it is in relation to the return on equity.
• **Interest Rates, Yield**	Bond Yields and how they affect other investment returns.[4]

1. Smith, A. (2017). *Real Estate Market Dynamics*, *Journal of Real Estate Economics*, 45(2), pp. 200-220.
2. Miller, N., & Geltner, D. (2013). *Commercial Real Estate Analysis and Investments*. Cengage.
3. Brueggeman, W., & Fisher, J. (2011). *Real Estate Finance and Investments*. McGraw-Hill.
4. Fabozzi, F. J. (2018). *Fixed Income Analysis*. CFA Institute, 3rd Ed.

INTERNAL RETURN RATE (IRR)

According to the survey respondents, Guatemala's industrial sector stands out by its high potential and lower internal return rates (IRR). **The country's strategic location between North and South America allows logistic opportunities towards crucial markets such as the USA, Canada and Mexico. This makes it an attractive destination for companies looking to establish operations.** The sectors of greatest interest include light manufacturing, especially in the production of automotive parts and electric vehicles equipment. These attributes place Guatemala as a strategic center for the relocation of manufacturing companies from Asia, thus boosting country's economic growth.

Sector	2023	2024	2023	2024	Forecast 2025
Office	14.0% / 11.5%	15.5% / 12.0%	13.3%	13.8%	→
Retail	14.0% / 12.0%	17.3% / 13.5%	13.3%	14.5%	→
Industrial	14.0% / 10.5%	14.5% / 10.0%	12.5%	13.1%	↘

INTERNAL RETURN RATE (IRR) BY SUBSECTOR, 2024

Office	Office	12.0% – 13.8% – 15.5% (Avg. 13.8%)
Retail	Regional Shopping Center	14.0% – 14.8% – 17.3%
	Neighborhood Shopping Center (Convenience)	15.0% – 15.0%
	Standalone	13.5% – 14.0% – 15.0% (Avg. 14.5%)
Industrial	Logistics	10.0% – 13.1% – 14.5%
	Manufacturing	10.0% – 13.1% – 14.5% (Avg. 13.1%)

INTERNAL RETURN RATE – DRIVING FACTORS

Real Estate Market

Factor	Description
• Rents Growth	The expected rate growth of rental income in a special market.[1]
• Vacancy Change	What is the current availability of space in the market for rent? This indicates the status of development cycle.
• Inventory Change	Change in market inventory: What buildings have been delivered and what has been demolished?[2]

Investor Market

• Investment Equity	What is the amount of equity available in the market and how accessible is it to be invested?[3]
• Debt	How much debt is available and how competitive it is in relation to the return on equity.
• Interest Rates, Yield	Yield on Bonds and how they affect other investment returns.[4]

1. Smith, A. (2017). *Real Estate Market Dynamics*, *Journal of Real Estate Economics*, 45(2), pp. 200-220.
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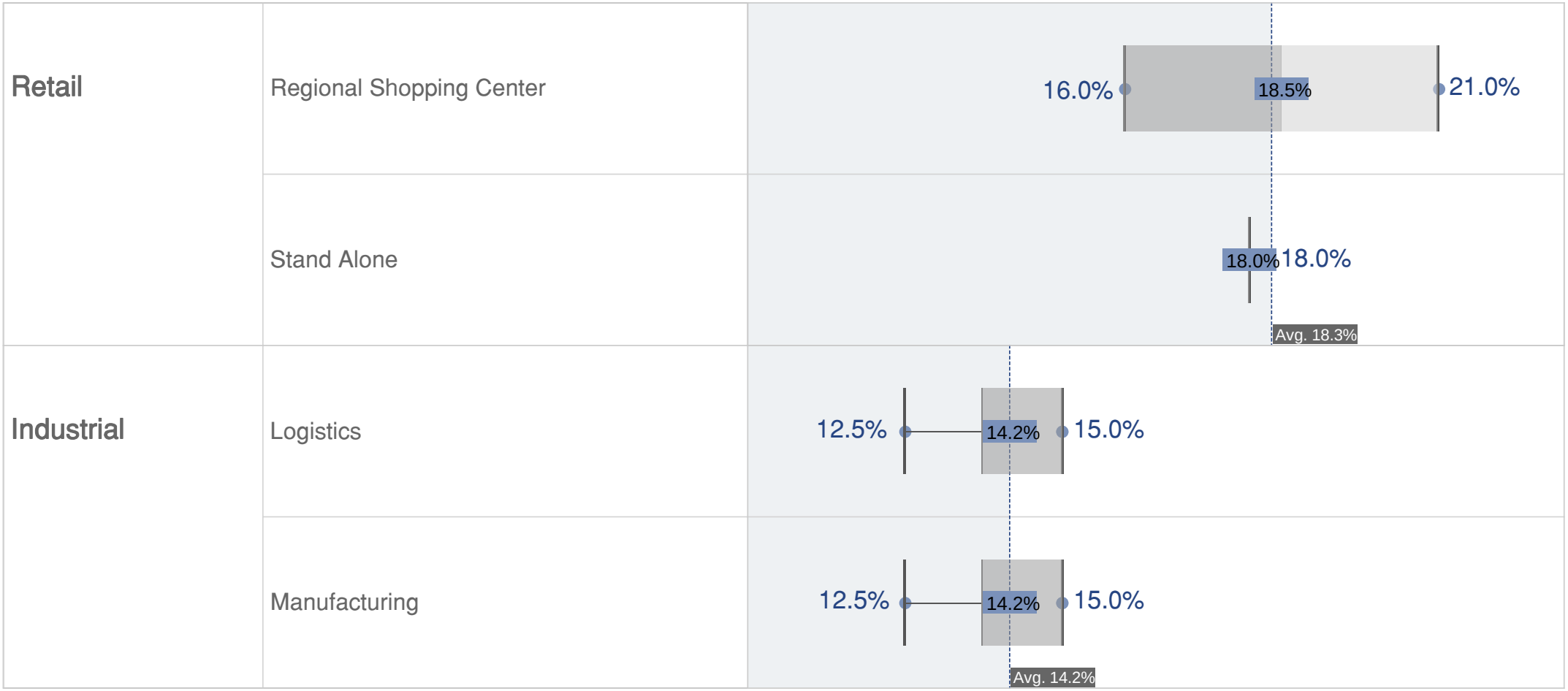
INTERNAL RETURN RATE (IRR) ON DEVELOPMENT

The development of shopping centers is more complex than other asset types because of factors such as the location, labor costs and specific project characteristics. These projects require a detailed approach for their development and subsequent stabilization. As a result, the internal return rate form these assets trends to be higher compared to other sectors according to respondents' perception. This is due to the additional risks associated with their construction and operation, which influence their profitability and long-term stability perception.

Sector	2023	2024	2023	2024	Forecast 2025
Office	20.0% / 15.0%	nd	17.4%	nd	→
Retail	18.0% / 15.0%	21.0% / 16.0%	16.8%	18.3%	→
Industrial	20.0% / 12.5%	15.0% / 12.5%	15.0%	14.2%	↘

INTERNAL RETURN RATE (IRR) ON DEVELOPMENT BY SUBSECTOR, 2024



MARKET RENT GROWTH

The retail sector keeps leading rental growth, consistently outpacing inflation. In the country, the composition of shopping centers is advantageous with single-owner developments standing out, allowing for a more efficient structuring of the tenant mix. This contributes to creating more 'hot zones' and narrowing the "cold zones" within these spaces. In Guatemala, the shopping centers are trying to offer more than just a shopping experience; they are designed to be environments for entertainment and socializing. They include recreational activities, a variety of dining options and coworking areas. In addition, many are in business and residential clusters which increases traffic.

Sector	2023	2024	2023	2024	Forecast 2025
Office	1.0% / 0.0%	1.0% / 0.0%	0.9%	0.3%	↘
Retail	3.0% / 0.0%	2.0% / 0.0%	2.1%	1.1%	→
Industrial	2.0% / 0.0%	2.0% / 0.0%	1.1%	0.9%	→

MARKET RENT GROWTH BY SUBSECTOR

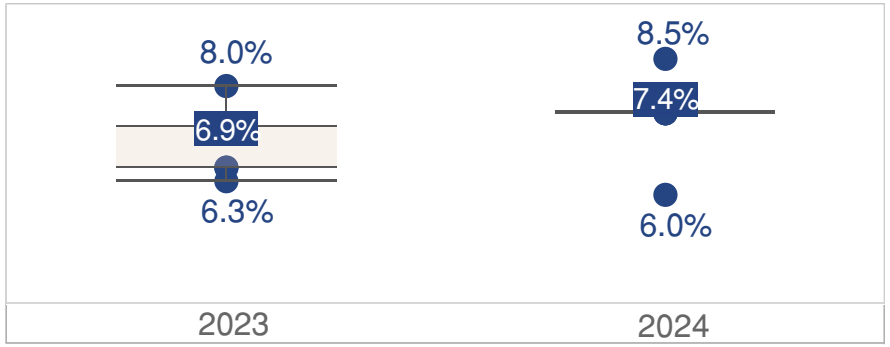
Office	Office	0.0% – 0.3% – 1.0% (Avg. 0.3%)
Retail	Regional Shopping Center	1.0% – 1.7% – 2.0%
	Neighborhood Shopping Center (Convenience)	0.0% – 0.8% – 1.5%
	Standalone	0.0% – 0.9% – 1.5% (Avg. 1.1%)
Industrial	Logistics	0.0% – 0.9% – 2.0%
	Manufacturing	0.0% – 0.9% – 2.0% (Avg. 0.9%)

FINANCIAL INDICATORS

So far in 2024, Guatemala has experienced an increase in benchmark interest rates according to the respondents' perception. This increase corresponds to central bank decisions aimed at maintaining financial stability and adjusting to global factors. **As a result, the cost of credit has become more expensive, causing a generalized perception of higher rates in the market.** This happening has also impacted other financial indicators such as the maximum value that could be obtained for an asset, which is perceived as lower compared to the previous year according to the opinions of the survey participants.

Annual Interest Rate

Lowest rate to acquire a stabilized asset



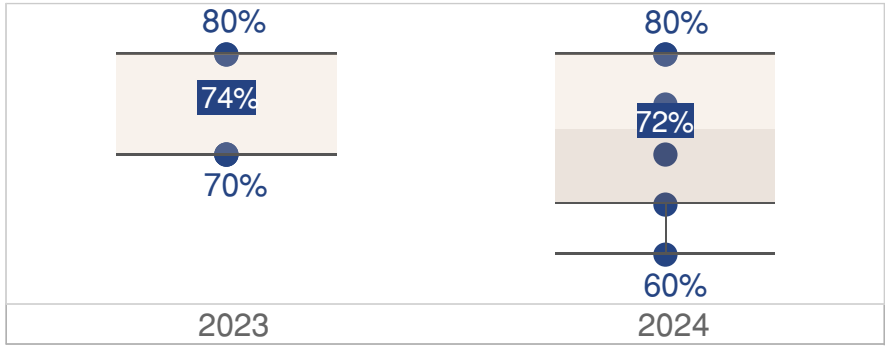
Term

Maximum term of a loan to acquire a stabilized asset

2023	2024
18 Years	14 Years

Loan to Value

Maximum value that could be received to acquire a stabilized asset



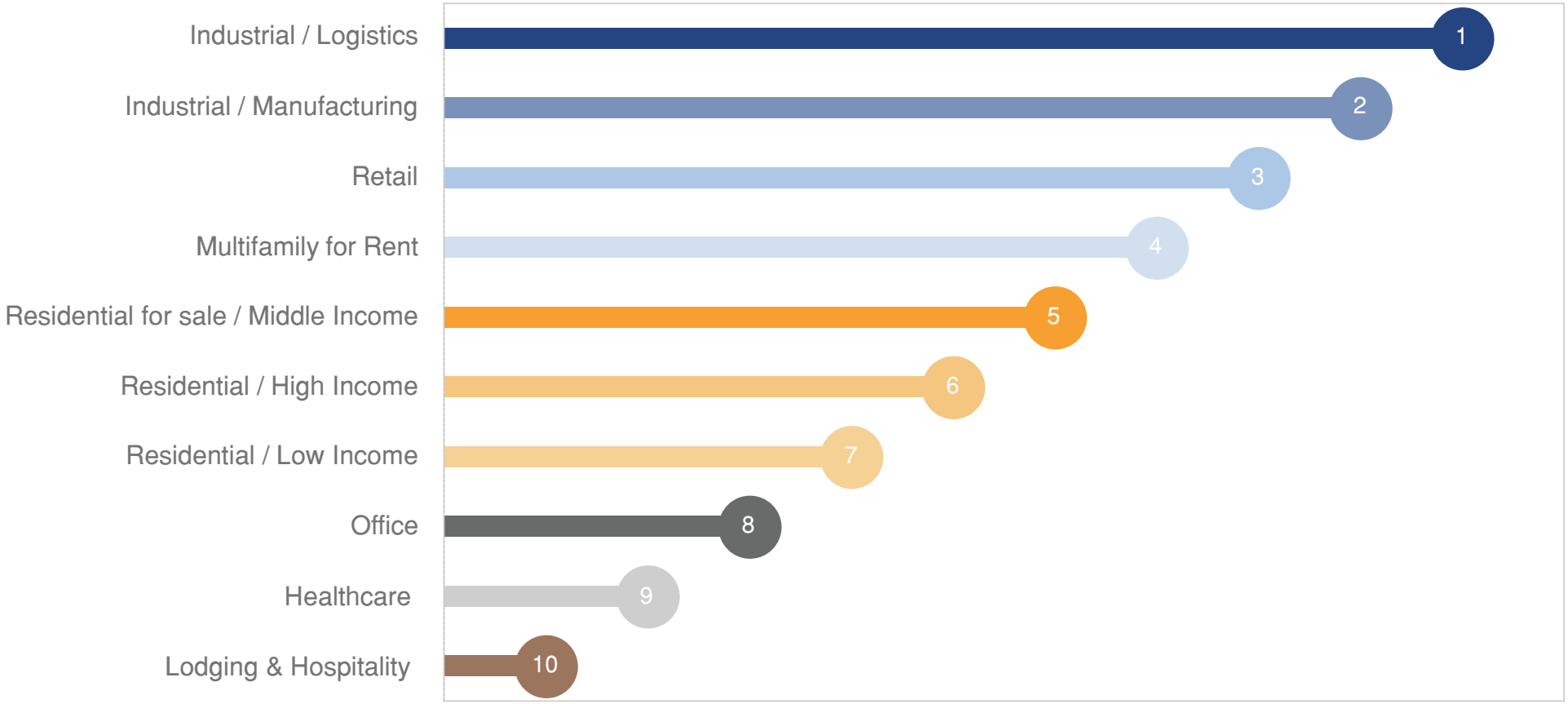
Currency Spread

USD vs. local currency to acquire a stabilized asset

2023	2024
282 Pbs.	363 Pbs.

MOST ATTRACTIVE SECTOR TO INVEST IN

Guatemala has a privileged geographic location which makes it a logistics hub for the region. The industrial sector benefits from this location, especially for companies requesting access to markets in Central and North America. Additionally, despite global fluctuations Guatemala has shown relative economic stability, which generates confidence to invest, especially in sectors with high demand and long-term profitability such as the industrial sector, which is positioned in first place.



GLOSSARY

- **Net Cap Rate:**

  A metric that reflects the ratio of net operating income to total property value. This ratio is used to evaluate the efficiency and profitability of a real estate investment.

- **Internal Return Rate IRR:**

  It is the percentage that represents the expected anual return on a real estate investment, taking into account future income and expenses, before taxes and without leverage. This ratio is key to determining the financial viability of a Project.

- **Internal Return Rate on Development:**

  Reflects the projected rate of return on an investment in a real estate development project, taking into account the project´s future costs and revenues, excluding taxes and leverage. This rate is an essential criterion for evaluating the profitability of projects in the construction or planning stages.

- **Rental Growth:**

  This is the rate that projects the expected increase in a property's rental income over time, adjusted for inflation. It is a key indicator to measure the appreciation of real estate assets in the market.

- **Effective Annual Interest Rate:**

  The percentage that represents the real cost or yield of a loan or investment in one year, considering capitalized interest.

- **Loan to Value:**

  This is the maximum amount that can be received to purchase a stabilized asset. It is calculated as a percentage of the value of that asset.

LOGAN

LOGAN Valuation is a leading firm specializing in valuation, appraisal, and real estate consulting services for institutional clients across Latin America. With a strong presence in Colombia, Peru, Mexico, Costa Rica, the Dominican Republic, and Guatemala, LOGAN is recognized for its credentials, confidentiality, and exceptional service.

The firm offers a wide range of services, including portfolio valuation, commercial appraisals, market studies, and real estate consulting. LOGAN covers a diverse array of assets, such as offices, industrial-logistics complexes, shopping centers, land, hotels, clinics-hospitals, and residential projects for sale and rental, among others.

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