



Rio de Janeiro Industrial and Logistics Market

Although uncertainties remain, projected economic growth is up

The outlook for the major global economies improved in 1Q23 compared to year-end expectations. However, the continued war in the Ukraine, the inability to provide new stimuli due to high levels of country debts following Covid, limited supplies of energy and other commodities, and tighter access to funding due to inflation have kept activity levels down. In recent weeks, stressful events in the financial systems of the US and Europe furthered uncertainty regarding economic growth.

In Brazil, GDP grew by 2.9% in 2022, following from 5.0% of growth in 2021, and a 3.3% drop in 2020. From the perspective of supply, industry and services grew, while agriculture and ranching slowed down. Services were the largest contributor to annual GDP growth, in particular transportation. Industry performance was uneven, with increases in construction, power generation and distribution, gas, and water. Extractive and manufacturing industry slowed down. Agriculture and ranching also slowed down, especially due to climate issues affecting soy, coffee, and corn.

The components of demand increased in 2022, especially household spending due to a better job market. Although in 2022 growth exceeded expectations, it slowed down in the 2nd quarter of the year due to tighter monetary policies, slower global growth, and a tighter money market resulting in diminished household consumption. For this reason, the interest rate remained at 13.75% a year for the 5th consecutive time, the highest it has been since 2017. Nevertheless, GDP growth projections for 2023 went from 1.0% to 1.2%, Inflation continues pressing the economy, and the broad National Consumer Price Index (IPCA) should be 5.6% in 2023, with a basic Consumer interest rate of 12.75%, and a US Dollar exchange rate of R\$ 5,25.

Summary of the Market for High-End Condominiums

	Current Quarter	Previous Quarter	Same period in 2022	12-month projection
Total Inventory (sq.m)	2.26 Mn	2.26 Mn	2.6 Mn	↑
Vacancy Rate	18.4%	16.8%	12.1%	↑
Net absorption in the quarter (sq.m)	-7 thous.	-80 thous.	72 thous.	↑
Gross absorption in the quarter (sq.m)	26,7 thous.	76 thous.	86 thous.	↑
Average asking rent (R\$/sq.m/month)	21,06	20,80	20,24	↔
New Inventory Under Construction (sq.m)	92 thous.	120 thous.	184 thous.	↓

According to the CNI – Confederação Nacional da Indústria (National Federation of Industries), manufacturing indicators were stable in February of this year, however in general there is a slow-down in this area. Sales dropped somewhat, reflecting weakened demand. This same tendency was observed in installed capacity utilization. Despite this slow-down, most indicators remain above what they were in February 2022. Installed capacity utilization has been dropping steadily since 2021.

E-commerce, which has driven the demand for warehouse space in the past 3 years, slowed down in 2022, growing only 1.6% and totaling R\$ 262.7 billion. First quarter results suggest a challenge scenario for the real estate market in Rio de Janeiro. Demand indicators show slow-downs and an increasing supply of vacant spaces.

Current Conditions

- Occupied spaces drop for the third consecutive quarter;
- The vacancy rate rose from 16.8% to 18.4%.
- The average asking rents at the end of 1Q23 was R\$ 21.06 compared to R\$ 20.80 in the previous quarter.

Occupancy levels are down early in the year

For the third consecutive quarter, occupied warehouse space in Rio de Janeiro, the nation’s 2nd largest market, dropped, and net absorption was -7 thousand sq.m. Year-to-date net absorption in 2022 dropped from 234 thousand sq.m to only 13 thousand sq.m at the year end.

This is primarily the result of reduction in occupied spaces by large transportation/logistics, storage and distribution tenants, mostly in Duque de Caxias and Pavuna-Belford Roxo.

Construction activity is down

This quarter 51 thousand sq.m of new inventory were delivered, well below the 172 thousand sq.m delivered last year. In 2023, 92 thousand sq.m of new inventory is forecasted to be delivered. The slowdown in construction activity should help a drop in vacant spaces.

The vacancy rate went from 16.8% to 18.4% in the quarter due to returned spaces and new inventory delivered but not yet occupied. The highest vacancy rates right now are in Campo Grande, Pavuna-Belford Roxo, and Duque de Caxias.

The average asking monthly rent ended the quarter at R\$ 21,06/m², a 1.25% increase compared to the previous quarter, and 4% higher than the same period in 2022.

Asking rents range from R\$ 16 to R\$ 32/sq.m, depending on location and technical specs.

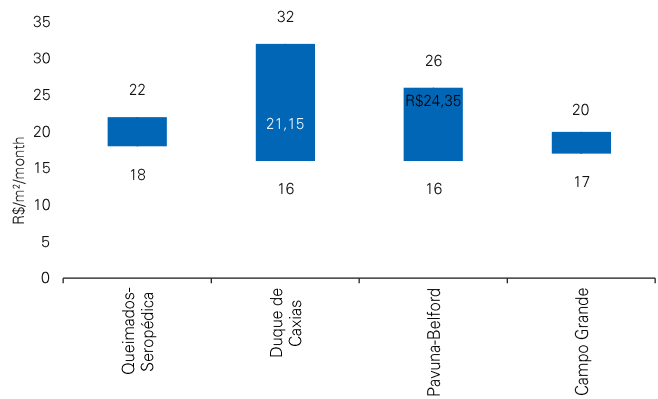
Expectation for 2023

The last 3 quarters have been challenging for industrial/logistics warehouses in Rio de Janeiro. Demand indicators show slow-downs and an increasing of vacant spaces.

All indications are that the market should stabilize in 2023, given that most major tenants have completed their lease transactions. We must also bear in mind the impact that the judicial recovery of a leading retailer, one of the 10 largest warehouse occupants in Rio de Janeiro, could cause over the next few months.

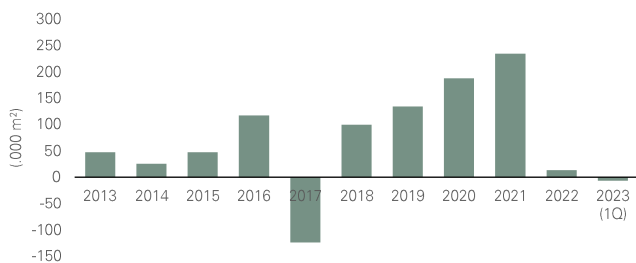
Furthermore, the domestic economic situation is highly uncertain, and there is the risk of a global recession.

Minimum, Average and Maximum Asking Rent



Historical Demand

NET ABSORPTION



Historical Supply and Asking Rents



AVERAGE ASKING RENTS AND VACANCY



Sample of Transactions in the Quarter

Type of Transaction	Property	Region	Tenant/Buyer	Owner/Seller	Total area leased/sold (m ²)
Lease	Bresco Resende	Vale	ValGroup	Bresco Logística FII	26,029
Lease	Syslog Galeão	Duque de Caxias	n/i	XP LOG FII	10,025

Class AAA, AA and A Under Construction

	Property	City	Axis	Leasable area (m ²)	Expected Delivery
	AQ ³ LOG Queimados (expansion)	Queimados	Dutra	71,283	2023
	H. Log Galeão	Ilha do Governador	Linha Vermelha	20,900	2023

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