



# São Paulo 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 2<sup>nd</sup> 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 5<sup>th</sup> 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)	12.9 Mn	12.7 Mn	11.5 Mn	↑
Vacancy Rate	13.7%	13.7%	13.3%	↑
Net absorption in the quarter (sq.m)	361 thous.	255 thous.	121 thous.	↑
Gross absorption in the quarter (sq.m)	536 thous.	402 thous.	299 thous.	↑
Average asking rent (R\$/sq.m/month)	23,67	22,91	20,55	↑
New Inventory Under Construction (sq.m)	1.6 Mn	2 Mn	1.2 Mn	↓

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 segment in the past 3 years, slowed down in 2022, growing only 1.6% and totaling R\$ 262.7 billion. However, results for the first quarter of this year suggest that this market remains active in São Paulo. Demand indicators have remained strong since 2022, and construction activity remains intense.

### Current Conditions

- The new inventory of high-end warehouses condominiums delivered dropped to 141 thousand sq.m in the first quarter of the year;
- Net quarterly absorption increased 42% to 361 thousand sq.m;
- Average asking monthly rents increased to R\$ 23,62/sq.m.

### Demand remains active

Demand continues an upward trend in the state of São Paulo, with net absorption 42% higher than in 4Q22, and 21% in the y-o-y comparison. Net absorption in the quarter was 361 thousand sq.m, and gross absorption was 536 thousand sq.m; compared to 402 thousand sq.m in the previous quarter. Even though demand indicators improved, since the last quarter we have seen a slight increase in returned spaces, showing that segment players may be reviewing their options. Most lease transactions with known tenants involved manufacturing industry, in particular pharmaceuticals, machinery and equipment, and automobiles, which together accounted for 62% of the gross absorption in the quarter. Services, including transportation and logistics, and trade, including retail, accounted for 20% and 18% respectively. The largest volume of new occupancies were Cajamar, Guarulhos, and Sorocaba.

### Slowdown in new deliveries in the quarter

New deliveries in the quarter slowed down compared to 4Q22 - 141 thousand sq.m in 3 developments, one of them (24% of the total), a built-to-suit. The largest volume of new deliveries, or 77% of the total for the quarter, was in Embu. New warehouses were also delivered in ABDM and Cajamar. The slow-down in new deliveries and the large number of transactions contributed to a decline in the vacancy early in the year. However, there is significant inventory under construction and supply should go up by year end.

### Falling vacancy rates

The slow-down in new deliveries and intense lease activity resulted in a close to 2 p.p. drop in the vacancy rate, from 13.7% to 11.8%. Returned spaces since the previous quarter did not contribute to an increase in vacant spaces. The vacancy rate is lower (10.5%) within a 40 km radius of the city of Sao Paulo, and about 14.7% in the interior of the state.

The regions that currently have the lowest vacancy rates are Ribeirão Preto (2.2%), Sorocaba (2.5%), and ABCDM (6.5%).

Average asking rental rates continue to go up, ending the quarter at R\$ 23,67/sq.m (vs. R\$ 22,91/sq.m at 4Q). This is the result of significant demand and the quality of new inventory in more desirable location, along with the higher cost of construction.

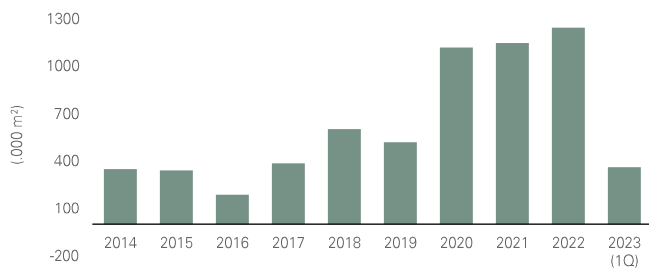
Asking rents are even higher in metropolitan São Paulo: R\$ 25/sq.m/month. The highest asking rents were in ABCD, São Paulo, and Guarulhos.

### Expectation for 2023

A slow-down in online sales growth, the largest demand driver of recent years, and the movements of certain tenants, may suggest the market will remain stable in 2023. Furthermore, construction has slowed in some regions, and there are general slowdowns due the uncertainties concerning the economic scenario and the risk of a global recession.

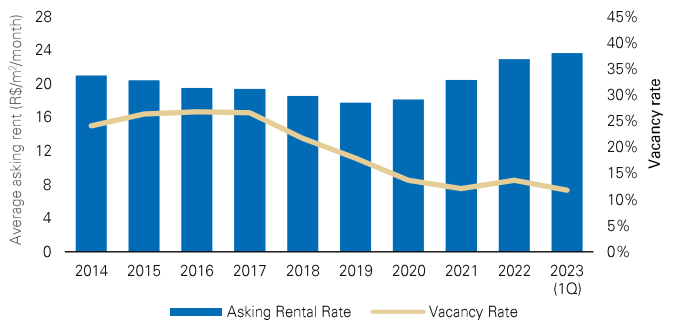
## Historical Demand

### NET ABSORPTION

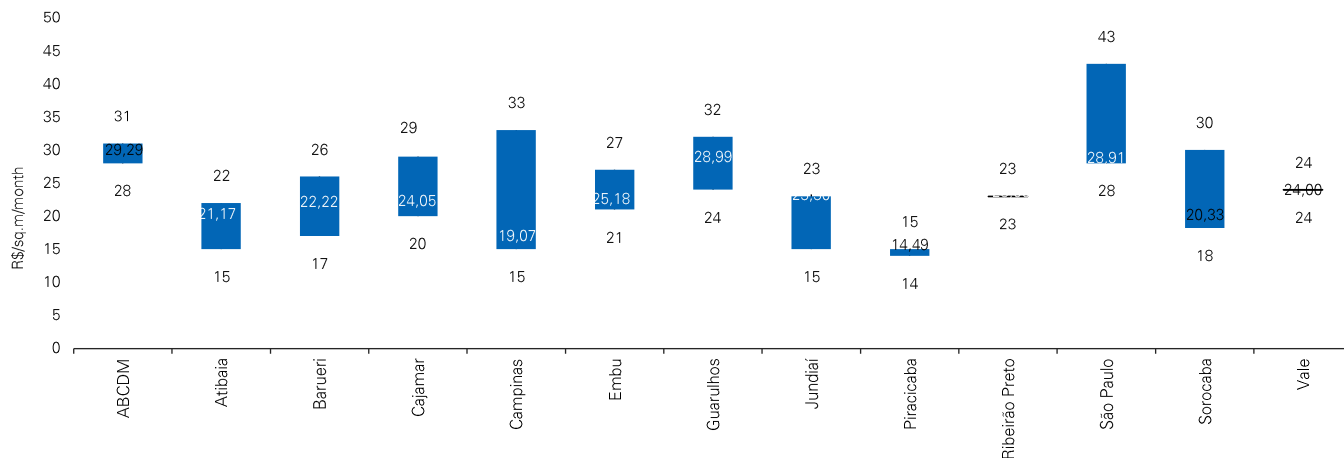


## Historical Supply and Asking Rents

### AVERAGE ASKING RENTS AND VACANCY







### Minimum, Average and Maximum Asking Rent by Region



### Significant Transactions in the Quarter

Transaction Type	Property	Submarket	Tenant	Owner	Total Area (sq.m)
Lease	Centeranel Cajamar	Cajamar	GrupoSC Medicamentos	Racional Engen...	51,572
Lease	BRPR Logistic Center Cajamar I	Sorocaba	Grupo Antilhas	BR Properties	24,392
Lease	Condomínio Pinheirinho	São Paulo	Brucai Logística	Bianca Participa...	15,743
Renewal	Centro Logístico Especulativo Cajamar - XP Log WT Cajamar	Barueri	Ecori Energia solar	XP LOG FII	12,906

### Class AAA, AA and A Developments Under Construction

Property	City	Axis	Leasable area (m <sup>2</sup> )	Expected Delivery
 HGLG Itupeva	Itupeva	Anhanguera / Bandeirantes	112,308	2023
 Syslog Cajamar	Cajamar	Anhanguera / Bandeirantes	187,995	2023
 GLP Guarulhos II	Guarulhos	Dutra	246,403	2023
 SBC LOG	S. Bernardo do Campo	Anchieta/Imigrantes	190,127	2023

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