



Rio de Janeiro Industrial and Logistics Market

Economic growth at risk in Brazil and worldwide

The economic recovery has slowed down all around the world in recent months, in part due to new outbreaks of Covid-19 in China, and in part due to the conflict between Russia and the Ukraine, both of which have significantly impacted economic activity and global inflation. Higher rates of inflation in the world's main economies have led central banks to withdraw the monetary stimuli of recent years, created in part to address the crisis brought on by the pandemic. As a result, economies around the world have had to tighten their belts, which will slow down economic growth in the coming quarters. As a rule, emerging economies remain more vulnerable to global economic fluctuations. Brazil experienced unexpected growth in the first quarter of the year, and all indications are that this will also be the case in the 2nd quarter. As a result, the most recent Central Bank inflation report, published on June 30, now expects the GDP may grow 1.7% this year, an improvement over the 0.5% expected early in the year. Almost all manufacturing sectors performed well in April. Ipea forecasts call for a 1.2% increase in manufacturing industry, 0.6% in trade, and 0.3% in services in May compared to April. GDP growth in the second quarter was reinforced by new stimuli for household spending - extraordinary withdrawals of the FGTS, and early payment of the 13th salary to INSS retirees. Furthermore, farming, cattle, and extractive industries are expected to improve after poorer performances early in the year. According to the Continuous Household Survey (PNAD), the job market continued to recover in the first half of the year, with a drop in unemployment and corresponding increase in employment. Unemployment in April dropped to 9.3%, the lowest it has been since October 2015. On the other hand, inflation remains high and once again above expectations. Food and fuel went up quite a bit, and services and manufactured goods also went up. Inflation is now expected to reach 8.50%, quite a bit higher than the 5% target. The forecast for 2023 is 4.70%. The basic interest rate was raised by another percentage point at the May Copom meeting, to 12.75% a year. It is likely the basic interest rate will go up to 13.25% by year end. The IPCA is expected to go up to 6.86%, and the IGPM to 10.88%. The US Dollar exchange is expected to be R\$ 5,25 by year end.

Summary of the Market for High-End Condominiums

	Current Quarter	Previous Quarter	Same period in 2021	12-month projection
Total Inventory (sq.m)	2.6 Mn	2.6 Mn	2.5 Mn	↑
Vacancy Rate	12.5%	12.1%	20.4%	↓
Net absorption in the quarter (sq.m)	35 thous.	72 thous.	-54 thous.	↑
Gross absorption in the quarter (sq.m)	65 thous.	86 thous.	13 thous.	↑
Average asking rent (R\$/sq.m/month)	20,79	20,24	18,57	↔
New Inventory Under Construction (sq.m)	166 thous.	184 thous.	176 thous.	↓

Despite the challenging environment, higher inflation, rising interest rates, supply chain bottlenecks, and high costs of raw material, according to the Manufacturing Survey by the National Federation of Industries (CNI), manufacturing output in June was stable compared to the previous month. Employment in industry also increased in June. Although these numbers are encouraging, in the y-o-y comparison manufacturing output dropped 1.9%;

The market for industrial warehouses continue to grow. In recent years the inventory of such properties almost doubled in Brazil, from 16 to 29 million sq.m, yet the vacancy rate continues to drop, closing the quarter at 9.6% this quarter, the lowest since 2014. These numbers show that demand has kept up with supply, with consecutive increases in gross and net absorption in all regions. Demand is coming from diverse sectors, led by large retailers and logistics operators.

Current Conditions

- Forty thousand square meters of new inventory were delivered in 2Q22, but the vacancy changed little compared to the previous quarter (12.5%).
- Gross and net absorption dropped in the quarter to 65 thousand and 35 thousand sq.m, respectively.
- Average asking rents remained almost unstable compared to the first quarter.

Inventory rises as lease activity slow down

The inventory of industrial and logistics warehouses increased 40 thousand m², and despite a slow-down in lease activity, net absorption was 35 thousand m². The accumulated inventory for the first half of the year exceeded the annual average of 85 thousand m² between 2014 and 2021.

The largest absorptions in the quarter were in Duque de Caxias and Pavuna-Belford Roxo. Retail and e-commerce account for most of the demand in Rio de Janeiro.

Decreased construction of new inventory

As new developments are delivered, expected future inventory drops as construction in this segment has slowed down. This, plus active demand, could help the vacancy rate come down in the short to medium term.

The largest drop in vacancy came in Duque de Caxias. Pavuna-Belford Roxo has the 2nd largest inventory due to new deliveries, and the vacancy rate went from 8% to 15%. The regions with the lowest vacancy rates in the quarter were Campo Grande (5.6%), Vale do RJ (6.9%), and Queimados-Seropédica (11%), while there were no vacant warehouses in Jacarepaguá or Campos-Macaé. Duque de Caxias had the highest vacancy (15.5%).

The average asking monthly rent was almost unchanged compared to the previous quarter - R\$ 20,79 vs. R\$ 20,24/m². The change is more significant - 12%, in the y-o-y comparison. The highest asking monthly rents are in Duque de Caxias and Pavuna-Belford Roxo: R\$ 22,5/m² and R\$ 21,5/m² respectively.

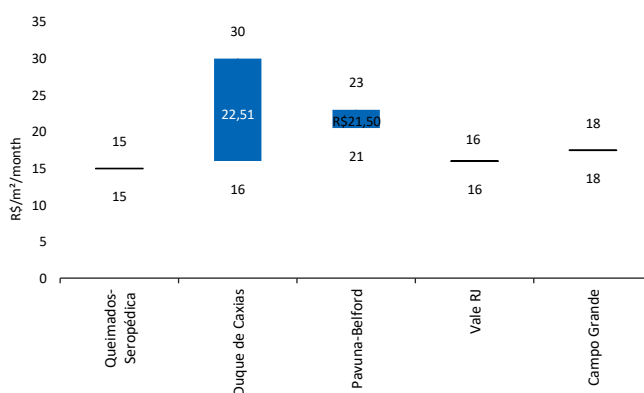
Asking rents range from R\$ 16,00 to R\$ 30,00/m², depending on location and technical specs.

2022 market outlook

The segment of industrial and logistics condominiums continues to deliver good results. This scenario is favored by the increase in e-commerce and changing consumer behaviors, which feed the appetite of sector developers.

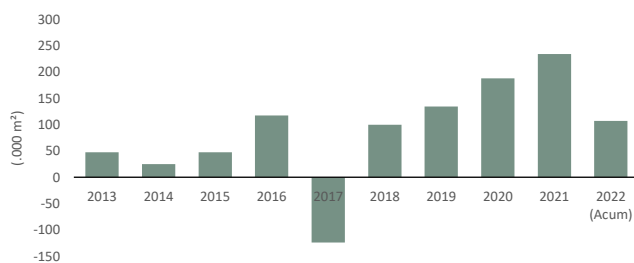
In the past twelve months, inventory in Rio de Janeiro increased by 148 thousand m², below the historical average of 239 thousand m² between 2014 and 2021. By year end another 166 thousand m² should be delivered. These indicators suggest a slow-down in new construction, which should favor a drop in vacancy if demand remains.

MINIMUM, AVERAGE AND MAXIMUM ASKING RENT BY REGION



Historical Demand

NET ABSORPTION



Historical Supply and Asking Rents






AVERAGE ASKING RENTS AND VACANCY



Significant Transactions in the Quarter

Type of Transaction	Property	Region	Tenant/Buyer	Owner/Seller	Total area leased/sold (m²)
Lease	CL Duque	Duque de Caxias	O Amigão	Ourinvest Logística FII	39,657.69
Lease	CL Duque	Duque de Caxias	American Pet	Ourinvest Logística FII	12,952.67
Lease	HGLG Washington Luiz	Duque de Caxias	Produtora Paranoid	CSHG Logística FII	3,034.00
Lease	Multimodal Duque de Caxias	Duque de Caxias	Transcarapiá	SDI Rio Bravo Logística FII	2,030.33

Examples of Class AAA, AA and A Under Construction

	Property	City	Axis	Leasable area (m²)	Expected Delivery
	AQ³ LOG Queimados (expansion)	Queimados	Dutra	71,283	3Q2022
	Santa Cruz Desenvolvimento Modular	Santa Cruz	Av. Brasil	27,416	3Q2022
	Unilogística Business Park Rio II	Duque de Caxias (S. João de Meriti)	Dutra	22,200	4Q2022
	H. Log Galeão	Ilha do Governador	Linha Vermelha	20,900	4Q2022
	Cargo Center Dutra V	Queimados-Seropédica	Dutra	23,931	4Q2022

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