

# São Paulo 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 2<sup>nd</sup> 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)	11.7 Mn	11.5 Mn	10.1 Mn	↑
Vacancy Rate	11.6%	13.3%	13.1%	↓
Net absorption in the quarter (sq.m)	440 thous.	121 thous.	153 thous.	↑
Gross absorption in the quarter (sq.m)	525 thous.	299 thous.	300 thous.	↑
Average asking rent (R\$/sq.m/month)	21,17	20,55	18,37	↑
New Inventory Under Construction (sq.m)	1.2 Mn	1.2 Mn	1.4 Mn	=

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

- Even though 325 thousand sq.m of new inventory was delivered in the quarter, the vacancy rate remained unchanged at 11.6%;
- Net absorption in the quarter was the highest in the year: 440 thousand sq.m, twice the accumulated volume in 1H21;
- The average asking rent continues to increase and ended at R\$ 21.15/sq.m.

### Increasing lease activity and few returns

The 2nd quarter of the year was marked by an expansion in the market for high-end industrial and logistics condominiums in São Paulo, as inventory and absorption go up and the vacancy rate comes down. Leases for 525 thousand sq.m were signed in 2Q22, compared to just 299 thousand m<sup>2</sup> in 1Q22. Essentially no premises were returned, so occupied space increased 440 thousand sq.m. In the year, accumulated gross and net absorption totaled 823 thousand sq.m and 561 thousand sq.m respectively, exceeding the numbers for the same period in 2021 by 56% and 156%.

The largest net absorptions this quarter were in period in, Jundiaí, and São Paulo (within a 20 km radius of the city). E-commerce, logistics, and manufacturing industry dominated the transactions with known tenants.

### Increasing deliveries of new inventory

New inventory also increased this quarter: 325 thousand sq.m of new inventory were delivered, bringing the total for the year to 583 thousand sq.m. This is more than double the inventory delivered in the same period in 2021, when 265 thousand sq.m of new inventory were delivered. Most of the new inventory was delivered within a 40 km radius of the city of São Paulo - Barueri, Cajamar, and Atibaia receiving the largest amount.

### Following a slight increase, supply declines again

After a slight increase in vacant space in the first quarter, the result of new inventories and increased returns, the vacancy rate came back down. Even with the new deliveries, the vacancy dropped in almost all regions.

The vacancy for the entire state was 11.6% in the quarter, and within 40 km of the city of SP it is even smaller: 8%.

After Ribeirão Preto, where the vacancy is zero, the regions with the lowest percentages of vacancy are currently São Paulo (1.67%), Embu (2.86%) and Cajamar (5.89%).

Average asking rents in S continue to go up due to high demand, and new high-quality inventory delivered in the high value neighborhoods. The average for the quarter was R\$ 21,1 sq.m, 3% higher than it was in the first quarter, and 15% higher than in 2Q21

Asking rents are even higher in metropolitan São Paulo, defined as a 40 km radius from the center. R\$ 24,89 sq.m/month. The most expensive regions are the city of São Paulo – R\$ 33,90 /sq.m, Guarulhos – R\$29,27/ sq.m, and ABCDM – R\$ 26,08 / sq.m.

### 2022 market outlook

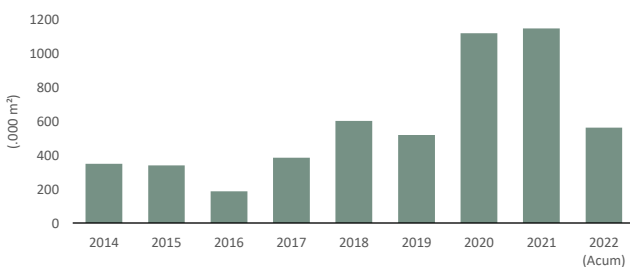
The segment of industrial and logistics condominiums continues to deliver good results. This scenario is favored by the increase in e-commerce and changing consumer behaviors, which feed the appetite of sector developers.

The market in São Paulo continues to expand rapidly, with significant amounts of new inventory and a lot of new construction. There is 1.6 million sq.m more inventory than there was n 2W21, and another 1.2 million sq.m by year end.

The risk of oversupply this year is very low, as absorption has kept up with increasing supply. About 15% of the expected new volume has already been pre-leased.

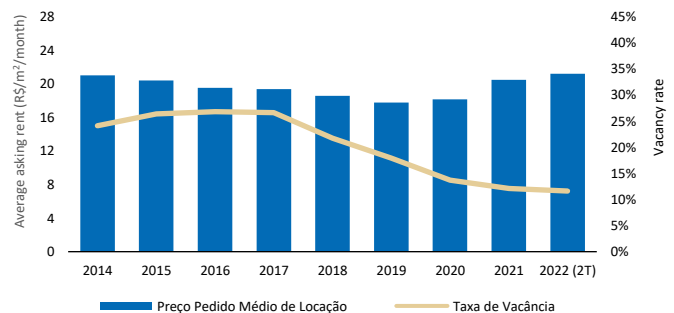
## Historical Demand

### NET ABSORPTION

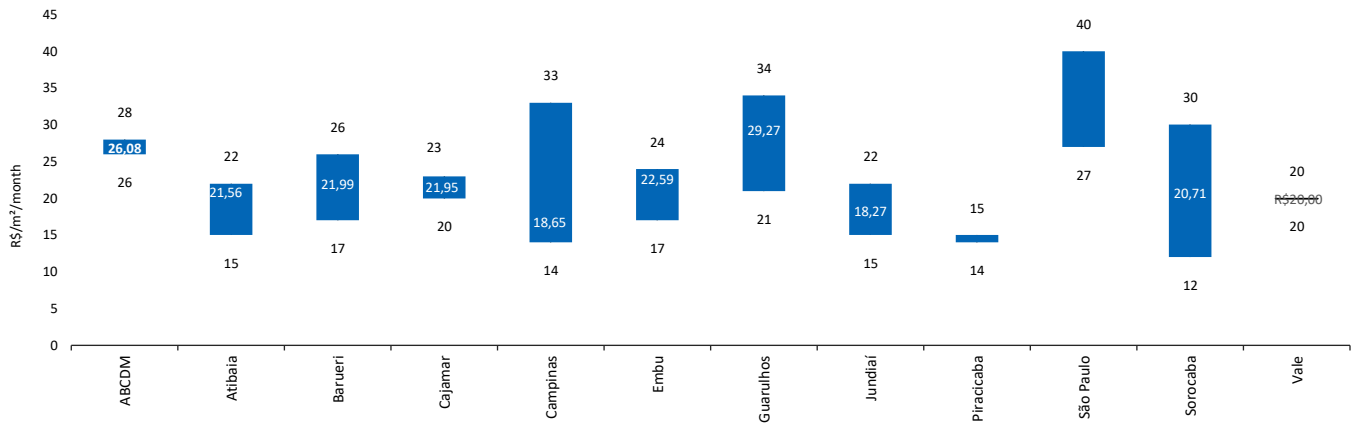


## Historical Supply and Asking Rents

### 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	GLP Cajamar IV	Cajamar	Amazon	GLP	81,200
Lease	GLP Louveira III	Jundiaí	Expresso Mirassol	GLP	31,632
Lease	Aurora Business Park II	Sorocaba	n/i	EADI Aurora	30,000
Renewal	Bresco Itupeva I	Jundiaí	Reckitt Beckinser	Bresco Logística - FII	24,801
Lease	HGLG Ribeirão Preto	Ribeirão Preto	Shopee	CSHG Logística FII	5,580
Lease	HGLG Ribeirão Preto	Ribeirão Preto	GPA	CSHG Logística FII	4,185
Lease	City Gate Cabreúva I and II	Jundiaí	Grupo VIP	Blue Cap Renda Logística FII	2,360

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

	Property	City	Axis	Leasable area (sq.m)	Expected Delivery
	Parque Logístico Barueri	Barueri	Castello Branco	114,260	2Q22
	Goodman Itaquera	Itaquera	São Paulo	44,980	3Q2022
	BRPR Logistic Center Cajamar I	Cajamar	Anhanguera / Bandeirantes	148,783	3Q2022
	Parque Logístico Guarulhos II	Guarulhos	Dutra	93,482	4Q2022

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