



# Rio de Janeiro Industrial and Logistics Market

## The nation's economy is resilient, despite a volatile environment

3Q22 remained difficult and volatile for the main economies, with widespread slow-downs. The continued war in the Ukraine and its impact on commodity prices, in particular natural gas and food in Europe, and China's continued enforcement of policies to contain Covid-19 evidence the possibility of a global slow-down in the coming months. Following two years of robust growth, the US economy slowed down in the first two quarters of the year. Although aggregate consumer spending has been growing in line with pre-pandemic trends, there remains a mismatch between goods and services, still a reflection of the pandemic. Annual inflation remains high (8.2%) but stable, at least through September of this year. The center of the inflation range went up to 6.7% due to higher costs of housing and healthcare. Given high inflation, the Federal Reserve should continue to increase interest rates, at least through the rest of the year, as it attempts to contain prices. Internally, the country's GDP grew 1.2% in 2Q22 compared to the previous quarter, in the seasonally adjusted series. This is the fourth consecutive positive result. In the y-o-y comparison the GDP grew 3.2%, and year-to-date the GDP is up 2.5%, to R\$ 2.4 trillion. Industrial activity grew 2.2%, driven by electricity and gas, water, sewage, waste management, construction, extraction, and manufacturing industries. Services grew 1.3%, driven by services held-back by the pandemic such as restaurants and hotels, transportation, information, communication, agriculture and cattle-raising, which increased 0.5%. The projections for this year are for a 3% increase in GDP, however the last six months of the year should be slower due to the uncertainties associated with the elections. In 22 states unemployment dropped this quarter compared to 2Q22. These indicators reflect the nationwide reduction in unemployment, which went from 11.1% to 9.3% in June, and then to 8.9% in August. Inflation, as measured by the IPCA or broad consumer price index, dropped for the 14th consecutive week, from 5.88% to 5.74%. Inflation in 2023 is expected to be 5%. The Selic rate is 13.75%, and remained unchanged in the September meeting, following a sequence of increases. The Selic rate in 2023 is expected to be 11.25%. The US Dollar exchange is expected to be R\$ 5,20 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	13.1%	12.5%	19%	↓
Net absorption in the quarter (sq.m)	-14 thous.	35 thous.	85 thous.	↑
Gross absorption in the quarter (sq.m)	24 thous.	65 thous.	95 thous.	↑
Average asking rent (R\$/sq.m/month)	21,17	20,79	20,00	↔
New Inventory Under Construction (sq.m)	166 thous.	166 thous.	204 thous.	↓

In 3Q22 raw-material shortages and high prices continued to impact most industries. The rise in the price of raw materials has started to slow down, and the supply chain is behaving more normally. Even so, manufacturing industry slowed down in September, and the outlook for the next few months has dimmed. According to a survey by the CNI, the National Federation of Industries, manufacturing output dropped from 54.5 points in August to 49 points in September. This decrease comes in the wake of four consecutive increases. However, the level of employment has risen. After the lack or high cost of raw materials, the high tax burden is the 2<sup>nd</sup> biggest concern of entrepreneurs in the industrial sector, in addition to high interest rates and insufficient domestic demand. In terms of real estate, industrial and logistics condominiums continue their robust growth. Inventory is increasing and supply decreasing, despite the large number of new developments being added to the market.

### Current Conditions

- No new inventory was delivered in Rio de Janeiro this quarter, but even so the vacancy rate remained high, going from 12.53% to 13.06% due to the decrease in lease activity that started in 2Q22, plus returned spaces by some companies. As a result, net absorption in the quarter was -14 thousand sq.m;
- Average asking rents were up slightly in the quarter and in the year.

### Lease activity dropped in the third quarter

Even though no new inventory was livered this quarter, vacant warehouse space increased, as lease activity has been dropping since the second quarter of the year, and the larger retail and technology tenants are reducing the amount of space they occupy. As a result, net absorption in the quarter was negative 14 thousand sq.m. In the year, vacant warehouse space in Rio de Janeiro increased by 93 thousand sq.m, which is more than the historical average for an entire year in RJ, or 85 thousand sq.m (2014-2021), but less than the amount of vacant warehouse space at the end of 2021.

The largest absorptions in the quarter were in Queimados-Seropédica and Campo Grande. Most of the transactions in Rio de Janeiro again involved trade concerns, in particular retail and e-commerce, however this quarter we also saw significant transactions involving manufacturing industry players.

### Decreased construction of new inventory

Construction of new warehouses in Rio de Janeiro has stabilized, with 166 thousand m<sup>2</sup> under construction since the previous quarter. This signals that, like offices, construction of logistics and industrial warehouses in Rio de Janeiro has slowed down. This should help contain the increase in vacancy, especially in light of the slow-down in demand in recent months.

The largest vacancy rate and largest percent vacant space are in Pavuna-Belford Roxo and Duque de Caxias - 17% and 16.5% respectively. The vacancy rate declined in Campo Grande (4.7%), Vale do RJ (6.9%) and Queimados-Seropédica (8.6%), which also had the lowest percent vacant space. The vacancy rate remained unchanged in Jacarepaguá and Campos-Macaé.

The average asking monthly rent changed very little, from R\$ 20,79 to R\$ 21,17/sq.m. These numbers are 6% higher than in the same quarter last year. The highest asking rent in the quarter was in Pavuna-Belford Roxo, followed by Duque de Caxias - R\$ 22,7/ sq.m and R\$ 22,4/ sq.m respectively.

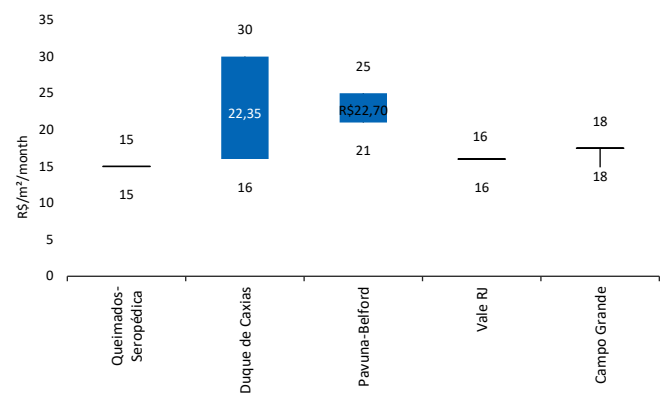
Asking rents range from R\$ 16,00 to R\$ 30,00/ sq.m, depending on location and technical specs.

### Expectation for 2022

The segment of industrial and logistic warehouse condominiums has been quite fruitful, despite the slow-down of recent months.

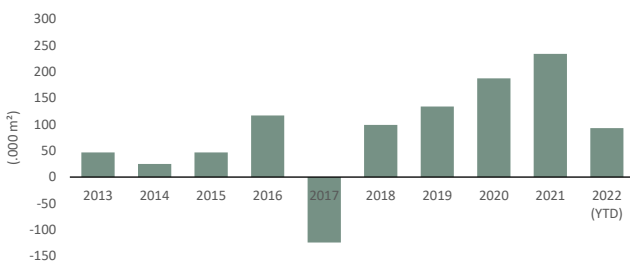
Despite the slow-down in online sales the scenario remains quite favorable, as online purchases are now part of the consumer culture.

### 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 (m <sup>2</sup> )
Lease	VBI Log - Seropédica	Queimados-Seropédica	Grupo Granado	VBI Real Estate	18,414
Lease	GLP Campo Grande	Campo Grande	Shopee Brasil	GLP - Global Logistic Properties	3,944
Lease	Multimodal Duque de Caxias	Duque de Caxias	Riocolor Distribuidora	SDI Rio Bravo Renda Logística - FII	2,285
Lease	Syslog Galeão	Duque de Caxias	Vitrine Direta	XP LOG FII	1,944

## Examples of Class AAA, AA and A Under Construction

	Property	City	Axis	Leasable area (m <sup>2</sup> )	Expected Delivery
	AQ <sup>3</sup> LOG Queimados (expansion)	Queimados	Dutra	71,283	4Q2022
	Santa Cruz Desenvolvimento Modular	Santa Cruz	Av. Brasil	27,416	4Q2022
	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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