



São Paulo 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)	12.3 Mn	11.7 Mn	10.30	↑
Vacancy Rate	12.6%	11.6%	10.9%	↑
Net absorption in the quarter (sq.m)	428	440 th.	341	↑
Gross absorption in the quarter (sq.m)	505 th.	525 th.	437 th.	↑
Average asking rent (R\$/sq.m/month)	21.77	21.17	19.23	↑
New Inventory Under Construction (sq.m)	804	1.2 Mn	1.2 Mn	=

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 2nd 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

- The new inventory delivered was the highest of the year – 594 thousand sq.m. This resulted in a slight increase in the vacancy rate;
- Net absorption also increased 26% compared to 3Q22, or 428 thousand sq.m.
- The average asking monthly rent continues to go up, ending the quarter at R\$ 21,77/ sq.m.

Demand is also high in the interior of the state

Despite the slow-down in e-commerce in the first half of the year compared to 2021 - 6% vs. 47% according to the 46th *Webshoppers* -, the segment remains very active. Demand remains high, and despite a significant offer of new inventory, the vacancy rate hardly changed. Net absorption in the quarter was 428 thousand sq.m, almost the same as in the entire first half of the year. In 2022 occupied warehouse space increased by 989 thousand sq.m, 74% more than in the same period last year. This is only 160 thousand sq.m short of the accumulated net absorption of 2021, or 1.14 million sq.m, the highest since 2013 when we first started our surveys

The largest net absorptions in 3Q22 were in Jundiaí, ABCDM, Campinas, and Barueri. Manufacturing tenants are the most common in those transactions where the players are known, but leases to logistics and e-commerce players were also substantial.

Record new inventory in the year

New inventory continues to grow, and 594 thousand sq.m were delivered in 3Q22, the highest in the year, which totaled 1.17 million sq.m in new warehouse space delivered.

Most regions, with the exception of Atibaia, Sorocaba, Ribeirão Preto and the Paraíba Valley received new, high-end warehouse parks. Most new deliveries were in Cajamar, followed by São Paulo (within a radius of 20 km from the center), and Jundiaí.

Slight increase in the vacancy rate

This resulted in a slight increase in the vacancy rate, which ended the quarter at 12.6%. The percent vacancy was high across most regions, a reflection of new inventory delivered in the past 3 months that remains unoccupied. The vacancy rate is lowest within a 40 km radius, or 9.6%. In locations further from the city the vacancy rate is 17%.

The regions that currently have the lowest vacancy rates are Ribeirão Preto (2.5%), ABCDM (2.8%), Guarulhos (7.5%), and Cajamar (5.89%).

The high demand and the new inventory delivered, with excellent technical specs, built in a period of high inputs and construction costs, have reflected driving up prices.

The average monthly asking rent was R\$ 20,77/sq.m, about 2.8% above the previous quarter, and 13% higher than 3Q21.

Asking rents are even higher in metropolitan São Paulo, defined as a 40 km radius from the center: R\$ 23,50 sq.m/month, with rents in the city proper even higher, or R\$ 36,90/sq.m/month. Other regions with high asking monthly rents were ABCDM (R\$ 29,00) and Guarulhos (R\$ 29,65) per square meter.

Expectation for 2022

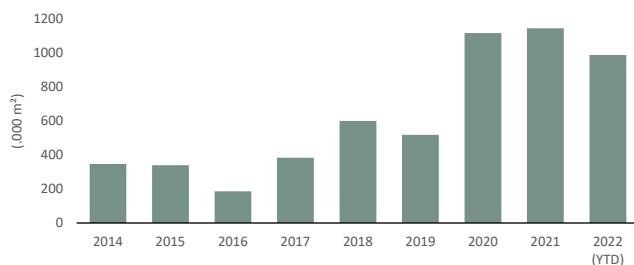
The demand for logistics and industrial warehouses seems never ending. Despite the slow-down in online sales earlier this year in relation to the previous period, the market remains very active, further driving sector expectations for the coming months.

Despite the significant volume of new deliveries in the quarter, this seems not to have made a dent in this situation. Another 800 thousand sq.m should be delivered by year-end, and construction goes on unabated.

Given that absorption has grown in proportion to the market since 2020, we believe the risk of over-supply this year is low, especially within 40 km from the city of SP. In addition to the fact that it is estimated that 30% - 40% of this volume is pre-leased.

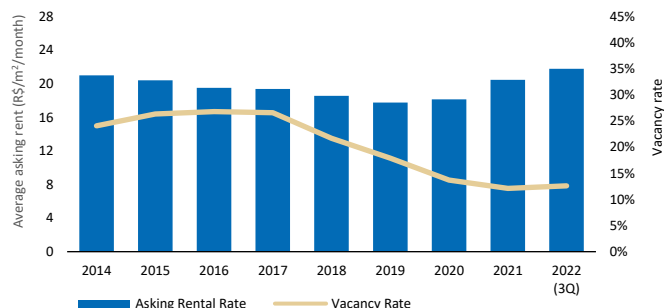
Historical Demand

NET ABSORPTION

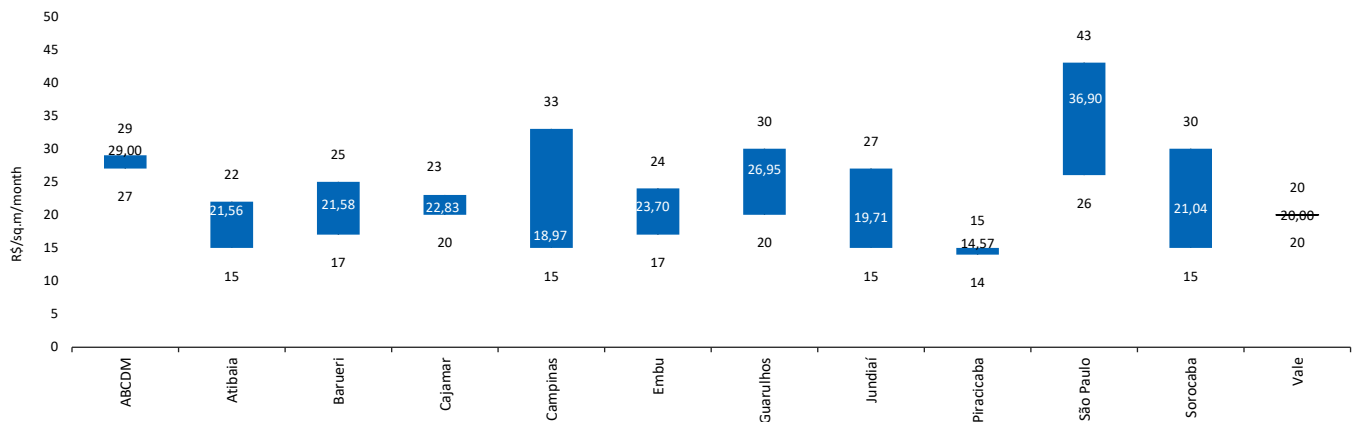


Historical Supply and Asking Rents

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)
Locação	BTLG Mauá	ABCDM	Braskem	BTG Pactual Logística - FII	45.655
Locação	Citlog Viracopos	Jundiaí	Coopercarga	Hedge Logística - FII	42.688
Locação	Bresco Itupeva I	Jundiaí	WestRock	Bresco Logística FII	14.252
Renovação	Goodman Itaquera	São Paulo Capital	Governo de SP	Goodman	6.651
Locação	Multimodal Campinas	Campinas	Shopee Brasil	SDI	6.187

Examples of Class AAA, AA and A Developments Under Construction

	Property	City	Axis	Leasable area (sq.m)	Expected Delivery
	Parque Logístico Barueri G200, Phase II	Barueri	Castello Branco	61,142	4Q2022
	Centeranel Cajamar	Cajamar	Anhanguera / Bandeirantes	93,730	4Q2022
	Castelo 57 Business Park	Barueri	Castello Branco	61,242	4Q2022
	Parque Logístico Guarulhos II and III	Guarulhos	Dutra	119,297	4Q2022

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