



Rio de Janeiro Office 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 2nd 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 5th 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 Office Space

	Current Quarter	Previous Quarter	Same period in 2022	12-month projection
Total Inventory (sq.m)	2.26 Mn	2.26 Mn	2.26 Mn	↔
Vacancy Rate	34.1%	33.7%	35.4%	↓
Net absorption in the quarter (sq.m)	-10.5 thous.	23 thous.	3 thous.	↑
Gross absorption in the quarter (sq.m)	14 thous.	33 thous.	43 thous.	↑
Average asking rent (R\$/sq.m/month)	74,90	74,47	73,69	↔
New Inventory Under Construction (sq.m)	30 thous.	30 thous.	19 thous.	↔

Market for class AAA, AA and A office space in all RJ regions: CBD + Non-CBD (Barra da Tijuca)
*construction has started but there is no date for delivery

Current Conditions

- Lease activity has dropped, and returned spaces once again exceeded new transactions, resulting in net absorption of -10.5 thousand sq.m;
- Thus, the vacancy rate, which had been dropping since mid-2021, is climbing back up and reached 34.1% at the end of the quarter.
- The average asking monthly rental rate was R\$ 18,50/sq.m, almost unchanged compared to the previous year and quarter.

Slow demand and returns

The outlook for high-end office space in Rio de Janeiro has been start unpromising this year. Lease activity has slowed down, and gross absorption dropped from 34 thousand to 14 thousand sq.m between 4Q22 and 1Q23. Returns, which had slowed down, have picked up again and exceeded new leases, returning the amount of occupied office space. Net absorption was -10.5 thousand sq.m.

Occupied spaces dropped in all survey regions, except for Flamengo/Glória and Centro. The service industry led in returned spaces (51%), especially technology and consulting & auditing, followed by the oil & gas industry.

Vacant offer has risen again

The vacancy rate, which had been dropping since mid-2021, is climbing back up and reached 34.11% at the end of the quarter, compared to 33.6% in the previous quarter.

The average asking monthly rent in Rio de Janeiro remained almost mid-2021, at R\$ 74,90/sq.m/month, compared to R\$ 74,47/sq.m/month in the previous quarter.

The highest asking rents continue to be in Zona Sul (R\$150,00/sq.m/month), Bota Fogo (R\$ 122.31/sq.m/month), and Porto Maravilha (R\$ 79,03 sq.m/month).

Expectation for 2023

All indications are that returns should go back to normal levels, and the inventory of occupied office space resume the growth

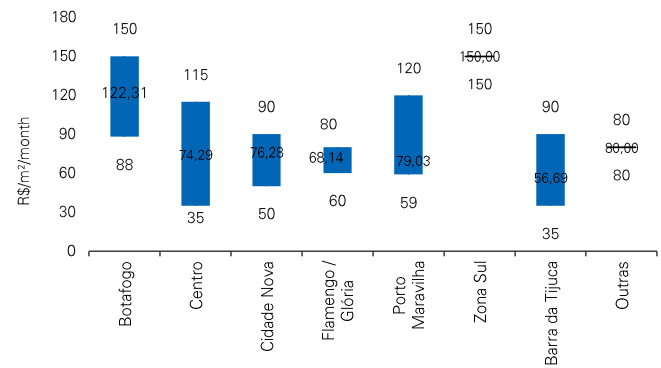
path interrupted in the first quarter. 2023 should be a promising year, with increasing owner confidence, especially if GDP growth projections are confirmed, and other economic fundamentals result in a more consistent recovery.

However, more improvement of several parameters is required if the Rio de Janeiro office for market space is to gain visibility.

However, a certain amount of economic slow-down cannot be ruled out, given the high risk of a global recession and a domestic situation that remains the first.

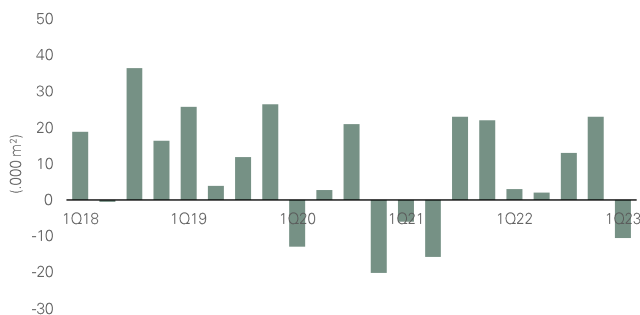
The future of the nation's fiscal policies and the guidelines of the new government's economic guidelines are the main questions right now, as these will reflect on the country's economy and decisions made by companies, thus impacting the market for office space.

Minimum, average and maximum asking rent



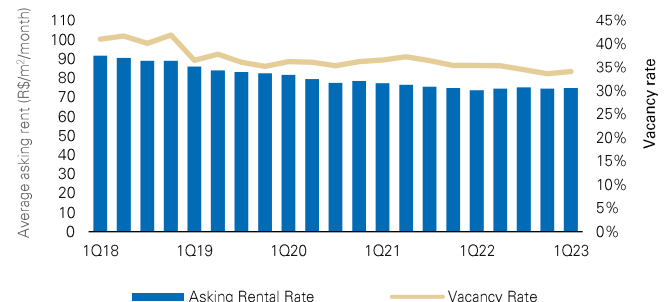
Historical Demand

NET ABSORPTION



Historical Supply and Asking Rents

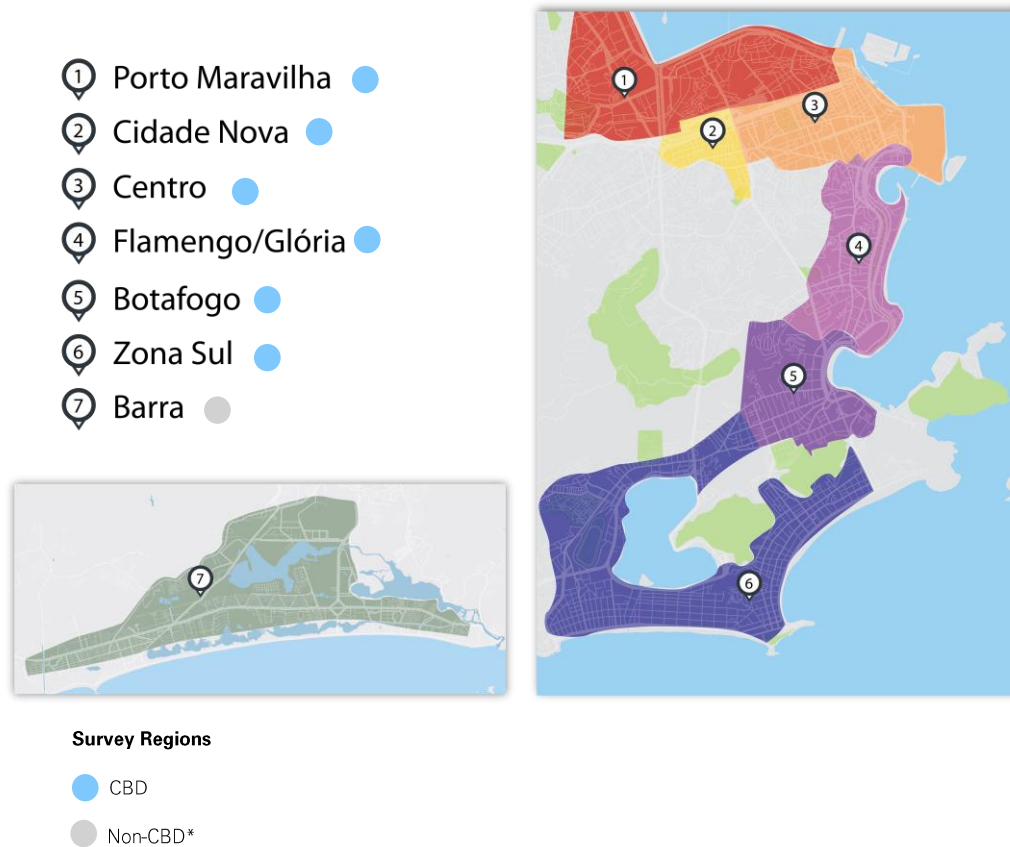
AVERAGE ASKING RENTS AND VACANCY



Transactions in the Quarter

Type	Property	Region	Tenant	Owner	Total area (sq.m)
Renewal	Rio Metropolitan	Centro	IBGE	Fundação Sistel	12,870
Lease	Rio Metropolitan	Centro	TotalEnergies	Previ	1,897
Lease	Linneo de Paula Machado	Centro	Porto Seguro	n/i	1,285
Lease	Centro Empresarial Mourisco - Torre Corcovado - B	Botafogo	Iter Participações	Previ	976

Submarkets Map



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