



## São Paulo 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 2<sup>nd</sup> 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 5<sup>th</sup> 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.

#### Market Summary for High-End Offices

	Current quarter	Previous quarter	Same period in 2022	12-month projection
Total Inventory (sq.m)	5.26 Mn	5.26 Mn	5.17 Mn	↑
Vacancy Rate	24%	23.8%	23.8%	↑
Net absorption in the quarter (sq.m)	-10.7 thous.	27 thous.	48 thous.	↑
Gross absorption in the quarter (sq.m)	94 thous.	54 thous.	128 thous.	↑
Average asking rent (R\$/sq.m/month)	89.18	88,64	87.21	↔
New Inventory Under Construction (sq.m)	211 thous.	252 thous.	210 thous.	↓

\* Class AAA, AA and A in all SP districts: CBD + Non CBD (Barra Funda and Alphaville)

#### Current Conditions

- Returned spaces increased once again, the year started with a decrease in occupied spaces and net absorption of -10.7 thousand sq.m.
- Lease activity was intense, exceeding the previous quarter. Gross absorption for the quarter was 94.5 thousand sq.m.
- The vacancy rate remains stable at 24%, as does the average asking rental rates for all regions, which was R\$ 89,18/sq.m/month.

### The volume of returns rises again

Since early in the year, once again, occupations by leading banks in high-end buildings in the city were reduced. This movement of returns, which happened frequently during the pandemic, was already expected. This plus, a major technology player returning its former headquarters and reducing 2 of 11 floors in its new headquarters contributed to the increase in vacant offices. Despite intense leasing activity, returns resulted in a slight drop in occupied spaces. New transactions, which added up to 94.5 thousand m<sup>2</sup> were not enough to offset returns, resulting in net absorption of -10.7 thousand sq.m. Most new leases in the first quarter were signed by tenants in the service industry, in particular the financial/investment industry, consulting, technology, and logistics, followed by the pharmaceutical industry. The largest net absorptions were in Chucri Zaidan, Marginal, and Berrini, thus they are also the regions with the largest decline in vacancy rates.

### Declining new inventory delivered

Construction slowed down in 2022, resulting in a decline in new inventory delivered, in some cases postponing deliveries to future years. There have been no new deliveries so far this year, but 211 thousand sq.m have been confirmed for year-end, which could drive up the vacancy rate, especially in the districts that already have a high vacancy rate.

### Stabilization in supply and asking rents

The slow-down in delivery of new high-end inventory in the past year helped keep the vacancy rate stable, both on a quarterly and yearly comparison basis.

The average asking rent was R\$ 89,18/sq.m, almost unchanged from the previous quarter (R\$ 88,64/sq.m). Year-over-year it increased 2.3%.

The highest asking rent this quarter was in Itaim – R\$ 222/sq.m, followed by Faria Lima (R\$ 201,05/sq.m) and JK (R\$ 155,00/sq.m).

### Expectation for 2023

Owner confidence should increase even more in 2023, especially if economic projections such as the GDP and other fundamentals confirm a more consistent economic recovery.

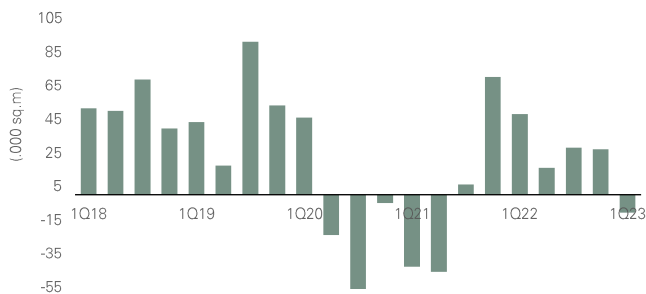
Returns should go back to normal levels, and occupied spaces should again increase.

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 uncertain.

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.

## Demand History

NET ABSORPTION

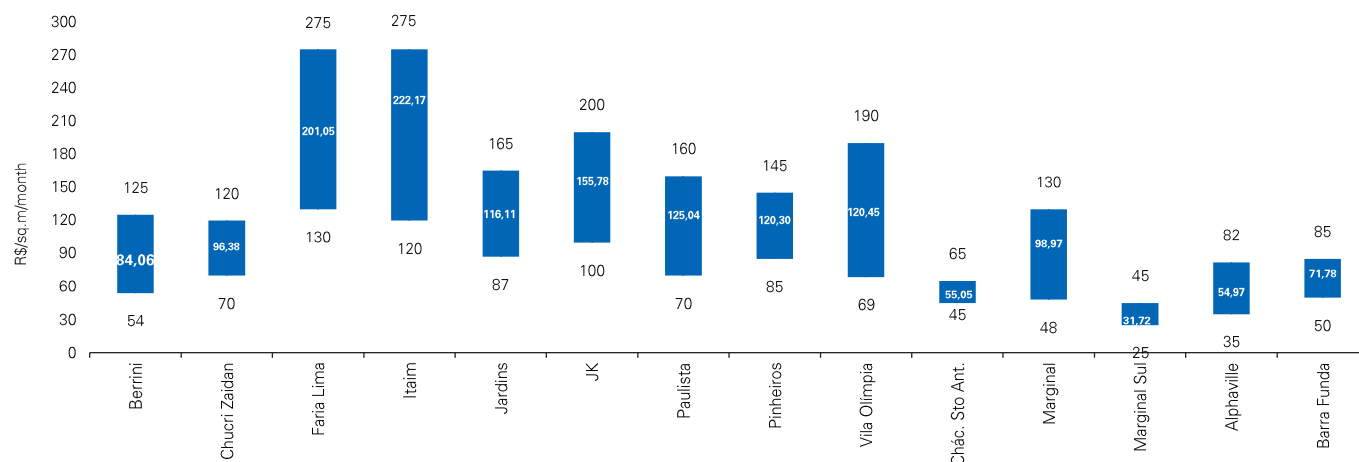


## Historical Offer and Asking Rents

ASKING RENT AND VACANCY RATE







## Minimum, Average and Maximum Asking Rent per Region

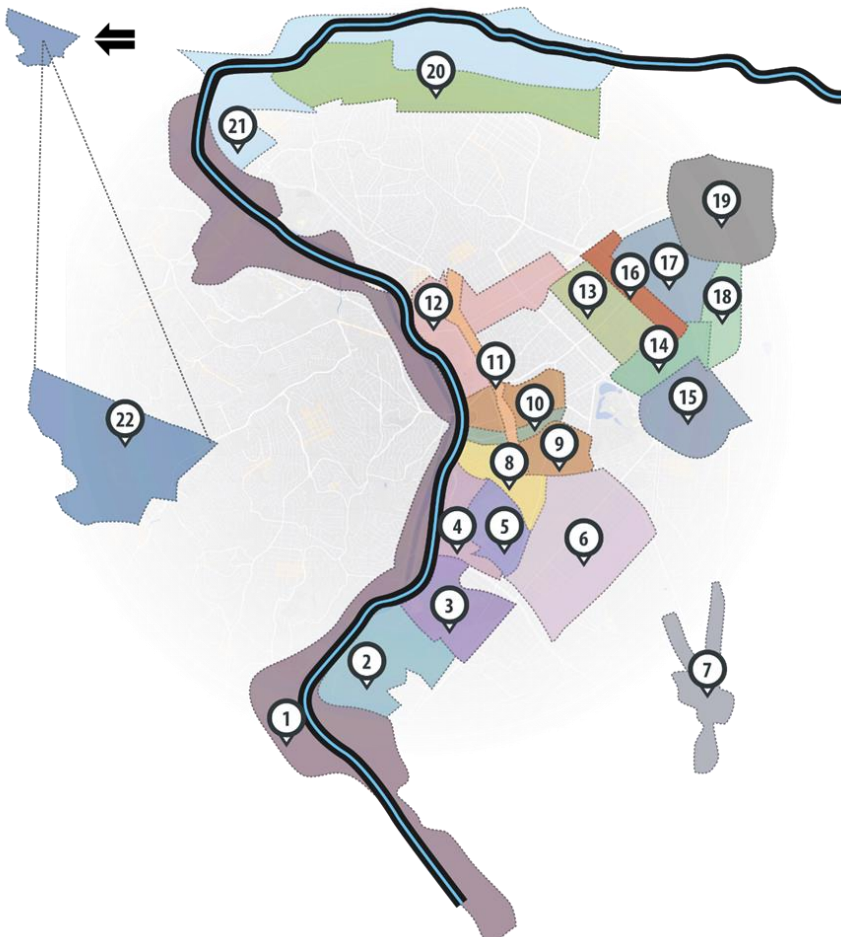


## Significant Transactions in the Quarter

Transaction Type	Property	Region	Tenant/Buyer	Owner/Seller	Total Area (sq.m)
Lease	Parque da Cidade – Torre Paineira	Chucui Zaidan	n/i	Brookfield	6,746
Lease	River One	Marginal	Iron Mountain Brasil	FUNDO DE INVEST. IMOB. RBR PROPERTIES - FII	2,767
Lease	Corporate Park	Itaim	Ambev	Ruy Yazawa	554
Lease	Torre Sul - Nações Unidas	Berrini	Essor Seguros	TELLUS PROPERTIES FII	433
Lease	The One - Faria Lima	Vila Olímpia	IRIS3P Agente Autônomo	PÁTRIA EDIFÍCIOS CORP.	359
Sale	Vila Olímpia Corporate Torre A	Vila Olímpia	FUNDO DE INV. IMOB. – FII VILA OLÍMPIA	FUNDO DE INVEST. IMOB. - VBI PRIME PROPERTIES	10,369

**Class AAA, AA and A Under Construction**

	Property	Region	Macro-region	Leasable area (sq.m)	Expected Delivery
	Brasília Offices Square	Barra Funda	Non-CBD	48,600	2Q 2023
	Vista Nações Unidas	Berrini	Premium CBD	9,792	2Q 2023
	Complexo LUNA - Torre Nova	Chác. Sto. Antônio	CBD	33,556	2Q 2023
	Union	Itaim	Premium CBD	10,083 m <sup>2</sup>	4Q 2023



**Submarkets Map**

- 1 Marginal P. ●
- 2 Chác. Sto Ant. ●
- 3 Chucri Zaidan ●
- 4 Berrini ●
- 5 Brooklin ●
- 6 Moema ●
- 7 Jabaquara ●
- 8 Vila Olímpia ●
- 9 Itaim ●
- 10 JK ●
- 11 Faria Lima ●
- 12 Pinheiros ●
- 13 Jardins ●
- 14 Paraíso ●
- 15 Vila Mariana ●
- 16 Paulista ●
- 17 Bela Vista ●
- 18 Liberdade ●
- 19 Centro ●
- 20 Barra Funda ●
- 21 Marginal Tietê ●
- 22 Alphaville ●

**Surveyed Regions**

- CBD\* Premium
- CBD\* Demais
- Non-CBD\*

\*CBD – Central Business District

*For more information:*

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