



Rio de Janeiro Office 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 2nd 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 Office Space

	Current Quarter	Previous Quarter	Same period in 2021	12-month projection
Total Inventory (sq.m)	2.31Mn	2.31Mn	2.31Mn	↔
Vacancy Rate	35.4%	35.4%	37.2%	↓
Net absorption in the quarter (sq.m)	2 thous.	3 thous.	-16 thous.	↑
Gross absorption in the quarter (sq.m)	19 thous.	43 thous.	21 thous.	↑
Average asking rent (R\$/sq.m/month)	74,44	73,69	76,58	↔
New Inventory Under Construction (sq.m)	19 thous.	19 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

- The market for high-end offices in Rio de Janeiro was sluggish in the first half of the year, with a decline in gross absorption and premises still being returned.
- The vacancy rate remained almost unchanged, going from 33.45% to 35.37%.
- Although timid, new leases outpaced deliveries in most regions, and net absorption ended the quarter at 2 thousand sq.m. Barra da Tijuca, Centro, and Flamengo/Glória experienced negative net absorption in the quarter, while occupied premises increased in Cidade Nova and Botafogo;
- The average asking monthly rent in Rio de Janeiro was R\$ 74.44/sq.m;

One more quarter of stagnated growth

There was a slow-down in lease activity in Rio de Janeiro in 2Q22, and gross absorption was only 19 thousand sq.m. Returns have slowed, but premises are still being vacated by tenants, resulting in net absorption of 2 thousand sq.m. New leases exceeded returns in most areas except Barra da Tijuca, Centro, and Flamengo/Glória, the three regions with negative net absorption.

Cidade Nova and Botafogo experienced a more significant increase in occupied spaces, as the new City Government office was occupied, and technology, oil & gas, and manufacturing industries moved into offices in Botafogo.

Stable supply

The vacancy rate remained almost unchanged, going from 35.45% to 35.37%. This quarter the volume of vacant space dropped only slightly in Botafogo, Porto Maravilha, and Cidade Nova. In all other regions the vacancy rate increased or remained unchanged.

In the annual comparison, when the vacancy rate was 37.24%, the change was more significant. Nevertheless, vacant office space remains significant, and has changed little since 2019.

Average asking rents in Rio de Janeiro continue to drop, ending the quarter at R\$ 74.44 sq.m. The average asking rent in CBD offices was R\$ 75.96/sq.m.

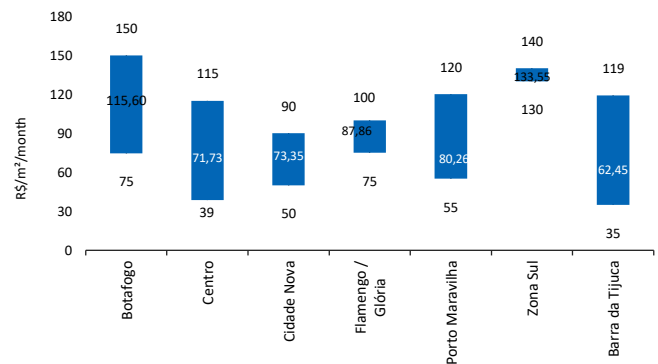
The highest asking rents were in Zona Sul (R\$ 133.55/sq.m/month), Botafogo (R\$ 115.60/sq.m/month) and Flamengo (R\$ 87.86/sq.m/month).

2022 market outlook

Although occupancy losses are still under course, lease activity are slowly recovery, and demand indicators have been positive in the last four quarters. The current scenario is promising if compared to the same period in 2021, when the market was in a major slow-down.

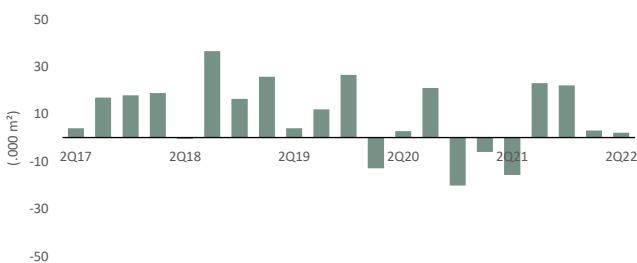
Confidence must be restored quarter by quarter. Ideally, tenants should stop returning offices, and a number of parameters must pick up even more for a more tangible recovery of the market for offices in Rio de Janeiro. The speed of this recovery is strongly related to the nation's political and economic situation, which is likely to be unstable in an election year and could become an important factor in a turnaround.

MINIMUM, AVERAGE AND MAXIMUM ASKING RENT BY REGION



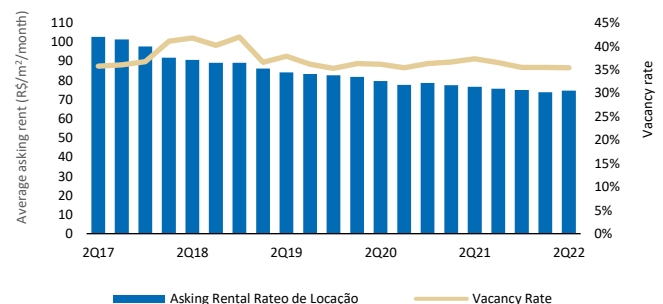
Historical Demand

NET ABSORPTION



Historical Supply and Asking Rents

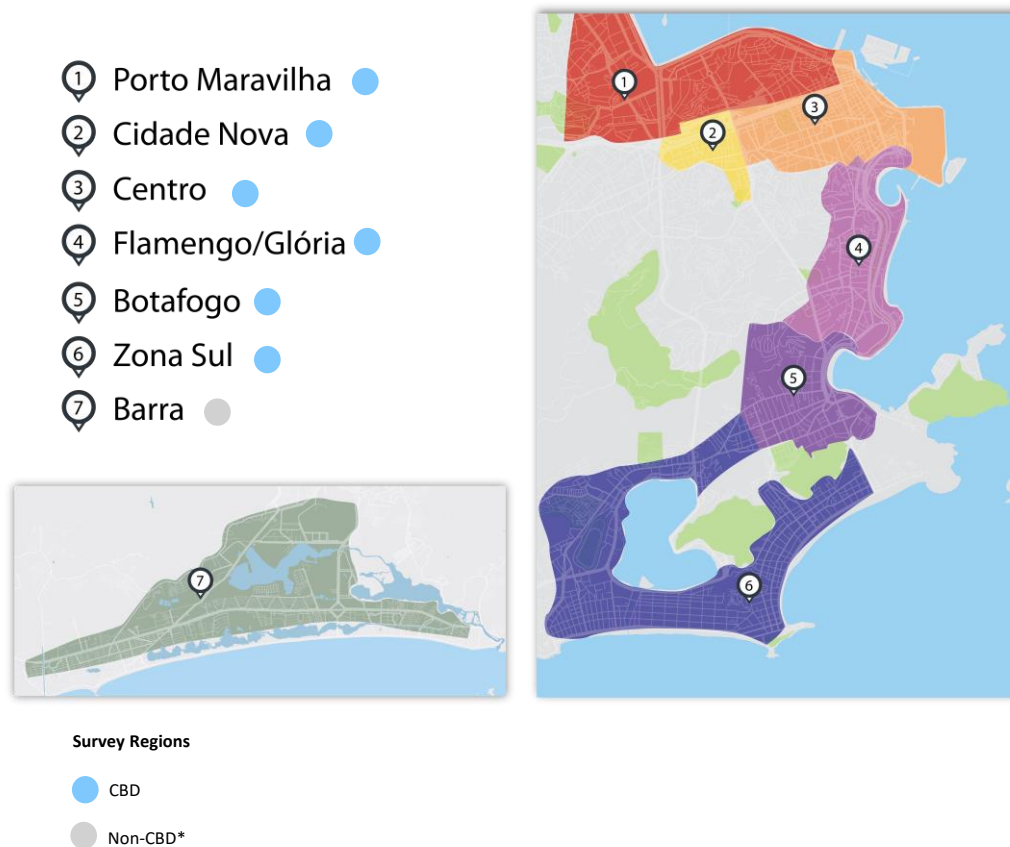
AVERAGE ASKING RENTS AND VACANCY



Significant Transactions in the Quarter

Type	Property	Region	Tenant	Owner	Total area (sq.m)
Lease	Centro Administrativo Cidade Nova	Cidade Nova	RJ City Government	São Carlos Empreendimentos	3,136.41
Lease	Rio Sul Center - Torre do Rio Sul	Botafogo	Petronas Brasil	CSHG Real Estate FII	788.87
Lease	Botafogo Trade Center	Botafogo	GNA - Gás Natural Açú	KINEA	605
Lease	Presidente Business Center	Cidade Nova	Government of the State of Rio de Janeiro	Independência Adm. de Bens	550

Submarkets Map



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