



# Rio de Janeiro Office Market

## Expectations for the economy in 2023

Global economic activity remains resilient, despite the monetary policy and stresses on the international banking industry. World economic growth remains below its potential, but is still going on, with active job markets and household consumption. Dynamic activity, especially in the service industry, continues to pressure inflation, which remains high all over the world. The Brazilian GDP increased 1.9% in the first quarter, following a slight drop in the last quarter of the year. This growth was higher than expected, but economic activity is expected to further slow down in 2023. The higher GDP was primarily a reflection of agriculture and livestock, which increased 21.6% following a record soy harvest. Other sectors remained relatively stable, while manufacturing industry and construction dropped once again. Extraction and utilities (power, gas, and water generation and distribution) advanced a bit. Although global commodity prices are dropping, they are still quite high, making Brazilian soy and crude oil competitive. Services, with the exception of transportation, storage, mail, finance, insurance, and related services, remained unchanged. Government consumption increased 0.3%. Despite a larger number of employed people, and income growing above inflation, household consumption grew only 0.2%, the lowest percentage of the past 7 quarters. Deflation in commodities and a better exchange rate helped reduce inflation in the quarter. Wholesale prices dropped, contributing to deflating consumer prices. Considering this, the basic interest rate should drop in the second half of the year, which will positively impact private spending, especially in 2024. The interest rate at the end of the second quarter remained at 13.75%. The so-called Extended Consumer Price Index (IPCA) went from 5.8% to 5.0%, with a basic annual interest rate of 12.25% and a USD exchange rate of R\$ 5,00 by the end of 2023.

### 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	34.3%	34.1%	35.4%	↓
Net absorption in the quarter (sq.m)	-2 thous.	-10.5 thous.	2 thous.	↑
Gross absorption in the quarter (sq.m)	21 thous.	14 thous.	19 thous.	↑
Average asking rent (R\$/sq.m/month)	75.89	74.90	74.44	↔
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

- The Rio de Janeiro market for offices remains discouraging, returns again outpaced new leases and occupied office space dropped.
- The vacancy rate went up to 34.3%.
- The average asking rent in Rio de Janeiro this quarter was R\$ 75,89/sq.m, 1.3% higher than in the first quarter.

### Demand is slow and spaces are being reduced

Just as in the previous quarter, the Rio de Janeiro market for high-end offices is experiencing a challenging period. Although gross absorption was slightly better, tenants are still returning offices at a rate higher than new leases, thus causing a declined in occupied spaces. Net absorption was negative 2 thousand sq.m<sup>2</sup> and YTD stands at -12.6 thousand sq.m.

This quarter more office spaces were returned in Centro than elsewhere in the city, with major being returned by a government agency and by oil & gas players. Demand was slightly up in Cidade Nova and Zona Sul, with positive net absorptions of 3.2 thousand and 994 sq.m respectively.

### Vacant supply continues to increase

The vacancy rate rose from 34.1% to 34.3%.

The average asking rent in Rio de Janeiro this quarter was R\$ 75.89/sq.m, 1.3% higher than in the first quarter. In the main office districts (CBD), the average was R\$ 77.59/sq.m.

The highest asking rents continue to be in Zona Sul (R\$150/sq.m/month), Botafogo (R\$ 125.80/sq.m/month), and Porto Maravilha (R\$ 80/sq.m/month).

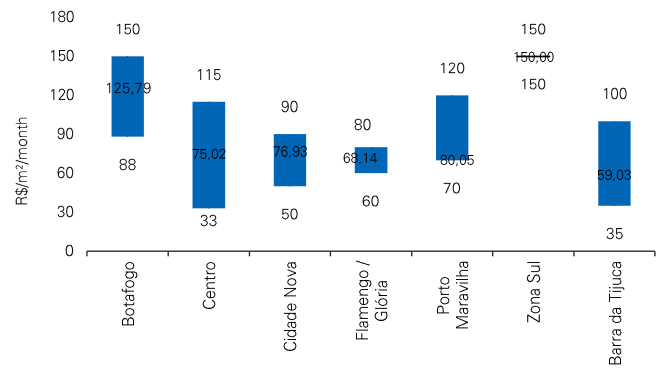
### Expectation for 2023

All indications are that devolutions should go back to standard levels, and the volume 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 market parameters is required if the Rio de Janeiro office market is to gain visibility.

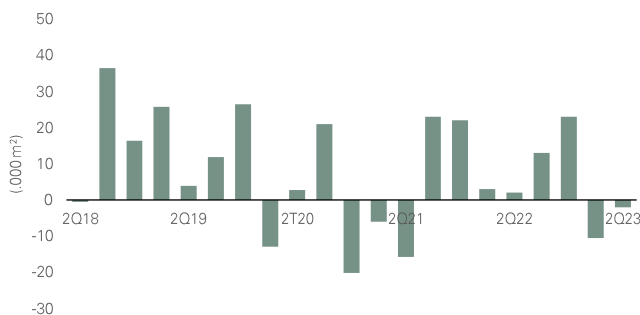
Demand in the city is heavily dependent on government agencies and oil & gas players, which cast further doubt on any recovery of the market for high end offices in Rio de Janeiro. Furthermore, there are questions regarding economic activity in general, which impacts general decisions regarding office space.

### Minimum, average and maximum asking rent



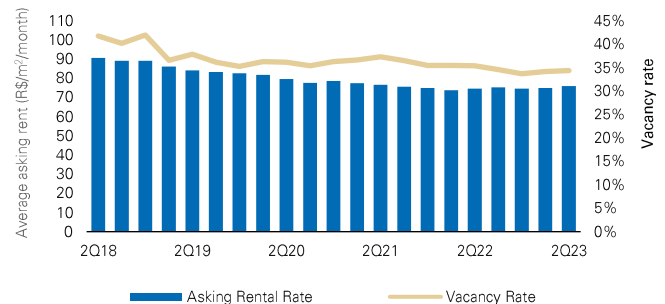
### Historical Demand

#### NET ABSORPTION



### Historical Supply and Asking Rents

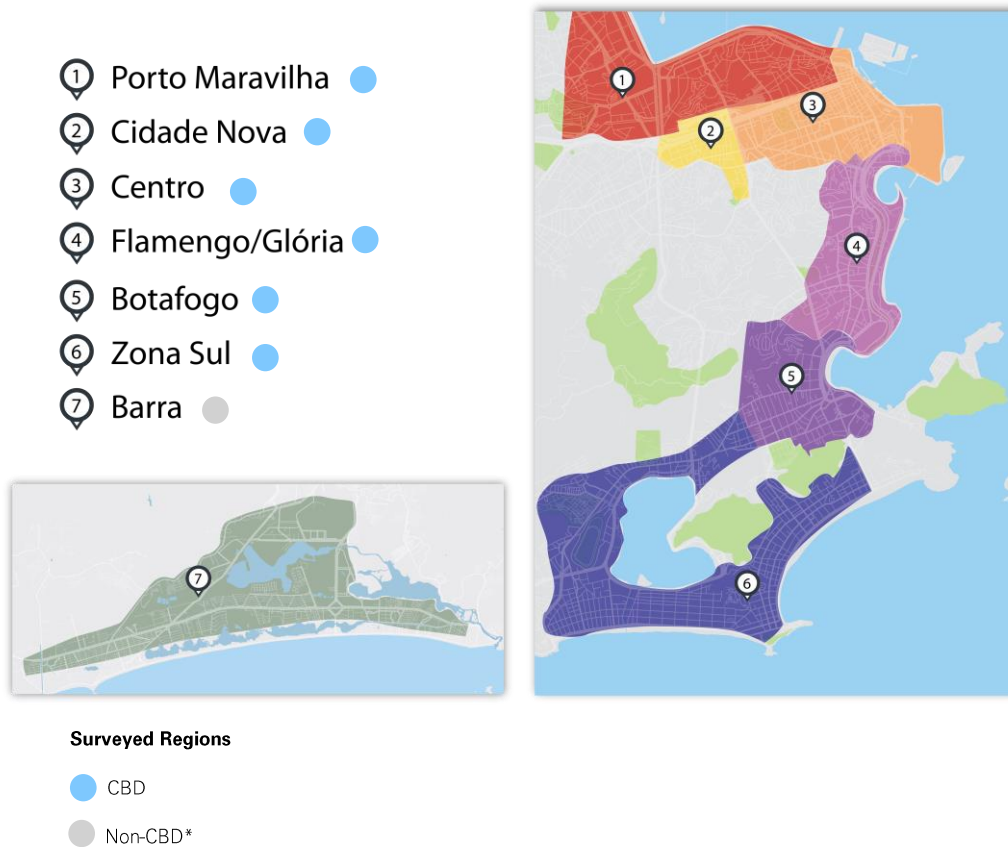
#### AVERAGE ASKING RENTS AND VACANCY



### Transactions in the Quarter

Type	Property	Region	Tenant	Owner	Total area (m <sup>2</sup> )
Renewal	Centro Empresarial Cidade Nova - Teleport	Cidade Nova	IPHAN - Instituto do Patrimônio Histórico Nacional	Fundação Valia	2,605
Renewal	Barra Business Center - Bloco III	Barra da Tijuca	CEF - Caixa Econômica Federal	-	693.49
Renewal	Presidente Business Center	Cidade Nova	Government of the State of Rio de Janeiro	Independência Administradora de Bens	600

## Submarkets Map



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