

São Paulo 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.

Market Summary for High-End Offices

	Current quarter	Previous quarter	Same period in 2022	12-month projection
Total Inventory (sq.m)	5.40 Mn	5.29 Mn	5.18 Mn	↑
Vacancy Rate	24.7%	24%	23.77%	↑
Net absorption in the quarter (sq.m)	43.7 thous.	-10.7 thous.	16 thous.	↑
Gross absorption in the quarter (sq.m)	120 thous.	94.5 thous.	73 thous.	↑
Average asking rent (R\$/sq.m/month)	91.82	89.18	87.77	↔
New Inventory Under Construction (sq.m)	153 thous.	211 thous.	207 thous.	↓

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

Current Conditions

- Although tenants continue to reduce occupied areas, this is happening at a slower pace and net absorption is positive once again.
- Gross absorption was 27% higher than Q1, ending at 118.5 thousand sq.m;
- The vacancy rate remains practicable stable at 24.7%, while the average asking monthly rent for all survey regions of São Paulo increased to R\$ 91.82/sq.m.

Indicators reveal positive demand in the quarter

Activity remained high in the second quarter. Demand indicators were up again, and net absorption was positive by 43.7 thousand sq.m, turning around the negative numbers of the previous quarter. Year to date net absorption stands at 33 thousand sq.m. Although some tenants are still reducing it spaces, leasing activity is intense, and gross absorption was 25% higher than in the first quarter, or 118.5 thousand sq.m.

Most new leases in Q2 were signed by tenants in the service industry, in particular the financial/investment, technology, and energy generation segments, followed by construction and chemical concern. The largest increase in occupied offices this quarter was in the Paulista region.

New inventory delivered is on the rise

A significant amount of new inventory was delivered in 2Q23: 107.5 thousand sq.m – this is the first quarter since 3Q21 that this indicator reached 3-digits.

Another 153 thousand sq.m should be delivered by the end of the year, which would lift the vacancy rate.

Supply and rise on asking rental rates

After 8 quarters of relatively stable asking prices at around R\$ 87 - R\$ 89 per sq.m, average asking rents ended Q2 at R\$ 91.82/sq.m (vs. R\$ 89,17 in Q1).

The highest asking rents were in Itaim, R\$ 226,75/m², due to the increase in vacant supply in more expensive buildings.

Rents along Faria lima averaged R\$ 203.31/sq.m and in Vila Olímpia R\$ 166/sq.m.

Year-over-year the average rent increased 4.6%.

Expectation for 2023

2023 should be a promising year for a consistent recovery of the market for high-end office space. Owner confidence is on the rise, especially when it comes to well-located developments.

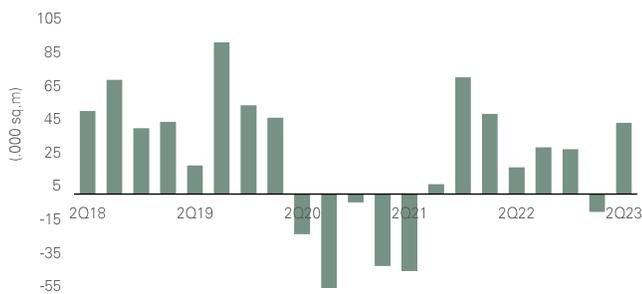
Demand indicators are positive. Occupied offices are on the rise across almost all regions, and YTD gross absorption stands at 215 thousand sq.m, close to the historical average of 250 thousand/sq.m in the 2007 - 2022 period.

However, one must not ignore the challenges of a potential slow-down in leasing activity, given the significant risk of a global recession and a still uncertain domestic scenario, which will impact how companies decide on their real estate needs.

Major players continual to review their spaces and returns are still an issue. This, continued with significant new inventory, contributes to keeping the supply levels high.

Demand History

NET ABSORPTION

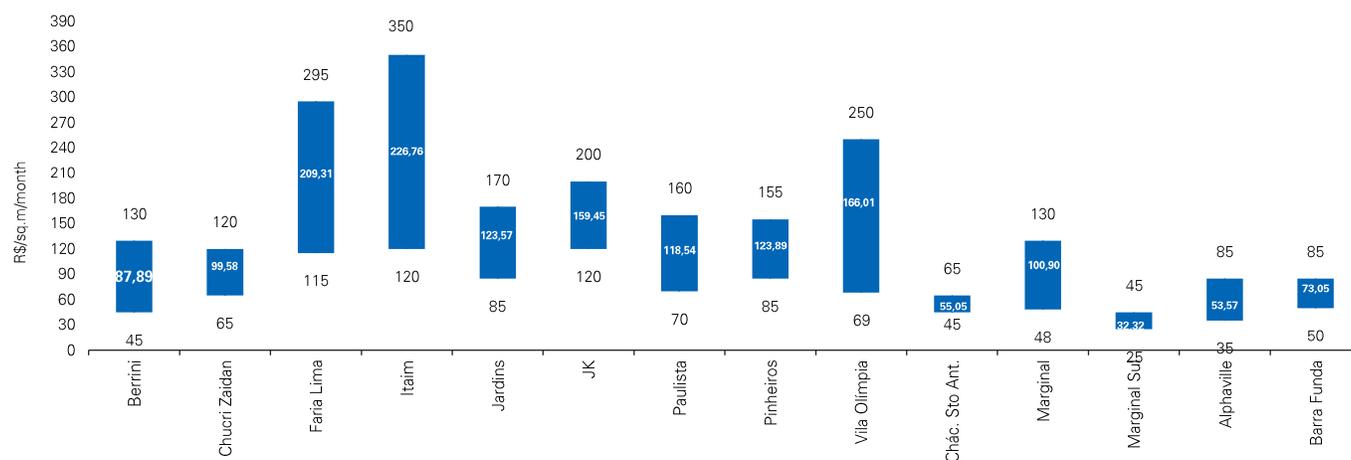


Historical Offer and Asking Rents

ASKING RENT AND VACANCY RATE



Minimum, Average and Maximum Asking Rent per Region

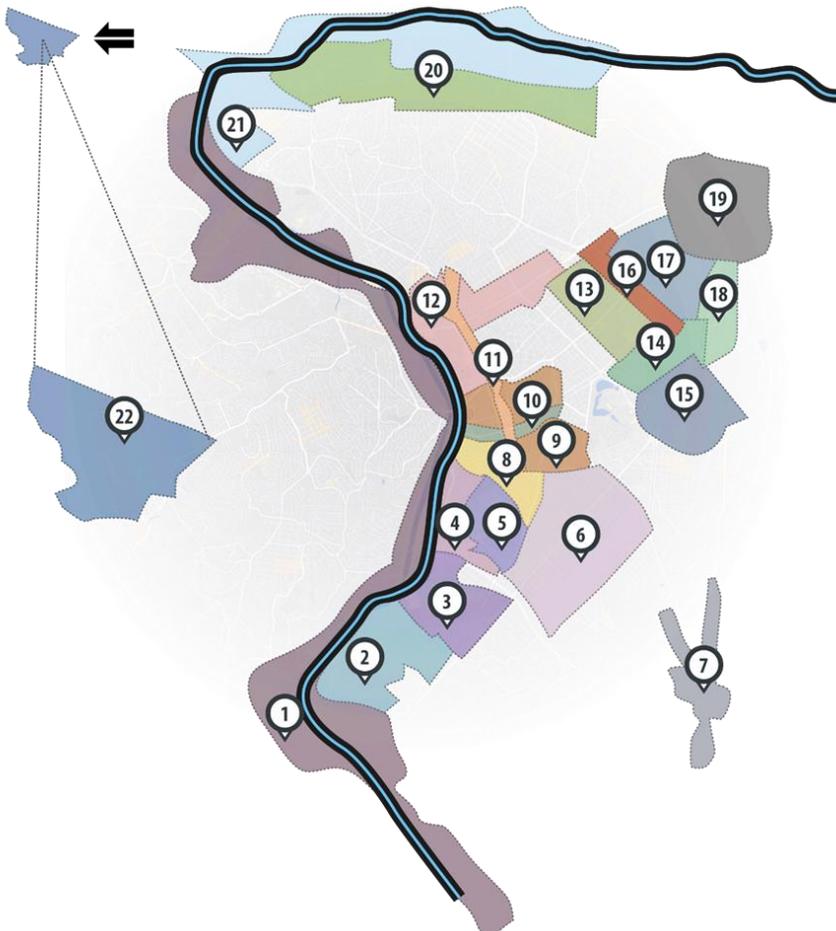


Significant Transactions in the Quarter

Type of Transaction	Property	Region	Tenant	Owner	Total area leased (m ²)
Lease	Thera Corporate		G4 Educação	Barzel Properties	2,129.60
Lease	Rochaverá Corporate Tower - Torre D (Diamond)		Grupo Sener Setepla	Autonomy Investimentos	1,688.50
Lease	Paulista Star		BeFly Turismo	CSHG Real Estate - FII	1,313.52
Lease	Mario Garnero - Norte		Renova Invest.	UOL - Universo Online	794.83
Lease	River One		Virgo	FUNDO DE INVEST. RBR PROPERTIES	730.84
Lease	Berrini One		CNP Seguradora	CSHG Real Estate - FII	548.82
Lease	E-Tower		DGL Participações e Investimentos	SINDUSCON-SP	533.02
Lease	Vila Olímpia Corporate Torre A		Construtora Canopus	PÁTRIA EDIFÍCIOS CORP. FII	378.16

Sample of Class AAA, AA and A Developments Under Construction

	Property	Region	Macro-region	Leasable area (m ²)	Expected Delivery
	Omni	JK	Premium CBD	7,414	3Q2023
	Pátio Rebouças Corporate Boutique	Pinheiros	Premium CBD	8,614	3Q2023
	Corporativo FL	Faria Lima	Premium CBD	13,498	3Q2023
	Union	Itaim	Premium CBD	10,083	4Qq2023



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

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