



Rio de Janeiro Office Market

The nation's economy is resilient, despite a volatile environment

3Q22 remained difficult and volatile for the main economies, with widespread slow-downs. The continued war in the Ukraine and its impact on commodity prices, in particular natural gas and food in Europe, and China's continued enforcement of policies to contain Covid-19 evidence the possibility of a global slow-down in the coming months. Following two years of robust growth, the US economy slowed down in the first two quarters of the year. Although aggregate consumer spending has been growing in line with pre-pandemic trends, there remains a mismatch between goods and services, still a reflection of the pandemic. Annual inflation remains high (8.2%) but stable, at least through September of this year. The center of the inflation range went up to 6.7% due to higher costs of housing and healthcare. Given high inflation, the Federal Reserve should continue to increase interest rates, at least through the rest of the year, as it attempts to contain prices. Internally, the country's GDP grew 1.2% in 2Q22 compared to the previous quarter, in the seasonally adjusted series. This is the fourth consecutive positive result. In the y-o-y comparison the GDP grew 3.2%, and year-to-date the GDP is up 2.5%, to R\$ 2.4 trillion. Industrial activity grew 2.2%, driven by electricity and gas, water, sewage, waste management, construction, extraction, and manufacturing industries. Services grew 1.3%, driven by services held-back by the pandemic such as restaurants and hotels, transportation, information, communication, agriculture and cattle-raising, which increased 0.5%. The projections for this year are for a 3% increase in GDP, however the last six months of the year should be slower due to the uncertainties associated with the elections. In 22 states unemployment dropped this quarter compared to 2Q22. These indicators reflect the nationwide reduction in unemployment, which went from 11.1% to 9.3% in June, and then to 8.9% in August. Inflation, as measured by the IPCA or broad consumer price index, dropped for the 14th consecutive week, from 5.88% to 5.74%. Inflation in 2023 is expected to be 5%. The Selic rate is 13.75%, and remained unchanged in the September meeting, following a sequence of increases. The Selic rate in 2023 is expected to be 11.25%. The US Dollar exchange is expected to be R\$ 5,20 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)	2.27 Mn	2.27 Mn	2.27 Mn	↔
Vacancy Rate	34.5%	35.4%	36.5%	↓
Net absorption in the quarter (sq.m)	13 th.	2 th.	24 th.	↑
Gross absorption in the quarter (sq.m)	20 th.	19 th.	65 th.	↑
Average asking rent (R\$/sq.m/month)	75,23	74,44	75,48	↔
New Inventory Under Construction (sq.m)	19 th.	19 th.	19 th.	↔

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

- Active lease activity and a significant decline in returned spaces helped improve net absorption, which went from 2 thousand to 13 thousand sq.m in 3Q22;
- The vacancy rate dropped to 34.5%, almost 2 percentage points compared to 3Q21;
- The parameters that measure supply and demand suggest that 3Q22 was the best quarter for high-end office space in Rio de Janeiro;
- The average asking monthly rent in Rio de Janeiro was R\$ 75,23/ sq.m, a slight increase over the previous quarter.

Increase in occupied spaces improves the result in Rio de Janeiro

Active lease activity and a significant decline in returned spaces helped improve net absorption, which went from 2 thousand to 13 thousand sq.m in 3Q22. This indicator effectively measures the increase in occupied office space. It is fair to say this was the best quarter of 2022 for the market for high-end offices in Rio de Janeiro. Leases outpaced returns across most regions, with the exception of Botafogo and Zona Sul, which suffered a slight reduction in occupancy. While for the 2nd consecutive quarter the increase in occupied premises was largest in Cidade Nova, Centro, and Porto Maravilha, these are also the regions with the largest percent vacancies. The largest tenants this quarter were the government and the oil and gas and service industries.

Stable supply

The vacancy rate dropped across most of the city, with the average going from 35.37% to 34.52%. In Cidade Nova and Barra da Tijuca the vacancy rate dropped quite significantly, while elsewhere in the city it remained unchanged or increased very slightly.

Vacant office space remains significant and has changed little since 2019.

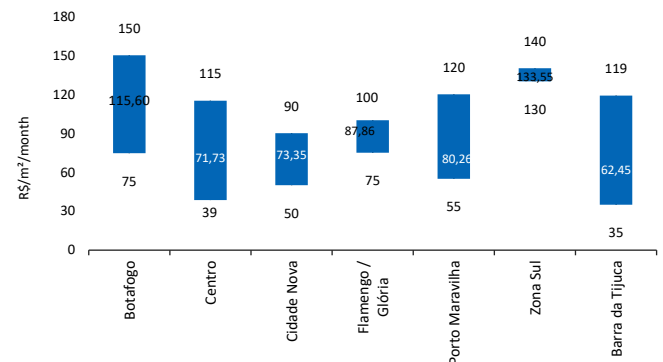
There was a small slow-down in the decline in asking rents, which ended the quarter at R\$ 75,23/sq.m. The average asking rent in CBD offices was R\$ 76,72/sq.m.

The highest asking rents continue to be in Zona Sul (R\$145,22/sq.m /month), Botafogo (R\$114,53/sq.m/month), and Porto Maravilha (R\$85,76/sq.m /month).

Expectation for 2022

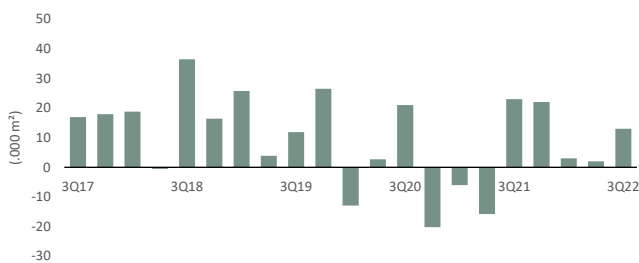
Even though revamping offices remains a reality, leases are slowly recovering, and demand indicators have been positive in the last four quarters. The current scenario is promising if compared to the same period in 2021, when the market was in a major slow-down. Confidence must be restored quarter by quarter. Ideally tenants will stop returning premises, and a number of parameters will pick up even more for a more visible 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



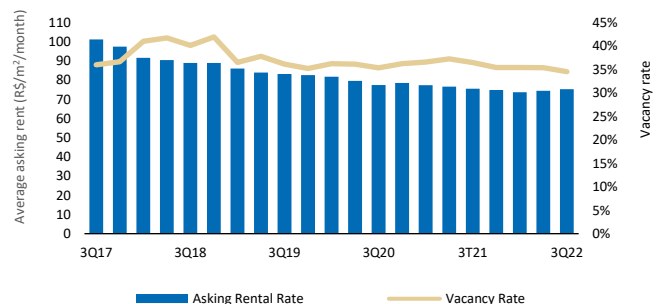
Historical Demand

NET ABSORPTION



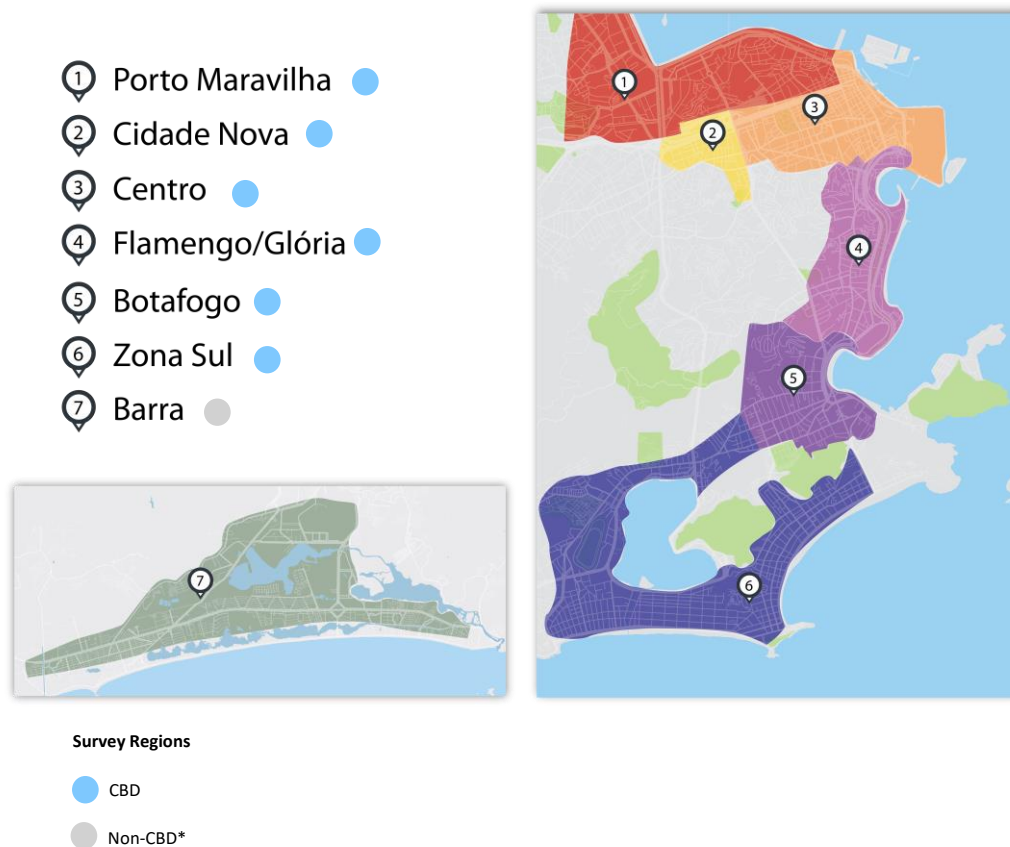
Historical Supply and Asking Rents

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	4,829
Lease	One World Offices - North America Tower	Barra da Tijuca	Brazilian Olympic Committee	Brookfield	1,525
Lease	Novocais do Porto	Porto Maravilha	Ocyan - Odebrecht Oil & Gas	Novonor - Odebrecht	1,209
Lease	Centro Administrativo Cidade Nova	Cidade Nova	ASSIM Saúde	São Carlos Empreendimentos e Participações	1,101
Lease	Edifício Galeria	Centro	Marte Engenharia	FDO INV IMOB - FII EDIFÍCIO GALERIA	963

Submarkets Map



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